

LV= GROUP and LVFS

Solvency and Financial Condition Report

For the year ended 31 December 2024

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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 2024. 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 2024 LV= Annual Report for the year ended 31 December 2024, 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 PRA's Solvency II regulations using the 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 2024.

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 are pleased that our strategy of offering a diversified but focused portfolio of products has enabled us to continue to generate positive operating capital and operating profit throughout a prolonged period of economic uncertainty and market volatility. Our focus on maintaining a strong balance sheet while actively managing cost efficiencies has enabled us to maintain a Solvency II Capital Coverage Ratio well above our minimum risk appetite throughout this period. This strong capital position has allowed us to allocate £29m in profit-related bonuses for eligible members, taking our total since 2011 to £414m. In addition to this, our members' funds have benefited from strong returns during the year, with our main With-Profits Fund delivering a 7.9% return and the majority of our Smoothed Managed Fund ranges delivering returns in excess of 10%. Our positive 2024 results once again demonstrate how our mutual model allows our members to share in the success of our business.

Over the course of 2024, our trading businesses have added £40m (2023: £44m) to the UK GAAP profits. This result reflects a continued strong trading performance in our Protection business, along with strong sales of annuities as they have remained attractive in the high interest rate environment. Profits from Heritage products were down following a one-off benefit in 2023.

Operating profit generation has remained stable at £43m (2023: £43m). The Group is reporting a profit before tax of £51m (2023: £107m), with the year-on-year reduction driven by the 2023 result including positive one-off impacts from Solvency II UK reforms of £85m.

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 the highest 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 governance framework 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) and adheres to the principles of the AFM's Corporate Governance Code (AFM code). 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 and there were no changes in membership of the Board during the year.

LV= operates a fully integrated risk management framework (LV=RMF) 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 risk management practices and embedding engagement in line with this framework and our values, enables senior management to demonstrate that risk is actively and appropriately managed across 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 2024 split of the Standard Formula Solvency Capital Requirement (SCR) by risk type. The results for 31 December 2023 are provided for comparison. The amount of SCR illustrated below for the Group is £474m (2023: £485m) and for LVFS is £479m (2023: £490m). This can be different 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		
	2024	2023	Change	2024	2023	Change
Underwriting risk	51%	44%	7%	50%	44%	6%
Market risk	40%	46%	(6)%	41%	46%	(5)%
Operational risk	6%	8%	(2)%	6%	8%	(2)%
Counterparty risk	3%	2%	1%	3%	2%	1%
Total	100%	100%		100%	100%	

The weighting of the high-level risk categories shown within the SCR has shifted slightly since 2023. Underwriting risk has increased due to the increase in lapse risk exposure and is now the most prominent risk. Market risk remains a significant source of risk but has reduced due to a decrease in spread 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.
- **Increased competitor pressures or market contraction** - The risk of lower business growth resulting from increased competitor pressures or market contraction.
- **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. In November 2024, the final piece of regulation was published for the Solvency UK reforms. The Risk Margin reform was implemented at the end of 2023 with changes to the Matching Adjustment, the Transitional Measures on Technical Provisions (TMTP) and other reporting changes made during 2024.

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 TMTP. In response to the year end 2024 regulatory changes to TMTP, LV= has adopted the simplified TMTP method. TMTP will now be recalculated on an ongoing basis and depends only on changes to the Solvency II position.

At 31 December 2024, the Group and LVFS's excess of assets over liabilities was £709m (2023: £787m) 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 2024, the Group’s capital surplus on a Solvency II Standard Formula basis, reported on an investor view, was £411m (2023: £469m) with a Capital Coverage Ratio (Investor view) of 192% (2023: 204%).

At 31 December 2024, the Group’s capital surplus on a regulatory basis was £411m (2023: £468m) and for LVFS was £406m (2023: £463m).

The decrease in capital surplus on both the investor view and regulatory basis was mainly driven by adverse non-operational items of £60m (2023: £39m). This includes a £36m impact from the recognition of increased insurance contract liabilities, which would arise when policyholders holding certain pension products retire at a later age than they had originally advised.

Over the course of 2024, our trading businesses have added £35m (2023: £25m) to the Solvency II capital surplus. Operating capital generation of £55m (2023: £35m) also includes Estate investment income of £20m (2023: £25m) and positive model and basis and capital initiatives of £33m (2023: £38m). These items were partially offset by adverse experience variances of £8m (2023: £10m) and spend on strategic development costs of £25m (2023: £43m), which was £18m lower than prior-year levels with a focus on efficiency, risk reduction and growth projects.

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	
	2024	2023	2024	2023
Eligible own funds				
Tier 1	672	714	674	717
Tier 2	211	211	211	211
Tier 3	2	25	-	22
Total eligible own funds	885	950	885	950
Solvency capital requirement	474	482	479	487
Surplus	411	468	406	463
Capital Cover Ratio (CCR)*	187%	197%	185%	195%

*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 2024

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 2025 and signed on its behalf by:



.....
Stephen Percival
Chief Financial Officer

3 April 2025

Liverpool Victoria Financial Services Limited
County Gates
Bournemouth
BH1 2NF

Matching Adjustment attestation statement

The Chief Financial Officer has attested that the Fundamental Spread used by the firm in calculating the Matching Adjustment as at 31 December 2024 reflects compensation for all retained risks, and the Matching Adjustment can be earned with a high degree of confidence from the assets held in the relevant portfolio of assets.

Report of the external independent auditor to the Directors of Liverpool Victoria Financial Services Limited (the ‘Group’ or the ‘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 single group-wide 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 2024

- The ‘Valuation for solvency purposes’ and ‘Capital Management’ sections of the single group-wide Solvency and Financial Condition Report of the Group and the Company as at 31 December 2024 (**‘the Narrative Disclosures subject to audit’**);
- Group templates IR.02.01.02, IR.22.01.22, IR.23.01.04, IR.25.04.22 and IR.32.01.22 (**‘the Group Templates subject to audit’**).
- Company templates IR.02.01.02, IR.12.01.02, IR.22.01.21, IR.23.01.01, IR.25.04.21 and IR.28.01.01 in respect of Liverpool Victoria Financial Services Limited (‘the group member’) (**‘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 single group-wide 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:

- The ‘Business and performance’, ‘System of governance’ and ‘Risk profile’ elements of the single group-wide Solvency and Financial Condition Report;
- Group templates IR.05.03.02 and IR.05.02.01;
- Company templates IR.05.03.02 and IR.05.02.01;
- 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 single group-wide Solvency and Financial Condition Report (**‘the Statement of Directors’ Responsibilities’**).

To the extent the information subject to audit in the relevant elements of the single group-wide 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 single group-wide Solvency and Financial Condition Report as at 31 December 2024 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 Solvency and Financial Condition Report* section of our report. We are independent of the Group and the Company in accordance with the ethical requirements that are relevant to our audit of the 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 single group-wide Solvency and Financial Condition Report, which describe the basis of accounting. The single group-wide 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 single group-wide 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 single group-wide 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 single group-wide Solvency and Financial Condition Report, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the single group-wide 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 single group-wide 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 Group's and the Company's ability to continue as a going concern.
- Obtaining an understanding of the relevant controls relating to the directors' going concern assessment;
- Making enquiries of the directors to understand the period of assessment considered by them, the assumptions they considered and the implication of those when assessing the Group's and the Company's future financial performance

Obtaining the Board approved group financial plan and in particular the forecast regulatory solvency position and forecast liquidity position which covers a period longer than 12 months from the signing of the single group-wide Solvency and Financial Condition Report;

- 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 forward looking scenarios which have been derived from the company's Own Risk and Solvency Assessment. This included assessing 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;
- Considering the consistency of the directors' forecasts with other areas of the SFCR, as well as considering our audit of the financial statements; 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's and the Company's ability to continue as a going concern for a period of at least twelve months from when the single group-wide 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 single group-wide 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 single group-wide 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 single group-wide 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 single group-wide 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 single group-wide Solvency and Financial Condition Report

The directors are responsible for the preparation of the single group-wide 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 a single group-wide Solvency and Financial Condition Report that is free from material misstatement, whether due to fraud or error;
- overseeing the Group's and the Company's financial reporting process; and
- assessing the Group's and the 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 or the 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 single group-wide Solvency and Financial Condition Report

It is our responsibility to form an independent opinion as to whether the relevant elements of single group-wide 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 single group-wide 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 single group-wide 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 the 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 single group-wide 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:

- Gaining an understanding of the legal and regulatory framework applicable to the Group and the Company and the industry in which they operate, and considering the risk of acts by the Group and 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 Group and 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 regulatory authorities including the PRA and the FCA;
- Reviewing minutes of directors' meetings in the year and until date of signing of audit report; 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 single group-wide 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 single group-wide 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 technical provisions, and 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;
- Assessing and evaluating the nature of material adjustment entries between the UK GAAP balance sheet and the SII Balance sheet for management override of controls;
- Evaluating and assessing accounting estimates for evidence of management bias, particularly in relation to the estimation of technical provisions;
- Critically assessing accounting estimates for evidence of management bias, particularly in relation to valuation of technical provisions; and
- Designing audit procedures to incorporate unpredictability around the nature, timing or extent of our testing.

The primary responsibility for the prevention and detection of irregularities, including fraud, rests with both those charged with governance and 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. This description forms part of our auditor's report.

Report on Other Legal and Regulatory Requirements – Other Information

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's and the 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 the 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.

Our audit work has been undertaken so that we might state to the Group's and the Company's directors those matters we are required to state to them in an auditor's report on the relevant elements of the Solvency and Financial Condition Report and for no other purpose. We acknowledge that our report will be provided to the PRA for the use of the PRA solely for the purposes set down by statute and the PRA's rules.

To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the directors and the PRA for our audit work, for this report, or for the opinions we have formed.



