Who we are

We are a leading financial mutual employing over 6,000 people and serving over 5 8 million customers with a range of financial products We are also the UK's largest friendly society

When we started in 1843 our goal was to give financial security to more than just a privileged few and for many decades we were most commonly associated with providing a method of saving to people of modest means Today we follow a similar purpose, helping people to protect and provide for the things they love, although on a much larger scale and through a wide range of financial services including insurance, investment and retirement products We are currently the UK's number one brand for Insurance and Investments, according to the 2015 YouGov BrandIndex Buzz Rankings

We offer our services direct to consumers, as well as through IFAs and brokers, and through strategic partnerships with respected organisations

£195m
Group operating profit

£124m
Group profit before tax

£1.4bn
Capital resources

£27m
Mutual bonus

3.8%
With-profits investment performance

£72m
General insurance operating profit

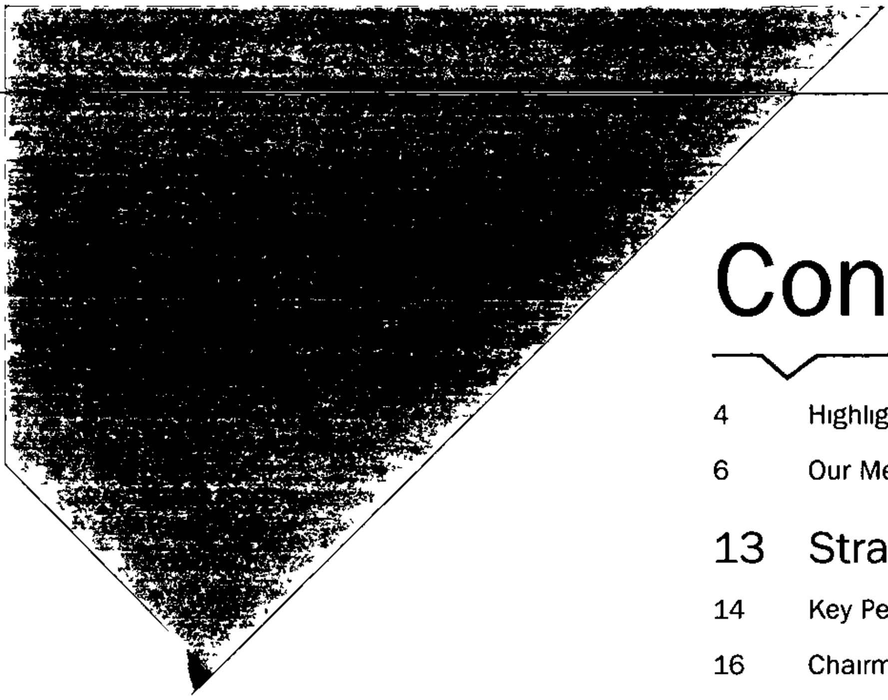
£41m
Life operating profit

80%
Brand awareness

6,000
Employees

86%
Employee engagement

5.8m
Members and customers



Contents

Good value, great values

Offering affordable well-designed products but not at the expense of doing the right thing.

Quick and easy to set up, after being with the same company for years I was surprised how competitive LV= was. As I also have life insurance with them I feel they are a trustworthy company to be with. Very pleased.

William from Durham

Everything we do revolves around our members

1.1 million

£113m

With-profits fund investment return

LV= is a modern and leading financial mutual. We were established in 1843 to help families protect and provide for their dependents and cherished possessions. LV= still has this aim at the heart of its business today.

We are owned by, and run for the benefit of, our members and are therefore different from other organisations which may be owned by shareholders, employees, private equity groups, or government We believe this difference is important in serving customers, engaging with employees and to fulfil our primary goal of creating long-term value for our members

Our members are customers who have certain longer-term financial products with us, such as life insurance, protection, investment or retirement policies They have voting rights and can expect to influence the key decisions in the Society

Returning value to our with-profits members

We have returned good value to our with-profits members in 2015 through

- **The investment returns achieved on their policies** During 2015 the main LVFS with-profits fund delivered good relative performance for our with-profits members with an absolute performance of 3 8% This is 1 1% above the market benchmark of 2 7% Performance has been above benchmark in four of the last five years

- **The vast majority of with-profits members are eligible to receive the LV= mutual bonus** For 2015 this amounts to a 1% enhancement to the eligible policies' asset shares (£27 million in total)

