

# LV= GROUP and LVFS

## Solvency and Financial Condition Report

For the year ended 31 December 2023

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## Summary

This Solvency and Financial Condition Report (SFCR) is produced for the LV= Group and Liverpool Victoria Financial Services Limited (LVFS). The Group has been granted approval under a waiver from the PRA to prepare a single SFCR that contains the required information for both the LV= Group and LVFS. Unless otherwise stated or separately identified, information provided in this SFCR applies equally to both the overall Group and LVFS. This waiver does not extend to Liverpool Victoria Life Company Limited (LVLC), LV Protection Limited (LVPL) and Teachers Assurance Company Limited (TACL), and those entities continue to produce solo SFCRs. LVFS follows the Group policies and principles unless otherwise stated.

LV= has prepared the SFCR to provide information on our solvency (i.e., our ability to pay, primarily to policyholders, for current and future claims) and how we manage the financial strength of the Group. The purpose of the SFCR is to provide information required by the Solvency II regulatory framework, in particular the Group's capital position as at 31 December 2023. This report sets out different aspects of the Group's business and performance, system of governance, risk profile, valuation methods used for solvency purposes and its capital management practices.

The SFCR serves many types of stakeholders, with different levels of expertise and expectations. As a guide, this Summary section aims to address the requirements of policyholders and we have done our best to make this understandable for everyone, whereas the main body of the SFCR and the appendices are aimed at analysts and investors. Some of the information in the main body of the report is technical in nature, and the content is prescribed by complex regulations. A separate document containing Quantitative Reporting Templates (QRTs) is annexed to the SFCR. These are the publicly available detailed forms we submit to the PRA which contain financial information prescribed by the Solvency II regulations. The values in these public QRTs represent the rounded values of those reported in the private QRTs. As a result, small rounding differences may be present in the SFCR and annexed QRTs.

The SFCR and QRTs can be found at <https://www.lv.com/about-us/company-information/returns/regulatory-returns>.

Relevant information about the business of the Group is also provided in the 2023 LV= Annual Report for the year ended 31 December 2023, a copy of which can be found at <https://lv.com/annual-report>.

### **Basis of preparation of the SFCR**

The LV= Group SFCR has been prepared in accordance with the Solvency II regulations and the PRA rules using a Standard Formula basis. The calculation of the best estimate liabilities (BEL) is based on up-to-date and credible information and realistic assumptions as at 31 December 2023.

In common with many in the industry, we present two cover ratios, an 'Investor View' for analysts and investors in our subordinated debt, that excludes the ring-fenced funds entirely, and a Solvency II regulatory basis where the ring-fenced funds are included but their surplus is excluded from the Group's surplus.

### **Business and Performance**

We have delivered an improved set of financial results in 2023, returning to profitability and ending the year with a strong balance sheet, having reduced our debt by £150m while at the same time increasing our capital surplus. Our operating performance remained stable, supported by the diversity of our product portfolio and our ongoing focus on cost control. Our ongoing strong capital position has allowed us to allocate £30 million in profit-related bonuses for eligible members.

Over the course of 2023, our trading businesses have added £44m (2022: £47m) to the UK GAAP profits. This result reflected a continuing strong trading performance in our Protection business, along with strong sales of annuities as they have remained attractive in the high interest rate environment. However, this was offset by a decrease in sales of Smoothed Managed Funds which continue to be impacted by historic fund returns and external factors such as persistent high inflation and rising interest rates.

Operating profit generation has increased to £43m (2022: £24m). The Group is reporting a profit before tax of £107m (2022: £145m loss). This is bolstered by £85m benefit from regulatory change, with the Solvency UK reforms leading to a risk margin reduction.

We are pleased that our robust business model and focused strategy has delivered a profit this year. This is despite many external headwinds including heightened inflation, and low economic growth. We have been able to maintain strong cost discipline and an operating performance that generates an increased level of capital coverage and profitability. The Smoothed Managed Funds volumes are expected to increase in 2024 as fund performance improves and the transition to our new primary asset manager BlackRock drives growth. We also anticipate increasing LV= Equity Release mortgage advances following new funding being agreed during the latter part of 2023. Our members can be confident that we are driving progress and our foundations remain strong.

Section A of this report sets out further details about the Group’s business structure, key operations, market position and financial performance over the reporting period, split by underwriting performance and investment performance.

### **System of Governance**

The LVFS Board is committed to high standards of corporate governance and stewardship. The role of the Board is to make decisions on matters such as strategy and planning, risk management, financial matters, governance and compliance and the appointment and removal of Board members and key officers. It delegates responsibility to Board Committees to approve and form recommendations for the Board to consider or to have oversight of certain matters. As a mutual, LVFS is owned by its members and strives to provide long-term benefits and confidence through the operation of an effective governance framework, efficient controls and transparent decision making.

The Group monitors and assesses its system of governance on an ongoing basis. There have been no significant findings during the reporting period which have indicated to the Board that the system of governance is not adequate.

To reflect our commitment to mutuality, LV= is a member of the Association of Financial Mutuals (AFM). Previously we reported against the Financial Reporting Council’s (FRC) UK Corporate Governance Code but, due to our membership to the AFM, we now adhere to the principles of the AFM’s Corporate Governance Code (AFM code), which is more aligned to our mutual operating model. The Board has confirmed its compliance with the AFM Code and the Board believes that its practices are consistent with the principles of the AFM Code and are appropriate and suitable for LVFS and its members.

There have been no significant changes in the Group’s system of governance in the year. The table below summarises the changes in membership of the Board in the year:

David Rogers - appointed 1 March 2023
Seamus Creedon - resigned 31 March 2023
Stephen Percival - appointed 22 June 2023

LV= operates a fully integrated risk management framework we call the LV=RM. This framework brings together the key processes and activities undertaken throughout the business to ensure that our members’ and customers’ security is at the forefront of our decision making. Structuring engagement, risk management and our values around this framework enables senior management to demonstrate that the right things are being done to manage risks within the business.

Section B of this report describes the system of governance in place throughout the Group by which its operations are overseen, directed, managed and controlled.

### **Risk profile**

The Group’s business model involves taking on and managing risk in order to provide its policyholders with security and aid in financial planning. To facilitate this, LV= offers a range of Life and Health insurance products. These cater to differing policyholder needs and a widely diversified customer base in terms of age, gender and geographical location.

The Group manages risk using a range of techniques, including reinsurance, derivatives, limits to counterparty exposure as well as by using its scale and range of products and investments to provide diversification. The Group measures its risk using a range of techniques, including prescribed Standard Formula capital calculations, internal views of risk and sensitivity testing. A number of committees, attended by senior stakeholders, meet regularly to consider the Group’s risk exposure, and whether it is in line with risk appetite. This enables informed decision making on where risk mitigation is required or where further risk can be taken on. Furthermore, external opinions are sought from consultancies and regular reports are made to the PRA.

The table below shows the 31 December 2023 split of the Standard Formula Solvency Capital Requirement (SCR) by risk type. The results for 31 December 2022 are provided for comparison. The amount of SCR illustrated below for Group is £485m (2022: £575m) and for LVFS is £490m (2022: £606m). This differs from the total SCR reported in section E as it excludes the loss absorbing capacity of deferred tax.

SCR split by risk type, for the year ended 31 December	Group			LVFS		
	2023	2022	Change	2023	2022	Change
Market risk	46%	33%	13%	46%	38%	8%
Underwriting risk	44%	60%	(16)%	44%	55%	(11)%
Operational risk	8%	5%	3%	8%	5%	3%
Counterparty risk	2%	2%	0%	2%	2%	0%
<b>Total</b>	<b>100%</b>	<b>100%</b>		<b>100%</b>	<b>100%</b>	

The weighting of the high-level risk categories shown within the SCR has shifted since 2022. Underwriting risk has fallen significantly due to the reduction in lapse risk exposure, although it remains a prominent risk, driving the increase in weighting towards market risk.

The principal risks and uncertainties facing the Group are summarised below.

- **Political, economic and regulatory uncertainty** - The risk of a reduction in solvency, policyholder value or customer returns resulting from prolonged uncertainty within the political, economic and regulatory landscape.
- **Financial market volatility** - The risk that the financial resilience of the Group is adversely impacted by changes in the financial markets.
- **Business transformation** - The execution risks associated with pursuing the Business Plan priorities.
- **IT sustainability** - The risk that capacity, capability and control issues in relation to our IT systems lead to significant operational or customer risk events.
- **Cyber security** - The risk of customer data loss or a severe reduction in customer service as a result of a cyber-event.
- **Conduct risk** - The risk that key operational controls are ineffective, resulting in poor member or customer outcomes.

Section C of this report further describes the risks to which the Group is exposed and how it identifies, measures, manages and monitors these risks, including any changes in the year to the Group's risk exposures and specific risk mitigation actions taken.

#### Valuation for Solvency purposes

Assets, technical provisions and other liabilities are valued in the Group's Solvency II Balance Sheet according to the Solvency II regulations. Assets and liabilities are valued at an amount for which they could be exchanged, transferred or settled by knowledgeable and willing third parties in an arm's-length transaction. There have been no material changes in the valuation methods of the Group during the year.

The value of technical provisions under Solvency II is equal to the sum of a best estimate liability (BEL) and a risk margin. Calculations are based on the Standard Formula approach using the Matching and Volatility Adjustment (for eligible business) and Transitional Measures on Technical Provisions.

At 31 December 2023, the Group and LVFS's excess of assets over liabilities was £787m (2022: £752m) on a Solvency II regulatory basis.

Section D of this report provides further description of the bases, methods and main assumptions used in the valuation of assets, technical provisions and other liabilities for each material asset/liability class. In addition, it also provides an explanation of the material differences between the UK GAAP and Solvency II bases of valuation.

## **Capital Management**

The key performance indicators we use to monitor our capital position are the Capital Coverage Ratio and Operating capital generation.

At 31 December 2023, the Group’s capital surplus on a Solvency II Standard Formula basis, reported on an investor view, was £469m (2022: £391m) with a Capital Coverage Ratio (Investor view) of 204% (2022: 174%).

At 31 December 2023, the Group’s capital surplus on a regulatory basis was £468m (2022: £390m) and for LVFS was £463m (2022: £375m).

The increase in capital surplus on both the investor view and regulatory basis was mainly driven by economic fluctuations during the year resulting in positive asset share returns on with-profit policies, which reduced the Solvency Capital Requirement.

Over the course of 2023, our trading businesses have added £25m (2022: £37m) to the Solvency II capital surplus. Operating capital generation of £35m (2022: £2m) also includes positive model and basis and capital initiatives of £38m (2022: £1m), bolstered by the future cost benefit arising from the appointment of BlackRock as our primary asset manager.

In April 2023, we announced the buyback of £150m of our subordinated debt, which is treated as Tier 2 capital. The £150m capital reduction generated by this buy-back was partially offset by the unwinding of the capital tiering restriction in place at the end of 2022, leading to an overall reduction in our capital surplus of £28m.

The Group manages Own Funds in line with solvency capital requirements. In the calculation of the Solvency Capital Requirement (“SCR”) the Group uses a Standard Formula approach. The results in the table below are reported on a Solvency II regulatory basis where the ring-fenced funds are included but their surplus is excluded because it is not available to the Group. The closed ring-fenced funds did not require capital support at the valuation date.

### **Capital surplus (regulatory basis)**

£m	Group		LVFS	
	2023	2022	2023	2022
<b>Eligible own funds</b>				
Tier 1	<b>714</b>	673	<b>717</b>	674
Tier 2	<b>211</b>	283	<b>211</b>	299
Tier 3	<b>25</b>	-	<b>22</b>	-
<b>Total eligible own funds</b>	<b>950</b>	956	<b>950</b>	973
Solvency capital requirement	<b>482</b>	566	<b>487</b>	598
<b>Surplus</b>	<b>468</b>	390	<b>463</b>	375
<b>Capital Cover Ratio (CCR)*</b>	<b>197%</b>	169%	<b>195%</b>	163%

\*CCR is the ratio of Group eligible own funds to the solvency capital requirement.

There are three tiers of capital defined by Solvency II. The quality of capital is important as the higher the quality the more likely it will be available in the event that it is needed, for example to be able to pay out claims. Tier 1 primarily represents high quality capital which is generally more secure and capable of absorbing losses. Tier 2 represents our subordinated debt and Tier 3 is the lowest quality of capital, representing our deferred tax assets.

Section E of this report further describes the objectives, policies and procedures employed by the Group for managing its Own Funds. The section also covers information on structure and quality of Own Funds and calculation of SCR.

## Directors' approval statement

Financial year ended 31 December 2023

We certify that:

- a) The Solvency and Financial Condition Report has been properly prepared in all material respects in accordance with the PRA rules and Solvency II Regulations; and
- b) We are satisfied that:
  - i. throughout the financial year in question, the Group and LVFS have complied in all material respects with the requirements of the PRA rules and Solvency II Regulations as applicable to the Group and LVFS; and
  - ii. it is reasonable to believe that, at the date of the publication of the Solvency and Financial Condition Report, the Group and LVFS have continued so to comply, and will continue so to comply in future.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Group's website. Legislation in the UK governing the preparation and dissemination of Solvency and Financial Condition Reports may differ from legislation in other jurisdictions.

The Solvency and Financial Condition Report was approved by the Board of Directors on 3 April 2024 and signed on its behalf by:



.....  
Stephen Percival  
Chief Financial Officer

3 April 2024

Liverpool Victoria Financial Services Limited  
County Gates  
Bournemouth  
BH1 2NF

**Report of the external independent auditor to the Directors of Liverpool Victoria Financial Services Limited (‘the Group and Company’) pursuant to Rule 4.1 (2) of the External Audit Chapter of the PRA Rulebook applicable to Solvency II firms**

**Report on the Audit of the relevant elements of the LV= Group and Liverpool Victoria Financial Services Limited (‘LVFS’) Solvency and Financial Condition Report**

**Opinion**

Except as stated below, we have audited the following documents prepared by Liverpool Victoria Financial Services Limited as at 31 December 2023:

- The ‘Valuation for solvency purposes’ and ‘Capital Management’ sections of the LV= Group and LVFS Solvency and Financial Condition Report of LV= Group and LVFS as at 31 December 2023 (**‘the Narrative Disclosures subject to audit’**);
- Group templates S02.01.02, S22.01.22, S23.01.22, S25.01.22, S32.01.22 (**‘the Group templates subject to audit’**); and
- Company templates S02.01.02, S12.01.02, S22.01.21, S23.01.01, S25.01.21, S28.01.01 (**‘the Company templates subject to audit’**).

The Narrative Disclosures subject to audit, the Group templates subject to audit and the Company templates subject to audit are collectively referred to as the **‘relevant elements of the LV= Group and LVFS Solvency and Financial Condition Report’**.

We are not required to audit, nor have we audited, and as a consequence do not express an opinion on the Other Information which comprises:

- Information contained within the relevant elements of the LV= Group and LVFS Solvency and Financial Condition Report set out above which are, or derive from the Solvency Capital Requirement, as identified in the Appendix to this report;
- The ‘Summary’, ‘Business and performance’, ‘System of governance’ and ‘Risk profile’ elements of the LV= Group and LVFS Solvency and Financial Condition Report;
- Group template S05.01.02;
- Company template S05.01.02;
- Information calculated in accordance with the previous regime used in the calculation of the transitional measure on technical provisions, and as a consequence all information relating to the transitional measures on technical provisions as set out in the Appendix to this report; and
- The written acknowledgement by management of their responsibilities, including for the preparation of the LV= Group and LVFS Solvency and Financial Condition Report (**‘the Directors’ approval statement’**).

To the extent the information subject to audit in the relevant elements of the LV= Group and LVFS Solvency and Financial Condition Report includes amounts that are totals, sub-totals or calculations derived from the Other Information, we have relied without verification on the Other Information.

In our opinion, the information subject to audit in the relevant elements of the LV= Group and LVFS Solvency and Financial Condition Report of the Group and Company as at 31 December 2023 is prepared, in all material respects, in accordance with the financial reporting provisions of the PRA Rules and Solvency II regulations on which they are based, as modified by relevant supervisory modifications, and as supplemented by supervisory approvals and determinations.

## **Basis for Opinion**

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)), including ISA (UK) 800 and ISA (UK) 805. Our responsibilities under those standards are further described in *the Auditor's Responsibilities for the Audit of the relevant elements of the LV= Group and LVFS Solvency and Financial Condition Report* section of our report. We are independent of the Group and Company in accordance with the ethical requirements that are relevant to our audit of the LV= Group and LVFS Solvency and Financial Condition Report in the UK, including the FRC's Ethical Standard as applied to public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

## **Emphasis of Matter - Basis of Accounting**

We draw attention to the 'Valuation for solvency purposes' and 'Capital Management' sections of the LV= Group and LVFS Solvency and Financial Condition Report, which describe the basis of accounting. The LV= Group and LVFS Solvency and Financial Condition Report is prepared in compliance with the financial reporting provisions of the PRA Rules and Solvency II regulations, and therefore in accordance with a special purpose financial reporting framework. The LV= Group and LVFS Solvency and Financial Condition Report is required to be published, and intended users include but are not limited to the PRA. As a result, the LV= Group and LVFS Solvency and Financial Condition Report may not be suitable for another purpose. Our opinion is not modified in respect of this matter.

## **Conclusions relating to going concern**

In auditing the LV= Group and LVFS Solvency and Financial Condition Report, we have concluded that the use of the going concern basis of accounting by the Directors of the Group and the Company ("Directors") in the preparation of the LV= Group and LVFS Solvency and Financial Condition Report is appropriate.

Our audit procedures to evaluate the Directors' assessment of the Group and Company's ability to continue to adopt the going concern basis of accounting in the preparation of the LV= Group and LVFS Solvency and Financial Condition Report included but were not limited to:

- Undertaking an initial assessment at the planning stage of the audit to identify events or conditions that may cast significant doubt on the LV= Group and LVFS' ability to continue as a going concern;
- Obtaining an understanding of the relevant controls relating to the directors' going concern assessment;
- Obtaining the Board approved group financial plan and in particular the forecast regulatory solvency position and the forecast liquidity position which covers the next 12 months period;
- Challenging the appropriateness of the directors' key assumptions in their solvency and liquidity forecasts within the plan. This included reviewing supporting and contradictory evidence in relation to these key assumptions and assessing the viability of mitigating actions within the directors' control;
- Considering the directors' assessment of the regulatory solvency coverage and liquidity position in the forward-looking scenarios which have been derived from the company's Own Risk and Solvency Assessment. This included assessing the directors' consideration of

severe but plausible scenarios in their stress and scenario testing of the principal risks and uncertainties that could impact the group's solvency and liquidity over the next 12 months;

- Conducting a retrospective review of the historical forecasts prepared by the directors;
- Discussing with the directors regarding future financing options;
- Considering the consistency of the directors' forecasts with other areas of the financial statements and our audit; and
- Evaluating the key assumptions used and judgements applied by the directors in forming their conclusion on going concern.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Group and Company's ability to continue as a going concern for a period of at least twelve months from when the LV= Group and LVFS Solvency and Financial Condition Report is authorised for issue.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

### **Other Information**

The Directors are responsible for the Other Information.

Our opinion on the relevant elements of the LV= Group and LVFS Solvency and Financial Condition Report does not cover the Other Information and, we do not express any form of assurance conclusion thereon.

In connection with our audit of the LV= Group and LVFS Solvency and Financial Condition Report, our responsibility is to read the Other Information and, in doing so, consider whether the Other Information is materially inconsistent with the relevant elements of the LV= Group and LVFS Solvency and Financial Condition Report, or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the relevant elements of the LV= Group and LVFS Solvency and Financial Condition Report or a material misstatement of the Other Information. If, based on the work we have performed, we conclude that there is a material misstatement of this Other Information, we are required to report that fact. We have nothing to report in this regard.

### **Responsibilities of Directors for the LV= Group and LVFS Solvency and Financial Condition Report**

The Directors are responsible for the preparation of the LV= Group and LVFS Solvency and Financial Condition Report in accordance with the financial reporting provisions of the PRA rules and Solvency II regulations which have been modified by the modifications, and supplemented by the approvals and determinations made by the PRA under section 138A of FSMA, the PRA Rules and Solvency II regulations on which they are based.

The Directors are also responsible for:

- such internal control as management determines is necessary to enable the preparation of the LV= Group and LVFS Solvency and Financial Condition Report that is free from material misstatement, whether due to fraud or error;
- overseeing the Group and Company's financial reporting process; and,

- assessing the Group and Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Group and Company or to cease operations, or have no realistic alternative but to do so.

### **Auditor's Responsibilities for the Audit of the relevant elements of the LV= Group and LVFS Solvency and Financial Condition Report**

It is our responsibility to form an independent opinion as to whether the relevant elements of the LV= Group and LVFS Solvency and Financial Condition Report are prepared, in all material respects, with financial reporting provisions of the PRA Rules and Solvency II regulations on which they are based.

Our objectives are to obtain reasonable assurance about whether the relevant elements of the LV= Group and LVFS Solvency and Financial Condition Report are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but it is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the decision making or the judgement of the users taken on the basis of the LV= Group and LVFS Solvency and Financial Condition Report.

The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud.

Based on our understanding of the Group and Company and the insurance sector in which they operate, we considered that non-compliance with the following laws and regulations have a material impact on the relevant elements of the LV= Group and LVFS Solvency and Financial Condition Report: the permissions and supervisory requirements of the Prudential Regulation Authority ('PRA') and the Financial Conduct Authority ('FCA').

To help us identify instances of non-compliance with these laws and regulations, and in identifying and assessing the risks of material misstatement in respect to non-compliance, our procedures included, but were not limited to:

- Considering the risk of acts by the company which were contrary to the applicable laws and regulations, including fraud;
- Inquiring of the directors, management and, where appropriate, those charged with governance, as to whether the company is in compliance with laws and regulations, and discussing their policies and procedures regarding compliance with laws and regulations;
- Inspecting correspondence with relevant licensing or regulatory authorities including the PRA and the FCA;
- Reviewing minutes of directors' meetings in the year; and
- Discussing amongst the engagement team the laws and regulations listed above, and remaining alert to any indications of non-compliance.

We also considered those laws and regulations that have a direct impact on the preparation of relevant elements of the LV= Group and LVFS Solvency and Financial Condition Report such as the Solvency II regulations.

In addition, we evaluated the Directors' and management's incentives and opportunities for fraudulent manipulation of the relevant elements of the LV= Group and LVFS Solvency and Financial Condition Report (including the risk of override of controls) and determined that the principal risks were related to posting manual entries to manipulate own funds against the Solvency Capital Requirement or Minimum Capital Requirement, management bias through judgements and assumptions in significant estimates in particular in relation to the valuation of the provisions for the settlement of future claims and application of earning patterns, and significant one-off or unusual transactions.

Our audit procedures in relation to fraud included but were not limited to:

- Making enquiries of the directors and management on whether they had knowledge of any actual, suspected or alleged fraud;
- Gaining an understanding of the internal controls established to mitigate risks related to fraud;
- Discussing amongst the engagement team the risks of fraud;
- Addressing the risks of fraud through management override of controls by performing journal entry testing;
- Critically assessing accounting estimates impacting amounts included in the financial statements for evidence of management bias;
- Identifying and testing journal entries, in particular any journal entries posted which meet our high-risk criteria;
- Designing audit procedures to incorporate unpredictability around the nature, timing or extent of our testing of material and immaterial financial statement line items; and
- Considering significant transactions outside of the normal course of business. Our approach included attendance at all Audit Committee meetings as well as reviewing other relevant committee meeting minutes and correspondences with regulators.

There are inherent limitations in the audit procedures described above and the primary responsibility for the prevention and detection of irregularities, including fraud, rests with management. As with any audit, there remained a risk of non-detection of irregularities, as these may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal controls.

A further description of our responsibilities is available on the Financial Reporting Council's website at [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditor's report.