Forvis Mazars LLP
Chartered Accountants

30 Old Bailey
London
EC4M 7AU

3 April 2025

Appendix – relevant elements of the single group-wide Solvency and Financial Condition Report that are not subject to audit

The relevant elements of the single group-wide Solvency and Financial Condition Report that are not subject to audit comprise:

Group templates:

The following elements of group template IR.02.01.02

Row R0565 – Transitional measures on technical provisions – life

The following elements of Group template IR.22.01.22

Column C0030 – Impact of transitional measures on technical provisions

Company templates:

The following elements of company template IR.02.01.02

Row R0565 – Transitional measures on technical provisions – life

The following elements of company template IR.12.01.02

Rows R0140 to R0180 – Amount of transitional measure on technical provisions

The following elements of company template IR.22.01.21

Column C0030 – Impact of transitional measure on technical provisions

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

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
ENID	Events Not in Data
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
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 and 2024.
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 2024 LV= Annual Report.

LV= Group performance	2024	2023
	£m	£m
New business contribution	10	2
Existing business	30	42
Trading profit generation	40	44
Estate investment income and other operating items	20	25
Experience variances	(13)	(16)
Model and basis changes and management actions	21	33
Strategic development costs	(25)	(43)
Operating profit generation	43	43
Restructuring and one-off items	(8)	11
Solvency UK reforms	(1)	85
Interest payable on subordinated debt	(19)	(20)
Short-term investment fluctuations and related items*	65	18
Mutual and exit bonuses	(29)	(30)
Profit before tax	51	107
Tax attributable to long-term business	(32)	(22)
Remeasurement of defined benefit pension scheme	(14)	(15)
Transfer to the Fund for future appropriations	5	70

* 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

Over the course of 2024, our trading businesses have added £40m (2023: £44m) to the UK GAAP profits. This result reflects a continued strong trading performance in our Protection business, along with strong sales of annuities as they have remained attractive in the high interest rate environment. Profits from Heritage products were down following a one-off benefit in 2023.

Operating profit generation

Operating profit generation has remained stable at £43m (2023: £43m). This is made up of trading profit of £40m (2023: £44m), with Estate investment income adding a further £20m (2023: £25m) and model and basis changes and management actions of £21m (2023: £33m). This was partially offset by adverse experience variances of £13m (2023: £16m) and spend on strategic development costs of £25m (2023: £43m), which was £18m lower than prior-year levels with a focus on efficiency, risk reduction and growth projects.

Profit before tax

The Group is reporting a profit before tax of £51m (2023: £107m). The operating profit of £43m (2023: £43m) is partially offset by £28m of adverse non-operational items, which was made up of £19m of subordinated debt interest and various other one-off items totalling £9m. Short-term investment fluctuations have had a £65m positive (2023: £18m positive) impact on profit before tax. This comprises a £38m favourable impact from economic movements across the year, including £24m generated by the rise in interest rates, together with a £27m reduction in the policyholders' asset shares generated by the deduction of tax from policyholders' investment gains. The overall impact on FFA of the policyholder tax expense is minimal as the tax expense itself is reported separately after profit before tax. Profit before tax was also impacted by the mutual and exit bonuses allocated to our eligible with-profits members of £29m (2023: £30m).

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

The Group transfer to the Fund for Future Appropriations for 2024 is £5m (2023: £70m), with total Fund for Future Appropriations increasing for the Group to £535m (2023: £530m). The year-end 2023 FFA was reported in the 2023 Annual Report as £576m but has been reduced by £46m following a restatement. Further detail in relation to the prior period adjustments is provided in note 1 of the financial statements in the 2024 LV= Annual Report.

Offsetting the profit before tax, the overall transfer to FFA was impacted by £14m of adverse Pension scheme re-measurements (2023: £15m), mainly driven by the Ockham scheme buy-in and changes to member data following the triennial valuation. There is also a £32m tax expense (2023: £22m), 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 2024 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 Forvis 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 2024 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%

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 IR.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 external context has improved through 2024 but remains challenging. While there has been positive equity market performance, some volatility remained particularly from the elections during 2024 in the US, UK and France, and the prolonged conflicts in the Middle East and Ukraine which continued to have some impact on oil prices and global supply chains through the year.

Inflation has remained a key focus throughout 2024, with the Consumer Price Index (CPI) falling from 4.0% at the start of the year to 1.7% by September, fuelling optimism that through managing inflation, central bank interest rates would be reduced. This happened to some extent with the Bank of England reducing its interest rate by 0.5% over the year.

However, inflation has remained unpredictable with CPI rising to 2.6% by November reducing optimism over further interest rate reductions.

This economic backdrop has had further implications for consumer sentiment. Findings from our Wealth and Wellbeing Research Programme confirms that there has been an increase in consumer optimism over the year, but the impacts of the cost of living crisis continue to be experienced. Four in ten people continue to report feeling concerned about increased food and utility costs, with only slightly over half (53%) saying they're comfortably able to afford to pay their bills.

In terms of the regulatory context, the Consumer Duty requirements, which include a clear focus on customer outcomes, came into force for products which are closed to new business in July 2024. There is also a continued regulatory focus on building operational resilience and ensuring it is embedded in decision making across the financial services sector.

In November 2024, the final piece of regulation was published for the Solvency UK reforms. The Risk Margin reform was implemented at the end of 2023 with changes to the Matching Adjustment, the Transitional Measures on Technical Provisions (TMTP) and other reporting changes made during 2024.

Over the year, we 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.

We are pleased that our strategy of offering a diversified but focused portfolio of products has enabled us to continue to generate positive operating capital and operating profit throughout a prolonged period of economic uncertainty and market volatility. Our focus on maintaining a strong balance sheet while actively managing cost efficiencies has enabled us to maintain a Solvency II Capital Coverage Ratio well above our minimum risk appetite throughout this period. This strong capital position, while down 12 percentage points from 2023, has allowed us to allocate £29m in profit-related bonuses for eligible members, taking our total since 2011 to £414m. In addition to this, our members' funds have benefited from strong returns during the year, with our main With-Profits Fund delivering a 7.9% return and the majority of our Smoothed Managed Fund ranges delivering returns in excess of 10%. Our positive 2024 results once again demonstrate how our mutual model allows our members to share in the success of our business.

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	2024 £m	2023 £m
Gross premiums written		
Long-term insurance and participating investment contracts		
Single premium		
Investments and savings	89	105
Annuities	358	389
Regular premium		
Investments and savings	8	11
Pensions and annuities	4	5
Life and health protection	301	283
Gross premiums written	760	793
Outwards reinsurance premiums		
Long-term insurance premiums	(308)	(298)
Earned premiums, net of reinsurance	452	495
Gross premiums written for non-participating (unit-linked) investment contracts which are deposit accounted for and not included above	187	173

Gross written premiums of £760m decreased by 4% compared to 2023. The decrease was mainly driven by a reduction in sales of annuities and reduced levels of premiums paid into our Smoothed Managed Funds range. These decreases were partially offset by increased premiums for protection policies which have remained strong.

Claims incurred, net of reinsurance

Group	2024			2023		
	Gross £m	Reinsurance £m	Net £m	Gross £m	Reinsurance £m	Net £m
Long-term insurance and participating investment contracts						
Gross claims paid	1,189	(277)	912	1,172	(277)	895
Fair value adjustment to reinsurance receivable	-	(5)	(5)	-	(9)	(9)
Claims paid	1,189	(282)	907	1,172	(286)	886
Change in the provision for claims	(14)	-	(14)	(9)	-	(9)
Claims incurred, net of reinsurance	1,175	(282)	893	1,163	(286)	877
Claims paid for non-participating (unit-linked) investment contracts which are deposit accounted for and not included above	560	-	560	524	-	524

Net benefits and claims of £893m increased by 2% compared to 2023.

Change in technical provisions, net of reinsurance

	Group	
	2024 £m	2023 £m
Change in technical provisions for Long-term business		
Gross		
Change in participating insurance contract liabilities	324	238
Change in participating investment contract liabilities	23	5
Change in non-participating insurance contract liabilities	164	(279)
Change in long-term business provision - gross	511	(36)
Reinsurers' share		
Change relating to participating insurance contract liabilities	(59)	4
Change relating to non-participating insurance contract liabilities	(60)	172
Change in long-term business provision - reinsurers' share	(119)	176
Change in long-term business provision, net of reinsurance	392	140
Change in technical provisions for linked liabilities		
Gross		
Change in linked investment contract liabilities	(303)	(300)
Change in technical provisions, net of reinsurance	89	(160)

The gross decrease in technical provisions for long-term business for 2024 was £511m (2023: £36m increase). The year-on-year movement is mainly driven by the ongoing net outflow of funds, particularly across Flexible Guarantee Bonds (FGB), along with the ongoing run-off of the Heritage products. In addition to this we are seeing a large fall in Protection business Technical Provisions driven by interest rate increases during the year impacting the discounted value along with the reduction from the term mortality basis change.

Net operating expenses

	Group		LVFS	
	2024 £m	2023 £m	2024 £m	2023 £m
Commission paid on acquisition of business	91	79	86	75
Depreciation and impairment of property and equipment	1	11	-	-
Loss on disposal of property and equipment	1	-	-	-
Auditor's remuneration	2	1	2	1
Staff costs	83	81	83	81
Management charge allocated to group undertakings	-	-	(16)	(16)
Facilities expense	9	9	8	8
Marketing and advertising	3	3	3	2
Other staff costs	2	8	2	8
IT costs	34	40	34	40
Legal, consultancy and other fees	18	23	17	22
Other expenses	10	(3)	9	(3)
Claims handling cost recognised in Claims paid	(7)	(7)	(7)	(7)
Net operating expenses	247	245	221	211

Net operating expenses for 2024 of £247m have remained stable compared to 2023. The reduction in strategic development costs can be seen in the Other staff costs, IT costs and Legal consultancy and other fees categories, as several key projects concluded in 2023. These cost reductions were offset by increased commission paid, due to increased new business sales in Protection, and Other expenses.