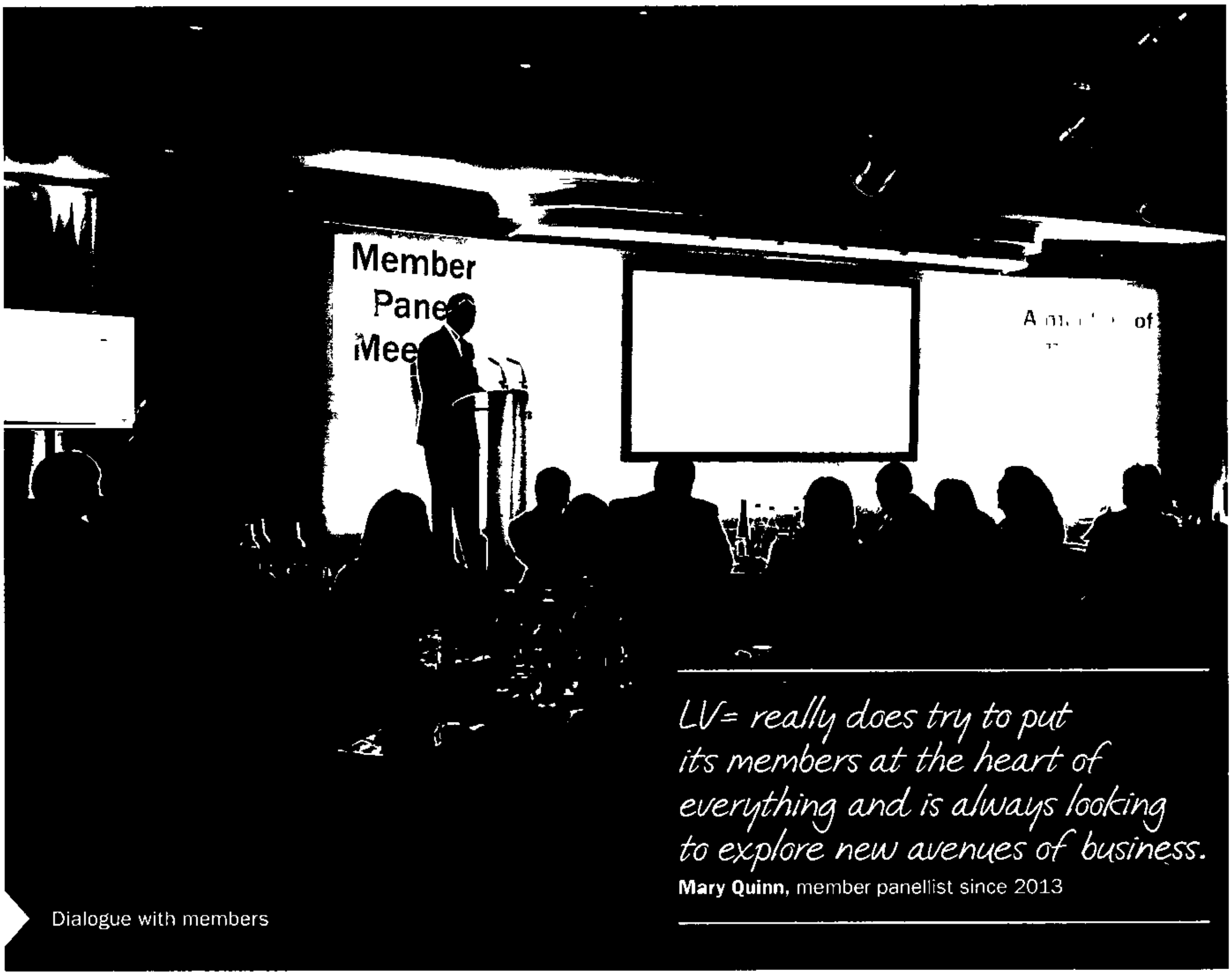
- **The payouts that were paid to maturing policies during the year** These compare well with our industry, with all nine of our benchmarked payouts well above market average and top quartile in five out of nine cases Further details can be found on page 8

Mutual Bonus

The LV= mutual bonus was launched in 2011 and rewards eligible members for their ownership of the Society The LV= board considers the financial performance of the LV= trading businesses each year along with its current and projected financial strength to determine whether, at what level, and in what form, any mutual bonus should be declared, and which members should be eligible to receive it Most eligible members will receive the mutual bonus when their with-profits policy matures or is cashed in The LV= mutual bonus is not a guaranteed benefit and is at the discretion of the LV= board

Our performance in 2015 has enabled us to allocate a discretionary mutual bonus of £27 million (2014 £24 million) We have applied the mutual bonus by enhancing the asset share of relevant policies

Since the launch of the mutual bonus in 2011, LV= has allocated a total mutual bonus of £113 million to eligible member policies



LV= really does try to put its members at the heart of everything and is always looking to explore new avenues of business.