### **Report on Other Legal and Regulatory Requirements**

In accordance with Rule 4.1 (3) of the External Audit Chapter of the PRA Rulebook for Solvency II firms we are required to consider whether the Other Information is materially inconsistent with our knowledge obtained in the audit of the Group and Company's statutory financial statements. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

### Use of the audit report

This report, including the opinion, has been prepared for the Directors of the Group and Company to enable them to comply with their obligations under External Audit Rule 2.1 of the Solvency II Firms Sector of the PRA Rulebook and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Directors for our audit work, for this report, or for the opinions we have formed.

A handwritten signature in black ink, appearing to read 'Lionel Cazali', with a horizontal line underneath.

Lionel Cazali  
for and on behalf of Mazars LLP  
Chartered Accountants and Statutory Auditor  
30 Old Bailey  
London EC4M 7AU  
3 April 2024

## **Appendix – relevant elements of the LV= Group and LVFS Solvency and Financial Condition Report that are not subject to audit**

The relevant elements of the LV= Group and LVFS Solvency and Financial Condition Report that are not subject to audit comprise:

- The following elements of template S.12.01.02
  - Rows R0110 to R0130 – Amount of transitional measure on technical provisions
- The following elements of template S.22.01.21
  - Column C0030 – Impact of transitional measure on technical provisions
- Elements of the Narrative Disclosures not subject to audit, which includes ‘Summary’, ‘Business and performance’, ‘System of Governance’ and ‘Risk profile’;
- Elements of the Narrative Disclosures are subject to audit but identified as ‘unaudited’ which includes “Impact of the Matching Adjustment, Volatility Adjustment and Transitional Measure on Technical Provisions (TMTP only unaudited)”, “Transitional Measure on Technical Provisions (TMTP) - unaudited” and “Impact of transitional on technical provisions (unaudited)”; and
- The written acknowledgement by management of their responsibilities, including the preparation of the Solvency and Financial Condition Report or the ‘Directors’ approval Statement’.

## Glossary

For convenience a number of defined terms are used throughout this document. These are set out below:

### The Liverpool Victoria Group

Group / LV=	LVFS together with its subsidiaries
LVFS	Liverpool Victoria Financial Services Limited
LVLC	Liverpool Victoria Life Company Limited

LVPL	LV Protection Limited
TACL	Teachers Assurance Company Limited
ET	The executive team of LVFS and the Group established by the CEO

### Other terminology

ABE	Actuarial Best Estimate
AFM	Association of Financial Mutuals
BEL	Best Estimate Liabilities
CCR	Capital Coverage Ratio
CEO	Chief Executive Officer of LVFS and the Group
CIA	Chief Internal Auditor
Delegated Acts	Refers to Commission Delegated Regulation (EU) 2015/35 of 10 October 2014 unless another Delegated Regulation is specified. The provisions of Delegated Regulation (EU) 2015/35 are deemed to be rules made by the PRA under section 137G of the Financial Services and Markets Act 2000
ENID	Events not in data
EPIFP	Expected profit in future premiums
ESG	Environmental, social and governance
FCA	Financial Conduct Authority
FFA	Fund for future appropriations
IB	Industrial Branch
MA	Matching Adjustment
MAP	Matching Adjustment Portfolio
MCR	Minimum Capital Requirement
OB	Ordinary Branch
ORSA	Own Risk and Solvency Assessment

PRA	Prudential Regulation Authority
QRTs	Quantitative Reporting Templates
RNPFN	Royal National Pension Fund for Nurses
RPI	Retail Price Index
SCR	Solvency Capital Requirement
SII	Solvency II
SII Directive	Refers to Directive 2009/138/EC of the European Parliament and of the Council of 25 November 2009 on the taking-up and pursuit of the business of Insurance and Reinsurance (Solvency II) unless another Directive is specified. A direction by the PRA under section 138A of the Financial Services and Markets Act 2000
SF	Standard Formula
SFCR	Solvency and Financial Condition Report
SMF	Smoothed Managed Fund
Solvency II	The capital adequacy regime for the European insurance industry that establishes a comprehensive framework for insurance supervision and regulation. UK insurance firms now follow an amended version of Solvency II, adapted to incorporate the Solvency UK reforms, which amended the rules in the PRA Rulebook during 2023.
TA Fund	Teachers Assurance Fund
TBE	Terminal Bonus Enhancements
TMTF	Transitional Measures on Technical Provisions
The Company	Liverpool Victoria Financial Services Limited
UK	United Kingdom
UK GAAP	Generally Accepted Accounting Practice in the UK
UWP	Unitised With-profits
VA	Volatility Adjustment

## A. Business and Performance

The Business and performance section of the report sets out the Group’s business structure, key operations and financial performance over the reporting period.

### Business Performance

The LV= business is managed on a Solvency II basis and the key metrics we use to monitor the capital performance of our business are reported in Section E. The Group’s UK GAAP performance is monitored using the metrics below. Trading profit generation and operating profit generation are non-GAAP alternative performance measures that the Group considers to be a meaningful measure for stakeholders as they enhance the understanding of the Group’s underlying performance over time by separately identifying non-trading and non-operational items. The various items excluded from trading and operating profit generation, but included in the UK GAAP result for the year, are outlined below and in the Alternative Performance Measures section of the 2023 LV= Annual Report.

<b>LV= Group performance</b>	<b>2023</b>	2022
	<b>£m</b>	£m
New business contribution	<b>2</b>	14
Existing business	<b>42</b>	33
<b>Trading profit generation</b>	<b>44</b>	47
Estate investment income and other operating items	<b>25</b>	5
Experience variances	<b>(16)</b>	(4)
Model and basis changes	<b>33</b>	12
Strategic development costs	<b>(43)</b>	(36)
<b>Operating profit generation</b>	<b>43</b>	24
Restructuring and one-off items	<b>11</b>	(24)
Solvency UK reforms	<b>85</b>	-
Interest payable on subordinated debt	<b>(20)</b>	(24)
Short-term investment fluctuations and related items*	<b>18</b>	(86)
Mutual and exit bonuses	<b>(30)</b>	(35)
Profit/(loss) before tax	<b>107</b>	(145)
Tax (expense)/credit attributable to long-term business	<b>(22)</b>	97
Remeasurement of defined benefit pension scheme	<b>(15)</b>	(127)
<b>Transfer to/ (deduction from) the Fund for future appropriations</b>	<b>70</b>	(175)

\* 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. These are presented outside of operating profit in order to exclude the impact of temporary volatility.

The business performance of LVFS is not materially different to that of the Group.

### **Trading profit generation**

Trading profit generation remained stable at £44m (2022: £47m). This result reflected a continuing strong trading performance in our Protection business, where we saw improved volumes and pricing changes made to maintain value and manage customer experience capacity, along with strong sales of annuities as they have remained attractive in the high interest rate environment. However, this was offset by a decrease in the Savings and Retirement result, mainly driven by the reduced level of premiums paid into our Smoothed Managed Fund range during the year and subdued Equity Release advances with products not actively marketed for much of the year. Sales of the Smoothed Managed Fund range have been impacted by external factors such as high inflation, rising interest rates and low growth.

### **Operating profit generation**

Operating profit generation has increased to £43m (2022: £24m). This is made up of trading profit of £44m (2022: £47m), with Estate investment income adding a further £25m (2022: £5m) and model and basis changes of £33m (2022: £12m), bolstered by the future cost benefit arising from the appointment of BlackRock as our primary asset manager. This was partially offset by adverse experience variances of £16m (2022: £4m) and strategic development costs of £43m (2022: £36m).

**Profit before tax and mutual/exit bonus**

The Group is reporting a profit before tax of £107m (2022: £145m loss). The operating profit of £43m (2022: £24m) is bolstered by £85m benefit from regulatory change, with the Solvency UK reforms leading to a risk margin reduction. A further £32m (2022: £5m) benefit arises from non-operational income and other adjusting items, mainly comprising non-operational basis changes and £18m positive impact from short-term investment fluctuations (STIF) and related items (2022: £86m loss). These are offset by spend on restructuring and one-off items of £21m (2022: £29m), interest of £20m (2022: £24m) payable during the year on our subordinated debt, and discretionary Mutual and Exit bonus allocations of £30m (2022: £35m).

**UK GAAP Surplus (Fund for Future Appropriations (FFA)) generation**

The Group transfer to the Fund for Future Appropriations for 2023 is £70m (2022: £175m transfer from FFA), with total Fund for Future Appropriations increasing for the Group to £576m (2022: £506m).

The transfer to the Fund for Future Appropriations for LVFS in 2023 is £80m. The difference between this and the Group transfer mainly relates to the impact of a lease impairment in a subsidiary company.

Offsetting the profit before tax, the overall transfer to FFA was impacted by £15m of adverse Pension scheme re-measurements (2022: £127m), mainly driven by the ongoing fall in the return on assets held by the pension scheme. There is also a £22m tax expense (2022: £97m tax credit), the majority of which relates to the increase in policyholder asset share, the credit of which is reported in short-term investment fluctuations and related items.

For further information on the results, please refer to the 2023 LV= Annual Report.

## **A.1 Business**

### **a) Name and legal form of undertaking**

Liverpool Victoria Financial Services Limited (LVFS) is a UK-incorporated and domiciled company limited by guarantee registered under the Companies Act 2006. LVFS is the ultimate parent of the LV= Group of companies.

Registered office:  
County Gates  
Bournemouth  
BH1 2NF  
Telephone: 01202 292333

### **b) Name and contact details of the supervisory authorities responsible for financial supervision.**

The Prudential Regulation Authority (PRA) and Financial Conduct Authority (FCA) are responsible for the financial supervision of the Company, and the Group.

#### **PRA**

Address: 20 Moorgate  
London  
EC2R 6DA  
Phone: 020 7601 4444

#### **FCA**

Address: 12 Endeavour Square  
London  
E20 1JN  
Phone: 020 7066 1000

### **c) Name and contact details of the external auditor**

The independent auditor is Mazars LLP

Address: 30 Old Bailey  
London  
EC4M 7AU  
Phone: 020 7063 4000

### **d) Description of the holders of qualifying holdings in the undertaking**

As LV= is a mutual organisation, there are no external qualifying holdings within the meaning of the Solvency II regulations. The ultimate parent company for all of the subsidiary companies within the Group is LVFS.

**e) Details of the undertakings within the Group**

The material subsidiary undertakings of the Group as at 31 December 2023 are as follows:

Name of Subsidiary	Principal activity	Percentage held
Frizzell Financial Services Limited	Property management	100%
Liverpool Victoria Financial Advice Services Limited	Financial advice services	100%
Liverpool Victoria Life Company Limited #	Life insurance	100%
LV Protection Limited #	Insurance	100%
LV Capital Limited	Holding company	100%
LV Bonds PLC	Finance company	100%
LV Equity Release Limited	Origination of equity release lifetime mortgages	100%
LV Life Services Limited	Management services	100%
LV Commercial Mortgages Limited	Commercial mortgages	100%
NM Pensions Trustees Limited	Self-invested personal pension (SIPP) administrator	100%
Teachers Financial Services Limited	Insurance and financial intermediary	100%
Teachers Assurance Company Limited #	General insurance	100%
Teachers Management Services Limited	Management services	100%

# Denotes Solvency II regulated undertakings

The proportion of the voting rights in the subsidiary undertakings held directly by the parent company do not differ from the proportion of ordinary shares held. The Group and all principal undertakings are incorporated and domiciled in the UK.

All holdings are in relation to ordinary shares. Dormant companies have been excluded from the above list but are included in the QRT S.32.01, which is annexed to this SFCR.

The Group prepares its financial statements on a UK GAAP basis and presents the parent company and all subsidiaries on a consolidated basis.

Under Solvency II, the non-insurance regulated entities are not consolidated but are accounted for as investments in participations.

**f) Material lines of business and material geographic areas.**

The Group mainly underwrites life insurance contracts within the UK.

The Group conducts life assurance business through its Savings and Retirement, Protection and Heritage segments. The principal activity is the provision of life, pensions and investments products and managing the Heritage legacy book.

The products and services from which each reportable segment derives its income are as follows:

- Savings and Retirement: Smoothed Managed Fund range, unit-linked pensions, fixed-term annuities, LV= Equity Release and our Retirement Advice Service.
- Protection: products that help protect people's lives and incomes, such as critical illness, income protection and life insurance.
- Heritage: a closed book of savings and retirement products issued by LV= and companies acquired by LV= in previous years, including Teachers Assurance and Royal National Pension Fund for Nurses (RNPFN).

**g) Significant business or other events occurring during the reporting period that have a material impact on the undertaking.**

The challenging external context has continued throughout 2023. The ongoing conflict in Ukraine affected the price of commodities such as oil, gas and wheat, fuelling inflation and thereby impacted consumers' disposable incomes. In the US, there were increased financial market uncertainties with the failure of two regional banks, and the subsequent rescue takeover by UBS of Credit Suisse. In response, the regulators and central banks took actions to limit the emergence of a new systemic banking crisis. In October, the geopolitical risks were further heightened through the escalation of the Israeli-Hamas conflict. Together, this increases the potential for further market volatility.

Inflation has remained a key focus over the year, with the Consumer Price Index (CPI) peaking at 10.4% in February and subsequently falling to 3.9% in December. Core CPI (which excludes the price of energy, food, alcohol and tobacco) also fell to 5.1% in December, implying that the central bank's interest rate policy (with rates at high levels versus recent years) is taking effect. However, cost of living pressures continued to persist during 2023 through higher mortgage rates and inflated fuel and food prices.

In terms of the regulatory context, the Consumer Duty requirements, which include a greater focus on customer outcomes, came into force for products open to new business in July 2023, and will apply for products which are closed to new business in July 2024. Work to address these requirements remains on track to meet the regulatory deadline.

In June 2023, His Majesty's Treasury published draft Statutory Instruments covering the legislative text on the Solvency II reforms to the Risk Margin and the Matching Adjustment. The Risk Margin reform was implemented at the end of 2023 with the remainder of the changes expected either at mid or end-2024.

We are pleased that our robust business model and focused strategy has delivered a profit this year. This is despite many external headwinds including heightened inflation, and low economic growth. We have been able to maintain strong cost discipline and an operating performance that generates an increased level of capital coverage and profitability. The Smoothed Managed funds volumes are expected to increase in 2024 as fund performance improves and the transition to our new primary asset manager BlackRock drives growth. We also anticipate increasing LV= Equity Release mortgage advances following new funding being agreed during the latter part of 2023. Our members can be confident that we are driving progress and our foundations remain strong.

## A.2 Underwriting performance

### Underwriting performance by line of business compared to previous reporting period

The following tables provide further information on UK GAAP underwriting income and expenses of the Group's continuing operations, analysed by material lines of business:

All business is underwritten in the UK.

The underwriting performance of LVFS is not materially different to that of the Group.

### Earned premiums, net of reinsurance

Group	2023 £m	2022 £m
<b>Gross premiums written</b>		
<b>Long-term insurance and participating investment contracts</b>		
<b>Single premium</b>		
Investments and savings	105	280
Annuities	389	264
<b>Regular premium</b>		
Investments and savings	11	14
Pensions and annuities	5	5
Life and health protection	283	264
<b>Gross premiums written</b>	<b>793</b>	<b>827</b>
<b>Outwards reinsurance premiums</b>		
Long-term insurance premiums	(298)	(301)
<b>Earned premiums, net of reinsurance</b>	<b>495</b>	<b>526</b>
<b>Gross premiums written for non-participating (unit-linked) investment contracts which are deposit accounted for and not included above</b>	<b>173</b>	<b>231</b>

Gross written premiums of £793m decreased by 4% compared to 2022. The decrease was mainly driven by the reduced levels of premiums paid into our Smoothed Managed Funds range, which have been impacted by external factors such as high inflation, rising interest rates and low growth. The decrease was partially offset by increased sales of annuities and protection policies which have remained strong in the high interest rate environment.

### Claims incurred, net of reinsurance

Group	2023			2022		
	Gross £m	Reinsurance £m	Net £m	Gross £m	Reinsurance £m	Net £m
<b>Long-term insurance and participating investment contracts</b>						
Gross claims paid	1,172	(277)	895	1,042	(266)	776
Fair value adjustment to reinsurance receivable	-	(9)	(9)	-	5	5
Claims paid	1,172	(286)	886	1,042	(261)	781
Change in the provision for claims	(9)	-	(9)	6	-	6
<b>Claims incurred, net of reinsurance</b>	<b>1,163</b>	<b>(286)</b>	<b>877</b>	<b>1,048</b>	<b>(261)</b>	<b>787</b>
<b>Claims paid for non-participating (unit-linked) investment contracts which are deposit accounted for and not included above</b>	<b>524</b>	<b>-</b>	<b>524</b>	<b>527</b>	<b>-</b>	<b>527</b>

Net benefits and claims of £877m increased by 11% compared to 2022. This is mainly driven by the increase in surrenders relating to Flexible Guarantee Bonds, where surrenders were higher than normal during 2023 as policyholders accessed funds due to economic uncertainty and cost of living impacts.

**Change in technical provisions, net of reinsurance**

	Group	
	2023	2022
	£m	£m
<b>Change in technical provisions for Long-term business</b>		
<b>Gross</b>		
Change in participating insurance contract liabilities	238	1,057
Change in participating investment contract liabilities	5	152
Change in non-participating insurance contract liabilities	(279)	1,172
<b>Change in long-term business provision - gross</b>	<b>(36)</b>	<b>2,381</b>
<b>Reinsurers' share</b>		
Change relating to participating insurance contract liabilities	4	(353)
Change relating to non-participating insurance contract liabilities	172	(94)
<b>Change in long-term business provision - reinsurers' share</b>	<b>176</b>	<b>(447)</b>
<b>Change in long-term business provision, net of reinsurance</b>	<b>140</b>	<b>1,934</b>
<b>Change in technical provisions for linked liabilities</b>		
<b>Gross</b>		
Change in linked investment contract liabilities	(300)	398
<b>Change in technical provisions, net of reinsurance</b>	<b>(160)</b>	<b>2,332</b>

The gross increase in technical provisions for long-term business for 2023 was £36m (2022: £2,381m decrease). The year-on-year movement is mainly driven by the increase in investment values during 2023, as opposed to the large fall in investment values during 2022, which reduced the obligation to policyholders. The increase in the obligation to policyholders during 2023, driven by investment gains, was offset by an overall outflow of policies.

**Net operating expenses**

	Group		LVFS	
	2023	2022	2023	2022
	£m	£m	£m	£m
Commission paid on acquisition of business	79	83	75	74
Amortisation and impairment of intangible assets	-	7	-	6
Depreciation and impairment of property and equipment	11	2	-	-
Auditor's remuneration	1	1	1	1
Staff costs	81	78	81	78
Management charge allocated to group undertakings	-	-	(16)	(15)
Facilities expense	9	7	8	6
Marketing and advertising	3	3	2	3
Other staff costs	8	11	8	11
IT costs	40	35	32	35
Legal, consultancy and other fees	23	22	30	21
Other expenses	(3)	4	(3)	4
Claims handling cost recognised in Claims paid	(7)	(7)	(7)	(7)
<b>Net operating expenses</b>	<b>245</b>	<b>246</b>	<b>211</b>	<b>217</b>

Net operating expenses for 2023 of £245m have remained stable compared to 2022.

**Solvency II lines of business**

In addition to the above, the material Solvency II lines of business by reference to UK GAAP gross written premiums, a component of underwriting performance, are outlined below based on gross written premium analysed within the Quantitative Reporting Template (QRT) S.05.01, which is annexed to this SFCR.

**Life insurance**

The Group’s long-term business, which represents 100% of total gross premiums written, includes participating insurance and investment business and non-participating insurance and investment business. The material life insurance Solvency II lines of business for the year ended 31 December are as follows, based on contribution to life insurance business gross written premiums:

Life insurance	Group		LVFS	
	2023	2022	2023	2022
Insurance with-profit participation	14%	12%	14%	13%
Index-linked and unit-linked insurance	18%	39%	18%	39%
Other life insurance	60%	42%	60%	41%
Health	8%	7%	8%	7%

Gross written premiums collected under non-participating investment contracts are deposit accounted rather than accounted for through the income statement under UK GAAP.

## A.3 Investment performance

### a) Income and expenses with respect to investment activities

#### Components of investment activities

Investment income is reported consistently with UK GAAP. Investment income includes dividends, interest from investments at fair value, interest on loans and receivables and interest on loans secured on residential and commercial property. Dividends are recorded on the date on which the shares are declared ex-dividend.

Realised gains and losses on investments are calculated as the difference between net sales proceeds and purchase price.

Unrealised gains and losses on investments represent the difference between the valuation of fair value assets at the Balance sheet date and their valuation at the last Balance sheet date or, where purchased during the year, the purchase price. An adjustment is made to unrealised gains and losses for the prior year's unrealised element included in the current year's realised gains and losses.

#### Investment performance

The following tables summarise the investment performance of the Group's operations, on a UK GAAP basis:

#### Investment income

	Group		LVFS	
	2023 £m	2022 £m	2023 £m	2022 £m
Income from investments at fair value through profit or loss:				
- Dividend income	88	79	88	79
- Interest income from debt and other fixed income securities	107	103	107	102
- Interest on loans secured on residential property	24	26	24	26
- Interest on loans secured on commercial property	19	14	19	14
Net realised gains/(losses) on investments held at FVTPL	42	(167)	32	(167)
Interest on loans and receivables	5	1	4	1
Net realised losses on investments in group undertakings	-	-	(233)	(323)
Dividend income from group undertakings	-	-	235	320
<b>Total investment income</b>	<b>285</b>	<b>56</b>	<b>276</b>	<b>52</b>

Investment income for the Group has increased to £285m (2022: £56m). The reversal of the large realised losses reported at year-end 2022 reflects the improved market conditions at year-end 2023, with both debt and equity values recovering.

#### Unrealised gains/(losses) on investments

	Group		LVFS	
	2023 £m	2022 £m	2023 £m	2022 £m
Net unrealised gains/(losses) on investments held at FVTPL:				
- Debt and other fixed income securities	201	(705)	203	(704)
- Equity securities	393	(1,087)	393	(1,087)
- Loans and mortgages	12	(152)	13	(152)
- Derivative financial instruments	12	(83)	12	(83)
<b>Unrealised gains/(losses) on investments</b>	<b>618</b>	<b>(2,027)</b>	<b>621</b>	<b>(2,026)</b>

The Group gain on investments of £618m (2022: £2,027m loss) is driven by the economic market movements during the year, with favourable impacts on global equity markets and rising interest rates impacting the value of our debt securities, loans and mortgages and derivatives.

**Investment expenses and charges**

These expenses are directly attributable to investment activities.

	Group		LVFS	
	2023 £m	2022 £m	2023 £m	2022 £m
Investment management expenses and charges	24	27	25	26

**b) Information about any investments in securitisation**

There are no material investments in securitisation (2022: £nil).

## A.4 Performance of other activities

The results of other activities of the Group's continuing operations are as follows:

### Other technical charges

	Group		LVFS	
	2023 £m	2022 £m	2023 £m	2022 £m
Interest payable on subordinated liabilities	20	23	20	23
Other Interest payable on lease liabilities	4	2	4	1
	<b>24</b>	<b>25</b>	<b>24</b>	<b>24</b>

In 2013, LVFS 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 have been amortised using the effective interest rate basis over the period to the first call date in 2023.

The Notes have a maturity date of 22 May 2043, but the issuer had the option to redeem the Notes at the first call date of 22 May 2023 and annually thereafter up to the maturity date. The initial first call date was 22 May 2023, prior to which the issuer redeemed £150m Notes at par by way of a tender offer. No additional Notes were redeemed at the first call date.

Interest was payable on the Notes at a fixed rate of 6.5% per annum for the period until the first call date on 22 May 2023, payable annually in arrears on 22 May each year. For Notes not redeemed on 22 May 2023, the interest rate was reset on that date and will be reset 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. Interest is currently payable on the Notes at a fixed rate of 9.44% per annum. This reset rate will remain the effective rate payable on the Notes until the next reset of the Interest Rate on 22 May 2028.