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) IR.05.03, 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:

Group and LVFS

Life insurance	2024	2023
Insurance with-profit participation	12%	14%
Index-linked and unit-linked insurance	20%	18%
Other life insurance*	59%	60%
Health	9%	8%

*Included within Other life insurance for 2024 are Life annuities of 35% for Group and LVFS. For 2023, the S.05.01 did not include a split of Life annuities and Other Life insurance.

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	
	2024 £m	2023 £m	2024 £m	2023 £m
Income from investments at fair value through profit or loss (FVTPL):				
- Dividend income	70	88	70	88
- Interest income from debt and other fixed income securities	101	107	100	107
- Interest on loans secured on residential property	23	24	23	24
- Interest on loans secured on commercial property	23	19	23	19
Net realised gains on investments held at FVTPL	234	42	234	32
Other investment income	11	5	6	4
Net realised losses on investments in group undertakings	-	-	(7)	(233)
Dividend income from group undertakings	-	-	3	235
Total investment income	462	285	452	276

Investment income for the Group has increased to £462m (2023: £285m). This is mainly due to realised gains on equities, generated by the sale of holdings in OEICs as we transitioned investment management services to BlackRock.

Unrealised gains on investments

	Group		LVFS	
	2024 £m	2023 £m	2024 £m	2023 £m
Net unrealised gains on investments held at FVTPL:				
- Debt and other fixed income securities	2	201	2	203
- Equity securities	132	393	132	393
- Loans and mortgages	(17)	12	(17)	13
- Derivative financial instruments	62	12	62	12
Unrealised gains on investments	179	618	179	621

The Group unrealised gain on investments of £179m (2023: £618m) has reduced from the prior year as markets have steadied during 2024, so investment gains are not as large as experienced through the final quarter of 2023. This has been further reduced by the impact of previously booked unrealised gains reversing in the year, as the gains are realised at the point of sale (see above).

Investment expenses and charges

These expenses are directly attributable to investment activities.

	Group		LVFS	
	2024 £m	2023 £m	2024 £m	2023 £m
Investment management expenses and charges	12	24	13	25

Group Investment expenses have fallen to £12m (2023: £24m) following transition of investment management services to BlackRock as our primary asset manager.

b) Information about any investments in securitisation

There are no material investments in securitisation (2023: £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	
	2024 £m	2023 £m	2024 £m	2023 £m
Interest payable on subordinated liabilities	19	20	19	20
Other Interest payable	6	4	5	4
	25	24	24	24

Other technical charges for 2024 of £25m have remained stable compared to 2023.

Other technical income

	Group		LVFS	
	2024 £m	2023 £m	2024 £m	2023 £m
Asset management fee income	23	22	23	22
Commission	13	8	-	-
Other fee income	10	9	3	3
	46	39	26	25

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 increased to £46m (2023: £39m), reflecting the increased 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. At 31 December 2024 right of use assets held by the Group were £5m (2023: £5m) and lease liabilities were £18m (2023: £19m). Right of use assets and lease liabilities are unwound over the lease term. The remaining lease term for the head office is 16 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 2024, commitments under operating leases were £1m (2023: £2m).

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:

Simon Moore, Chairman	David Hynam, Chief Executive (CEO)
Natalie Ceeney CBE, Senior Independent Director	Colin Ledlie, Non-Executive Director
Susan McInnes, Non-Executive Director	Suzy Neubert, Non-Executive Director
David Rogers, Non-Executive Director	Stephen Percival, Chief Financial Officer (CFO)

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). We adhere to the principles of the AFM's Corporate Governance Code (AFM Code) and are committed to upholding the highest standards of corporate governance.

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 2024 LV= Annual Report. It is prepared in line with best practice and applies the reporting requirements which are applicable to listed companies 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.

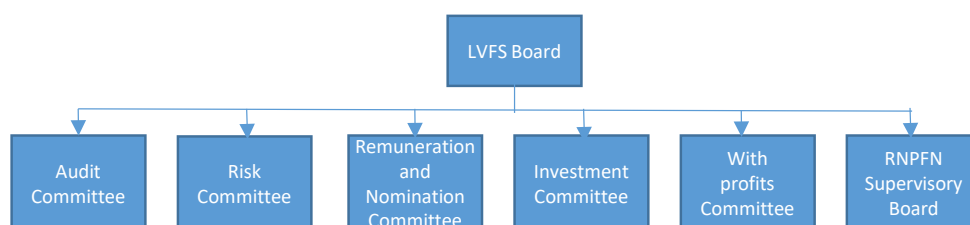
The Board sets the tone from the top on the Group's governance, culture and values and is collectively responsible for the long-term success of the Group. The role of the Board is to make decisions on matters such as the Group's strategy, values and purpose, as well as financial, risk, governance and 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, the environment 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 CEO and CFO). 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 to foster an effective Board.

The Board exercises stewardship over the Group's subsidiaries through the reservation of certain matters and decisions to the Board as outlined in the constitution of the subsidiaries (their Articles of Association) and replicated in the LVFS Subsidiaries Board's Terms of Reference.

In setting its governance arrangements, subject to LVFS' constitution and relevant legislation, the Board reserves the right to have the ultimate authority for decision making. 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 2024 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 the 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>Risk Management function</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=RMF) 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>Compliance function</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"> • 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. <p>Further details of Compliance Function responsibilities and activities are included within section B.4.</p>
<p>Actuarial function</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"> • 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 reports on the appropriateness of the underwriting and reinsurance policies and arrangements applied. <p>Further details are provided in section B.6.</p>
<p>Internal Audit function</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;
- Ensure succession plans are in place for the Board, Executive Team and the Company Secretary; and
- Oversee LV's Diversity, Equity and Inclusion strategies, including the objectives, goals and external reporting.

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 2024 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:

- Up to ten years 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 an integrated Risk Management Framework (LV=RMF) which brings together the key processes and activities we undertake to ensure that our members' and customers' security is at the forefront of our decision making. Structuring risk management practices and embedding engagement 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 external context has improved through 2024 but remains challenging. While there has been positive equity market performance, some volatility remained particularly from the elections during 2024 in the US, UK and France, and the prolonged conflicts in the Middle East and Ukraine which continued to have some impact on oil prices and global supply chains through the year.

Inflation has remained a key focus throughout 2024, with the Consumer Price Index (CPI) falling from 4.0% at the start of the year to 1.7% by September, fuelling optimism that through managing inflation, central bank interest rates would be reduced. This happened to some extent with the Bank of England reducing its interest rate by 0.5% over the year. However, inflation has remained unpredictable with CPI rising to 2.6% by November reducing optimism over further interest rate reductions.

This economic backdrop has had further implications for consumer sentiment. Findings from our Wealth and Wellbeing Research Programme confirms that there has been an increase in consumer optimism over the year, but the impacts of the cost of living crisis continue to be experienced. Four in ten people continue to report feeling concerned about increased food and utility costs, with only slightly over half (53%) saying they're comfortably able to afford to pay their bills.

In terms of the regulatory context, the Consumer Duty requirements, which include a clear focus on customer outcomes, came into force for products which are closed to new business in July 2024. There is also a continued regulatory focus on building operational resilience and ensuring it is embedded in decision making across the financial services sector.

In November 2024, the final piece of regulation was published for the Solvency UK reforms. The Risk Margin reform was implemented at the end of 2023 with changes to the Matching Adjustment, the Transitional Measures on Technical Provisions (TMTP) and other reporting changes made during 2024.

Over the year, we 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 and the risks and opportunities arising through climate change are discussed in the 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 acceptable level of risk to which we may be exposed and for ensuring that these risks are appropriately controlled. These include risks to the business strategy 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=RMF continues to include the setting of a proportionate risk strategy, risk appetite and a clear risk mandate and associated organisational design. The Risk Committee, on behalf of the Board, regularly monitors the operational effectiveness of the LV=RMF to ensure that it continues to drive a mature risk culture across LV=.

LV=RMF Overview

The LV=RMF is owned by our 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=RMF also enables us to enhance our business and risk-based decisions, while ensuring that we remain compliant with regulatory and legislative requirements, as well as internal policies.

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

Risk Universe	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.
Risk Strategy	This sets out LV's approach to risk management including providing a clear direction and preference for taking on or avoiding risk.
Risk Governance	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.
Risk Appetite	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.
Risk Policies and Standards	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.
Risk & Control Assessment	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=.
Own Risk & Solvency Assessment	The Own Risk & Solvency Assessment (ORSA) processes facilitate the timely and effective identification, assessment, monitoring and control of LV's risk, capital and liquidity positions.
Culture and Performance	This includes performance measures that drive appropriate behaviours and promote an effective risk culture.
Training and Communications	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.
Management Information and Reporting	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. Profitability and growth, together with customer outcomes are 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:

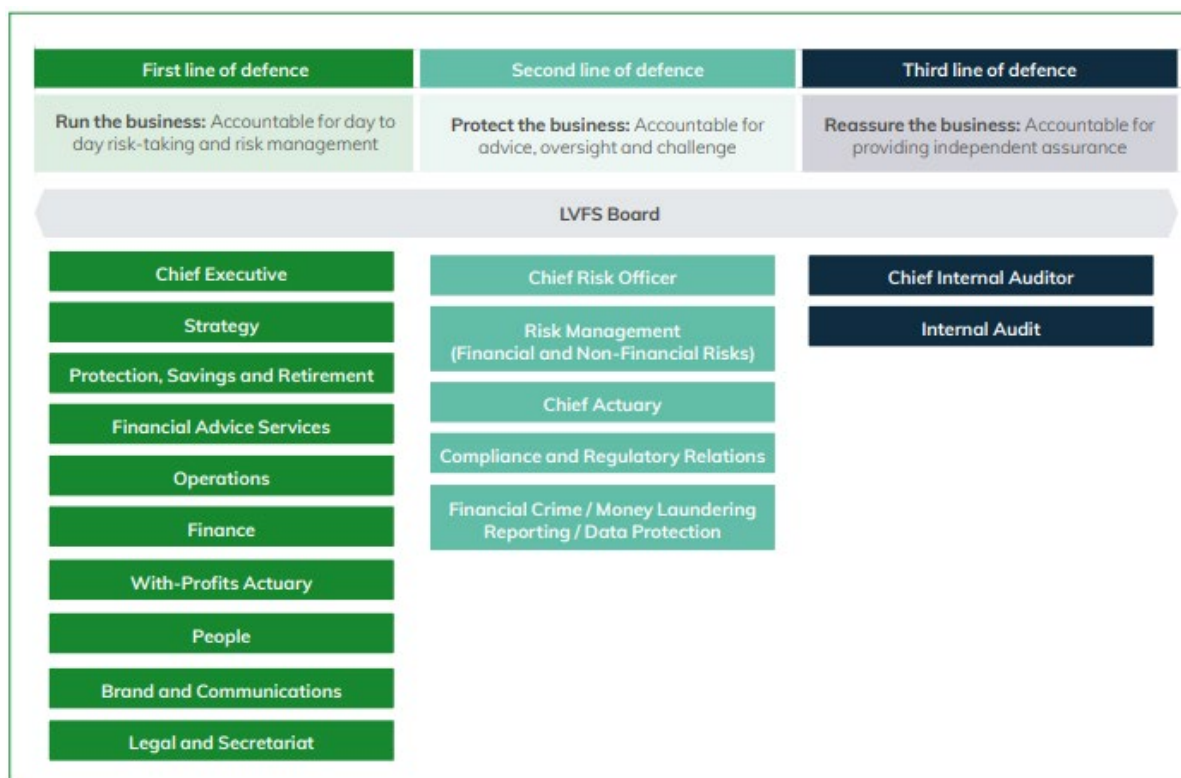
- To inform the Board in identifying the most attractive risks to accept and setting a robust risk appetite which ensures that the business model and strategy are designed and executed in a controlled manner to safeguard member value.
- To drive a strong risk culture that ensures the business is managed 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, as 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 team, ensures that the business is operating in line with the requirements of the LV=RMF.

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=RMF, and particularly 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. The risk management team develops and directs the implementation of the LV=RMF, 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. The internal audit team provides independent and objective assurance to the Audit Committee and the executive team 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 risks (solvency and liquidity) and non-financial risks (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 undertakes 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=RMF. It 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=RMF 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 Solvency II 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 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=RMF 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=RMF 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 strengthen LV's ability to create, protect, and sustain value by providing independent and objective assurance, insight and foresight to the Audit Committee and Executive Team. These activities focus 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, mandate, 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 2024 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 Code of Practice" (as issued in September 2024)
 - The CIA's responsibilities under SMF 5 (Head of internal audit function) of the FCA's 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 2024
- 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 2024, which was presented to the Audit Committee in March 2025.

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 affect 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
- fund administration
- 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 SaaS solution	UK
Fund administration	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 2024 split of the Standard Formula Solvency Capital Requirement (SCR) by risk type. The results for 31 December 2023 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 £474m (2023: £485m) and for LVFS is £479m (2023: £490m). This can be different 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		
	2024	2023	Change	2024	2023	Change
Underwriting risk	51%	44%	7%	50%	44%	6%
Market risk	40%	46%	(6)%	41%	46%	(5)%
Operational risk	6%	8%	(2)%	6%	8%	(2)%
Counterparty risk	3%	2%	1%	3%	2%	1%
Total	100%	100%		100%	100%	

The weighting of the high-level risk categories shown within the SCR has shifted slightly since 2023. Underwriting risk has increased due to the increase in lapse risk exposure and is now the most prominent risk. Market risk remains a significant source of risk but has reduced due to a decrease in spread 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 LV Equity Release Limited, 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 Investment Management Agreement, 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 2024 split of underwriting risks within the Standard Formula SCR. The results for 31 December 2023 are provided for comparison. The amount of SCR illustrated below for the Group is £239m (2023: £217m) and for LVFS is £238m (2023: £215m). 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		
	2024	2023	Change	2024	2023	Change
Life lapse	53%	40%	13%	53%	40%	13%
Health	28%	31%	(3)%	28%	31%	(3)%
Life expenses	16%	22%	(6)%	16%	22%	(6)%
Life longevity	2%	5%	(3)%	2%	5%	(3)%
Other	1%	2%	(1)%	1%	2%	(1)%
Total	100%	100%		100%	100%	

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. The main drivers of the increase in lapse risk in the year are less favourable market movements in 2024, which have increased the cost of lapses on certain business lines, and model and basis changes on Protection business which result in a higher lapse risk capital requirement.

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 or to retire later on beneficial terms on OB Pensions deferred annuity with-profits business. The cost of fewer policyholders taking cash at retirement or more policyholders deferring their 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 has approximately doubled over the year following a review of the late retirement experience on the OB Pensions deferred annuity business resulting in more onerous lapse capital requirements.

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 £41m (47%) increase in life lapse risk capital driven by a rise in smoothed policy values relative to unsmoothed policy values on certain with-profits products and Protection model and basis changes, with 53% of underwriting risk exposure now coming from life lapse risk compared with 40% at the previous year-end. This has forced the weightings towards other underwriting risks to decrease despite only a relatively small decrease in capital. Although not a material risk exposure longevity risk has reduced by £5m (50%) due to a methodology change on the with-profit pensions annuity capital.

Health risk capital is relatively unchanged over the year.

Expense risk capital fell by £11m (23%) driven by the rise in interest rates over the year.

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 investment market related risks, 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 investment 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 the 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 2024 split of market risks within the Standard Formula SCR. The results for 31 December 2023 are provided for comparison. The amount of SCR illustrated below for the Group is £191m (2023: £222m) and for LVFS is £197m (2023: £229m). 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		
	2024	2023	Change	2024	2023	Change
Spread	57%	66%	(9)%	56%	64%	(8)%
Equity	33%	29%	4%	35%	31%	4%
Interest rates	5%	2%	3%	5%	2%	3%
Currency	4%	3%	1%	4%	3%	1%
Concentration	1%	0%	1%	0%	0%	0%
Property	0%	0%	0%	0%	0%	0%
Total	100%	100%		100%	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 scheme, which invests a proportion of 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 scheme and the Group's with-profits business. For the pension scheme, 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 and smoothing.

LVFS is exposed to equity risk through its holdings in subsidiaries as its equity holding in each subsidiary is treated as an asset. Approximately £5m of LVFS's equity capital derives from equity holdings in its subsidiaries (2023: £5m).

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 decreased over the year mainly due to a reduction in spread risk.

Spread risk capital has reduced by £36m (25%) over the year primarily due to trading out of corporate bonds into gilts, which carry lower risk, in the Matching Adjustment Portfolio.

Interest rate risk increased by £6m over the year due to certain model and basis changes significantly increasing exposure to a fall in interest rates such that exposure now arises on a fall in interest rates which diversifies less well with other market risks than interest rates increasing.

Equity risk capital was relatively unchanged through 2024, though the weighting towards equity risk has increased, driven by the reduction in spread risk capital. Favourable performance of the pension scheme equity holdings increased capital, but this is offset by rebalancing the Pension scheme derivatives to reduce the scheme's equity exposure.

LVFS Solo equity risk capital is similar to the previous year-end as the funds in the subsidiaries did not materially change over the year resulting in the required capital via the subsidiaries equity stress remaining stable at £5m. Group and LVFS Solo metrics are very similar given the small amount of funds held within LV Capital at the end of 2024.

The other components of market risk remain at a similar level to 2023.

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
Equity	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.
Interest rates	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.
Inflation	Inflation exposure across the Group and within the defined benefit pension scheme is managed using inflation linked assets and inflation swaps.
Currency	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 reinsurers with respect to the pension scheme buy-ins.
- 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 increased by £4m over the year as overall exposure increased, due in part to more granular analysis of risk exposure made possible by the recent change in asset manager and buy-in of the smaller defined benefit pension scheme.

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

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.

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.

For 2024, the principal operational risks and uncertainties facing LV= are summarised within the table below.

Key risks	Impact and mitigation
<p>Political, economic and regulatory uncertainty</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 ongoing geopolitical risks, global macroeconomic uncertainty and the associated implications for the UK economy and other world economies.</p> <p>Inflation has remained persistent despite falling from the levels seen in 2022 and 2023, with high mortgage rates and high fuel and food prices continuing to squeeze household incomes, despite having somewhat improved over 2024. 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>The Solvency UK reforms have now been implemented, and they provide opportunities to extend the range of asset investments utilised. We will fully explore these along with the wider industry. This may have implications for capital management and the competitive positions in some of the markets we operate in.</p>
<p>Increased competitor pressures or market contraction</p> <p>The risk of lower business growth resulting from increased competitor pressures or market contraction.</p>	<p>Increasing competitor pressures across our propositions or potential market contraction in certain areas could adversely impact the ability to deliver our Business Plan through reduced sales volumes. We continue to monitor developments and adjust our propositions and pricing where appropriate.</p>
<p>Business transformation</p> <p>The execution risks associated with pursuing the business plan priorities.</p>	<p>In 2024, the Board and management continued to progress the business strategy and transformation agenda. 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>IT sustainability</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 or 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 was 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, in line with regulatory timescales.</p>
<p>Cyber security</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 2024. 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 communications were delivered to improve both colleague and customer awareness of the threat of fraudulent activity. We continue to invest in our response to cyber security, and it remains a key priority to ensure the mitigating controls remain robust, while acknowledging the evolving external context.</p>
<p>Conduct risk</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. We operate 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, in line with the Consumer Duty regulations.</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
Potential impact of generative Artificial Intelligence (AI)	With the rapid advancement in AI technologies such as generative AI, there is an increased risk of cyber threats including more sophisticated phishing attacks and identity theft via deep fakes. Deep fake identity theft risk is now considered a current risk as this specific threat exists today. This emerging risk considers the wider emerging risks and opportunities associated with the advancements and increased availability of generative and other forms of AI.
Talent recruitment	Linked to the above, this includes a potential thematic shift in terms of the technical talent that companies such as LV= may need to leverage the potential opportunities that technological advancements offer and the resulting competition for this talent across a number of industries. This includes consideration of potential changes in recruitment practices and the recruitment market.
Regulatory change	This includes a material shift in regulation together with regulators materially raising the standards required to demonstrate compliance or developing new significant regulations in response to other government or external developments. Examples include both Digital Reform of Data Protection and further changes in pension regulations. The impact would potentially include increased regulatory attention on both an individual company and industry-wide basis.