In order to comply with the requirements of the Companies Act 2006, following transition to UK GAAP, LVFS carried out a substitution of issuer prior to 31 December 2023, to transfer the Notes to one of its subsidiaries, LV Bonds PLC. Following the substitution of Issuer, LVFS acts as guarantor for the Notes. Consideration paid by LVFS to LV Bonds PLC in exchange for taking on the obligation associated with the Notes constituted the par value of the Notes. These proceeds were loaned back to LVFS on the same interest, final repayment and subordination terms as those applicable to the Notes.

There is an option of cumulative deferral of interest at the issuer's discretion and mandatory interest deferral in the event that a regulatory deficiency interest deferral event has occurred or is continuing (breach of the applicable regulatory solvency capital requirement of the issuer, guarantor or group) or would occur if payment of interest on the subordinated notes were to be made. Following any deferral of a principal or interest payment, LVFS would be prevented from declaring any distribution to members which falls within the Mutual Bonus arrangements. The issuer has the option to elect to defer payment of interest in whole or in part and this will not constitute a default or give the right to the noteholders or the trustee to accelerate repayment of the Notes or to take any enforcement action.

### Other technical income

	Group		LVFS	
	2023 £m	2022 £m	2023 £m	2022 £m
Asset management fee income	22	23	22	23
Commission	8	21	-	-
Other fee income	9	9	3	3
	<b>39</b>	<b>53</b>	<b>25</b>	<b>26</b>

Other technical income is mainly made up of asset management fee income relating to the policyholder pension business, and commission income from the origination of Equity Release mortgages. Other technical income for the Group has decreased to £39m (2022: £53m), reflecting the reduced levels of Equity Release mortgage advances arranged for third party funders during the year.

### **Leasing arrangements**

The Group occupies leased premises for its head office. Following the confirmation that a sub-tenant would be exercising a break clause in its sub-lease at the end of 2024, an impairment review was carried out to ascertain the carrying value of the Group's Bournemouth office. This review generated impairment during the year of £10m. At 31 December 2023 right of use assets held by the Group were £5m (2022: £16m) and lease liabilities were £19m (2022: £19m). Right of use assets and lease liabilities are unwound over the lease term. The remaining lease term for the head office is 17 years.

The Group leases a small number of regional offices under non-cancellable operating lease agreements. The leases have varying terms, escalation clauses and renewal rights. At 31 December 2023, commitments under operating leases were £2m (2022: £3m).

## **A.5 Any other information**

There is no additional information to disclose for section A.

## B. System of Governance

The Directors of LVFS during the year were as follows:

N. Ceeney	D. Rogers – appointed 1 March 2023
D. Hynam	S. Creedon – resigned 31 March 2023
C. Ledlie	S. Percival – appointed 22 June 2023
S. McInnes	
S. Moore	
S. Neubert	

This section outlines how the Group is directed and controlled and provides an overview of the Group’s system of governance. It also describes the remuneration policy and practices, and adherence with the ‘Fit and Proper Requirements’, which is the regulatory standard required when appointing those who effectively run the organisation or have other key roles.

The Board is committed to high standards of corporate governance, which it believes are critical to business integrity and performance. The Board believes that implementing an effective risk management system is fundamental to achieving these high standards, and this section also describes how this works in detail.

Unless otherwise stated, the risk management and internal control systems described in this section are implemented consistently across LVFS and its subsidiaries.

### Adequacy of the governance structure

The Board is committed to the highest standards of corporate governance and stewardship. As a mutual, we are owned by our members and strive to provide long-term benefit and confidence through the operation of an effective governance framework, efficient controls and transparent decision making.

To reflect our commitment to mutuality, LV= is a member of the Association of Financial Mutuals (AFM). In previous years we reported against the Financial Reporting Council’s UK Corporate Governance Code but, due to our membership to the AFM, we now adhere to the principles of the AFM’s Corporate Governance Code (AFM Code).

Although we have changed the governance code we report against, our commitment to practicing the highest standards of corporate governance remains. The Group monitors and assesses its governance framework on an ongoing basis and there have been no significant findings during the reporting period which have indicated to the Board that the system of governance is not adequate.

The Directors’ Remuneration Report can be found in the 2023 LV= Annual Report. It is prepared in line with best practice and the reporting requirements which apply to listed companies where possible to comply with the best standards of governance.

## B.1 General information on the system of governance

### Governance structure

Liverpool Victoria Financial Services Limited (LVFS) is the ultimate parent undertaking of the LV= Group. LV's governance framework defines the decision-making authorities and responsibilities of the Board, committees and management. The governance framework assists with the oversight and delivery of the Group's performance, strategy, values and culture.

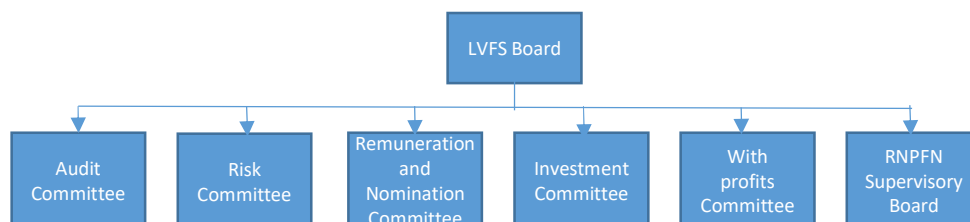
The Board sets the tone from the top on the Group's governance, culture and values and is collectively responsible for the long-term success of the Group. The role of the Board is to make decisions on matters such as the Group's strategy, values and purpose, as well as financial, risk, governance and statutory matters. The Board is also responsible for declaring member bonuses and determining a person's entitlement to membership. In accordance with the directors' statutory duties, the Board must ensure that all stakeholders are considered in the decision-making process, and for LV= this includes amongst others: members, customers, advisors, colleagues, the regulators and the community.

The LV= Board is currently comprised of an independent non-executive chair, five independent non-executive directors and two executive directors. The directors collectively have the appropriate balance of skills, knowledge and experience in the financial services industry, in particular life insurance, pensions, with-profits, investments, risk and governance.

The Board exercises stewardship over the Group's subsidiaries through its right to appoint board members and reservation to the Board of certain matters outlined in the constitution of the subsidiaries (the Articles of Association).

In setting its governance arrangements, the Board reserves decision making powers to itself. The Board Committees' each have specific responsibility and have delegated authority to oversee and approve certain matters as agreed by the Board, or form recommendations for the Board to consider. The CEO has responsibility for any matter not reserved to the Board. A full description of the Board's role and responsibilities is set out in the Governance section of the 2023 LV= Annual Report.

The following chart illustrates the governance structure:



The Board has overall responsibility for the Group's risk management, internal control and reporting systems. Accordingly, they ensure that Group-wide requirements across all these areas are set on a consistent basis throughout the business. This is straightforward to achieve due to the Board's influence over the Group's wholly owned subsidiaries and the fact that all of these subsidiaries, utilise the Group's risk and finance functions.

Within its Systems of Governance, the LVFS Board has adopted a Three Lines of Defence model with key oversight functions being Risk, Compliance, Actuarial and Internal Audit. In setting up these functions, the Board has ensured that:

- They are free from influences that may compromise their ability to undertake duties in an objective, fair and independent manner.
- Each function operates under the ultimate responsibility of, and reporting to, the Board.
- They have the necessary authority, resources and expertise, as well as unrestricted access to all relevant information necessary to carry out their responsibilities.

The scope, authority and responsibility for each of the Three Lines of Defence is set out in a Board-approved Risk Mandate, which is included as part of the Risk Strategy. The Mandate, in conjunction with the Risk Operating Model, confirms how each function achieves independence and how potential conflicts of interest are managed.

The following table summarises the key roles and responsibilities for each function:

<p><b>Risk Management function</b></p>	<p>The Risk Management function sets the strategic direction on risk matters and provides oversight of the operation of the Risk Management Framework (LV=RM) across the Group.</p> <p>Risk Management activity is an enabler for the business achieving its goals. To ensure that there is a cohesive and co-ordinated approach to managing risk, the various resources across the Group must be deployed efficiently and effectively in order that risks and exposures are identified, managed and mitigated. The Group’s approach to risk management and risk governance is based upon the ‘Three Lines of Defence Model’. The LV= Risk Strategy sets out the mandate of the Risk Management function and the ‘Three Lines of Defence Model’. A detailed account of all Risk Management activity is provided in section B.3.</p>
<p><b>Compliance function</b></p>	<p>The Compliance function reports to the Chief Risk Officer. The Compliance function is a fundamental element of the Second Line of Defence, with key compliance responsibilities included in the following roles:</p> <ul style="list-style-type: none"> <li>• The Chief Compliance Officer reports to the Chief Risk Officer. Primary responsibilities of the role relate to advising on conduct risk compliance and oversight of non-prudential regulatory change. In addition, they hold the regulatory responsibilities for Money Laundering Reporting Officer and Data Protection Officer. The Chief Risk Officer retains accountability for advising the business on compliance with prudential risk matters, including the impact of prudential regulatory change on the Group’s risk profile.</li> <li>• The Risk Management Compliance team reports to the Chief Compliance Officer and is responsible for designing and facilitating the implementation of the Regulatory Risk Management Framework.</li> </ul> <p>Further details of Compliance Function responsibilities and activities are included within section B.4.</p>
<p><b>Actuarial function</b></p>	<p>The Actuarial function forms part of the Second Line of Defence led by the Chief Risk Officer.</p> <p>The Actuarial function:</p> <ul style="list-style-type: none"> <li>• Provides oversight and challenge to the calculation of the technical provisions of the Group and reports to the relevant governance committees on the appropriateness of the methodologies, models, assumptions and data used.</li> <li>• It also reports on the appropriateness of the underwriting and reinsurance policies and arrangements applied.</li> </ul> <p>Further details are provided in section B.6.</p>
<p><b>Internal Audit function</b></p>	<p>Internal Audit act as the third line of defence. The internal audit team provides independent and objective assurance to the Audit Committee and to the executive team on the effectiveness of the systems of risk management and internal controls across the business.</p> <p>A detailed account of the function’s operations and responsibilities is provided in section B.5.</p>

## Remuneration

The Group has a Remuneration and Nomination Committee consisting of non-executive directors of the Board. Its main responsibilities are to:

- Determine and oversee the design and implementation of the Executive Remuneration Policy;
- Oversee the design and implementation of remuneration practices and packages for executive directors and senior management;
- Oversee the policy, design and governance of variable remuneration schemes across the Group (including the Performance Distribution Reward scheme);
- Have consideration to wider workforce remuneration;
- Review the structure, size and composition of the Board and its Committees;
- Have oversight of the recruitment, selection and nomination process for the appointment of members to the Board; and
- Ensure succession plans are in place for the Board, Executive Team and the Company Secretary.

Decisions by the Committee are to be made in line with business objectives, Group culture and members' interests.

Our Remuneration Policy is governed by good risk management practices to ensure that employees are incentivised appropriately to support the short, medium and long-term interests of our members. It is designed to support LV's strategy and promote long-term sustainable success. Variable remuneration is linked to performance and forms an important part of the remuneration package for all employees.

Employees are eligible to participate in the annual bonus plan, under our annual Group or Distribution Performance bonus schemes. The Group Annual Bonus is based on Group performance, assessed against a Balanced Scorecard containing financial and non-financial metrics. Success against this scorecard determines a total bonus pool which is distributed to eligible employees based on their individual performance and bonus opportunity. For employees covered by Solvency II regulations, a proportion of their variable remuneration bonus award may be deferred and paid out over future years, in line with regulations. Our Distribution Performance scheme is based on individual performance against a scorecard of financial and non-financial measures.

Senior employees may also be invited to participate in the Long-Term Incentive Plan (LTIP).

The full Report on Directors' Remuneration can be found in the 2023 LV= Annual Report.

## B.2 Fit and proper

Everyone employed by the LV= Group needs to meet defined criteria for being Fit and Proper as defined in the Fit and Proper Policy, which is owned by the Chief People Officer. This policy requires that everyone meets the following principles:

- Honesty, integrity and reputation
- Competency and capability
- Financial soundness
- Qualifications to meet the business and regulatory requirements

Key management personnel of the Company are aligned to the FCA/PRA Senior Managers and Certification Regime and include Board members. Collectively, these personnel possess professional qualifications, experience and knowledge in multiple areas.

These include, but are not limited to:

- Business strategy, including financial and actuarial analysis
- Regulatory framework and requirements
- System of governance and risk management
- Insurance and financial markets
- Information technology and project management

A standard recruitment process exists, which is based on multiple factors including consideration of experience, skills, qualifications, behaviours and attitude. The Referencing Minimum Standard establishes the key checks to be performed to ensure that candidates meet the Fit and Proper standards.

The following key checks are completed:

- Two-year employment history
- Right to work in the UK
- Five-year address history
- Basic fraud and criminal checks
- Credit checks
- Sanctions checks
- Directorships
- Qualification checks (depending on role)

When recruiting Senior Management Function Holders and Certified roles, the organisation conducts additional checks for these roles including:

- Six-year regulatory employment history
- Directorships
- Completion of fitness, propriety and conflicts of interest questions
- FCA/PRA prohibitions
- Standard Criminal Records Bureau checks (For Senior Manager Function only)

In addition, an application to the FCA/PRA is required when recruiting Senior Management Function Holders.

All referencing for any Senior Manager Functions, Key Function Holders and Certified Staff needs to be completed prior to commencement of employment.

On an annual basis, a Fitness, Propriety and Conflicts of Interests attestation is conducted for all Senior Manager Functions, Key Function Holders and Certified Staff. This check includes directorships, financial soundness and conflicts of interest.

## B.3 Risk management system

Risk management is key to the success of LV=. We operate a fully integrated risk management framework (LV=RM) which brings together the key processes and activities undertaken throughout the business to ensure that our members' and customers' security is at the forefront of our decision making. Structuring engagement and risk management practices in line with this framework and our values enables senior management to demonstrate that risk is actively and appropriately managed across the business.

### Risk environment

The challenging external context has continued over 2023. The ongoing conflict in Ukraine affected the price of commodities such as oil, gas and wheat, fuelling inflation and thereby impacted customers disposable incomes. In the US, there was increased financial market uncertainties with the failure of two regional banks, and the subsequent rescue takeover by UBS of Credit Suisse. In response, the regulators and central banks took actions to limit the emergence of a new systemic banking crisis. In October, the geopolitical risks were further heightened through the escalation of the Israeli-Hamas conflict. Together, this increases the potential for further market volatility.

Inflation has remained a key focus over the year, with CPI peaking at 10.4% in February and subsequently falling to 3.9% in December. Core CPI (which excludes the price of energy, food, alcohol and tobacco) also fell to 5.1% in December, implying that the central bank's interest rate policy (with rates at high levels versus recent years) is taking effect. However, cost of living pressures continued to persist over 2023 through higher mortgage rates and inflated fuel and food prices.

This economic backdrop has had further implications for consumer sentiment. Findings from the LV= Wealth and Wellbeing Research Programme confirms that four in ten people continue to report feeling concerned about increased food and utility costs, with less than half (49%) of the working age population saying they are comfortably able to afford to pay their bills. By contrast, two-thirds of retirees report being able to comfortably afford their living costs.

In terms of the regulatory context, the Consumer Duty requirements, which include a greater focus on customer outcomes, came into force for products open to new business in July 2023, and will apply for products which are closed to new business in July 2024. Work to address these requirements remains on track to meet the regulatory deadline.

In June 2023, His Majesty's Treasury published draft Statutory Instruments covering the legislative text on the Solvency UK reforms to the Risk Margin and the Matching Adjustment. The Risk Margin reform was implemented at the end of 2023 with the remainder of the changes expected either at mid or end-2024.

Over the year, we have continued to observe increasing expectations over firms' environmental, social and governance (ESG) activities in response to global issues such as climate change including external reporting disclosure requirements. A summary of the key activities undertaken over 2023, and the risks and opportunities we are facing from climate change is shown in our Sustainable Business Review Section of the Annual Report, with the full LV= Sustainability Report available on our website.

### Overall Board responsibilities

The Board is responsible for determining the appropriate level of risk to which LV= may be exposed and ensuring that these risks are appropriately controlled. These include risks to the business model and future performance; potential threats to policyholder security; liquidity management; and adverse outcomes for members and customers.

The Board seeks to achieve this by ensuring that the LV=RM continues to include the setting of a proportionate risk strategy, risk appetite and clear risk mandate and organisational design. The Risk Committee, on behalf of the Board, regularly monitors the operational effectiveness of the LV=RM to ensure that it continues to drive a strong risk culture within LV=.

### LV=RM Overview

The LV=RM framework is owned by LV's Chief Risk Officer on behalf of the Board. It provides a systematic set of processes, tools and behaviours which allow senior management to respond effectively to any potentially significant internal or external event that may have an impact on delivering the business strategy. The LV=RM also enables LV= to enhance its business and risk-based decisions, while ensuring that it remains compliant with all regulatory and legislative requirements, as well as internal policies.

The key elements of the LV=RM are summarised below:

<b>Risk Universe</b>	The risk universe is a standard set of key risk categories where LV= has, or is likely to have, material risk exposures. These are used for identifying, reporting and modelling LV's risk exposures.
<b>Risk Strategy</b>	This sets out LV's approach to risk management including providing a clear direction and preference for taking on or avoiding risk.
<b>Risk Governance</b>	This covers the framework and processes which demonstrate to the Board that appropriate and effective risk management, oversight and assurance is being undertaken for all material risks faced by the business.
<b>Risk Appetite</b>	These are a set of statements and supporting measures which clearly state the level of risk that the Board is willing to accept in order to achieve its business objectives.
<b>Risk Policies and Standards</b>	These set out the expectations and evidence requirements for how the LV= Board expect the key risks within the Risk Universe to be identified, categorised, assessed, controlled, monitored and reported.
<b>Risk &amp; Control Assessment</b>	This is an integrated and co-ordinated set of processes which facilitate the timely and effective identification, assessment and management of risks that could or will impact LV=.
<b>Own Risk &amp; Solvency Assessment</b>	The Own Risk & Solvency Assessment (ORSA) processes facilitate the timely and effective identification, assessment, and management of risks that could or will impact LV=.
<b>Culture and Performance</b>	This includes performance measures that drive appropriate behaviours and promote an effective risk culture.
<b>Training and Communications</b>	This is a programme of regular and timely risk-based training and communication across all areas of the business. It ensures that there is a clear understanding of risk management processes and controls.
<b>MI &amp; Reporting</b>	The provision of complete, accurate and timely management information to senior management and the Board to allow them to discharge their risk management responsibilities and to facilitate risk-based decision making.

Further information on these elements is provided below.

### **Risk universe**

LV= is exposed to both financial and non-financial risks, with profitability and growth, together with customer outcomes dependent upon the proactive management of these risk exposures. The Risk Universe sets out the key risk categories where LV= has, or is likely to have, material risk exposures. At a high level the risk categories which LV= is exposed to are:

- Life insurance risk
- Financial markets risk
- Credit counterparty risk
- Liquidity risk
- Strategic risk
- Conduct risk
- Operational risk

Clear executive accountabilities for managing each of these risks have been agreed at the Risk Committee.

### **Risk strategy**

The risk strategy is aligned with the business strategy and ensures that an effective approach to risk management is in place, in line with its business and financial goals. This risk strategy aims:

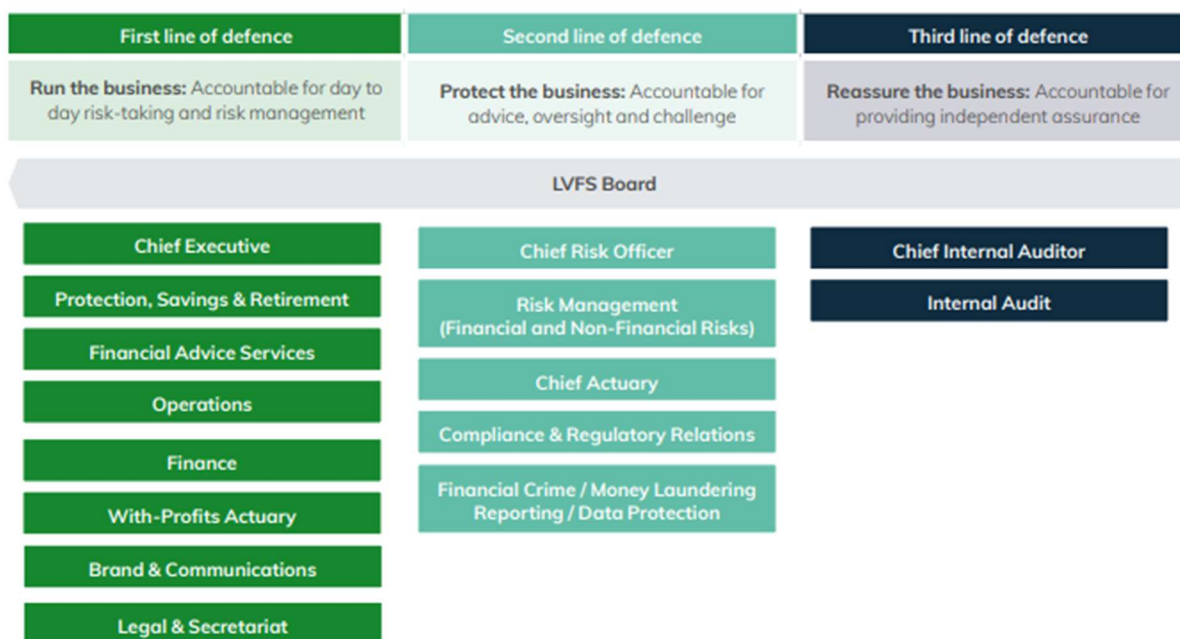
- To inform the Board in identifying the most attractive risks to accept and setting a robust risk appetite which ensures that the business model and strategy are designed and executed in a controlled manner to safeguard member value.
- To drive a strong risk culture that ensures the business is managed in line with the Board's risk strategy.

### Risk governance

LV= operates a three lines of defence model as part of its day-to-day risk management operations, set out within a board-approved risk mandate. The Board delegates much of its oversight of risk matters to the Risk Committee, which together with the Executive Risk Committee, the Chief Risk Officer and the risk management teams, ensures that the business is operating in line with the requirements of the LV=RM.

The roles and responsibilities across the three lines of defence model are included within the risk strategy. Ownership of risk is summarised as follows:

- **First line of defence:** led by the Chief Executive who is supported by the executive and senior leadership team. The executive team are accountable for the management of risk and are required to identify, assess, manage and report on the risk profile on a current and forward-looking basis. Sound risk management tools, practices and knowledge facilitate informed business decision making in accordance with the LV=RM, and in particular LV's risk appetite.
- **Second line of defence:** led by the Chief Risk Officer who is supported by the risk management team, compliance and actuarial functions and other risk management professionals across the organisation. Risk management develops and directs the implementation of the LV=RM, monitors, reviews and challenges first line compliance with this framework and escalates material breaches to the Board.
- **Third line of defence:** led by the Chief Internal Auditor who is supported by the internal audit team and the Audit Committee. Internal audit provides independent and objective assurance to the Audit Committee and to executive management on the effectiveness of the systems of risk management and internal controls across the business.



### **Risk appetite**

The LV= risk appetite comprises a suite of quantitative and qualitative statements that are used to measure current and future business performance. These consider both financial (solvency and liquidity) and non-financial (people, product and sales, customer and adviser service, safeguarding, IT risk, information security, data and processes).

Each of the appetite statements provide direction to senior management regarding their priorities in the execution of the risk strategy and are underpinned by a suite of more granular supporting measures, limits and triggers relating to key risk drivers.

### **Risk and control assessment**

Management undertake regular assessments to help determine whether the risk and control environment continues to operate in line with expectations. This helps ensure that the risks that LV= faces are identified, understood, and managed effectively. The conclusions of these assessments are used to inform our senior management and the Board as to whether there is an increasing likelihood that a single risk or group of risks could impact LV= or its members and customers.