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	Examples of Potential Impact	Approach
Physical Risk	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"> - Fall in the value of investments or property backing equity release or commercial mortgage loans - Failure/disruption of a third party - Shifts in longevity, morbidity and mortality - Disruption of business operations - Inflation of business as usual costs due to scarcity of resources or increased geopolitical tension arising from climate changes. 	<ul style="list-style-type: none"> - Monitor via scenario analysis and sensitivities - Use of reinsurance to mitigate demographic risk exposures - Monitor evolving industry practice and regulatory guidance for assessing and adjusting to demographic risks - Business continuity planning and operational resilience testing.

Risk or Opportunity	Description	Timeframe	Examples of Potential Impact	Approach
Asset Transition Risk	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"> - Fall in the value of investments which are perceived as environmentally unfriendly, or which may be adversely affected by climate change - Failure or disruption of a third party who provides a service to LV=, adversely affecting delivery of that service. 	<ul style="list-style-type: none"> - Monitor via a transition risk indicator - Monitor via sensitivity testing - Ensure ESG considerations are embedded in investment processes.
Policy and Legal Risk	Changes to regulation and disclosure requirements from governments encouraging firms to transition to a low-carbon economy have the potential to create compliance and legal risks as we adjust to new regulation.	Short to Medium Term	<ul style="list-style-type: none"> - Increased operating costs as a result of implementing regulatory requirements - Increased operating costs from third parties - Potential fines and litigation. 	<ul style="list-style-type: none"> - Emerging regulatory changes are tracked by our Compliance team - Operation of a 'three lines of defence' model to mitigate risk of non-compliance - Contract renegotiation and tender processes with third parties.
Reputational Risk	Reputational risk may arise as a result of unfavourable market and consumer reactions if we're judged not to have responded appropriately to climate change and emerging regulatory requirements.	All	<ul style="list-style-type: none"> - Reduced new business volumes - Increased lapse/surrender rates - Potential litigation. 	<ul style="list-style-type: none"> - Integration of climate change and greenwashing risks within our Risk Management Framework to ensure appropriate response - Monitoring to understand and explain any increases in the operational emissions of the business per full-time employee - Implementation and publication of our sustainability strategy - Ensure targets set are achievable with progress monitored.
Product Innovation Opportunity	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"> - Consumer demand creates opportunities for product innovation and growth, thereby addressing new and evolving consumer needs. 	<ul style="list-style-type: none"> - Monitor consumer sentiment by survey results and watching industry trends.
Investment Opportunities	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"> - Increase in the value of investments. 	<ul style="list-style-type: none"> - Ensure ESG considerations are embedded within our investment processes in order to identify and support new and emerging attractive investments.

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 2024. 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 recalculated. Under Solvency UK reforms the regulations effective from 31/12/2024 require that TMTP is recalculated on an ongoing basis following a recalculation at 31/12/2024 on the previous methodology based on the Solvency I regime. The following sensitivities are therefore not directly comparable with prior year sensitivities which assumed that TMTP is not recalculated. Under the simplified TMTP method, changes in TMTP, where components of TMTP are calculated dynamically, are based on changes to the Solvency II position only and therefore no longer react to market sensitivities in the same way as prior years.

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 2024:		£411m	
Sensitivities	Change in Surplus (including from change in SCR) (£m)	Change in SCR (£m)	Change in CCR (%)
25% market fall in equities	(62)	(1)	(13)%
100 bp fall in interest rates	(39)	16	(11)%
100 bp rise in interest rates	10	6	1%
50 bp rise in gilt swap spreads	(58)	9	(14)%
100 bp rise in credit spreads	49	(3)	11%

LVFS Surplus capital at 31 Dec 2024:		£406m	
Sensitivities	Change in Surplus (including from change in SCR) (£m)	Change in SCR (£m)	Change in CCR (%)
25% market fall in equities	(61)	(1)	(13)%
100 bp fall in interest rates	(39)	16	(11)%
100 bp rise in interest rates	11	6	1%
50 bp rise in gilt swap spreads	(58)	9	(13)%
100 bp rise in credit spreads	49	(3)	11%

The equity sensitivity reduces the value of the Group's assets, including those in the defined benefit pension schemes and increases the guarantee and smoothing costs associated with the with-profits business. The introduction of a smoothing suspension management action in 2023, and extension in 2024 to cover a wider range of products, has reduced the sensitivity of the SCR to falls in equity values.

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 5% increase in the mortality of protection policyholders (and hence more claims). However, it does not allow for a 5% 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 severe scenarios and have been adjusted from previous years to align with the percentage increase and decrease shown in other Group public disclosures.

The following sensitivities are performed:

- 5% increase to mortality rates
- 5% decrease to mortality rates
- 10% increase to lapse rates for all products
- 10% 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.

Group Surplus capital at 31 Dec 2024:		£411m	
Sensitivities	Change in Surplus (including from change in SCR) (£m)	Change in SCR (£m)	Change in CCR (%)
5% increase in mortality rates (affected business only) *	(4)	0	(1)%
5% decrease in mortality rates (affected business only) *	(3)	0	(1)%
10% increase in lapses	(4)	(5)	(0)%
10% decrease in lapses	7	7	0%
50% decrease in OB Pensions cash take-up rates at retirement	(29)	1	(6)%

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

LVFS Surplus capital at 31 Dec 2024:		£406m	
Sensitivities	Change in Surplus (including from change in SCR) (£m)	Change in SCR (£m)	Change in CCR (%)
5% increase in mortality rates (affected business only) *	(4)	0	(1)%
5% decrease in mortality rates (affected business only) *	(3)	0	(1)%
10% increase in lapses	(4)	(5)	(0)%
10% decrease in lapses	7	7	0%
50% decrease in OB Pensions cash take-up rates at retirement	(29)	1	(6)%

* 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 10% 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 adverse exposure 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 10% 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 2024 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 the Valuation section of the PRA Rulebook. 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 2024 LV= Annual Report, to amounts reported in the SII balance sheet as at 31 December 2024. 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 2024 LV= Annual Report. Differences between the UK GAAP and SII balance sheets have been categorised as presentational or valuation adjustments.

Group		2024				2023
		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
Assets	Note					
Deferred tax assets	#	3	-	(1)	2	25
Pension benefit surplus	#	-	-	-	-	12
Property, plant and equipment held for own use	#	7	-	-	7	11
Investments (other than assets held for index-linked and unit-linked contracts):						
Property (other than for own use)	#	4	-	-	4	-
Holdings in related undertakings, including participations	D.1(1,2)	-	46	13	59	61
Equities	D.1(2)	4,083	(4,075)	-	8	214
Bonds	D.1(2)	2,275	34	-	2,309	3,636
Collective Investments Undertakings	D.1(2)	-	4,028	(10)	4,018	2,902
Derivatives	D.1(3)	11	-	-	11	20
Deposits other than cash equivalents	D.1(2)	-	7	-	7	49
Assets held for index-linked and unit-linked contracts	#	3,305	-	-	3,305	3,368
Loans and mortgages	D.1(4)	819	4	-	823	882
Reinsurance recoverables	#	752	-	-	752	908
Insurance and intermediaries receivables	#	21	-	-	21	27
Reinsurance receivables	#	107	-	-	107	94
Receivables (trade, not insurance)	D.1(5)	21	(7)	(1)	13	25
Cash and cash equivalents	D.1(6)	61	-	(16)	45	70
Any other assets, not elsewhere shown	D.1(7)	53	(37)	(5)	11	7
Total Assets		11,522	-	(20)	11,502	12,311
Liabilities						
Technical provisions	D.2	10,559	(93)	(174)	10,292	10,829
Provisions other than technical provisions	#	11	-	-	11	12
Pension benefit obligations	D.3(1)	2	-	-	2	3
Deferred tax liabilities	#	6	-	-	6	4
Derivatives	D.1(3)	61	-	-	61	197
Debts owed to credit institutions	D.3(2)	2	2	-	4	14
Insurance and intermediaries payables	D.3(3)	24	93	(1)	116	132
Reinsurance payables	#	12	-	-	12	13
Payables (trade, not insurance)	D.3(4)	52	45	(19)	78	106
Subordinated liabilities	D.3(5)	200	11	-	211	211
Any other liabilities, not elsewhere shown	D.3(6)	58	(58)	-	-	3
Total Liabilities		10,987	-	(194)	10,793	11,524
Fund for future appropriations (FFA) / SII Surplus funds		535	-	174	709	787
Total Liabilities plus FFA/SII Surplus funds		11,522	-	(20)	11,502	12,311

= 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		2024				2023
		UK GAAP	Presentation- al adjustment	Solvency II valuation adjustment	Solvency II	Solvency II
Assets	Note	£m	£m	£m	£m	£m
Deferred tax assets	#	-	-	-	-	22
Pension benefit surplus	#	-	-	-	-	12
Property, plant and equipment held for own use	#	1	-	-	1	1
Investments (other than assets held for index-linked and unit-linked contracts)						
Holdings in related undertakings, including participations	D.1(1,2)	24	46	6	76	80
Equities	D.1(2)	4,055	(4,047)	-	8	214
Bonds	D.1(2)	2,267	33	-	2,300	3,626
Collective Investment undertakings	D.1(2)	-	4,001	-	4,001	2,883
Derivatives	D.1(3)	11	-	-	11	20
Deposits other than cash equivalents	D.1(2)	-	7	-	7	47
Assets held for index-linked and unit linked contracts	#	3,305	-	-	3,305	3,368
Loans and mortgages	D.1(4)	819	4	-	823	882
Reinsurance recoverables	#	752	-	-	752	908
Insurance and intermediaries receivables	#	20	-	-	20	27
Reinsurance receivables	#	107	-	-	107	94
Receivables (trade, not insurance)	D.1(5)	36	(7)	-	29	31
Cash and cash equivalents	D.1(6)	39	-	-	39	64
Any other assets, not elsewhere shown	D.1(7)	49	(37)	-	12	10
Total Assets		11,485	-	6	11,491	12,289
Liabilities						
Technical provisions	D.2	10,550	(92)	(174)	10,284	10,821
Provisions other than technical provisions	#	11	-	-	11	12
Pension benefit obligations	D.3(1)	2	-	-	2	3
Deferred tax liabilities	#	5	-	-	5	4
Derivatives	D.1(3)	61	-	-	61	197
Debts owed to credit institutions	D.3(2)	1	3	-	4	14
Insurance and intermediaries payables	D.3(3)	24	92	-	116	132
Reinsurance payables	#	12	-	-	12	13
Payables (trade, not insurance)	D.3(4)	46	30	-	76	92
Subordinated liabilities	D.3(5)	200	11	-	211	211
Any other liabilities, not elsewhere shown	D.3(6)	44	(44)	-	-	3
Total Liabilities		10,956	-	(174)	10,782	11,502
Fund for future appropriations (FFA) / SII Surplus	#	529	-	180	709	787
Total Liabilities plus FFA/SII Surplus funds		11,485	-	6	11,491	12,289

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

Supporting Notes

1. Holdings in related undertakings, including participations

Under UK GAAP, participations are consolidated within the financial statements. For Solvency II valuation purposes, the other regulated non-insurance subsidiaries of the Group that are consolidated under UK GAAP are not consolidated, they 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 £m	LVFS £m
Holdings in related undertakings, including participations		
Shares in subsidiaries	-	24
Investments in group undertakings – UK GAAP	-	24
Joint venture properties reclassified as participations	46	46
Solvency II regulated non-insurance subsidiaries valuation adjustment	13	-
Adjusted equity method valuation differences	-	6
Holdings in related undertakings, including participations - Solvency II	59	76

2. Investments

All financial investments, primarily consisting of debt and other fixed income securities, equity securities, other variable yield securities and units in OEICS 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.

3. 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
Derivative fair value asset - Solvency II valuation	11	(61)	(50)

4. 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	367
Commercial mortgages	452
Total included in Other financial investments – UK GAAP	819
Reclassify accrued interest on commercial mortgages	4
Total Loans and Mortgages - Solvency II valuation	823

5. Receivables (trade, not insurance)

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

	Group £m	LVFS £m
Investments receivable	3	3
Other receivables	11	9
Cash Collateral pledged	7	7
Amounts due from group undertakings	-	17
Other debtors – UK GAAP	21	36
Presentational adjustment - cash collateral pledged to deposits other than cash equivalents	(7)	(7)
Solvency II regulated non-insurance subsidiaries valuation adjustment	(1)	-
Total Receivables (trade, not insurance) - Solvency II valuation	13	29

6. 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
Cash at bank and in hand – UK GAAP	61	39
Solvency II regulated non-insurance subsidiaries valuation adjustment	(16)	-
Total Cash and cash equivalents - Solvency II valuation	45	39

7. 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
Prepayments and accrued interest – UK GAAP	53	49
Any other assets, not elsewhere shown – UK GAAP	53	49
Presentational adjustment – reclassify accrued interest to Investments	(37)	(37)
Solvency II regulated non-insurance subsidiaries valuation adjustment	(5)	-
Any other assets, not elsewhere shown - Solvency II valuation	11	12

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	
	2024 £m	2023 £m	2024 £m	2023 £m
Insurance with-profits participation	4,484	4,769	4,484	4,769
Index-linked and unit-linked insurance	3,255	3,323	3,255	3,323
Other life insurance (including Health)	2,553	2,737	2,545	2,729
Total Technical Provisions	10,292	10,829	10,284	10,821

The following tables set out the Technical Provisions split by Solvency II lines of business as at 31 December 2024.

Group Line of Business	31 December 2024 - £m			
	Best Estimate Liability (BEL)	Risk Margin (RM)	Transitional Measures on Technical Provisions (TMTP) Unaudited	Total Technical Provisions
Insurance with-profits participation	4,494	21	(31)	4,484
Index-linked and unit-linked insurance	3,251	8	(4)	3,255
Other life insurance (including Health)	2,595	27	(69)	2,553
Total Group	10,340	56	(104)	10,292

LVFS Line of Business	31 December 2024 - £m			
	Best Estimate Liability (BEL)	Risk Margin (RM)	Transitional Measures on Technical Provisions (TMTP) Unaudited	Total Technical Provisions
Insurance with-profits participation	4,494	21	(31)	4,484
Index-linked and unit-linked insurance	3,251	8	(4)	3,255
Other life insurance (including Health)	2,587	27	(69)	2,545
Total Life insurance obligations	10,332	56	(104)	10,284

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 relevant regulations, PRA Rulebook and associated 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 the Matching Adjustment and Volatility Adjustment), applying the risk tapering factor/floor, and using a cost of capital of 4%. 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). 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 used is the same as that used for the Life and Health Standard Formula SCR as set out in the PRA rulebook.

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') and any voluntary fundamental spread addition.

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;
- Swap arrangements; and
- Cash.

The MA used at the valuation date was 124bps (2023: 150bps).

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, Unit Linked Pensions, ex-RNPFN, ex-Teachers business, and LVLC. The VA is a flat adjustment to the basic risk-free spot rates which incorporates elements of the government and corporate bond spread in order to reduce the impact of short-term market volatility on the balance sheet. It is added to the basic risk-free yield curve used to discount liabilities.

The VA prescribed by the PRA was 24bps (2023: 31bps) 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 TMTP was used for Life and Health business (except within the TA Fund and LVLC). The TMTP was recalculated as at 31 December 2024, which was the final calculation under the legacy method based on the Solvency I regime. In response to the year end 2024 regulatory changes to TMTP, LV= has adopted the simplified TMTP method. TMTP will now be recalculated on an ongoing basis and depends only on changes to the Solvency II position.

TMTP has reduced by £20m, following the annual step-down and final recalculation (2023: £58m).

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 IR.22.01.01 and IR.22.01.04 QRTs annexed to this report, an extract of which is below:

Group £m	Amount with Long Term Guarantee measures and transitionals	Impact of TMTP (unaudited)	Impact of VA set to zero	Impact of MA set to zero
Technical provisions	10,292	104	12	133
Basic own funds	885	(101)	(12)	(133)
Eligible own funds to meet Solvency Capital Requirement	885	(101)	(12)	(133)
Solvency Capital Requirement	474	0	1	29

LVFS £m	Amount with Long Term Guarantee measures and transitionals	Impact of TMTP (unaudited)	Impact of VA set to zero	Impact of MA set to zero
Technical provisions	10,284	104	12	133
Basic own funds	885	(101)	(12)	(133)
Eligible own funds to meet Solvency Capital Requirement	885	(101)	(12)	(133)
Solvency Capital Requirement	479	0	1	29
Eligible own funds to meet Minimum Capital Requirement	698	(101)	(12)	(132)
Minimum Capital Requirement	120	0	0	7

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.

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.

Where appropriate, allowance is made for future improvements in mortality rates using the industry standard CMI model parameterised to reflect the underlying business.

The table below sets out the principal base longevity, mortality and morbidity tables used in the valuation and the CMI improvements model for the most significant modelled products for year-end 2024. Multiple adjustments are made to these tables depending on the line of business.

LVFS

Product	Mortality/Morbidity Tables
Participating Life and Pensions business	AMC00 / AFC00
Participating Industrial Branch business	ELT17
Participating Annuities in Payment	PMA08 / PFA08, PML08 / PFL08 CMI_2022
Non-Participating Annuities in Payment	PMA08 / PFA08 CMI_2022
Non-Participating Whole of Life (Lifetime+)	TMN00, TMS00 / TFN00, TFS00 CMI_2022
Non-Participating Whole of Life (50+)	AMC00, AFC00 CMI_2022
Non-Participating Temporary Assurance	TMN16, TMS16 / TFN16, TFS16 CMI_2022
Non-Participating Unit-Linked	AX92C20
Permanent Health Insurance	CMIR12

RNPFN Fund

Product	Mortality Tables
Deferred Annuities (Pre-vesting)	AM00 / AF00
Deferred Annuities (Post-Vesting)	PMA08 / PFA08 CMI_2022

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”.

The latest CMI 2023 model has not been used as there is no material impact from updating to this model.

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. An allowance for the timing of any applicable retirement events for pensions business is also included within the persistency assumptions. Additionally, cash commutation, cash take up 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.
- Retirement rates for OB pensions, split between early, normal and late retirements.

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
- Long-term strategic 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.

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

Technical Provisions (gross)	Solvency II value £m	UK GAAP value £m	Difference £m
Insurance with-profits participation	4,484	4,585	(101)
Index-linked and unit-linked insurance	3,255	3,259	(4)
Other life insurance (including health)	2,553	2,622	(69)
Total Group	10,292	10,466	(174)

LVFS

Technical Provisions (gross)	Solvency II value £m	UK GAAP value £m	Difference £m
Insurance with-profits participation	4,484	4,585	(101)
Index-linked and unit-linked insurance	3,255	3,259	(4)
Other life insurance (including Health)	2,545	2,614	(69)
Total LVFS	10,284	10,458	(174)

Notes:

(i) The UK GAAP value in the tables above does not include outstanding claims of £93m for Group and £92m 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

Retirement rates for OB pensions have been split between Early Retirement, Normal Retirement and Late Retirement to better reflect the expected profile of future claims.