### **Own risk and solvency assessment (ORSA)**

The ORSA is an integral part of LV's capital management processes and the overall LV=RM and is an effective tool used to inform strategic decision-making. The ORSA comprises iterative internal risk and capital assessment processes operated throughout the year to monitor ongoing risk exposures relative to appetite, and to ensure solvency and liquidity needs are met on both a current and forward-looking basis. These processes support the implementation and embedding of the LV=RM and include risk strategy and risk appetite, risk identification, assessment and measurement, risk monitoring and reporting, linkages to business strategy and stress and scenario testing across both financial and non-financial risks.

The annual ORSA Report is developed and agreed with the Board and consolidates the findings from the ORSA processes performed throughout the year. For example, the ORSA report includes key outcomes from the risk review of the business financial plan; stress and scenario testing (including reverse stress testing); the assessment of the appropriateness of the Standard Formula; and regular solvency and risk exposure monitoring. The solvency position of the business is determined in accordance with the Solvency II Standard Formula requirements.

Key risk developments emerging throughout the year are escalated to the Board or Executive Risk Committee as appropriate through regular risk reporting.

### **Risk management effectiveness**

LV= conducts an annual risk maturity and culture assessment to assess the ongoing effectiveness of the embedding of the LV=RM and to test how the risk culture of the business is evolving over time. The outputs from this assessment are used to determine areas for further development under LV's programme of continuous improvement. This is also included within the remuneration performance targets to directly link risk management performance to overall reward.

## B.4 Internal control system

The internal control system includes a range of functions, roles and activities that collectively ensure an appropriate control environment for the business. It enables us to operate efficiently and respond to any significant or evolving risks that could prevent or limit the achievement of our business objectives, through implementing the following requirements:

- **Control Environment:** The setting of a robust control environment and business culture.
- **Risk Identification:** Maintaining the LV= RM and associated procedures which enable the identification of all material risks to the achievement of our business objectives.
- **Risk Assessment:** Operating a Risk Management System and procedures which enable the assessment, control and reporting of all material risks and the assessment of controls to manage these risks within risk appetite.
- **Control Activities:** Having in place business processes/procedures that provide assurance that all necessary control activities are in place and are working effectively.
- **Control Standards:** Having a policy framework and policy suite that are fit for purpose and provide the Board's minimum requirements for the management of Operational, Financial and Conduct controls.
- **Information and Communication:** Ensuring clear information and communication in respect of our internal control systems, including responsibilities and core risk management objectives.
- **Monitoring Activities:** Performing periodic and regular attestation reviews of the effectiveness of Operational, Financial and Conduct controls across the business, and reporting on the status of control design and performance through regular risk assessment processes.

Compliance with these requirements will support an integrated and standardised approach to establishing and maintaining an effective and efficient internal control system.

### Group compliance

The Compliance function is a fundamental element of the Second Line of Defence, with key compliance responsibilities included in the following roles:

- The Chief Compliance Officer reports to the Chief Risk Officer. Primary responsibilities of the role relate to advising on conduct risk compliance and oversight of non-prudential regulatory change. In addition, they hold the regulatory responsibilities for Money Laundering Reporting Officer and Data Protection Officer. The Chief Risk Officer retains accountability for advising the business on compliance with prudential risk matters, including the impact of prudential regulatory change on the Group's risk profile.
- The Risk Management Compliance team reports to the Chief Compliance Officer and is responsible for designing and facilitating the implementation of the Regulatory Risk Management Framework.

The Risk Management Compliance Statement of Practice sets out mandatory requirements to reasonably assure that the Group remains compliant with the legal environment within which it operates. It includes the principles by which the compliance system is designed and operated, and sets out the key components of the system that support understanding and effective operation across the Group.

The Statement of Practice is owned by the Chief Compliance Officer, who is responsible for ensuring that it is produced and kept current and is reviewed by all business areas prior to formal approval submission. It is approved by the Chief Risk Officer who is accountable for ensuring maintenance of the policy content as well as supporting policies, processes, and procedures.

The Statement of Practice requires that Risk Management Compliance implement and maintain a Regulation and Legislation Matrix which sets out individual departmental responsibilities for compliance. Each such department is required to:

- Establish a robust compliance system to identify and assess the impact of new requirements or changes to requirements in the legal environment.
- Advise the Board, senior management, and other personnel regarding changes to the legal environment, as appropriate.

In addition, Risk Management Compliance is responsible for developing and implementing:

- **Compliance Plan:** An annual compliance plan which oversees the implementation of changes to the legal environment and strategic priorities of the Compliance function, to feed the Board Risk Management annual plan for review and approval by the Executive Risk Committee and the Board Risk Committee.
- **Compliance Monitoring Plan:** An annual risk-based compliance monitoring plan which sets out the key independent assurance activities to be undertaken, for review and approval by the Board Risk Committee.

## B.5 Internal Audit

Internal Audit (IA)'s purpose is to add value to LV's business by providing independent and objective assurance to the Audit Committee and Executive Team on the effectiveness of the LV= risk management and internal control systems that are in place to mitigate key business risks and to assess LV's sustainability. IA also aims to assist the Audit Committee in meeting its statutory and regulatory reporting responsibilities, in meeting corporate governance best practice, and by providing best practice recommendations to executive management on governance, risk management and controls. IA's purpose, authority and responsibility are set out in the Internal Audit Charter. The Charter is reviewed and approved annually by the Audit Committee.

IA undertakes an annual planning exercise to determine which activities and controls should be included in the following year's audit plan. The audit plan is set by reference to the audit universe, the principal risks facing the business, strategic priorities, and any emerging risks or regulatory changes. The plan's content is benchmarked against previous audit coverage, alignment to the risk assurance plan, and industry hot topics. The Audit Committee reviews, challenges and approves the scope and content of the plan.

At each Audit Committee meeting, the Chief Internal Auditor (CIA) provides a report on:

- Progress against delivery of the audit plan for the year and any proposed changes to the plan.
- Key observations from audit reports and any emerging themes across the business.
- The status of completion of management actions to address audit report observations.

The CIA provides an annual opinion on the Control Environment to the Audit Committee. This opinion includes an assessment of LV's culture.

### Independence and Objectivity

IA reports on its work independently to the Audit Committee. The CIA has a dual reporting line to the Audit Committee Chair and to the Chief Executive Officer (CEO) and has unrestricted access to the Board Chair. The CIA also meets regularly with the Chair and Audit Committee members. The Audit Committee approves IA resources and budgets.

IA attends and observes Executive Team meetings and various other key management decision-making forums. The CIA also has regular individual meetings with the CEO and Executive Team members. IA has sufficient and timely access to key management information, including Board level papers.

IA has no direct operational responsibility or authority over any of LV's business activities, other than the assurance work undertaken. IA has a robust process to identify and manage any potential conflicts of interest that may influence objectivity or independence. IA team members are required to be objective and constructive at all times, and not be influenced by personal, business or other issues that might impair impartiality.

The Audit Committee annually evaluates IA's effectiveness and independence. To enable this, the CIA performs a review of the function and reports to the Audit Committee with the conclusions. The approach to this review for 2023 included:

- An assessment of compliance of the function against IA's mandate and professional standards, such as:
  - The relevant sections of the Audit Committee Terms of Reference
  - The Internal Audit Charter
  - Chartered Institute of Internal Auditors "Internal Audit Financial Services Code" (as revised in January 2021)
  - The CIA's responsibilities under SMF 5 (Head of internal audit function) of the FCA Senior Managers and Certification Regime.
- A review of business feedback on individual audit reviews
- A review of the results of quality assurance activity on audit files performed during 2023
- A review of the resourcing position, skills and training plans for the function.

The CIA asserted that Internal Audit operated as an effective function during 2023, which was presented to the Audit Committee in March 2024.

## B.6 Actuarial Function

The Actuarial Function forms part of the Second Line of Defence led by the Chief Risk Officer, who reports directly to the Chief Executive Officer.

The Actuarial Function provides oversight and challenge to the calculation of the technical provisions of the Group and reports to the relevant governance committees on the appropriateness of the methodologies, models, assumptions and data used. It also provides an opinion on overall underwriting policy and adequacy of reinsurance arrangements.

The methodology and assumptions used in the calculation of the technical provisions are proposed by the Actuarial Reporting team who also perform the calculation. This team sits within the Finance Function, reporting to the Chief Financial Officer, independently of the Chief Risk Officer. The proposed methodology and assumptions are reviewed by the Chief Actuary, as are the technical provisions themselves. The methodology, assumptions and results, along with the independent Actuarial Function reviews, are considered subsequently by the Audit Committee, before being recommended to the LV= Board for approval.

The Actuarial Function also provides advice and guidance to the Chief Risk Officer on the operation of the Risk Management Framework, especially the Capital Management Framework. This includes assistance with the oversight of risk exposures and advice on various capital management initiatives.

LVFS also has a With-Profits Actuary, whose primary role is to advise the LVFS Board on matters affecting LVFS's with-profits business. The With-Profits Actuary also advises the LVFS Board whether the assumptions used to calculate the future discretionary benefits within the technical provisions for LVFS's with-profits business are consistent with the Principles and Practices of Financial Management (PPFM). The With-Profits Actuary role is part of the Finance function.

The Chief Actuary and With-Profits Actuary are Fellows of the Institute and Faculty of Actuaries and have complied continuously with the specific professional obligations this requires.

## B.7 Outsourcing policy

In response to the PRA's "Supervisory Statement SS2/21 Outsourcing and third-party risk management" the LV= Board, through its Risk Committee, developed the Third-Party Management Policy. The overarching aim of this policy is to ensure that LV= applies adequate governance and controls to all third-party dependencies, including those that might impact on our customer and member outcomes and the Operational Resilience of LV=.

### Critical or important operational functions or activities which have been outsourced

In line with other large financial services organisations, the business has material suppliers who provide outsourced support for asset management, IT infrastructure, maintenance and system hosting.

These partners provide several benefits to LV=, including cost efficiency and access to improved technology within the business's administrative capability. Wherever processing or specialist work is undertaken by these partners, LV= remains fully responsible for the oversight, management and performance of the outsourced activity.

The nature of the services provided, and the jurisdictions they operate in, are listed below:

Description of Function or Activities	Jurisdiction of Service Providers
Investment of Assets, Investments in commercial mortgages	UK
Data Management & Operations, Application Support, Datacentre Management, Infrastructure, PCA – Oracle Private Cloud, Middleware and Database Management, LAN Management, Exchange Support	UK and India
Implementation, licensing, hosting, maintenance and support of software solution	UK

## B.8 Additional information

The Group does not consider that there is any further information which is required to be reported in respect of the Risk management approach.

## C. Risk Profile

### C.1 Overview

#### C.1.1 Overview of risk exposures

The Group’s business model involves taking on risk for its policyholders in order to provide security and aid in financial planning. In order to facilitate this, LV= offers a range of Life and Health insurance products. These cater to differing policyholder needs and a widely diversified customer base in terms of age, gender, and geographical location.

The Group manages risk using a range of techniques, including reinsurance, derivatives, limits to counterparty exposure, as well as by using its scale and range of products and investments to provide diversification. The company measures its risk using a range of techniques, including prescribed Standard Formula capital calculations, internal views of risk and sensitivity testing. A number of committees, attended by senior stakeholders, meet regularly to consider the Group’s risk exposure, and whether it is in line with risk appetite. This enables informed decision making on where risk mitigation is required or where further risk can be taken on. Furthermore, external opinions are sought from consultancies and regular reports are made to the PRA.

The table below shows the 31 December 2023 split of the Standard Formula Solvency Capital Requirement (SCR) by risk type. The results for 31 December 2022 are provided for comparison. Reference to the SCR in this and later sections is to the final post-diversified SCR including ring-fenced funds unless stated otherwise. The amount of SCR illustrated below for the Group is £485m (2022: £575m) and for LVFS is £490m (2022: £606m). This differs from the total SCR reported in section E.2 as it excludes the loss absorbing capacity of deferred tax.

SCR split by risk type, for the year ended 31 December	Group			LVFS		
	2023	2022	Change	2023	2022	Change
Market risk	46%	33%	13%	46%	38%	8%
Underwriting risk	44%	60%	(16)%	44%	55%	(11)%
Operational risk	8%	5%	3%	8%	5%	3%
Counterparty risk	2%	2%	0%	2%	2%	0%
<b>Total</b>	<b>100%</b>	<b>100%</b>		<b>100%</b>	<b>100%</b>	

The weighting of the high-level risk categories shown within the SCR has shifted since 2022. Underwriting risk has fallen significantly due to the reduction in lapse risk exposure, although it remains a prominent risk, driving the increase in weighting towards market risk. See sections C.2.2 and C.3.2 for further details.

#### C.1.2 Measurement of risk exposures

The Group’s measurement of risk exposures has not changed materially over the reporting period.

The Group measures its risk exposures using a variety of metrics. These metrics are reported to senior management, the Audit Committee and the Board. This allows management to identify the key areas of risk exposure and make informed decisions as to whether the current levels of exposure are consistent with the Group’s risk appetite.

The Group uses the following metrics:

- Regulatory capital is measured using the Standard Formula approach and reported to the PRA on a quarterly basis.
- The Group maintains its own internal view of capital measurement, which informs risk appetite surrounding regulatory surplus capital. This uses internal and external knowledge to assess risk in a more bespoke way than can be done using the Standard Formula approach.
- An analysis of change is performed on Own Funds on a quarterly basis for the Group and Life entities, including evaluating how actual experience compares to the expected position. An analysis of change is also performed on the capital requirements on a quarterly basis, looking at individual risks as well as the whole SCR.
- Capital and Own Funds are monitored using sensitivities and approximations on a regular basis and the results reported to Senior Management. These results are then compared to actuals on a quarterly basis.
- Regular experience analysis is performed on key assumptions to evaluate their continued suitability. This includes both demographic experience and expenses.

- Stress and scenario testing is performed annually for the Own Risk and Solvency Assessment (ORSA) and business planning exercises.

### **C.1.3 Prudent person principle**

The Group operates within an investment framework which ensures that all assets are invested in accordance with the prudent person principle. The investment framework is suitably flexible to manage the different investment needs of the diverse business areas within the Group. All investment and strategic management decisions are set within Board approved risk appetite limits. Working within this risk framework, considerations of commerciality, treating the customer fairly and policyholders' reasonable expectations are embedded into the investment strategies for each business unit as appropriate.

All invested assets, other than Equity Release Mortgages, are managed by external investment managers under an investment management agreement. Within the agreement, there are a number of investment guidelines which reflect the risk appetite limits and investment management parameters. The Equity Release Mortgages held by the Group are originated and administered by its subsidiary LVER, and this arrangement is governed by the terms set out in the Mortgage Purchase Agreement. All investment guidelines are approved by the Board or a delegated authority of the Board.

These limits are embedded within each internal fund at asset class level and include admissibility, duration, rating, sector, concentration, optionality and liquidity. These limits are monitored continuously by the investment manager and reported to LV= on a weekly basis. The investment manager is required, under the IMA, to deliver full investment guideline and investment underperformance reports including any active or passive breaches as part of the breach reporting process. Limits are also monitored independently by LV= and reported to the appropriate governance committee monthly.

### **C.1.4 Risk concentration**

The Group offers a wide range of product options catering to differing policyholder needs and a widely diversified customer base in terms of age, gender, and geographical location. As such, the Group has a diverse and balanced mix of business and risk exposures.

In addition, the Group uses a variety of measures to limit any excess concentrations:

- Investing in a range of assets governed by investment mandates and asset counterparty limits set by the Group.
- Using various hedging and asset liability matching strategies to reduce market risk.
- Managing counterparty risk through risk limits on exposure and concentration.
- Limiting excess concentrations of underwriting risk through a range of reinsurance strategies.

As the Group has substantially written all of its business in the UK, results are sensitive to demographic and economic changes arising in the UK.

Where material, further information on risk concentrations relating to particular risks are given in sections C.2 to C.6.

## C.2 Underwriting risk

In determining the price of its insurance products, and when reporting the financial results relating to these products, the Group makes a number of assumptions related to the future amounts and timing of payments. Underwriting risk arises from the actual outcome being different to these assumptions.

### C.2.1 Underwriting risk exposure

The Group writes the majority of Life and Health business within LVFS and is exposed to underwriting risk in these areas. The Group has a small amount of non-life business within its subsidiaries LVPL and TACL. The table below shows the 31 December 2023 split of underwriting risks within the Standard Formula SCR. The results for 31 December 2022 are provided for comparison. The amount of SCR illustrated below for the Group is £217m (2022: £346m) and for LVFS is £215m (2022: £335m). This differs from the underwriting risk capital shown in section E.2 as it fully allows for diversification within the SCR calculation.

SCR split of underwriting risk, for the year ended 31 December	Group			LVFS		
	2023	2022	Change	2023	2022	Change
Life lapse	40%	67%	(27)%	40%	66%	(26)%
Health	31%	13%	18%	31%	14%	17%
Life expenses	22%	16%	6%	22%	16%	6%
Life longevity	5%	3%	2%	5%	3%	2%
Other	2%	1%	1%	2%	1%	1%
<b>Total</b>	<b>100%</b>	<b>100%</b>		<b>100%</b>	<b>100%</b>	

Lapse risk is generally a significant risk across the life insurance industry, due to the long-term nature of life business. As a result, lapse rates on material product lines are closely monitored. Favourable market movements in 2023 have decreased the cost of lapses on certain business lines which is the main driver of the decrease in lapse risk in the year.

Lapse risk also captures the risk associated with the take-up of policyholder options, notably the option to take a cash lump sum at retirement instead of the annuity on OB Pensions deferred annuity with-profits business. The cost of fewer policyholders taking cash at retirement has a material contribution to the real-world lapse risk of the Group but does not currently contribute to the capital exposure. The level of these risks remained steady over the year.

All health exposure, including expense risk, comes from protection products which behave similarly to life insurance policies, but pay out on the diagnosis of a serious illness or on the loss of earnings due to illness. This category includes the health risk of pandemics.

Expense risk affects all business lines and covers the possibility of higher than expected expenses, for example due to higher than expected inflation.

The remaining risks include the risk of higher than expected mortality and life catastrophe risk such as a pandemic. These risks are relatively minor for the Group, being either small in nature, heavily reinsured, or heavily diversified against other sources of risk.

### C.2.2 Material changes over the reporting period

The largest movement is a £145m (63%) decrease in life lapse risk capital driven by favourable fund performance over the year, with 40% of underwriting risk exposure now coming from life lapse risk compared with 67% at the previous year-end. This has forced the weightings towards other underwriting risks to increase significantly despite only a relatively small increase in capital.

Health risk capital increased by £20m over the year due to new business, basis changes, and the increase in premiums due to inflation. These movements were exacerbated by the increased weighting on health risks.

Despite the increase in weighting towards expense risks, the capital fell slightly due to the change in investment manager.

### **C.2.3 Risk mitigation techniques**

Reinsurance is used as a risk mitigation technique across a range of products to transfer mortality, morbidity, longevity, and catastrophe risk outside of the Group. Reinsurance is used for various reasons including managing risks within appetite, capital financing, protection against large individual losses and access to expertise. The effectiveness of reinsurance is monitored through the review and approval of new reinsurance arrangements by the relevant governance committees, the ongoing monitoring of counterparty credit risk at the relevant governance committees, and the internal and external audit review of governance and processes.

To reduce the sensitivity of mass lapse capital to equity, a management action has been implemented which allows the calculation of the SCR to reflect the optionality to suspend smoothing in anticipation of severe expected loss.

### **C.2.4 Risk concentrations**

The Group has developed its insurance underwriting strategies to diversify the type of insurance risks accepted and, within each of these categories, to achieve a sufficiently large population of risks to reduce the variability of the expected outcome. The Group minimises the level of insurance concentration through the use of portfolio analysis and reinsurance. The Group is exposed to material changes in policyholder behaviour, for example through lapses, cash commutation and guaranteed annuity option take-up rates. These risks are captured within the underwriting risk modules.

## C.3 Market risk

Market risk arises as part of the Group's general investment performance and product pricing. The risk to Group arises from the performance of the investments being different from that assumed in the planning and pricing processes.

### C.3.1 Market risk exposure

As an institutional investor, the Group invests in a range of assets, governed by the mandates and limits it sets. The table below shows the 31 December 2023 split of market risks within the Standard Formula SCR. The results for 31 December 2022 are provided for comparison. The amount of SCR illustrated below for the Group is £222m (2022: £188m) and for LVFS is £229m (2022: £231m). This differs from the market risk capital shown in section E.2 as it fully allows for diversification within the SCR calculation.

SCR split of market risk, for the year ended 31 December	Group			LVFS		
	2023	2022	Change	2023	2022	Change
Spread	66%	74%	(8)%	64%	60%	4%
Equity	29%	21%	8%	31%	35%	(4)%
Currency	3%	3%	0%	3%	3%	0%
Interest rates	2%	2%	0%	2%	2%	0%
Concentration	0%	0%	0%	0%	0%	0%
Property	0%	0%	0%	0%	0%	0%
<b>Total</b>	<b>100%</b>	100%		<b>100%</b>	100%	

Spread risk is a significant risk for the Group through its exposure to corporate bonds. This arises primarily from the enhanced and fixed term annuity business, where corporate bonds and commercial mortgage loans are used to back a large proportion of the liabilities. There is also a contribution to spread risk from the defined benefit pension schemes, which invest a proportion of their assets in corporate bonds. Spread risk also arises from LVFS's Equity Release mortgage loans. As a major risk, spread risk is considered in more detail within the Group's internal view of risk, where alternative calibrations and approaches (such as looking at the yield of gilts above swaps) are considered.

Equity risk arises primarily from the defined benefit pension schemes and the Group's with-profits business. For the pension schemes, investment returns have no direct impact on scheme members' benefits, so any reduction in equity values reduces surplus. For with-profits business, falls in equity markets increase the costs associated with guarantees.

LVFS is exposed to equity risk through its holdings in subsidiaries as its equity holding in each subsidiary is treated as an asset. For this reporting period the proportion of LVFS's assets comprising the value of its subsidiaries has reduced significantly due to payment of dividends from LV Capital to LVFS. Approximately £5m of LVFS's equity capital derives from equity holdings in its subsidiaries (2022: £36m).

Interest rate risk is present under all lines of business, as the level of best estimate liabilities are calculated by discounting future cashflows.

As a consequence of currency hedging, the Group has only a limited exposure to currency (foreign exchange) risk through its investment in overseas assets.

A small amount of commercial property risk arises mainly from the with-profits business. Note that residential property risk also arises from LVFS's Equity Release mortgage portfolio, but this is not directly stressed within the Standard Formula calculation of the SCR and is instead monitored using the Group's internal view of capital.

Sensitivities to key market risks are provided in section C.8.1.

### C.3.2 Material changes over the reporting period

Group market risk capital has increased over the year of which a key contributory factor is the increased weighting towards market risks given the fall in weighting for life lapse risk.

Equity risk capital has increased primarily due to a temporary excess of assets less liabilities within the with-profit fund in the short term as part of the change in investment manager. Hence, the exposure to equity risk is temporarily inflated. Another driver of the increase is the favourable performance of the pension scheme equity holdings.

LVFS Solo equity risk capital has reduced due to movements of funds out of LV Capital into LVFS over 2023 which reduced the required capital via the subsidiaries equity stress from £36m to £5m. Group and LVFS Solo metrics are now very similar given the significant reduction in funds held within LV Capital.

Ignoring the increase in weighting to market risks, spread risk capital has reduced over the year primarily due to de-risking of the Ockham pension scheme ahead of the buy-in that subsequently occurred in January 2024. This was partially offset due to the small fall in interest rates and new annuity business and the excess assets described above.

The other components of market risk remain at a similar level to 2022.

### C.3.3 Risk mitigation techniques

The Group uses derivatives as part of its management of market risk. Derivatives are currently used to manage interest rate risk, equity risk, inflation risk and currency risk.