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

The financial impact of these changes is shown within the Section E.

D.3 Other liabilities

The 2024 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. Pensions Benefit Obligation

For Solvency II purposes, any pensions benefit surplus/obligation 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. Debts owed to credit institutions

	Group £m	LVFS £m
Debts owed to credit institutions – UK GAAP	2	1
– reclassify bank overdrafts to Payables (trade not insurance)	(2)	(1)
– reclassify cash collateral received from Payables (trade not insurance)	4	4
Presentational adjustment	2	3
Debts owed to credit institutions - Solvency II valuation	4	4

3. 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 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 £m	LVFS £m
Creditors arising out of direct insurance operations – UK GAAP	24	24
Presentational adjustment for claims outstanding from technical provisions	93	92
Solvency II regulated non-insurance subsidiaries valuation adjustment	(1)	-
Insurance and intermediaries – Solvency II valuation	116	116

Creditors arising out of direct insurance operations are due within one year.

4. 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 1 and (b) accrued interest on the subordinated debt, as this is classified within the Solvency II fair value of subordinated debts – see note 5 (below).

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

	Group £m	LVFS £m
Other creditors including tax and social security costs – UK GAAP	113	107
Less Derivatives shown separately	(61)	(61)
Payables (trade, not insurance) – UK GAAP	52	46
Presentational adjustments		
– reclassify accruals and deferred income from Any other liabilities, not elsewhere shown	58	44
– reclassify bank overdrafts from Debts owed to credit institutions	2	1
– cash collateral received to Debts owed to credit institutions	(4)	(4)
– reclassify accrued interest on subordinated debt	(11)	(11)
Presentational adjustments	45	30
Solvency II regulated non-insurance subsidiaries valuation adjustment	(19)	-
Payables (trade, not insurance) - Solvency II valuation	78	76

5. 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, 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 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.

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 the Own Funds section of the PRA Rulebook and as such are 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.

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

6. Any other liabilities, not elsewhere shown

	Group £m	LVFS £m
Any other liabilities, not elsewhere shown – UK GAAP	58	44
Reclassify accruals to Payables, trade not insurance	(58)	(44)
Any other liabilities, not elsewhere shown - Solvency II valuation	-	-

7. 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 section 6 of the PRA Rulebook under Valuation:

- 1) Equity release mortgages (£367m) 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 loans secured on residential property is determined using discounted cash flow projections. The expected value of redemptions is estimated based on the assumed prepayments over future time periods (months), mortality and long-term care entry rates including any early redemption charges. The expected redemptions are discounted at swap rates plus spread plus allowances for risk factors, liquidity and profit deferral. The full swap curve is used so each discount rate is matched to the appropriate cash flow. The risk factors in the discount rate are an allowance for the 'No Negative Equity Guarantee' provided to the policyholder with the loan, the value of which depends on the projection of the underlying property value and how this compares to the projected loan value. The assumptions used for prepayment, mortality and long-term care are based on the experience of the in-force book supported by industry data. The assumptions are set by the Board upon recommendation by the Audit Committee.
- 2) Commercial mortgages (£452m) 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 net of transaction costs.
- 3) Derivatives (asset £11m, liability £61m) 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 (£8m) 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 Finance to ensure ongoing validity and accuracy.
- 6) Land and buildings and tangible fixed assets held for own use (£7m) 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. Investment property (£4m) is valued at the expected recoverable amount.

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 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 2024 LV= Annual Report.

Operating capital generation

Operating capital generation during 2024 was £55m (2023: £35m).

£m	Group	
	2024	2023
Trading business	35	25
Estate investment income	20	25
Experience variances	(8)	(10)
Model & basis changes and capital initiatives	33	38
Strategic development costs	(25)	(43)
Operating capital generation	55	35

Over the course of 2024, our trading businesses have added £35m (2023: £25m) to the Solvency II capital surplus. This result reflects a continued strong trading performance in our Protection business, along with strong sales of annuities as they have remained attractive in the high interest rate environment. Profits from Heritage products were down following a one-off benefit in 2023. Estate investment income added an additional £20m (2023: £25m) of operating capital.

Our operating capital generation metric of £55m (2023: £35m) also includes positive model and basis and capital initiatives of £33m (2023: £38m), partially offset by adverse experience variances of £8m (2023: £10m) and spend on strategic development costs of £25m (2023: £43m), which was £18m lower than prior-year levels with a focus on efficiency, risk reduction and growth projects.

The LVFS position is materially the same as the Group.

Capital position

At 31 December 2024 the Group capital surplus on an investor view basis was £411m (2023: £469m) with capital cover of 192% (2023: 204%). At 31 December 2024, the LVFS capital surplus on an investor view basis was £406m (2023: £463m) with capital cover of 190% (2023: 201%).

£m	Group	
	2024	2023
Opening surplus	469	391
2022 TMTP recalculation and unwind in 2023	-	(9)
Operating capital generation	55	35
Non-operational items	(60)	(39)
Items relating to the distribution of surplus	(29)	34
Solvency UK reforms	(5)	33
Pension scheme impacts	(18)	(29)
Economic variances	(1)	81
Debt repayment and Capital tiering restriction impact	-	(28)
Closing capital surplus	411	469

Solvency II capital surplus has decreased by £58m to £411m (2023: £469m). Operating capital generation of £55m (2023: £35m) has been offset by adverse non-operational items of £60m (2023: £39m). This includes a £36m impact from the recognition of increased insurance contract liabilities, which would arise when policyholders holding certain pension products retire at a later age than they had originally advised. Also, included in non-operational items is interest payable on our subordinated debt of £19m and various other one-off items totalling £5m.

Items relating to distribution of surplus of £29m (2023: £34m favourable) includes £20m of mutual bonus allocated during the year and £9m related to exit bonus payouts. Economic fluctuations balanced out across the year generating an adverse impact on capital surplus of £1m (2023: £81m favourable). The pension scheme had an adverse impact of £18m (2023: £29m adverse), where we saw a fall in the value of the pension benefit asset driven by the Ockham scheme buy-in and changes to member data following the triennial valuation.

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 2024 the Group capital surplus on a standard formula basis was £411m (2023: £468m) with capital cover of 187% (2023: 197%) and the LVFS Solo capital surplus on a standard formula basis was £406m (2023: £463m) with capital cover of 185% (2023: 195%). 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		
	2024	2023	Change	2024	2023	Change
Eligible Own funds	885	950	(65)	885	950	(65)
SCR	474	482	(8)	479	487	(8)
Surplus capital	411	468	(57)	406	463	(57)
CCR	187%	197%	(10)%	185%	195%	(10)%

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

- **New Business Contribution (reduction in surplus capital of £24m)**
 - The capital surplus was reduced by the increase in capital required of £38m on new business.
 - This was offset by £14m on new business income less costs, primarily from protection and annuity lines.
- **Existing Business Contribution (increase in surplus capital of £59m)**
 - £16m 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 £43m of capital.
- **Return on Estate assets (increase in surplus capital of £20m)**
- **Experience variance (reduction in surplus of £8m)**
 - Higher than expected lapse rates across various product lines has reduced surplus by £10m.
 - This was offset by the release of £5m provision held in respect of short-term adverse surrender experience.
 - Other variances result in a further £3m reduction.
- **One-off impact from Model and Basis Changes (reduction in surplus capital of £3m)**
 - An update to the Term product mortality assumptions following a review of recent experience has reduced surplus by £11m. Modelling improvements across various product lines has reduced surplus by £7m. A provision for short-term adverse experience variance has reduced surplus by £6m.
 - This has been offset by updates to expense assumptions (+£9m), the net release of the short-term provision for strategic initiatives (+£6m) and release of provision for outstanding claims following a review of recent experience (+£6m).
- **Management Actions (increase in surplus of £36m)**
 - Trading to optimise the Matching Adjustment Portfolio including replacement of corporate bonds with gilts and removal of the cashflow-swap has improved the surplus position by £16m.
 - The minimum annual management charge on Unit-linked pensions has increased and has improved the surplus position by £9m.
 - A review of investment expenses to better reflect the longer-term plan for asset holdings has improved the surplus position by £5m.
 - The impact from other management actions were small (£6m) and favourable to surplus.
- **Strategic Development Costs (reduction in surplus of £25m)**

The combination of the above movements results in **Operational Capital Generation of £55m.**

- **Non-Operational items (reduction in surplus of £60m)**
 - Non-operational items during the year included sub debt coupon payment (-£19m), restructuring costs (-£4m) and a tax adjustment (-£2m) relating to the prior year 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 and other items (£1m).
 - An update of the retirement basis on OB Pensions business has reduced surplus by £36m.
- **With Profit Surplus Distribution (reduction in surplus of £29m)**
 - The expected future cost of the annual mutual bonus declaration and in-year payment of the terminal bonus enhancement (TBE) has reduced the Group's surplus position over the year by £29m.
- **Solvency UK Reforms (reduction in surplus of £5m)**
 - The Solvency UK reforms in 2024 included methodology updates in readiness for implementation of the simplified method to calculate the benefit of Transitional Measure on Technical Provision (TMTP) (-£4m) and changes to the Matching Adjustment Portfolio (-£1m).
- **Economic impacts during 2024 reduction in surplus of £1m)**
 - A slight deterioration of the smoothing position on certain product lines has increased the amount of reserves to be held, primarily for mass lapse capital. This is partly offset by favourable investment returns on equities on other products. The overall impact of equity performance is a reduction in surplus of £5m.
 - This was offset by a reduction in reserves required of £5m due to a rise in interest rates.