Risk type	Description
<b>Equity</b>	Equity exposures across the Group are managed using portfolios of derivatives. This has included implementing internal hedges to manage the costs we are exposed to on our with-profits business, including smoothing, guarantees and expenses. The exposure associated with the annual management charges on unit-linked business are managed using futures contracts.
<b>Interest rates</b>	A number of strategies are employed by the Group to manage interest rate risk, beyond its selection of physical assets to match the exposure arising from the liabilities. Derivative contracts are used to improve asset and liability matching across the Group. A cash flow swap is used by the matching adjustment portfolio to facilitate strong cash flow matching on annuity business. Transitional measures on technical provisions (“TMTP”) is utilised by the Group and used to manage interest rate risk to the Solvency II balance sheet.
<b>Inflation</b>	Inflation exposure across the Group and within the defined benefit pension schemes is managed using inflation linked assets and inflation swaps.
<b>Currency</b>	The Group invests in a variety of foreign denominated assets, primarily in asset share, UWP backing funds and the Matching Adjustment Portfolio. The Group employs currency hedges to remove the currency exposure where it is believed that policyholders’ interests are best served by doing so, and to comply with the Matching Adjustment Portfolio rules.

Spread risk is not mitigated but managed in-line with the Group’s policies.

### C.3.4 Risk concentrations

Equity risk is managed by investing in a diverse portfolio of high-quality securities. This ensures that holdings are diversified across industries. Concentrations in any one company or industry are limited by parameters established by the Investment Committee. The exposure to property risk, from equity release mortgages, is managed through limits on the maximum loan to value ratio and seeking to limit concentrations in particular geographic areas.

## **C.4 Credit counterparty risk**

Credit counterparty risk arises from the holding of certain investment assets, hedging, and reinsuring certain product related risks to third parties. The risk to the Group is that a counterparty defaults on its obligations or fails to meet them in a timely manner.

### **C.4.1 Credit counterparty risk exposure**

The principal risk that the Group is exposed to is the default of an external counterparty. This risk arises in a number of areas:

- The default of assets the Group has invested in, including derivatives. This is both for monies invested by the Group and monies invested on behalf of policyholders.
- The default of reinsurers, to the extent that the reinsurer owes money to the Group. Given reinsurance is a key risk mitigant then any reinsurance default could significantly impact the Group's capital position above and beyond any base balance sheet losses.
- The default of insurance intermediaries on money owed to the Group.

### **C.4.2 Risk Mitigation techniques**

Group policy and risk limits are applied to credit counterparty risk covering aspects such as the total exposure, concentration and ability to cover SCR in the event of failure of a reinsurance counterparty and by taking action where necessary to avoid the limits being breached. Group counterparty exposures are monitored internally. Reinsurance concentration risk is managed through contracting with a diverse range of reinsurers with credit ratings within an agreed risk appetite.

### **C.4.3 Material changes over the reporting period**

Credit counterparty risk capital decreased by £1m over the year as reinsurance exposure reduced.

### **C.4.4 Risk concentrations**

In order to limit its exposure to a single default, the Group monitors its ability to cover SCR in the event of failure of an individual reinsurance counterparty over the Plan period on an annual basis, and the reinsurer credit ratings for any changes on a quarterly basis. This enables management decisions such as investment strategy and reinsurance arrangements to be evaluated against the total exposure of the Group and its risk appetite.

## C.5 Liquidity risk

### Management of liquidity risk

Liquidity risk arises where LV= and/or its subsidiaries, though solvent, either do not have sufficient financial resources available to meet their obligations when they fall due or can only secure them at an excessive cost. In extreme cases, should assets not be able to be realised when needed, and alternative sources of liquidity not found, payments to policyholders or third parties may not be paid on time. Within the Group's Risk Categorisation, liquidity risk is classified as a level 1 risk.

Liquidity within the Group is maintained at a prudent level, with a buffer to cover both the expected liquidity consumption of the business and further contingencies, including the provision of temporary liquidity to subsidiary companies. The Group does not hold capital specifically for liquidity risk but has a liquidity risk appetite statement which requires that, across the Group, the business must have sufficient liquidity to be able to achieve the Business Plan without taking actions that would be materially detrimental to solvency, earnings or reputation. Adherence to the risk policy and monitoring of the liquidity stock relative to both short- and long-term liquidity adequacy requirements is reported to the Liquidity Working Group on a monthly basis.

Liquidity risk is managed using several methods; these include:

- maintaining forecasts of cash requirements and adjusting investment management strategies as appropriate to meet these requirements, both in the short and long term.
- holding sufficient assets in investments which are readily marketable in a sufficiently short timeframe to be able to settle liabilities as they fall due.
- forecasting additional cash demands under both short and long term stressed conditions, including demands for collateral, and identifying management actions to be taken to liquidate sufficient assets and reduce other cash outflows, so as to meet the increased demands.
- maintenance of a catalogue of management actions that can be utilised under stressed conditions to enhance available liquidity. Additionally, a range of management options is maintained, although these would have a more significant impact on the wider operation, performance and profitability of the business.

The Group is not exposed to asset-driven concentrations of liquidity risk.

### Expected profit included in future premiums

The expected profit included in future premiums (EPIFP) is the change in technical provisions, excluding risk margin, associated with premiums yet to be received from existing insurance and reinsurance contracts.

The expected profit in future premiums for the Group at the end of 2023 was £460m (2022: £397m). The expected profit in future premiums primarily results from our LVFS Protection business, where we expect to receive future premiums for the benefits promised within the contracts.

## C.6 Operational risk

Operational risk is the risk of loss arising from inadequate or failed internal processes, personnel or systems, or from external events. Operational risk arises as a natural consequence of business activity and is managed actively within the business.

The principal operational risks and uncertainties facing LV= are summarised within the table below.

Key risks	Impact and mitigation
<p><b>Political, economic and regulatory uncertainty</b></p> <p>The risk of a reduction in solvency, policyholder value or customer returns resulting from prolonged uncertainty within the political economic and regulatory landscape.</p>	<p>This risk continues to be significant as a result of the heightened geopolitical risks, global macroeconomic uncertainty and the associated implications for the UK economy.</p> <p>Inflation in excess of the Government target, with higher mortgage rates and higher fuel and food prices have contributed to squeezed household incomes. The impact of this squeeze (and potentially corresponding market volatility) on sales, persistency and customer outcomes is closely monitored by management to enable appropriate responses to be developed.</p> <p>While some of the changes to Solvency II were implemented during 2023, further changes are due to take effect in 2024. Although these are not expected to be material for us, they may have implications for capital management and might impact the competitive positions in some of the markets in which we operate.</p>
<p><b>Business transformation</b></p> <p>The execution risks associated with pursuing the Business Plan priorities.</p>	<p>In 2023, the Board and management continued to progress the business strategy. This includes a focus on delivering the business plan and managing the associated execution risks. There remains the risk that the expected strategic outcomes are not achieved or are delayed due to internal and external factors.</p> <p>We monitor this risk through ongoing review of key metrics and taking timely management actions to avoid potential adverse deviations to the business plan.</p>
<p><b>IT sustainability</b></p> <p>The risk that capacity, capability and control issues in relation to our IT systems lead to significant operational or customer risk events.</p>	<p>We currently operate with a number of legacy IT systems and infrastructure which can be exposed to capacity, capability and control issues including, for example, the system being unavailable for a period of time. These risks could result in adverse operational and customer impacts should they crystallise. During the year, significant investment has been made in addressing IT sustainability risk. This remains a top strategic priority and the work to mitigate these risks is progressing as part of a multi-year project. We continue to develop and embed the regulatory requirements in relation to operational resilience.</p>
<p><b>Cyber security</b></p> <p>The risk of customer data loss or a severe reduction in customer service as a result of a cyber-event.</p>	<p>The threat of external cyber-attacks remained heightened during 2023. We operate a comprehensive cyber-risk strategy which is designed to ensure that the business continues to identify, assess and respond to the evolving threat of a cyber-attack. In addition, a range of messaging has been delivered to improve both colleague and customer awareness of the threat of fraudulent activity. The business is investing in its response to cyber security, and it remains a top strategic priority to ensure the mitigating controls are robust.</p>
<p><b>Conduct risk</b></p> <p>The risk that key operational controls are ineffective, resulting in poor member or customer outcomes.</p>	<p>The complex and long-term nature of life and pensions products means that, as customer needs change over time, there is a risk that products do not perform as customers would expect and that they no longer deliver appropriate customer outcomes. LV= operates an embedded product governance framework which ensures that each new product or product change is subject to review. In addition, regular product reviews seek to ensure our existing products perform as customers would expect and continue to deliver appropriate customer outcomes.</p> <p>During 2023, we completed the work required to comply with the Consumer Duty regulations for products open to new business. The work to address these requirements for products which are closed to new business is on track to meet the regulatory deadline of 31 July 2024.</p>

## C.7 Emerging and other material risks

As well as monitoring near-term risks, senior management and the Board also consider emerging risks and opportunities which may impact LV= in the future. The top themes from our latest review include:

Emerging Risks	Example events/drivers
<b>Potential impact of generative Artificial Intelligence (AI)</b>	While this is a current risk insofar as AI is increasingly used within Financial Services and across society; there has been a rapid development in generative AI, with a wide range of possible applications and implications for LV= and the wider market.
<b>Medical advancements</b>	This includes consideration of a potential medical breakthrough that would impact mortality or morbidity rates, together with improved self-testing technology with no requirement to disclose related medical information (anti-selection). The risk assessment has also considered the long-term impacts of increasing medical treatment waiting lists on our risk experience.
<b>Corporate governance and legislation</b>	This includes a material shift in regulation together with regulators materially raising the standards required to demonstrate compliance. The impact would potentially include increased regulatory attention on both an individual company and industry-wide basis.
<b>Changing attitudes to personal finances and lifestyle choices</b>	This considers a fundamental shift in consumer attitudes to financial profile and/or lifestyle choices and the potential impact on our strategy. An example is a shift in attitudes away from fixed retirement ages to more flexible patterns or attitudes towards saving and the associated demand for retirement products.

Each emerging risk is assigned to an Executive Team owner with regular reporting to the Risk Committee. This includes where appropriate, risk monitoring, the actions that can be taken to respond if required and the triggers for the action to be considered.

### Climate Change risk

The key risks and opportunities for our business from climate change include:

Risk or Opportunity	Description	Timeframe	Potential Impact	Approach
<b>Physical Risk</b>	Physical risks due to climate change arise from a number of factors and relate to specific weather events (such as heat waves, floods, wildfires and storms) and longer-term shifts in the climate (such as changes in precipitation, extreme weather variability, sea level rise and rising average temperatures).	Medium to Long Term	<ul style="list-style-type: none"> <li>- Fall in the value of investments or property backing equity release or commercial mortgage loans</li> <li>- Failure/disruption of a counterparty</li> <li>- Shifts in longevity, morbidity and mortality</li> <li>- Disruption of business operations</li> </ul>	<ul style="list-style-type: none"> <li>- Monitor via scenario analysis and sensitivities</li> <li>- Use of reinsurance to mitigate demographic risk exposures</li> <li>- Monitor evolving industry practice and regulatory guidance for assessing and adjusting to demographic risks</li> <li>- Business continuity planning</li> </ul>
<b>Asset Risk</b>	Asset transition risks can arise from the process of adjustment towards a low-carbon economy. A range of factors influence this adjustment, including climate-related developments in policy and regulation, the emergence of disruptive technology or business models, shifting sentiment and societal preferences, or evolving evidence, frameworks and legal interpretations.	Short to Medium Term	<ul style="list-style-type: none"> <li>- Fall in the value of investments which are perceived as environmentally unfriendly or which may be adversely affected by climate change</li> <li>- Failure or disruption of a counterparty who provides a service to LV=, adversely affecting delivery of that service</li> </ul>	<ul style="list-style-type: none"> <li>- Monitor via transition risk indicator</li> <li>- Monitor via sensitivity testing</li> <li>- Ensure ESG considerations are embedded in investment process</li> </ul>

<b>Risk or Opportunity</b>	<b>Description</b>	<b>Timeframe</b>	<b>Potential Impact</b>	<b>Approach</b>
<b>Policy and Legal Risk</b>	Changes to regulation and disclosure requirements from governments encouraging firms transition to a low carbon economy has the potential to create compliance and legal risk as we adjust to new regulation.	Short to Medium Term	<ul style="list-style-type: none"> <li>- Increased operating costs as a result of implementing regulatory requirements</li> <li>- Increased operating costs from counterparties</li> <li>- Potential fines and litigation</li> </ul>	<ul style="list-style-type: none"> <li>- Emerging regulatory changes are tracked by our Compliance team</li> <li>- Operation of three lines of defence model to mitigate risk of non-compliance</li> <li>- Contract renegotiation and tender processes with counterparties</li> </ul>
<b>Reputational Risk</b>	Potential unfavourable market and consumer reaction if we are judged not to have responded appropriately to climate change and emerging regulatory requirements.	All	<ul style="list-style-type: none"> <li>- Reduced new business volumes</li> <li>- Increased lapse/surrender rates</li> <li>- Potential litigation</li> </ul>	<ul style="list-style-type: none"> <li>- Integration of climate change within Risk Management Framework to ensure appropriate response</li> <li>- Monitoring to understand and explain any increases in the operational emissions of the business per full-time employee</li> <li>- Publication of our sustainability strategy</li> <li>- Ensure targets set are achievable with progress monitored</li> </ul>
<b>Product Innovation Opportunity</b>	As regulations and consumer preferences change, opportunities for new and innovative products which meet consumer needs are likely to be created.	Medium Term	<ul style="list-style-type: none"> <li>- Consumer demand creates opportunity for product innovation and growth</li> </ul>	<ul style="list-style-type: none"> <li>- Monitor consumer sentiment by survey results and industry trends</li> </ul>
<b>Investment Opportunities</b>	Asset transition also presents an opportunity for enhanced returns from assets that support the transition to a low carbon economy. Longer term there is an opportunity for enhanced returns from assets which are resilient to the physical effects of climate change.	Medium to Long Term	<ul style="list-style-type: none"> <li>- Increase in the value of investments</li> </ul>	<ul style="list-style-type: none"> <li>- Ensure ESG considerations are embedded in investment process</li> </ul>

## C.8 Sensitivities

This section sets out the Group’s sensitivity to various economic and demographic assumptions. The sensitivities in this section show the impact of changes in key assumptions in isolation. In reality, there may be an interaction between the assumption and other factors. The sensitivities do not always behave in a linear way so using these sensitivities to assess a larger or smaller movement may not give an accurate result. They should only be treated as estimates which give a broad indication of the direction and magnitude of the change in surplus capital. The estimates have been calculated using a combination of analysis and expert judgement and include some approximations where these are not material to the final results.

The monetary impact of the economic and demographic sensitivities shown below are in respect of the Solvency II Surplus (excluding the RNPFN and Teachers ring-fenced funds). The impact on RNPFN surplus under stress is not included in the sensitivities as burn-through is not expected under stress due to the strong surplus position at year-end 2023. The Teachers fund is very low materiality. The impact on CCR is relative to the Group position including the ring-fenced funds.

### C.8.1 Economic sensitivities

Market risk arises as part of the general investment performance and product pricing. The risk to the Group arises from the performance of the investments being different from that assumed in the planning and pricing processes. The estimated impact on Group surplus capital to a range of economic changes is shown below.

The following sensitivities are performed:

- An immediate 25% decrease in the market values of equities.
- An immediate 100 bps decrease in all risk-free interest rates.
- An immediate 100 bps increase in all risk-free interest rates.
- An immediate 50 bps increase in gilt interest rates but with swap rates remaining fixed. Note that the risk of gilt-swap spreads widening is not captured as part of SCR.
- An immediate 100 bps increase in corporate bond interest rates but with gilt and swap rates remaining fixed. Unlike the SCR calculation, the impact on the volatility adjustment has been taken into account in calculating this sensitivity.

The sensitivities assume that the TMTP is not recalculated. If there was an extreme stress that caused a material change in the Group’s risk profile, then the TMTP might be recalculated (subject to the approval of the PRA), which could impact some of the sensitivities shown.

The regulations require that TMTP is recalculated every two years and hence was recalculated as at 31/12/2023. Given its strong capital position the Group utilises the recalculation of TMTP as part of its hedging strategy, since TMTP recalculation removes a large amount of the interest rate, credit spread and gilt swap sensitivity shown below.

Furthermore, equity exposure within the insurance business is largely managed using a portfolio of derivatives with additional exposure arising from the defined benefit pension schemes. The sensitivities assume no management actions are taken (above those already modelled as part of the valuation of technical provisions and SCR) in order to mitigate any adverse impacts.

Group Surplus capital at 31 Dec 2023: £468m			
Sensitivities	Change in Surplus (including from change in SCR) (£m)	Change in SCR (£m)	Change in CCR (%)
25% market fall in equities	(126)	63	(34)%
100 bp fall in interest rates	(32)	9	(8)%
100 bp rise in interest rates	5	7	(1)%
50 bp rise in gilt swap spreads	(78)	6	(17)%
100 bp rise in credit spreads	54	4	10%

LVFS Surplus capital at 31 Dec 2023:		£463m	
Sensitivities	Change in Surplus (including from change in SCR) (£m)	Change in SCR (£m)	Change in CCR (%)
25% market fall in equities	(126)	62	(34)%
100 bp fall in interest rates	(33)	10	(8)%
100 bp rise in interest rates	5	7	(0)%
50 bp rise in gilt swap spreads	(78)	6	(17)%
100 bp rise in credit spreads	54	4	10%

The equity sensitivity reduces the value of the Group's assets, including those in the defined benefit pension schemes and increases the guarantee costs associated with the with-profits business. It also increases the lapse risk SCR on certain lines of business, which drives the large increase in SCR under this sensitivity. The introduction of a smoothing suspension management action in 2023 has reduced the sensitivity of the SCR to falls in equity values. Also, over 2023 there was a significant reduction in mass lapse smoothing capital reducing the sensitivity in surplus when equity falls.

The interest rate sensitivities impact all fixed interest assets held by the Group such as government and corporate bonds and interest rate derivatives. It also impacts liabilities which are discounted using swap rates. Where the assets and liabilities are closely matched, these impacts broadly offset each other. However, in other areas, such as the SCR, Risk Margin, TMTP and pension schemes, there is no corresponding offset which leads to a material sensitivity. The SCR increases under both rise and fall scenarios because the biting lapse stress changes from mass lapse to a longer-term fall in lapse rates when interest rates fall. This is because the lapse stresses are adverse for different products, and can change what products are contributing more to the SCR. A more granular split of the interest rate sensitivities is used to manage the Group's interest rate exposure.

The gilt-swap spread sensitivity is an increase in gilt interest rates but with swap rates remaining fixed. Many of the assets held by the Group are government bonds and are therefore linked to gilt yields. In contrast, swap rates are used to calculate the present value of liabilities, SCR and Risk Margin so the impact on this side of the balance sheet is only through an assumed increase in the volatility adjustment and matching adjustment. A widening of gilt spreads relative to swaps therefore reduces the value of the Group's assets by more than that of its liabilities, leading to a material exposure.

The credit spread sensitivity improves capital coverage because of the difference in approach between the sensitivity and the SCR calculation. Credit spreads widening causes the value of corporate bond assets held by the Group to fall, which causes a reduction in surplus within the SCR calculation. However, in reality, the volatility adjustment and discount rate used to value defined benefit schemes' liabilities increase in the event of credit spreads widening. In the sensitivity calculation this has been taken into account and has a beneficial impact because it reduces the value of liabilities which more than offsets the reduction in value of assets. However, the Standard Formula calculation of the SCR does not permit the recalculation of the volatility adjustment or defined benefit schemes' liability discount rate and so this benefit is ignored.

## C.8.2 Demographic sensitivities

Demographic stresses relate to the behaviour and circumstances of policyholders. In pricing its products, the Group makes certain assumptions about how policyholders will behave, and how many policies will result in a claim under different policy conditions (such as accident, death and ill health). By their nature different products are affected differently by different demographic trends. For example, protection products pay out on death, but annuity products generally pay an income until death.

The sensitivities shown allow for the benefit of reinsurance, and only relate to those policies exposed to the relevant risk. So, for example, the mortality sensitivity assumes a 15% increase in the mortality of protection policyholders (and hence more claims). However, it does not allow for a 15% increase in the mortality rate of the annuitants which would increase surplus. They are therefore provided merely to illustrate the magnitude of any downside in extremely severe scenarios.

The following sensitivities are performed:

- 15% increase to mortality rates
- 20% decrease to mortality rates
- 50% increase to lapse rates for all products
- 50% decrease to lapse rates for all products
- 50% decrease in OB Pension cash-take up rates at retirement.

The mortality stresses refer to the assumed rate of future mortality and represent a percentage change in the volume of death claims.

The lapse stresses are calculated in a similar way and represent a percentage change in the volume of lapses or surrenders.

The sensitivities make an approximate allowance for TMTP recalculation by not including a change in Risk Margin which is generally hedged by changes in TMTP when recalculated. They also assume that no management actions are taken, above those already modelled as part of the valuation of technical provisions and SCR, in order to mitigate any adverse impacts. The sensitivities should only be treated as estimates which give a broad indication of the direction and magnitude of the impact of the sensitivity.

The Group entered into a number of reinsurance arrangements, the benefits of which are included within the results below.

<b>Group Surplus capital at 31 Dec 2023:</b>		<b>£468m</b>	
<b>Sensitivities</b>	<b>Change in Surplus (including from change in SCR) (£m)</b>	<b>Change in SCR (£m)</b>	<b>Change in CCR (%)</b>
15% increase in mortality rates (affected business only) *	(6)	0	(1)%
20% decrease in mortality rates (affected business only) *	(30)	0	(6)%
50% increase in lapses	(48)	(20)	(6)%
50% decrease in lapses	92	35	11%
50% decrease in OB Pensions cash-take-up rates at retirement	(34)	1	(7)%

\* Affected business is defined in line with Solvency II Standard Formula.

<b>LVFS Surplus capital at 31 Dec 2023:</b>		<b>£463m</b>	
<b>Sensitivities</b>	<b>Change in Surplus (including from change in SCR) (£m)</b>	<b>Change in SCR (£m)</b>	<b>Change in CCR (%)</b>
15% increase in mortality rates (affected business only) *	(6)	0	(1)%
20% decrease in mortality rates (affected business only) *	(30)	0	(6)%
50% increase in lapses	(48)	(20)	(6)%
50% decrease in lapses	92	34	11%
50% decrease in OB Pensions cash-take-up rates at retirement	(34)	1	(7)%

\* Affected business is defined in line with Solvency II Standard Formula.

For the increase in mortality rates, the exposure comes from products where claims are paid out on death. For these products, higher mortality rates increase the amount of claims paid out. However, the Group's surplus exposure also depends on its reinsurance arrangements which may act to offset this increase in claims and can improve the capital position on an increase in mortality rates, depending on the structure and level of reinsurance. The Group has large amounts of reinsurance in place to manage and remove its exposure to mortality risk, meaning that the surplus shows only a very small exposure to increases in mortality rates.

For the decrease in mortality rates, the majority of the exposure comes from the deferred and in-payment annuities, where an income is paid for as long as the policyholder lives. The impact of this sensitivity is adverse on surplus.

For the 50% increase in lapses there is a cost from an increase in liabilities, primarily from the unitised with-profits bonds, unit linked pensions and Protection business because these policies look less profitable in a higher lapse rates scenario. The SCR acts to offset some of this benefit as it would now be less costly for these policies to immediately lapse. Effectively more of the increased cost of higher lapses is taken in the base liabilities rather than the SCR.

For the 50% decrease in lapses, there is a benefit from a reduction in liabilities, primarily from the unitised with-profits bonds, unit linked pensions and Protection business because these policies look more profitable in a lower lapse rates scenario. The SCR acts to offset some of this benefit as it would now be more costly for these policies to immediately lapse.

The 50% decrease in OB Pension cash take-up rates at retirement results in a higher proportion of policyholders taking the guaranteed annuity option.

## **C.9 Additional information on risk profile**

Further information can be found on a UK GAAP basis within the 2023 LV= Annual Report.

## D. Valuation for Solvency Purposes

### D.1 Assets

For Solvency II valuation purposes, assets and other liabilities are valued consistently with UK GAAP provided that UK GAAP valuation methods are consistent with Article 75 of Directive 2009/138. Assets and other liabilities represent the fair value amount for which they could be exchanged between knowledgeable and willing parties in an arm's length transaction.

The following table reconciles UK GAAP assets and liabilities for the Group as reported in the 2023 LV= Annual Report, to amounts reported in the SII balance sheet as at 31 December 2023. The UK GAAP figures are presented in the SII balance sheet format where possible and therefore do not directly correspond to the line items in the 2023 LV= Annual Report. Differences between the UK GAAP and SII balance sheets have been categorised as presentational or valuation adjustments.

Group		2023				2022
		UK GAAP	Presentational adjustments	Solvency II Valuation adjustment	Solvency II	Solvency II
Reconciliation between UK GAAP and Solvency II valuation		£m	£m	£m	£m	£m
<b>Assets</b>	<b>Note</b>					
Deferred tax assets	#	26	-	(1)	25	44
Pension benefit surplus	D.1(1)	12	-	-	12	18
Property, plant and equipment held for own use	#	9	-	2	11	25
Investments (other than assets held for index-linked and unit-linked contracts):						
Holdings in related undertakings, including participations	D.1(2,3)	-	46	15	61	60
Equities	D.1(3)	3,182	(2,968)	-	214	218
Bonds	D.1(3)	3,582	54	-	3,636	3,768
Collective Investments Undertakings	D.1(3)	-	2,915	(13)	2,902	3,041
Derivatives	D.1(4)	20	-	-	20	13
Deposits other than cash equivalents	D.1(3)	39	10	-	49	114
Assets held for index-linked and unit-linked contracts	#	3,368	-	-	3,368	3,419
Loans and mortgages	D.1(5)	878	4	-	882	794
Reinsurance recoverables	#	908	-	-	908	732
Insurance and intermediaries receivables	#	28	-	(1)	27	20
Reinsurance receivables	#	94	-	-	94	79
Receivables (trade, not insurance)	D.1(6)	36	(10)	(1)	25	27
Cash and cash equivalents	D.1(7)	73	-	(3)	70	88
Any other assets, not elsewhere shown	D.1(8)	64	(51)	(6)	7	19
<b>Total Assets</b>		<b>12,319</b>	<b>-</b>	<b>(8)</b>	<b>12,311</b>	<b>12,479</b>
<b>Liabilities</b>						
Technical provisions	D.2	11,143	(105)	(209)	10,829	10,815
Provisions other than technical provisions	#	12	-	-	12	20
Pension benefit obligations	D.1(1)	3	-	-	3	-
Deferred tax liabilities	#	4	-	-	4	6
Derivatives	D.1(4)	197	-	-	197	229
Debts owed to credit institutions	D.3(1)	11	3	-	14	3
Insurance and intermediaries payables	D.3(2)	29	105	(2)	132	153
Reinsurance payables	#	13	-	-	13	14
Payables (trade, not insurance)	D.3(3)	66	48	(8)	106	128
Subordinated liabilities	D.3(4)	200	11	-	211	359
Any other liabilities, not elsewhere shown	D.3(5)	65	(62)	-	3	-
<b>Total Liabilities</b>		<b>11,743</b>	<b>-</b>	<b>(219)</b>	<b>11,524</b>	<b>11,727</b>
Fund for future appropriations (FFA) / SII Surplus funds		576	-	211	787	752
<b>Total Liabilities plus FFA/SII Surplus funds</b>		<b>12,319</b>	<b>-</b>	<b>(8)</b>	<b>12,311</b>	<b>12,479</b>

# = Disclosure note not provided as Solvency II value equal to UK GAAP or the amounts are immaterial.

LVFS Reconciliation between UK GAAP and Solvency II valuation		2023				2022
		UK GAAP	Presentation- al adjustment	Solvency II valuation adjustment	Solvency II	Solvency II
Assets	Note	£m	£m	£m	£m	£m
Deferred tax assets	#	22	-	-	22	43
Pension benefit surplus	D.1(1)	12	-	-	12	18
Property, plant and equipment held for own use	#	1	-	-	1	4
Investments (other than assets held for index-linked and unit-linked contracts)						
Holdings in related undertakings, including participations	D.1(2,3)	28	46	6	80	315
Equities	D.1(3)	3,151	(2,937)	-	214	218
Bonds	D.1(3)	3,572	54	-	3,626	3,574
Collective Investment undertakings	D.1(3)	-	2,883	-	2,883	2,989
Derivatives	D.1(4)	20	-	-	20	13
Deposits other than cash equivalents	D.1(3)	38	9	-	47	102
Assets held for index-linked and unit linked contracts	#	3,368	-	-	3,368	3,419
Loans and mortgages	D.1(5)	878	4	-	882	794
Reinsurance recoverables	#	908	-	-	908	732
Insurance and intermediaries receivables	#	27	-	-	27	20
Reinsurance receivables	#	94	-	-	94	79
Receivables (trade, not insurance)	D.1(6)	41	(10)	-	31	34
Cash and cash equivalents	D.1(7)	64	-	-	64	81
Any other assets, not elsewhere shown	D.1(8)	60	(50)	-	10	20
<b>Total Assets</b>		<b>12,284</b>	<b>(1)</b>	<b>6</b>	<b>12,289</b>	<b>12,455</b>
<b>Liabilities</b>						
Technical provisions	D.2	11,133	(104)	(208)	10,821	10,806
Provisions other than technical provisions	#	12	-	-	12	20
Pension benefit obligations	D.1(1)	3	-	-	3	-
Deferred tax liabilities	#	4	-	-	4	6
Derivatives	D.1(4)	197	-	-	197	229
Debts owed to credit institutions	D.3(1)	11	3	-	14	3
Insurance and intermediaries payables	D.3(2)	28	104	-	132	153
Reinsurance payables	#	13	-	-	13	14
Payables (trade, not insurance)	D.3(3)	59	33	-	92	112
Subordinated liabilities	D.3(4)	200	11	-	211	360
Any other liabilities, not elsewhere shown	D.3(5)	51	(48)	-	3	-
<b>Total Liabilities</b>		<b>11,711</b>	<b>(1)</b>	<b>(208)</b>	<b>11,502</b>	<b>11,703</b>
Fund for future appropriations (FFA) / SII Surplus		573	-	214	787	752
<b>Total Liabilities plus FFA/SII Surplus funds</b>		<b>12,284</b>	<b>(1)</b>	<b>6</b>	<b>12,289</b>	<b>12,455</b>

# = Disclosure note not provided as Solvency II value equal to UK GAAP or the amounts are immaterial.

## Supporting Notes

### 1. Pensions Benefit Surplus

For Solvency II purposes, any pensions benefit surplus is valued consistently with UK GAAP.

Under UK GAAP, any Pensions Benefit Surplus or obligation is valued under FRS 102, whereby the net surplus or obligation is calculated annually with the assets valued at fair value and the liabilities discounted at the rate of return available on high quality corporate bonds. The net surplus, to the extent recoverable or obligation is recognised as a pension benefit

asset or liability in the Balance sheet. No separate liability for funding requirements is recognised as LVFS has an unconditional right to any of the assets of the pension schemes which would remain following the schemes' termination.

## 2. Holdings in related undertakings, including participations

Under UK GAAP, participations are consolidated within the financial statements. For Solvency II valuation purposes certain investments are not consolidated and are valued as participations, using the adjusted equity method which calculates the value of the net assets for each subsidiary. Joint ventures are reclassified from Investments under UK GAAP to Participations under Solvency II.

	Group	LVFS
	£m	£m
<b>Holdings in related undertakings, including participations</b>		
Shares in subsidiaries	-	28
<b>Investments in group undertakings – UK GAAP</b>	-	<b>28</b>
Joint venture properties reclassified as participations	46	46
Adjusted equity method valuation differences	15	6
<b>Holdings in related undertakings, including participations - Solvency II</b>	<b>61</b>	<b>80</b>

## 3. Investments

All financial investments, primarily consisting of debt securities, equity securities and unit trusts are measured at fair value for both Solvency II and UK GAAP purposes. Fair value is obtained from quoted market prices or, if they are not available, by using relevant valuation techniques. Further information on financial investments valued using an alternative method to either a quoted market price in active markets for the same or similar assets is included in section D.4. An active market follows the UK GAAP definition, where an active market is a market in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

## 4. Derivatives

For Solvency II valuation purposes, derivatives are valued consistently with UK GAAP.

Under UK GAAP, derivatives are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently re-measured at their fair value. Derivatives are not traded on an active market and are therefore valued using an alternative valuation method (see section D.4).

Group and LVFS	Asset £m	Liability £m	Total £m
<b>Derivative fair value asset - Solvency II valuation</b>	<b>20</b>	<b>(197)</b>	<b>(177)</b>

## 5. Loans and Mortgages

For Solvency II valuation purposes, loans and mortgages are valued consistently with UK GAAP, with a reclassification adjustment for accrued interest which is included in investments rather than accrued interest. Loans and mortgages are not traded on an active market and are therefore valued using an alternative valuation method (see section D.4).

Group and LVFS	£m
Equity release mortgages	386
Commercial mortgages	492
<b>Total included in Other financial investments – UK GAAP</b>	<b>878</b>
Reclassify accrued interest on commercial mortgages	4
<b>Total Loans and Mortgages - Solvency II valuation</b>	<b>882</b>

## 6. Receivables (trade, not insurance)

For Solvency II valuation purposes, loans and receivables are valued consistently with UK GAAP. On the Solvency II balance sheet, the secured notes and cash collateral pledged are classified under investments.

	Group £m	LVFS £m
Investments receivable	14	14
Other receivables	12	10
Cash Collateral pledged	10	10
Amounts due from Group	-	7
<b>Other debtors – UK GAAP</b>	<b>36</b>	<b>41</b>
Presentational adjustment - cash collateral pledged to deposits other than cash equivalents	(10)	(10)
Solvency II Regulated subsidiaries valuation adjustment	(1)	-
<b>Total Receivables (trade, not insurance) - Solvency II valuation</b>	<b>25</b>	<b>31</b>

## 7. Cash and cash equivalents

For Solvency II valuation purposes, cash is valued consistently with UK GAAP with the following reclassification adjustments:

	Group £m	LVFS £m
<b>Cash at bank and in hand – UK GAAP</b>	<b>73</b>	<b>64</b>
Solvency II Regulated subsidiaries valuation adjustment	(3)	-
<b>Total Cash and cash equivalents - Solvency II valuation</b>	<b>70</b>	<b>64</b>

## 8. Any other assets, not shown elsewhere

For Solvency II valuation purposes, prepayments and accrued interest are valued consistently with UK GAAP. On the Solvency II balance sheet, the accrued interest on bonds is included in the market value of investments.

Under UK GAAP, prepayments and accrued interest balances are all due within one year. These are valued at fair value based on amounts receivable on demand.

	Group £m	LVFS £m
Accrued interest – UK GAAP	54	50
Prepayments – UK GAAP	10	10
<b>Any other assets, not elsewhere shown – UK GAAP</b>	<b>64</b>	<b>60</b>
Presentational adjustment – reclassify accrued interest to Investments	(51)	(50)
Solvency II Regulated subsidiaries valuation adjustment	(6)	-
<b>Any other assets, not elsewhere shown - Solvency II valuation</b>	<b>7</b>	<b>10</b>

## D.2 Technical provisions

### D.2.1 Technical provisions by line of business

Total Technical Provisions by line of business:

Line of Business	Group		LVFS	
	2023 £m	2022 £m	2023 £m	2022 £m
Insurance with-profits participation	4,769	4,988	4,769	4,988
Index-linked and unit-linked insurance	3,323	3,368	3,323	3,368
Other life insurance (including Health)	2,737	2,459	2,729	2,450
<b>Total Technical Provisions</b>	<b>10,829</b>	<b>10,815</b>	<b>10,821</b>	<b>10,806</b>

The following tables set out the Technical Provisions split by Solvency II lines of business as at 31 December 2023.

Group  Line of Business	31 December 2023 - £m			
	Best Estimate Liability (BEL)	Risk Margin (RM)	Transitional Measures on Technical Provisions (TMTP) Unaudited	Total Technical Provisions
Insurance with-profits participation	4,778	20	(29)	4,769
Index-linked and unit-linked insurance	3,317	11	(5)	3,323
Other life insurance (including Health)	2,800	27	(90)	2,737
<b>Total Group</b>	<b>10,895</b>	<b>58</b>	<b>(124)</b>	<b>10,829</b>

LVFS  Line of Business	31 December 2023 - £m			
	Best Estimate Liability (BEL)	Risk Margin (RM)	Transitional Measures on Technical Provisions (TMTP) Unaudited	Total Technical Provisions
Insurance with-profits participation	4,778	20	(29)	4,769
Index-linked and unit-linked insurance	3,317	11	(5)	3,323
Other life insurance (including Health)	2,792	27	(90)	2,729
<b>Total Life insurance obligations</b>	<b>10,887</b>	<b>58</b>	<b>(124)</b>	<b>10,821</b>

The impact on the MCR and Eligible Own Funds to meet the MCR are found in the section E.2.1.

### D.2.2 Technical provisions methodology and assumptions

LVFS writes all the Life business in the Group with the exception of a small amount which is written by LVLC.

A description of the bases, methods and assumptions used for the valuation of the technical provisions is set out below. Assumptions relating to business within the Teachers Assurance (TA) Fund have largely been omitted on the grounds of materiality.

#### Best Estimate Liability

The BEL is calculated in accordance with the Solvency II Directive, Delegated Regulations and regulatory guidance. The following sections describe how the rules and guidance have been applied. Unless otherwise stated the methodology and assumptions apply to all types of business.

The BEL is the probability weighted average of future cashflows required to fulfil obligations to policyholders under existing contracts taking account of the time value of money using the relevant risk-free interest rate term structure. Allowance is

made for contract boundaries, although the adjustment is not material. The cashflows are projected gross, without deduction of the amounts recoverable from reinsurance contracts. Recoverables from reinsurance contracts are calculated separately and are included as an asset on the balance sheet.

#### Risk Margin

The Risk Margin represents the estimated cost of the capital a third-party insurer would be required to hold to support the insurance business over its period of run-off. It is derived by projecting the SCR forward (under the Standard Formula, and removing MA and VA), applying the risk tapering factor/floor, and using a cost of capital of 4% (2022: 6%). The third-party insurer is assumed to hedge any market risks, so the calculation allows only for non-market risks.

The SCR is projected for most risks using a proxy (an item, such as the BEL, which is expected to move broadly in line with the size of the stress). For material product and risk combinations, the SCR projection approach is used. The individual risk SCRs, after application of the risk tapering factor, subject to the floor, are then summed over all the products to produce the SCR for each risk. The aggregate SCR is determined by applying a correlation matrix. The correlation matrix assumed is the same as that used for the Life and Health Standard Formula SCR.

These SCRs are then discounted and the prescribed cost of capital rate is applied.

#### Risk-Free Rates

The basic risk-free interest rate term structure of spot rates as published by the PRA was used. No transitional adjustment was made to the discount rate.

#### Matching Adjustment

The Matching Adjustment (MA) has been applied (having been approved for use by the PRA) for all annuity business in the Matching Adjustment Portfolio. The MA is an addition that can be made to the risk-free yield curve to allow for the higher expected returns on the assets supporting the liabilities. This is available for annuity business where the cashflows are reasonably predictable, and therefore a portfolio of assets can be purchased with cashflows that match those of the liabilities sufficiently closely. The addition to the risk-free curve is calculated as the addition to the discount rate needed to set the value of liabilities equal to the value of assets. Within this calculation a deduction is made for potential defaults and the cost of downgrade on the bond portfolio (the 'fundamental spread').

The assets used to back the annuities within the Matching Adjustment Portfolio are:

- Government bonds (including inflation-linked government bonds);
- Corporate bonds;
- Commercial mortgage loans;
- Cash flow swaps; and
- Cash.

The MA used at the valuation date was 150bps (2022: 165bps).

#### Volatility Adjustment

The Volatility Adjustment (VA) has been applied (having been approved for use by the PRA) for all Life policies outside the Matching Adjustment Portfolio, except for Protection, OB Pensions, Heritage non-profit pension annuities, Unit Linked Pensions, ex-RNPFN, ex-Teachers business, and LVLC.

The VA prescribed by the PRA was 30bps (2022: 28bps) at the valuation date.

#### Transitional Measure on Technical Provisions (TMTP) - unaudited

The TMTP provides firms with relief from day 1 from the financial impact on technical provisions of moving to the Solvency II regime. The relief then reduces stepwise annually over 16 years. The TMTP was used for Life and Health business (except within the TA Fund and LVLC). The TMTP is recalculated every 24 months or sooner if there is a change in risk profile that materially impacts the TMTP. The TMTP was recalculated as at 31 December 2023, in line with the biennial recalculation.

TMTP has reduced by £58m, following the annual amortisation and biennial recalculation (2022: £166m).

Impact of the Matching Adjustment, Volatility Adjustment and Transitional Measure on Technical Provisions (TMTP only unaudited)

The impact of not applying the MA, VA or TMTP is set out in the S.22.01.01 and S.22.01.04 QRTs annexed to this report, an extract of which is below:

<b>Group</b> £m	<b>Amount with Long Term Guarantee measures and transitionals</b>	<b>Impact of transitional on technical provisions (unaudited)</b>	<b>Impact of volatility adjustment set to zero</b>	<b>Impact of matching adjustment set to zero</b>
Technical provisions	10,829	124	20	170
Basic own funds	950	(120)	(20)	(170)
Eligible own funds to meet Solvency Capital Requirement	950	(120)	(20)	(170)
Solvency Capital Requirement	482	0	2	43

<b>LVFS</b> £m	<b>Amount with Long Term Guarantee measures and transitionals</b>	<b>Impact of transitional on technical provisions (unaudited)</b>	<b>Impact of volatility adjustment set to zero</b>	<b>Impact of matching adjustment set to zero</b>
Technical provisions	10,821	124	20	170
Basic own funds	950	(120)	(20)	(170)
Eligible own funds to meet Solvency Capital Requirement	950	(120)	(20)	(170)
Solvency Capital Requirement	487	0	2	44
Eligible own funds to meet Minimum Capital Requirement	743	(120)	(20)	(168)
Minimum Capital Requirement	128	0	0	12

Tax

All products are classified as either Basic Life Assurance and General Annuity Business (BLAGAB) or non-BLAGAB business. As a mutual, LVFS is exempt from tax on non-BLAGAB business, and therefore no allowance for taxation is made in the calculation of the BEL. For products classified as BLAGAB, allowance is made for “I-E” taxation, where “I-E” refers to the liability to tax on any excess of investment income over expenses.

With-Profits specific

The BEL is calculated as the sum of the asset shares and future policy-related liabilities. It excludes any surplus funds, as set out in section E. The costs of guarantees, options and smoothing form part of the BEL. These are calculated using stochastic methods. A market-consistent set of economic scenarios is generated, and the costs valued in each scenario using a discount curve equal to the projected future risk-free curve for that scenario. These scenarios are produced by an Economic Scenario Generator.

Actual historical investment data was used to derive retrospective asset shares. The assumed future investment returns for each asset class for with-profits business were derived using the market-consistent Economic Scenario Generator.

A simplifying assumption of combining similar asset classes was used, such as modelling all equities (whether UK or Overseas) as UK Equities and treating all fixed interest bonds as zero-coupon UK government bonds.

When projecting future investment returns, the various benchmark asset mixes are used throughout the projection. Regular Bonus rates are generally assumed to continue at the same level as at the valuation date.

Final Bonus rates are set equal to the current declared Final Bonus rates for the first-time step. Mutual bonus accrued to the valuation date is included in Technical Provisions. Exit bonus is included in UK GAAP (but not Solvency II) Technical Provisions as it is declared, i.e. up to the following 31 December. Thereafter, an algorithm is used to calculate future Final

Bonus rates given the modelled economic scenario and the bonus philosophy set out in the Group’s Principles and Practices of Financial Management.

### Mortality and Morbidity

Life Protection and Annuity business is exposed to changes in life expectancy (mortality – reduced life expectancy, longevity – increased life expectancy) and health expectancy (morbidity) experience.

Most Protection business is exposed to mortality and morbidity risks as higher mortality rates and adverse morbidity will lead to increased claims, which in turn, lead to an increase in contract liabilities. Protection underwritten whole of life assurance business (Lifetime+) is exposed to longevity due to the structure of the reinsurance, as is annuity business.

The assumed rates of mortality and morbidity are set in line with recent experience, where it is available in sufficient volume to provide reliable results. Where the experience is not considered sufficient, the assumptions are set by reference to either industry experience or the terms on which the business is reinsured.

The mortality and morbidity assumed for the most significant modelled products for year-end 2023 is shown in the tables below.

#### LVFS

Product	Base Percentage	Mortality/Morbidity Tables
Enhanced Annuities	Various	PMA08/PFA08 with enhancements CMI_2022 Adjusted
Standard Annuities	Various	PMA08/PFA08 CMI_2022 Adjusted
Deferred Annuities (Pre-vesting)	109%	AMC00/AFC00 CMI_2022 Adjusted
Deferred Annuities (Post-vesting)	Various	PML08/PFL08 CMI_2022 Adjusted
Ex-RNPFN Annuities	Various	PMA08/PFA08 CMI_2022 Adjusted
WPPA/PIPA	89%	PMA08/PFA08 CMI_2022 Adjusted
Term Assurances (FPP)	Various	TMN00/TMS00/TFN00/TFS00 adjusted CMI_2022 Adjusted
Term Assurances (LVLI)	88.9%	TMN00/TMS00/TFN00/TFS00 adjusted CMI_2022 Adjusted
Term Assurances (LVFS)	Various	TMN00/TMS00/TFN00/TFS00 adjusted CMI_2022 Adjusted
IB Endowment/Whole of Life Assurance	116%	ELT17
Whole of Life Assurances (50+)	104.0%	AMC00/AFC00 adjusted CMI_2022 Adjusted
Whole of Life Assurances (Lifetime+)	104.8%	TMN00/TFN00/TMS00/TFS00 adjusted CMI_2022 Adjusted
Critical Illness	71.7%	Reinsurer rates
Income Protection Inceptions	Various	CMIR12
Income Protection Terminations	Various	CMIR12

#### RNPFN Fund

Product	Base Percentage	Mortality Tables
Deferred Annuities (Pre-vesting)	50%-60%	AM00/AF00
Deferred Annuities (Post-Vesting)	Various	PMA08/PFA08 CMI_2022 Adjusted

The mortality rates used for the enhanced annuities were adjusted for the additional mortality expected to apply to the lives concerned, with an allowance for the mortality to converge to standard mortality at advanced ages. For this purpose, the business was divided into groups by broad types of medical condition or lifestyle.

### Mortality Improvements

Future mortality improvements are allowed for using the Institute and Faculty of Actuaries Continuous Mortality Investigation (CMI) 2022 projection model, with the following extended parameterisation:

- Period smoothing parameter ( $S_k$ ) of 7.0
- Long term improvement rates of 1.5% for males and 1.25% for females
- Initial additions to improvement rates (“A” parameter) of 0.1% for males and 0.2% for females
- The individual year weight parameters are 0% for 2020, 0% for 2021 and 25% for 2022.

For simplicity, this is referred to as “CMI\_2022 Adjusted”.

### Persistency

Persistency relates to how long a policyholder retains the product and influences the Group's ability to recover initial costs of sale from premiums and charges that relate to the product. Persistency assumptions include allowances for lapse, becoming paid-up, surrenders, withdrawals and transfers. Additionally, cash commutation and guaranteed annuity rate take up rates are covered, as is an allowance for "gone-aways" under IB whole-of-life with-profits business. These assumptions, which typically vary by product line, duration in-force, and fund size are largely based on internal experience investigations and expert judgement.

For unit-linked pensions, separate persistency rates apply for surrender (including external transfers, early retirements, full encashments and partial encashments) and drawdown.

Cash commutation rates are segmented by relevant homogeneous groups. These are set using expert judgement and recent experience.