- The narrowing of credit spreads together with a reduction in value of certain assets in the Matching adjustment Portfolio (-£14m) and widening of gilt spreads (-£4m) reduced surplus by £18m.
- This was offset by the return on the Matching Adjustment Portfolio assets in excess of the adjustment to the discount rate on the associated liabilities (+£15m), inflation (+£5m) and other small value offsetting items (-£3m).
- **Staff pension scheme (reduction in surplus capital of £18m)**
 - The fall in the value of the pension scheme capital surplus when calculated on an FRS 102 basis, mainly driven by an update to member data to reflect recent experience and the buy-in of the smaller pension scheme as the scheme's surplus no longer contributes to the Group position.
 - This was partially offset by positive equity returns and favourable demographic 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 section 11 of the PRA Rulebook under Group Supervision is applied by the organisation to calculate the Group solvency position.

The capital position of the Group and regulated entities within the Group is monitored and reviewed formally on a regular basis within the monthly Business Performance Pack. The capital management objectives are reviewed by the Asset and Liability Committee (ALCO), 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 against the available capital and the Group's risk appetite. The forecast includes the trading outlook and the benefits of any strategic investment, where the impact on the balance sheet, available liquidity and payback period are all considered, taking into account the risks associated with the investment.

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).

Group	Tier 1 £m	Tier 2 £m	Tier 3 £m	Total £m
Surplus funds	709	-	-	709
Reconciliation reserve	(37)	-	-	(37)
Subordinated liabilities	-	211	-	211
Deferred tax assets	-	-	2	2
Total Basic Own Funds	672	211	2	885
Total available Own Funds to meet the consolidated group SCR	672	211	2	885
Total available Own Funds to meet the minimum consolidated group SCR	672	211	X	883

LVFS	Tier 1 £m	Tier 2 £m	Tier 3 £m	Total £m
Surplus funds	709	-	-	709
Reconciliation reserve	(35)	-	-	(35)
Subordinated liabilities	-	211	-	211
Deferred tax assets	-	-	-	-
Total Basic Own Funds	674	211	-	885
Total available Own Funds to meet the SCR	674	211	-	885
Total available Own Funds to meet the MCR	674	211	X	885

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 5.

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. Section 3F of the PRA Rulebook under Own Funds specifies deferred tax assets as Tier 3 capital.

Changes in own funds during the reporting period

	Group		
	1 January 2024 £m	Movement £m	31 December 2024 £m
Eligible own funds			
Tier 1 capital	714	(42)	672
Tier 2 capital	211	-	211
Tier 3 capital	25	(23)	2
Total capital	950	(65)	885
Made up of:			
Surplus funds	787	(78)	709
Reconciliation reserve	(73)	36	(37)
Subordinated liabilities	211	-	211
Deferred tax	25	(23)	2
Total capital (Basic Own Funds)	950	(65)	885
Restrictions to capital	-	-	-
Total eligible own funds to meet SCR	950	(65)	885

	LVFS		
	1 January 2024 £m	Movement £m	31 December 2024 £m
Eligible own funds			
Tier 1 capital	717	(43)	674
Tier 2 capital	211	-	211
Tier 3 capital	22	(22)	-
Total capital	950	(65)	885
Made up of:			
Surplus funds	787	(78)	709
Reconciliation reserve	(70)	35	(35)
Subordinated liabilities	211	-	211
Deferred tax assets	22	(22)	-
Total capital	950	(65)	885
Total available own funds to meet SCR	950	(65)	885
Restrictions to capital	-	-	-
Total eligible own funds to meet SCR	950	(65)	885

- 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 decreased due to the Solvency II balance sheet reduction 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 2024 there were no ancillary own funds.

Deductions from own funds

At 31 December 2024 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	672	211	2	885
Capital restrictions	-	-	-	-
Total eligible Own Funds to meet the Group SCR	672	211	2	885
Total available Own Funds to meet minimum Group SCR	672	211		883
Capital restrictions	-	(186)		(186)
Total eligible Own Funds to meet the minimum Group SCR	672	25		697

LVFS

	Tier 1	Tier 2	Tier 3	Total
Total available Own Funds to meet the SCR	674	211	-	885
Tier 2 and Tier 3 capital restriction	-	-	-	-
Total eligible Own Funds to meet the SCR	674	211	-	885
Total available Own Funds to meet the MCR	674	211		885
Tier 2 capital restriction	-	(187)		(187)
Total eligible Own Funds to meet the MCR	674	24		698

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 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 £200m of Fixed Rate Reset Subordinated 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, including the accrued interest at 31 December 2024, is £211m.

More information on the terms and conditions of Tier 2 subordinated liabilities can be found in Section D.3 Other Liabilities, note 5.

Tier 3 own funds represents deferred tax assets of £2m for the Group (LVFS £nil).

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 technical provisions 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 2024	
	£m	£m
Analysis of Equity per the statutory financial statements		
Fund for future appropriations		535
Solvency II Adjustments (excluding reclassifications)		
<i>Assets</i>		
- Decrease in valuation of deferred tax asset (Section D.1)	(1)	
- Increase in valuation of participations (Section D.1 note 1,2)	13	
- Decrease in valuation of collective investments undertakings (Section D.1 note 2)	(10)	
- Decrease in valuation of receivables (trade, not insurance) (Section D.1 note 5)	(1)	
- Decrease in valuation of cash and cash equivalents (Section D.1 note 6)	(16)	
- Decrease in valuation of other assets (Section D.1 note 7)	(5)	
		(20)
<i>Technical provisions</i>		
- Decrease in valuation of technical provisions (Section D.2)		174
<i>Other liabilities</i>		
- Decrease in Insurance and intermediaries payables (Section D.3 note 3)	1	
- Decrease in payables (trade, not insurance) (Section D.3 note 4)	19	
		20
Total Equity - Solvency II valuation		709
Restricted own fund items due to ring-fenced funds		(35)
Subordinated liabilities allowable as own funds items		211
Total own funds - Solvency II valuation		885
Tier 2 and Tier 3 restrictions		-
Total eligible own funds to meet the SCR		885
Excess of Assets over Liabilities - Solvency II valuation		
Total Assets		11,502
Total Technical Provisions		(10,292)
Total Other Liabilities		(501)
Excess of Assets over Liabilities - Solvency II valuation		709

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 2024 £m
Analysis of Equity per the statutory financial statements	
Fund for future appropriations	529
Solvency II Adjustments (excluding reclassifications)	
<u>Assets</u>	
- Increase in valuation of participations (Section D.1 note 1,2)	6
<u>Technical provisions</u>	
- Decrease in valuation of technical provisions (Section D.2)	174
Total Equity - Solvency II valuation	709
Restricted own fund items due to ring-fenced fund	(35)
Subordinated liabilities allowable as own funds items	211
Total own funds - Solvency II valuation	885
Tier 2 and Tier 3 restrictions	-
Total eligible own funds to meet the SCR	885
Excess of Assets over Liabilities - Solvency II valuation	
Total Assets	11,491
Total Technical Provisions	(10,284)
Total Other Liabilities	(498)
Excess of Assets over Liabilities - Solvency II valuation	709

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 section 11 of the PRA Rulebook under Group Supervision. 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 2024 was £474m (31 December 2023: £482m). The decrease in SCR over the period is driven by trading in the Matching Adjustment Portfolio reducing spread risk partly offset by Protection model and basis changes and a less favourable smoothing position on certain with-profits product lines.

The Minimum Capital Requirement (MCR) as at 31 December 2024 was £128m (31 December 2023: £136m). 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 change in biting requirement for LVFS on a Solo basis which has reverted to the 25% floor of the SCR, which has reduced from year-end 2023.

LVFS

LVFS calculates its SCR in accordance with the Solvency Capital Requirements – General Provisions and Standard Formula sections of the PRA Rulebook. 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 2024 was £479m (31 December 2023: £487m). The decrease in SCR over the period is driven by trading in the Matching Adjustment Portfolio reducing spread risk partly offset by Protection model and basis changes and a less favourable smoothing position on certain with-profits product lines.

The Minimum Capital Requirement (MCR) as at 31 December 2024 was £120m (31 December 2023: £128m).

The calculation of the MCR is laid out in the IR.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 £3.5m as at 31 December 2024.

At year-end 2024 the 25% floor is the biting requirement in the calculation of the MCR, whereas the calculation of the MCR was within the 25%-45% threshold of the SCR at year-end 2023. The guaranteed benefits on with-profits business have fallen reducing the risk-based MCR such that the 25% floor of the SCR, which has reduced over the year, is the biting requirement.

Calculation of Minimum Capital Requirement

MCR Calculation	£m
Linear MCR	116
SCR	479
MCR Cap (45% of SCR)	216
MCR Floor (25% of SCR)	120
Minimum Capital Requirement	120

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	
	2024	2023	2024	2023
Market risk	240	268	247	274
Credit counterparty risk	32	21	33	23
Life underwriting risk	221	198	221	198
Health underwriting risk	111	109	111	109
Total before diversification	604	596	612	604
Diversification	(161)	(149)	(164)	(152)
Basic Solvency Capital Requirement	443	447	448	452
Operational risk	31	38	31	38
Loss absorbing capacity of deferred taxes	-	(3)	-	(3)
Solvency Capital Requirement	474	482	479	487

The market risk SCR has fallen over the period. This was driven by a reduction in spread risk over the year primarily due to trading out of corporate bonds into gilts, which carry lower risk, in the Matching Adjustment Portfolio. Spread risk remains the dominant market risk. See section C3.2 for further details.

Life underwriting risk SCR has increased over the period driven by less favourable fund performance over the year on certain with-profits products and Protection model and basis changes. Lapse risk remains the dominant life underwriting risk (see section C.2.2).

Operational risk has reduced over the period driven by a slowdown in fixed-term annuity new business volumes compared to the previous year.

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 PRA Rulebook. 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.