"Gone-aways" arise where policyholders are no longer aware of the existence of their policy and it is either not practical to trace them, or tracing activity has been unsuccessful. Additionally, a proportion of policyholders will have deceased without the proceeds being claimed. These policies are unlikely to give rise to a future claim and therefore a proportion of Industrial Branch policies are treated as "gone-away" and reserves are reduced by applying reduction factors dependent on age, policy type and premium paying status.

### Policyholder behaviour

The BEL allows for the impact on cash flows of any policyholder actions, i.e. lapse, surrender, or the exercise of options. The value of future options and guarantees allows for the following policyholder actions.

The following policyholder behaviour is modelled deterministically:

- Surrender rate at guarantee points for FGB/F, SMF and All-in-1 bonds – at the guarantee date the surrender rate was increased to reflect the increased likelihood of policyholders lapsing (and therefore being entitled to the guaranteed return of premiums)
- Guaranteed annuity option take-up rates on RNPFN Savings and Pensions
- Cash commutation option take up rates on LVFS OB Pensions.

The following policyholder behaviour is modelled dynamically:

- For FGB/F and SMF adjustments are applied for the following: lapse rates where guarantees are in the money (ITM); cancellations of out of the money (OTM) guarantees; and, for non-guaranteed policies, a mass lapse when the policyholder benefits from smoothing.

### Expenses

All expense cashflows incurred in servicing the liabilities relating to existing contracts over their future lifetime were taken into account in determining the best estimate liabilities. The modelled expense cashflows assume maintenance unit costs that are derived from an internal expense analysis.

The following expenses were included in the internal expense analysis:

- Administrative expenses
- Claims management expenses
- Acquisition expenses.

This expense analysis allocates costs at cost centre level to acquisition and maintenance, and across product groups. The maintenance unit cost is then derived at a product level from the amount of allocated cost and the policy count.

An allowance for diseconomies of scale is made where per policy unit costs are expected to increase due to a reduction in numbers of policies relative to fixed costs and overheads.

In addition to maintenance services costs, investment expenses associated with products are allowed for in the BEL.

### Inflation

The assumed inflation measure was the Retail Price Index (RPI). For with-profits business, inflation is linked to the Economic Scenario Generator. RPI-linked liabilities were projected to increase in line with RPI, consistent with contractual terms. Expense inflation was based on RPI plus a margin.

### Events not in data (ENIDs)

ENIDs refer to any events that are not captured within the data used to derive the assumptions underlying the BEL. Material ENIDs are allowed for by adjusting the best estimate assumptions using expert judgement and any relevant available data.

### Simplifications

The use of simplifications within the Group is not considered material.

### Uncertainty within the Technical Provisions

The calculation of the Technical Provisions uses established actuarial and statistical techniques to produce a best estimate of expected realistic future cash flows and liabilities. These calculations are nevertheless based on data, assumptions, and models, which may not reflect actual future experience. As such a level of uncertainty is associated with these results.

Notable areas of uncertainty include:

- The quality of the data, especially around older policies on legacy administration systems.
- The assumptions used by the models, in particular in terms of investment experience or policyholder behaviour. These assumptions are discussed above. The sensitivity of the results to these assumptions can best be seen by considering the makeup of the SCR, and the underlying sensitivities. Details of this can be found in sections C and E.
- The modelling methodology, including the Economic Scenario Generator. The Group uses stochastic techniques to value both the with-profits benefits and the value of guaranteed annuity options.

## **D.2.3 Comparison of Solvency II and UK GAAP technical provisions**

The table below shows the difference between the gross of reinsurance technical provisions under Solvency II and UK GAAP.

### Group

<b>Technical Provisions (gross)</b>	<b>Solvency II value £m</b>	<b>UK GAAP value £m</b>	<b>Difference £m</b>
Insurance with-profits participation	4,769	4,881	(112)
Index-linked and unit-linked insurance	3,323	3,329	(6)
Other life insurance (including health)	2,737	2,828	(91)
<b>Total Group</b>	<b>10,829</b>	<b>11,038</b>	<b>(209)</b>

### LVFS

<b>Technical Provisions (gross)</b>	<b>Solvency II value £m</b>	<b>UK GAAP value £m</b>	<b>Difference £m</b>
Insurance with-profits participation	4,769	4,881	(112)
Index-linked and unit-linked insurance	3,323	3,329	(6)
Other life insurance (including Health)	2,729	2,819	(90)
<b>Total LVFS</b>	<b>10,821</b>	<b>11,029</b>	<b>(208)</b>

Notes:

(i) The UK GAAP value in the tables above does not include outstanding claims of £105m for Group and £104m for LVFS, which are disclosed as part of technical provisions for UK GAAP but reported as insurance and intermediaries payable for Solvency II.

(ii) The TMTP component of technical provisions is not audited.

TMTP is a significant source of difference between Solvency II and UK GAAP, being excluded from the latter.

The other significant differences between Solvency II and UK GAAP are:

- A presentation difference in the treatment of surplus in closed funds; under UK GAAP this is a liability whereas under Solvency II it is an adjustment to Own Funds.
- Exit bonus is included in UK GAAP (but not Solvency II) Technical Provisions as it is declared, i.e. up to the following 31 December.

#### **D.2.3.1 Description of Reinsurance recoverables**

The BEL is calculated gross without deduction of amounts recoverable from reinsurance contracts. The calculation of recoverable amounts is carried out separately for reinsurance contracts as the probability-weighted average of the discounted future cash flows allowing for contract boundaries.

The amounts recoverable are then adjusted to allow for the default risk associated with the reinsurance counterparties. The assumptions and models used were the same as those used for the BEL, described earlier in this section.

Reinsurance recoverables are reported as a reinsurance asset on the balance sheet and include a deduction for the risk of reinsurer default.

There is no allowance for any future reinsurance purchases that may be used to cover existing obligations or for future business that was expected to be written under the treaties.

The Matching Adjustment was calculated using liability cash-flows gross of reinsurance, with the methodology allowing for longevity swap recoverables in the asset cashflows.

There are no Special Purpose Vehicles (SPVs).

#### **D.2.3.2 Material changes in assumptions**

The investment expense assumptions have been updated to reflect the new BlackRock investment management agreement and outsourced fund accounting services with HSBC.

The assumptions for mortality improvements have been updated to the latest CMI\_2022 projection model.

The maintenance unit cost allocations have been updated to reflect expected future costs.

## D.3 Other liabilities

The 2023 UK GAAP to Solvency II balance sheet reconciliation is presented in section D.1, including a categorisation of the presentational and valuation adjustments required to align the UK GAAP balance sheet to the prescribed format of the Solvency II balance sheet. An explanation of the adjustments is set out below:

### Supporting Notes

#### 1. Debts owed to credit institutions

Group and LVFS	£m
<b>Debts owed to credit institutions – UK GAAP</b>	<b>11</b>
– reclassify bank overdrafts to Payables (trade not insurance)	(11)
– reclassify cash collateral received from Payables (trade not insurance)	14
<b>Presentational adjustment</b>	<b>3</b>
<b>Debts owed to credit institutions - Solvency II valuation</b>	<b>14</b>

#### 2. Insurance and intermediaries payables

For Solvency II valuation purposes, insurance and intermediaries payables are valued consistently with UK GAAP. However, there are Solvency II presentational differences to disclose Reinsurance payables separately and to reflect that under UK GAAP the Life Claims outstanding are disclosed as part of the technical provisions and for Solvency II purposes are disclosed as insurance and intermediaries payables.

Under UK GAAP, insurance payables are recognised when due and include amounts due to policyholders, agents, brokers and intermediaries. Insurance payables are initially recognised at fair value and subsequently held at amortised cost.

	Group	LVFS
	£m	£m
<b>Creditors arising out of direct insurance operations – UK GAAP</b>	<b>29</b>	<b>28</b>
Presentational adjustment for claims outstanding from technical provisions	105	104
Solvency II Regulated subsidiaries valuation adjustment	(2)	-
<b>Insurance and intermediaries – Solvency II valuation</b>	<b>132</b>	<b>132</b>

The maturity profile of the liability recognised in the financial statements is summarised in the following table:

						£m
	Within 1 year	1 - 3 years	3 - 5 years	Over 5 years	UL	Total
<b>Creditors arising out of direct insurance operations</b>	<b>29</b>	-	-	-	-	<b>29</b>

### 3. Payables (trade, not insurance)

For Solvency II valuation purposes, payables (trade, not insurance) are valued consistently with UK GAAP and adjusted to remove (a) the amounts reported by the Regulated subsidiaries as these are treated as Participations under Solvency II – see Section D.1 note 2 and (b) accrued interest on the subordinated debt, as this is classified within the Solvency II fair value of subordinated debts – see note 4 (below).

Under UK GAAP, trade payables are recognised when due. Payables are initially recognised at fair value and subsequently held at amortised cost.

	Group	LVFS
	£m	£m
<b>Payables (trade, not insurance)</b>	<b>263</b>	<b>256</b>
<b>Other creditors excluding tax and social security costs – UK GAAP</b>	<b>263</b>	<b>256</b>
Less Derivatives shown separately	(197)	(197)
<b>Payables (trade, not insurance) – UK GAAP</b>	<b>66</b>	<b>59</b>
Presentational adjustments		
– reclassify accruals and deferred income from Any other liabilities, not elsewhere shown	65	51
– reclassify bank overdrafts from Debts owed to credit institutions	11	11
– cash collateral received to Debts owed to credit institutions	(14)	(14)
– reclassify corporation tax liability to Any other liabilities, not elsewhere shown	(3)	(3)
– reclassify accrued interest on subordinated debt	(11)	(11)
Presentational rounding	-	(1)
<b>Presentational adjustments</b>	<b>48</b>	<b>33</b>
Solvency II valuation adjustment - Regulated subsidiaries	(8)	-
<b>Payables (trade, not insurance) - Solvency II valuation</b>	<b>106</b>	<b>92</b>

### 4. Subordinated liabilities

In 2013 LVFS 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 have been amortised using the effective interest rate basis over the period to the first call date in 2023.

The Notes have a maturity date of 22 May 2043, but the issuer had the option to redeem the Notes at the first call date of 22 May 2023 and annually thereafter up to the maturity date. The initial first call date was 22 May 2023, at which point the issuer opted to redeem £150m Notes at par by way of a tender offer. No additional Notes were redeemed at the first call date.

Interest was payable on the Notes at a fixed rate of 6.5% per annum for the period until the first call date on 22 May 2023, payable annually in arrears on 22 May each year. For Notes not redeemed on 22 May 2023, the interest rate was reset on that date and will be reset 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. Interest is currently payable on the Notes at a fixed rate of 9.44% per annum. This reset rate will remain the effective rate payable on the Notes until the next reset of the Interest Rate on 22 May 2028.

In order to comply with requirements of the Companies Act, following transition to UK GAAP, LVFS carried out a substitution of issuer prior to 31 December 2023, to transfer the Notes to one of its subsidiaries, LV Bonds PLC. Following the substitution of Issuer, LVFS acts as guarantor for the Notes. Consideration paid by LVFS to LV Bonds PLC in exchange for taking on the obligation associated with the Notes constituted the par value of the Notes. These proceeds were loaned back to LVFS on the same interest, final repayment and subordination terms as those applicable to the Notes.

There is an option of cumulative deferral of interest at the issuer's discretion and mandatory interest deferral in the event that a regulatory deficiency interest deferral event has occurred or is continuing (breach of the applicable regulatory solvency capital requirement of the issuer, guarantor or group) or would occur if payment of interest on the subordinated notes were to be made. Following any deferral of a principal or interest payment, LVFS would be prevented from declaring any distribution to members which falls within the Mutual Bonus arrangements. The issuer has the option to elect to defer payment of interest in whole or in part and this will not constitute a default or give the right to the noteholders or the trustee to accelerate repayment of the Notes or to take any enforcement action.

These Subordinated Notes meet in full the requirements in Article 73 of the Delegated Acts and as such is classed as Tier 2 Capital.

For Solvency II valuation purposes, the Notes are measured using the risk-free rate at the valuation date, while keeping the spread versus risk-free rate at point of issue constant, thus eliminating the effect of changes in credit rating. The model uses the discounted cashflow approach with the spread measured against the risk-free rate to equate back to the amount of debt issued. It also allows for accrued interest at point of valuation.

Under UK GAAP, the Notes are initially measured at the fair value of the proceeds less attributable transaction costs. Subsequent to initial recognition they are measured at amortised cost. The transaction costs were amortised over the period to the first call date in May 2023 on an effective interest rate basis. The amortisation charge is included in the Statement of Comprehensive Income within other technical charges. As at 31 December 2023, the transaction costs have been fully amortised.

<b>Group and LVFS</b>	<b>£m</b>
<b>Subordinated liabilities – UK GAAP</b>	<b>200</b>
Presentational adjustment – accrued interest on the subordinated debt	11
<b>Subordinated liabilities - Solvency II valuation</b>	<b>211</b>

#### 5. Any other liabilities, not elsewhere shown

	<b>Group</b>	<b>LVFS</b>
	<b>£m</b>	<b>£m</b>
<b>Any other liabilities, not elsewhere shown – UK GAAP</b>	<b>65</b>	<b>51</b>
Reclassify accruals from Payables, trade not insurance	(65)	(51)
Reclassify corporation tax liability from Payables, trade not insurance	3	3
<b>Any other liabilities, not elsewhere shown - Solvency II valuation</b>	<b>3</b>	<b>3</b>

#### 6. Contingent liabilities

There are no material contingent liabilities to be recognised for Solvency II valuation purposes.

## D.4 Alternative methods for valuation

Information is provided for assets valued using alternative methods.

### Justification for using alternative methods

The Group aims to use quoted market prices or observable inputs to value all assets and liabilities. However, where there is no external market or readily observable inputs, the Group will use an alternative method such as discounted cash-flow or mark-to-model.

### Assumptions used in valuation approach and areas of uncertainty

Alternative methods for valuation include the use of estimates and assumptions that are not market observable but are based on a combination of internally developed models, calibrated to market observable data where possible as well as independent third-party evidence. Valuation uncertainty arises where there is reliance on third-party adherence to expected valuation standards or potential variation in the expected range of the key inputs into models. Where possible, the adequacy of valuations made using alternative valuation techniques are compared against experience.

The following material assets have been valued using alternative valuation methods in accordance with Article 263 of the Delegated Acts:

- 1) Equity release mortgages (£386m) are not traded on an active market and hence a mark-to-model valuation approach is used which is classified as an Alternative Valuation Method (AVM). The fair value of the Equity Release mortgage assets is determined using a discounted cash flow model which takes into account the contractual rate of interest charged on the loans, projected house prices, the expected mortality and morbidity of the mortgagor and mortgagor actions.

The discount rate is the zero-coupon swap curve with adjustments for profit and liquidity premiums.

- 2) Commercial mortgages (£492m) are not traded on an active market. The fair value of the loans secured on commercial property is determined using discounted cash flows to reflect changes in underlying gilt yields, discount spreads and debt margins. There are two factors used to create the discount rate that is used to value the loans secured on commercial property. Firstly, the prevailing gilt rate at point of valuation which is fully market observable. Secondly, the credit spread which is based on the managers' expectation of the level that they would price the loan at if it were funding in the market at that point in time. The managers base their assessment of the spread on comparable loans they fund in the market and considerations specific to the funded asset or the sponsor. Where the value is not expected to be recovered through ongoing loan payments, the fair value represents the recoverable value of the property in the market post transaction costs.
- 3) Derivatives (asset £20m, liability £197m) are not traded on an active market and hence are valued by discounted cash flow techniques, using observable yield curves and models such as Black Scholes using implied market forward rates and volatilities.
- 4) Holdings in related undertakings (£46m) being joint venture properties reclassified as participations. LVFS measures its interest in the joint venture at fair value in accordance with FRS 102, using the adjusted net asset method using unobservable external prices factoring in distributions or calls since the latest valuations.
- 5) Unlisted equity (£9m) being private equity holdings are valued at net asset value using unobservable external prices factoring in distributions or calls since the latest valuations. The private equity valuations are reviewed on a monthly basis by LVFS Group Treasury to ensure ongoing validity and accuracy.
- 6) Land and buildings and tangible fixed assets (£9m) are generally valued at the UK GAAP carrying value, based on cost less accumulated depreciation with assets written down to their recoverable amount where this is less than the carrying value. The UK GAAP carrying value is deemed to be materially the same as fair value, except in the case of own use properties which have been revalued upwards by £2m as part of the Solvency II valuation.

## **D.5 Any other information**

The Group does not consider that there is any further information which is required to be reported in respect of the solvency II valuation approach.

## E. Capital Management

The Capital Management section of the report describes the objectives and approach that the Group takes in managing its capital position. The section provides information about the structure and quality of own funds and the calculation of the SCR under the Standard Formula.

### Capital performance and capital position (Investor View) – unaudited

The LV= business is managed on a Solvency II basis and the key metrics we use to monitor the capital performance and capital position of our business position are Operating capital generation and the Capital Coverage Ratio. Operating capital generation is used for decision making, to monitor the Group’s performance, growth and financial strength as well as for internal performance management. Further information on this Solvency II metric, including a definition, is included in the 2023 LV= Annual Report.

#### **Operating capital generation**

Operating capital generation during 2023 was £35m (2022: £2m).

£m	Group	
	2023	2022
Trading business	25	37
Estate investment income	25	5
Experience variances	(10)	(5)
Model & basis changes and capital initiatives	38	1
Strategic development costs	(43)	(36)
<b>Operating capital generation</b>	<b>35</b>	<b>2</b>

Over the course of 2023, our trading businesses have added £25m (2022: £37m) to the Solvency II capital surplus. This result reflected a continuing strong trading performance in our Protection business, along with strong sales of annuities as they have remained attractive in the high interest rate environment. However, this was offset by a decrease in sales of Smoothed Managed Funds which continue to be impacted by historic fund returns and external factors such as persistent high inflation and rising interest rates. Estate investment income added an additional £25m (2022: £5m) of operating capital, driven by the higher yield curve over the year.

Our operating capital generation metric of £35m (2022: £2m) also includes positive model and basis and capital initiatives of £38m (2022: £1m), bolstered by the future cost benefit arising from the appointment of BlackRock as our primary asset manager, partially offset by adverse experience variances of £10m (2022: £5m). Spend on strategic development costs of £43m (2022: £36m) reflect the higher level of strategic change during 2023, with key technology and infrastructure upgrades being put in place.

The LVFS position is materially the same as the Group.

### Capital position

At 31 December 2023 the Group capital surplus on an investor view basis was £469m (2022: £391m) with capital cover of 204% (2022: 174%). At 31 December 2023, the LVFS capital surplus on an investor view basis was £463m (2022: £376m) with capital cover of 201% (2022: 167%).

£m	Group	
	2023	2022
Opening surplus	391	637
2022 TMTP recalculation and unwind in 2023	(9)	9
Operating capital generation	35	2
Non-operational expenditure	(39)	(41)
Items relating to the distribution of surplus	34	(26)
Solvency UK reforms	33	-
Pension scheme impacts	(29)	(71)
Economic variances	81	1
Debt repayment and Capital tiering restriction impact	(28)	(120)
<b>Closing capital surplus</b>	<b>469</b>	<b>391</b>

Solvency II capital surplus has increased by £78m to £469m (2022: £391m). Operating capital generation of £35m (2022: £2m) has been offset by non-operational expenditure of £39m (2022: £41m), which is made up of £21m of restructuring and other one-off items and interest payable on our subordinated debt.

Items relating to distribution of surplus of £34m (2022: £26m adverse) include £54m of non-operational income generated by structural changes to our distribution policy, offset by £20m of mutual bonus allocated during the year (exit bonus allocations do not impact our capital position). A further £33m of benefit was generated by regulatory change, with the Solvency UK reforms, leading to risk margin reduction with an offsetting reduction in Solvency II TMTP.

In April 2023, we announced the buyback of £150m of our subordinated debt, which is treated as Tier 2 capital. The £150m capital reduction generated by this buy-back was partially offset by the unwinding of the capital tiering restriction in place at the end of 2022, leading to an overall reduction in our capital surplus of £28m.

Economic fluctuations during the year added £81m (2022: £1m) to our capital surplus, driven by positive asset share returns on with-profit policies, reducing the solvency capital requirement. This is offset by adverse pension scheme impacts of £29m (2022: £71m adverse), where we saw a fall in the value of the pension benefit asset.

The LVFS position is materially the same as the Group.

### Capital position and changes in risk profile on a Solvency II regulatory basis

At 31 December 2023 the Group capital surplus on a standard formula basis was £468m (2022: £390m) with capital cover of 197% (2022: 169%) and the LVFS Solo capital surplus on a standard formula basis was £463m (2022: £375m) with capital cover of 195% (2022: 163%). The results shown below include the closed ring-fenced funds. The closed ring-fenced funds did not require any capital support at the valuation date.

£m	Group			LVFS		
	2023	2022	Change	2023	2022	Change
Eligible Own funds	950	956	(6)	950	973	(23)
SCR	482	566	(84)	487	598	(111)
<b>Surplus capital</b>	<b>468</b>	<b>390</b>	<b>78</b>	<b>463</b>	<b>375</b>	<b>88</b>
<b>CCR</b>	<b>197%</b>	<b>169%</b>	<b>28%</b>	<b>195%</b>	<b>163%</b>	<b>32%</b>

The Group and LVFS capital position was affected in the year by the following:

- **New Business Contribution (reduction in surplus capital of £34m)**
  - The capital surplus was reduced by the increase in capital required of £44m on new business.
  - This was offset by £11m on new business income less costs, primarily from protection and annuity lines.
- **Existing Business Contribution (increase in surplus capital of £59m)**
  - £21m on existing business income less costs, again, primarily from protection and annuity lines, as well as unit-linked pensions.
  - The run-off of existing business released £38m of capital.
- **Return on Estate assets (increase in surplus capital of £25m)**
- **Experience variance (reduction in surplus of £10m)**
  - Higher than expected lapse rates across various product lines has reduced surplus by £9m.
  - Other variances offset and result in a further £1m reduction.
- **One-off impact from Model and Basis Changes (increase in surplus capital of £2m)**
  - An update to mortality assumptions following a review of recent experience, has increased surplus by £20m. The net release of the short-term provision for strategic initiatives increased surplus by £5m.
  - This has been offset by updates to expense assumptions (-£17m) and a provision for short-term adverse experience variance (-£5m).
- **Management Actions (increase in surplus of £36m)**
  - The change in asset manager from CTI to BlackRock results in lower investment fees and has improved the surplus position by £30m.
  - The impact from other management actions were small (under £5m each).
- **Strategic Development Costs (reduction in surplus of £43m)**

The combination of the above movements results in **Operational capital generation of £35m**.

- **Non-Operational expenses (reduction in surplus of £39m)**
  - Non-operational expenses during the year included sub debt coupon payment, restructuring costs (£11m) and the loss in value of the Group's Bournemouth office following confirmation that a sub-tenant would be exercising a lease break clause in its sub-lease at the end of 2024 (£10m).
- **With Profit Surplus Distribution (increase in surplus of £34m)**
  - The payment of the annual mutual bonus declaration has reduced the Group's surplus position over the year by £20m.
  - However, a change to no longer reserve for the terminal bonus enhancement (TBE) within the Solvency Capital Requirement methodology has increased surplus by £25m.
  - Other contributions include re-statement of IB Whole of Life asset share calculations and the release of long-standing outstanding claims provisions which also increased surplus by £29m.
- **Solvency UK Reforms (increase in surplus of £33m)**
  - The latest item under the Solvency UK reforms was an amendment to the calculation of the Risk Margin, which reduced the capital requirements. After allowing for the partial offset by a decrease in the benefit of Transitional Measure on Technical Provision (TMTP), this increased surplus by £33m.
  - Further Solvency UK reforms are expected over 2024.
- **Debt repayment and Capital Tiering Restriction (reduction in surplus capital of £28m)**
  - In Q2 2023 £150m of sub-debt was repaid, leaving £200m remaining.
  - This reduction in surplus was offset by the removal of the capital tiering restriction increasing surplus by £120m.
- **Economic impacts over 2023 (increase in surplus capital of £81m)**
  - Favourable investment returns on equities reduced the amount of reserves to be held primarily for mass lapse capital therefore improving surplus by £93m.
  - This was partially offset by an increase in reserves required due to a fall in interest rates (£19m).
  - Surplus is lower by £15m due to a number of reasons, including temporary additional required capital, due to additional assets temporarily held in anticipation of the implementation of the Blackrock asset manager transition, to minimise transaction costs.
  - Inflation (+£9m), and other small value items make up the remaining £13m increase in surplus.

- **Staff pension scheme (reduction in surplus capital of £29m)**
  - The fall in the value of the pension scheme capital surplus when calculated on an FRS 102 basis, mainly driven by the narrowing of credit spreads and fall in interest rates.
  - This was partially offset by positive equity returns and favourable mortality basis changes.

The Group has used various capital management strategies during the year including internal and external hedging arrangements, see section C.3.3 for further details.

## E.1 Own funds

The Group seeks to create value for its members by investing in the development of the business while maintaining an appropriate level of capital available. The risk appetite for each type of principal risk is set based on the amount necessary to meet the Solvency II capital requirements.

### a) Policies and objectives

The Group's key capital management objectives are that:

- (i) Regulatory capital will be managed to remain within upper and lower limits agreed by the Board;
- (ii) The regulatory risk profile will be monitored against that projected in our business plan to ensure any deviation from the expected position is understood and acted upon if appropriate; and
- (iii) Sources of capital which are considered to be of a lower quality will not be over-relied upon to meet regulatory capital requirements.

These objectives are reviewed at least annually, and benchmarks are set by which to judge the adequacy of the Group's capital. The capital position is monitored against those benchmarks to ensure that sufficient capital is available to the Group. The Group is required to hold sufficient capital to meet the Solvency II capital requirements based on the higher of the Solvency Capital Requirement or Minimum Capital Requirement.

The assessment depends on various actuarial and other assumptions about potential changes in market prices, future operating experience and the actions management would take in the event of particular adverse changes in market conditions.

Management intends to maintain surplus capital in excess of the SCR and MCR to meet the PRA's total requirements and to maintain an appropriate additional margin over this to absorb changes in both capital and capital requirements. This is the responsibility of the Chief Financial Officer and is monitored through the Asset and Liability Committee (ALCO), one of the day-to-day monitoring committees which reports into the Board.

### b) Measurement and monitoring of capital

Method 1 as referred to in Article 230 of the Solvency II Directive is applied by the organisation to calculate the Group solvency position.

The capital position of the Group is monitored on a regular basis and reviewed formally on a quarterly basis by ALCO. The Group's key capital management objectives are reviewed and benchmarks are set by which to judge the adequacy of the Group's capital and ensure that sufficient capital is available.

The Group's capital requirements are forecast on a regular basis and compared with the available capital. The financial benefit forecast to be achieved on potential investments is also measured against minimum required benchmarks taking into account the risks associated with the investment and any non-financial benefits delivered.

In the event that sufficient capital is not available, actions would be taken either to raise additional capital or to reduce the amount of risk accepted thereby reducing the capital requirement through, for example, reinsurance, reducing business volumes or a change in investment strategy.

The items reported under Own Funds are classified by the regulations and split into three categories depending on different factors such as quality, liquidity and timeline to availability when liabilities arise. Tier 1 includes ordinary share capital, non-cumulative preference shares and relevant subordinated liabilities. Tier 2 includes cumulative preference shares, and subordinated liabilities with a shorter duration. Tier 3 own funds are those which do not satisfy the Tier 1 or Tier 2 requirements.

Different limit amounts held under the three tiers apply to the MCR and SCR. As Tier 1 comprises the highest quality with the longest redemption period, the majority of the eligible amount of own funds to cover the MCR and SCR is composed of Tier 1 own funds.

**c) Own fund items**

The following table details the structure, amount and quality of basic own funds and ancillary own funds (excluding the surplus from ring-fenced funds which are not available to the Group).

<b>Group</b>	<b>Tier 1 £m</b>	<b>Tier 2 £m</b>	<b>Tier 3 £m</b>	<b>Total £m</b>
Surplus funds	787	-	-	787
Reconciliation reserve	(73)	-	-	(73)
Subordinated liabilities	-	211	-	211
Deferred tax assets	-	-	25	25
<b>Total Basic Own Funds</b>	<b>714</b>	<b>211</b>	<b>25</b>	<b>950</b>
Tier 2 and Tier 3 capital restrictions	-	-	-	-
<b>Total Basic Own Funds after deductions</b>	<b>714</b>	<b>211</b>	<b>25</b>	<b>950</b>

<b>LVFS</b>	<b>Tier 1 £m</b>	<b>Tier 2 £m</b>	<b>Tier 3 £m</b>	<b>Total £m</b>
Surplus funds	787	-	-	787
Reconciliation reserve	(70)	-	-	(70)
Subordinated liabilities	-	211	-	211
Deferred tax assets	-	-	22	22
<b>Total Basic Own Funds</b>	<b>717</b>	<b>211</b>	<b>22</b>	<b>950</b>
<b>Total available Own Funds to meet the SCR</b>	<b>717</b>	<b>211</b>	<b>22</b>	<b>950</b>
<b>Total available Own Funds to meet the MCR</b>	<b>717</b>	<b>211</b>		<b>928</b>

**Surplus Funds**

Surplus funds are similar to the Fund for future appropriation of the Group as reported under UK GAAP. This represents the excess of assets over technical provisions and other liabilities. It includes amounts that have yet to be formally declared as bonuses for the participating policyholders together with the free assets of the Group. Any profit or loss for the year is transferred to the surplus funds account.

UK regulations, the Group's Principles and Practices of Financial Management, and the terms and conditions of participating contracts set out the bases for the determination of the amounts on which the participating additional discretionary contracts benefits are based and within which the Group may exercise its discretion as to the quantum and timing of their payment to contract holders. For further details please refer to Section D.2.2 under the heading 'With-profits specific'.

**Reconciliation reserve**

This reduces the Tier 1 capital and represents surplus funds within ring-fenced funds which are not available to the Group and deferred tax assets. The matching adjustment portfolio does not have any surplus in excess of its notional SCR, and as a result no restriction to own funds has been applied.

**Subordinated liabilities**

Details of the Group's subordinated liabilities, which are included as Tier 2 capital within own funds, together with the valuation methodology are given in section D.3, note 4.

**Minority interest**

There are no material minority interests to report.

## Eligibility

For the SCR, the sum of the eligible amounts of Tier 2 and Tier 3 items shall not exceed 50% of the SCR. For the MCR, Tier 3 capital items are not eligible and Tier 2 items shall not exceed 20% of the MCR. The items which are classified as Tier 3 include other own funds not falling into Tier 1 or 2. Article 76 of the Delegated Acts specifies deferred tax assets as Tier 3 capital.

## Changes in own funds during the reporting period

	Group		
	1 January 2023 £m	Movement £m	31 December 2023 £m
<b>Eligible own funds</b>			
Tier 1 capital	673	41	<b>714</b>
Tier 2 capital	359	(148)	<b>211</b>
Tier 3 capital	44	(19)	<b>25</b>
<b>Total capital</b>	<b>1,076</b>	<b>(126)</b>	<b>950</b>
<b>Made up of:</b>			
Surplus funds	752	35	<b>787</b>
Reconciliation reserve	(79)	6	<b>(73)</b>
Subordinated liabilities	359	(148)	<b>211</b>
Deferred tax	44	(19)	<b>25</b>
<b>Total capital (Basic Own Funds)</b>	<b>1,076</b>	<b>(126)</b>	<b>950</b>
Restrictions to capital	(120)	120	-
<b>Total eligible own funds to meet SCR</b>	<b>956</b>	<b>(6)</b>	<b>950</b>

	LVFS		
	1 January 2023 £m	Movement £m	31 December 2023 £m
<b>Eligible own funds</b>			
Tier 1 capital	674	43	<b>717</b>
Tier 2 capital	360	(149)	<b>211</b>
Tier 3 capital	43	(21)	<b>22</b>
<b>Total capital</b>	<b>1,077</b>	<b>(127)</b>	<b>950</b>
<b>Made up of:</b>			
Surplus funds	752	35	<b>787</b>
Reconciliation reserve	(78)	8	<b>(70)</b>
Subordinated liabilities	360	(149)	<b>211</b>
Deferred tax assets	43	(21)	<b>22</b>
<b>Total capital</b>	<b>1,077</b>	<b>(127)</b>	<b>950</b>
<b>Total available own funds to meet SCR</b>	<b>1,077</b>	<b>(127)</b>	<b>950</b>
Restrictions to capital	(104)	104	-
<b>Total eligible own funds to meet SCR</b>	<b>973</b>	<b>(23)</b>	<b>950</b>

- Tier 1 capital includes movements in excess of assets over liabilities, adjusted for the movement in deferred tax and reconciliation reserve.
- Tier 2 capital represents the subordinated debt.
- Tier 3 capital represents deferred tax assets.
- Surplus funds have increased due to the Solvency II balance sheet improvement generated during the year.
- The reconciliation reserve comprises of adjustments (e.g. Ring-fenced funds, Deferred tax etc.) to the capital elements used in the calculation of the SCR.

#### Ancillary own funds

At 31 December 2023 there were no ancillary own funds.

#### Deductions from own funds

At 31 December 2023 there were no deductions from own funds.

#### d) Eligible own funds

The following tables detail the eligibility of Own Funds to meet the SCR and MCR.

#### GROUP

	Tier 1	Tier 2	Tier 3	Total
Total available Own Funds to meet the Group SCR	714	211	25	950
Capital restrictions	-	-	-	-
<b>Total eligible Own Funds to meet the Group SCR</b>	<b>714</b>	<b>211</b>	<b>25</b>	<b>950</b>
Total available Own Funds to meet minimum Group SCR	714	211		925
Capital restrictions	-	(183)		(183)
<b>Total eligible Own Funds to meet the minimum Group SCR</b>	<b>714</b>	<b>28</b>		<b>742</b>

No Own Funds have been reported for the prior year as allowed by article 303 of the Delegated Regulations.

#### LVFS

	Tier 1	Tier 2	Tier 3	Total
Total available Own Funds to meet the SCR	717	211	22	950
Tier 2 and Tier 3 capital restriction	-	-	-	-
<b>Total eligible Own Funds to meet the SCR</b>	<b>717</b>	<b>211</b>	<b>22</b>	<b>950</b>
Total available Own Funds to meet the MCR	717	211		928
Tier 2 capital restriction	-	(185)		(185)
<b>Total eligible Own Funds to meet the MCR</b>	<b>717</b>	<b>26</b>		<b>743</b>

As a mutual LVFS does not have any shareholders.

There are no terms and conditions attached to the Tier 1 Own Funds which for LVFS comprise of the following:

- Surplus Funds
- Reconciliation reserve

In 2013, LVFS issued £350m of Fixed Rate Reset Subordinated Notes at par. The Notes have a maturity date of 22 May 2043, but the issuer had the option to redeem the Notes at the first call date of 22 May 2023 and annually thereafter up to the maturity date. The initial first call date was 22 May 2023, prior to which the issuer redeemed £150m Notes at par by way of a tender offer. No additional Notes were redeemed at the first call date.

In order to comply with requirements of the Companies Act 2006 following transition to UK GAAP, LVFS carried out a substitution of issuer prior to 31 December 2023, transferring the Notes to one of its subsidiaries, LV Bonds PLC. Following the substitution of Issuer, LVFS acts as guarantor for the Notes. Consideration paid by LVFS to LV Bonds PLC in exchange for taking on the obligation associated with the Notes constituted the par value of the Notes. These proceeds were loaned back to LVFS on the same interest, final repayment and subordination terms as those applicable to the Notes.

Tier 2 consists of subordinated debt of £200m. It meets the qualifying criteria to be classed as Tier 2 own funds. The current value of the subordinated debt is £211m.

More information on the terms and conditions of Tier 2 subordinated liabilities can be found in Section D.3 Other Liabilities, note 4.

Tier 3 own funds represents deferred tax assets of £25m for the Group and £22m for LVFS.

**e) Material differences between equity as shown in the financial statements and excess of assets over liabilities as calculated for solvency purposes.**

As a mutual insurer, LVFS is owned by its members and not by any shareholders. The Fund for future appropriations represents the excess of assets over and above the long-term insurance contract liabilities and other liabilities. It represents amounts that have yet to be formally declared as bonuses for the participating contract policyholders together with the free assets of the Group. Any profit or loss for the year arising through the Statement of Comprehensive Income is transferred to or from the Fund for future appropriations.

The following table provides a reconciliation of equity (Fund for future appropriations) under UK GAAP to Solvency II excess of assets over liabilities.

GROUP	At 31 December 2023	
	£m	£m
<b>Analysis of Equity per the statutory financial statements</b>		
Fund for future appropriations		576
<b>Solvency II Adjustments (excluding reclassifications)</b>		
<u>Assets</u>		
- Decrease in valuation of deferred tax asset (Section D.1)	(1)	
- Increase in valuation of property, plant and equipment (Section D.1)	2	
- Increase in valuation of participations (Section D.1 note 2,3)	15	
- Decrease in valuation of collective investments undertakings (Section D.1 note 3)	(13)	
- Decrease in valuation of insurance and intermediaries receivables (Section D.1)	(1)	
- Decrease in valuation of receivables (trade, not insurance) (Section D.1 note 6)	(1)	
- Decrease in valuation of cash and cash equivalents (Section D.1 note 7)	(3)	
- Decrease in valuation of other assets (Section D.1 note 8)	(6)	
		<b>(8)</b>
<u>Technical provisions</u>		
- Decrease in valuation of technical provisions (Section D.2)		<b>209</b>
<u>Other liabilities</u>		
- Decrease in insurance and intermediaries payables (Section D.3 note 2)	2	
- Decrease in payables (trade, not insurance) (Section D.3 note 3)	8	
		<b>10</b>
<b>Total Equity - Solvency II valuation</b>		<b>787</b>
Restricted own fund items due to ring-fenced funds		(48)
Subordinated liabilities allowable as own funds items		211
<b>Total own funds - Solvency II valuation</b>		<b>950</b>
Tier 2 and Tier 3 restrictions		-
Total eligible own funds to meet the SCR		<b>950</b>
<b>Excess of Assets over Liabilities - Solvency II valuation</b>		
Total Assets		12,311
Total Technical Provisions		(10,829)
Total Other Liabilities		(695)
<b>Excess of Assets over Liabilities - Solvency II valuation</b>		<b>787</b>

Differences in the asset and liability valuation methodology used for Solvency II purposes and that used under UK GAAP are set out in Section D.

Any surplus own funds over the notional SCR of RNPFN and Teachers, which are both ring-fenced funds, are restricted so the Group does not benefit from these surplus funds.

LVFS	At 31 December 2023
	£m
<b>Analysis of Equity per the statutory financial statements</b>	<b>573</b>
Fund for future appropriations	
<b>Solvency II Adjustments (excluding reclassifications)</b>	
<u>Assets</u>	
- Increase in valuation of participations (Section D.1 note 2)	6
<u>Technical provisions</u>	
- Decrease in valuation of technical provisions (Section D.2)	208
<b>Total Equity - Solvency II valuation</b>	<b>787</b>
Restricted own fund items due to ring-fenced fund	(48)
Subordinated liabilities allowable as own funds items	211
<b>Total own funds - Solvency II valuation</b>	<b>950</b>
Tier 2 and Tier 3 restrictions	-
<b>Total eligible own funds to meet the SCR</b>	<b>950</b>
<b>Excess of Assets over Liabilities - Solvency II valuation</b>	
Total Assets	12,289
Total Technical Provisions	(10,821)
Total Other Liabilities	(681)
<b>Excess of Assets over Liabilities - Solvency II valuation</b>	<b>787</b>

As detailed in the table above, numerous Solvency II adjustments were made to the balance sheet values as reported in the statutory financial statements. The adjustments arose from different valuation rules under Solvency II compared to the statutory financial statements.

Under Solvency II requirements, subordinated liabilities are included as a reconciling item in the table above since they are treated as liabilities for UK GAAP but count towards own funds.

**f) Own-fund item subject to transitional arrangements**

There are no own fund items subject to transitional arrangements.

**g) Consolidation of Group's own funds**

The Group's Own Funds have been calculated using the accounting consolidation-based method which is considered the default method. Intra-group transactions, balances and unrealised gains on intra-group transactions are eliminated on consolidation. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

In assessing whether certain own funds cannot be made available to cover Group SCR, the supervisory authorities shall consider the following elements:

- a) Are there legal or regulatory requirements restricting the transfer of assets to another insurance or reinsurance undertaking within the group
- b) Can the own funds be made available within a maximum of nine months of requirement
- c) Are there costs associated with making such own funds available for the Group
- d) The following cannot be used to cover Group SCR
  - Ancillary own funds
  - Preference shares, subordinated mutual members account and subordinated liabilities
  - Net deferred tax assets
  - Any minority interest in a subsidiary ancillary services undertaking
  - Any minority interest in an insurance or reinsurance subsidiary which exceeds the contribution of that subsidiary to the Group SCR
  - Any restricted own funds in ring-fenced funds.

Not all assets within an undertaking are unrestricted. Certain products or activities result in ring-fenced fund structures which give one class of policyholder greater rights to assets within their own fund. Although these assets are included in computing the excess of assets over liabilities for own fund purposes, they cannot in fact be made available to meet the risks outside the ring-fenced fund. The Group has identified the Royal National Pension Fund for Nurses (RNPFN) and the Teachers With-Profit fund as ring-fenced funds which restrict the transferability of own fund items.

The Group has subordinated liabilities and net deferred tax assets. For further information refer to the Valuation for Assets and Liabilities in Section D of this report.

Accordingly, restrictions in the transferability and fungibility of own funds in related undertakings arise from three main areas:

1. Solvency capital requirements at subsidiary undertaking level;
2. Ring-fenced funds and the Matching Adjustment Portfolio; and
3. Regulatory restrictions in relation to subordinated liabilities and net deferred tax assets.

The organisation does not have any material own funds issued by an equivalent third country insurance or reinsurance undertaking.

## E.2 SCR and MCR

### E.2.1 Group and LVFS SCR and MCR

#### Group

The Group calculates its SCR using the accounting consolidation-based method set out as Method 1 in Article 230 of Directive 2009/138/EC. This values the Group on a look through basis, where the risks of all insurance subsidiaries are considered as if they belonged to the same legal entity. Capital requirements for regulated non-insurance subsidiaries are then added on separately.

The SCR for the Group as at 31 December 2023 was £482m (31 December 2022: £566m). The decrease in SCR over the period is driven by favourable fund performance reducing mass lapse exposure.

The Minimum Capital Requirement (MCR) as at 31 December 2023 was £136m (31 December 2022: £157m). The Group Minimum Capital Requirement is the sum of MCRs of the individual entities (see below for details of the LVFS MCR basis of calculation and sections E.2.1 of the Solo SFCRs for further information regarding subsidiary MCRs).

The reason for the decrease in the Group Minimum Capital Requirement over the year is the fall in SCR for LVFS on a Solo basis.

#### LVFS

LVFS calculates its SCR using the accounting consolidation-based method set out as Method 1 in Article 230 of Directive 2009/138/EC, with the exception of the valuation of subsidiaries. On a Solo basis, subsidiaries are valued as debt or equity holdings, essentially treating them in a similar way to investments made outside LVFS.

The SCR for LVFS as at 31 December 2023 was £487m (31 December 2022: £598m). The decrease in SCR over the period is driven by favourable fund performance reducing mass lapse exposure as well as payments of dividends from LV Capital to LVFS.

The Minimum Capital Requirement (MCR) as at 31 December 2023 was £128m (31 December 2022: £149m).

The calculation of the MCR is laid out in the S.28.01.01 QRT annexed to this report. The MCR is calculated, as prescribed in the Solvency II regulations, involving the multiplication of prescribed factors to Technical Provisions (excluding Risk Margin) and capital at risk, subject to a floor of 25% of the SCR and a cap of 45% of the SCR. There is also an absolute floor specified as 4.0m Euros, converted to pounds sterling.

At year-end 2023 the calculation of the MCR is within the 25%-45% threshold of the SCR, whereas the 25% floor was the biting requirement at year-end 2022. This has been caused by the fall in total SCR over the year lowering the 25% floor and is hence the reason the MCR has decreased over the year.

#### Calculation of Minimum Capital Requirement

<b>MCR Calculation</b>	<b>£m</b>
Linear MCR	128
SCR	487
MCR Cap (45% of SCR)	219
MCR Floor (25% of SCR)	122
<b>Minimum Capital Requirement</b>	<b>128</b>

## E.2.2 Group and LVFS SCR split by risk

The Group uses a Standard Formula approach for calculating its regulatory SCR, although it maintains its own internal view of capital. The following table shows the breakdown of the SCR by risk on the Standard Formula basis. In line with the construction of the Standard Formula SCR, the amounts for each risk module contain some diversification allowance within that module. For example, the market risk line includes diversification between equity and interest rate risk. The individual modules also include an allowance for the loss absorbing capacity of technical provisions.

The below figures allow for the structure of the Group, and specifically RNPFN and Teachers ring-fenced funds contained within the Group. The capital requirements for these funds are calculated in isolation and added to the remaining part of the Group, with no credit being taken for diversification between them.

Risk Module (all figures in £m)	Group		LVFS	
	2023	2022	2023	2022
Market risk	268	249	274	299
Credit counterparty risk	21	24	23	25
Life underwriting risk	198	339	198	339
Health underwriting risk	109	92	109	92
<b>Total before diversification</b>	<b>596</b>	<b>704</b>	<b>604</b>	<b>755</b>
Diversification	(149)	(160)	(152)	(180)
<b>Basic Solvency Capital Requirement</b>	<b>447</b>	<b>544</b>	<b>452</b>	<b>575</b>
Operational risk	38	31	38	31
Loss absorbing capacity of deferred taxes	(3)	(9)	(3)	(8)
<b>Solvency Capital Requirement</b>	<b>482</b>	<b>566</b>	<b>487</b>	<b>598</b>

Life underwriting risk SCR has significantly fallen over the period driven by the reduction in lapse risk capital driven by favourable fund performance, and the natural run-off of capital-intensive and closed lines of business. Lapse risk remains the dominant life underwriting risk (see Section C.2.2).

The market risk SCR has increased over the period. This was driven by temporary excess of assets less liabilities within the with-profit fund in the short term as part of the change in asset manager. See section C3.2 for further details.

## E.2.3 Diversification benefit

Diversification benefit within the SCR emerges from relative sizes of the risks and the correlation assumptions between them. As a result of using the Standard Formula approach to assess the Group SCR, the stress assumptions used to calculate the risk capital amounts, and the level of correlation between risks, are prescribed by Solvency II regulations.

The Group's SCR has material sources of diversification benefits arising from the life business written directly by the Group, which diversifies within itself. For example, the Group's with-profits business diversifies against its protection business due to the different risks to which these businesses are exposed.

Diversification is not permitted between the Matching Adjustment Portfolio and the rest of the business.

## E.2.4 Basis of calculation

The Group uses a Standard Formula basis to calculate the SCR. The approach to calculating the SCR and MCR is in accordance with the Solvency II Directive. The Group is not using any material simplifications or undertaking specific parameters in the calculation of the SCR and does not have any regulatory capital add-ons.

### **E.3 Use of a duration-based equity risk sub-module**

The Group has not applied the duration-based equity risk sub-module in the calculation of the SCR.

### **E.4 Differences between Standard Formula and any Internal Model used**

This does not apply as the Group does not use an Internal Model to calculate its SCR.

### **E.5 Non-compliance with the MCR and the SCR**

The Group has been compliant with the MCR and SCR throughout the reporting period.

### **E.6 Any other material information**

Further details on the insurance entities within the LV= Group can be found in the relevant SFCRs.