Mary Quinn, member panellist since 2013

Dialogue with members

YouGov
MOST RECOMMENDED
INSURER

With-profits policyholders' bonuses
In addition to the LV= mutual bonus, we added £113 million (2014 £108 million) of bonuses to members' with-profits policies during 2015 This increase reflects the increased level of policies maturing, with bonus rates not materially changing year-on-year

We manage our with-profits fund and set bonus rates with the aim of being fair to all policyholders invested in the fund When we decide bonus rates we need to consider the policyholders who will remain in the fund as well as those whose policies mature or are surrendered We also need to maintain the strength of the fund and protect the long-term interests of current and future members

Favourable payouts relative to the market

LV= with-profits policyholders continue to benefit from excellent returns on their investments, with equivalent annual rates of return for the policies listed below ranging from 4 0% to 9 1%, which includes the mutual bonus

Conventional with-profits

Policy Duration	Policy Description	Payout	Equivalent annual rate of return over the full term
25 years [a]	Ordinary Branch Endowment	£37,983	**6 8%**
25 years [b]	Industrial Branch Endowment	£3,612	**5.8%**

a Regular premium of £50 per month for a male aged 30 next birthday at entry, maturing 01/03/2016

b Regular premium of £5 per four week period for a male aged 30 next birthday at entry maturing 01/03/2016

Unitised with-profits regular premium policies

Policy Duration	Policy Description	Payout	Equivalent annual rate of return over the full term
10 years [a]	Endowment	£7,989	**5 6%**
15 years [a]	Endowment	£14,606	**6 2%**
10 years [b]	Pension Policy	£36,411	**8 1%**
15 years [b]	Pension Policy	£61,953	**6 9%**

a Regular premium of £50 per month for a male aged 30 next birthday at entry maturing 01/03/2016

b Regular premium of £200 per month for a male retiring at age 65 on 01/03/2016

Unitised with-profits bonds

Policy Duration	Policy Description	Surrender value as at 1 March 2016	Surrender value a year ago	Effective return over the year
5 years [a]	Flexible Guarantee Bond Cautious Series 2	£54,190	£52,125	**4 0%**
	As above, but without a guarantee	£56,905	£54,213	**5 0%**
5 years [a]	Flexible Guarantee Bond Balanced Series 2	£53,523	£51,217	**4 5%**
	As above, but without a guarantee	£58,743	£55,195	**6 4%**
5 years [a]	Flexible Guarantee Bond Managed Growth	£52,276	£49,865	**4 8%**
	As above, but without a guarantee	£60,284	£55,920	**7 8%**
10 years [b]	With Profits Growth Bond	£19,549	£17,922	**9 1%**

a Single premium of £45 000 for a male aged 30 exact at entry with a 5 year guarantee surrendering 01/03/2016

b Single premium of £10 000 for a male aged 30 exact at entry surrendering 01/03/2016

Going the extra mile for our life and protection members

In 2015 we paid 99% of our life protection claims, totalling just over £65m in payments to customers and members. This includes £9m to our 50 Plus customers. In line with the continuing increase in new customers and members, and the increase in claims, our team continues to grow so we can continue to offer our award winning service to every single customer. We're revamping the claims information we host on our websites to make it easier for customers to understand what happens when they make a claim, and we continue to seek customer feedback on how we can make improvements.

In addition to ensuring our members are treated fairly when claims are made on their policies, we have made a number of significant enhancements to our products and services.

50 Plus

50 Plus

In 2014 we introduced a paperless claims process and to date 82% (and rising) of 50 Plus claims are agreed over the phone with the majority of customers receiving the money in their bank within 5 working days from the first time they made contact with us. This means that for those customers using the money to pay for a funeral, the money arrives in their bank at the right time.

Critical Illness

In 2015 we reduced the time it takes for customers to receive their money to 4-6 weeks by putting in place processes to speed up requesting and receiving the medical information needed to pay the claim. Our critical illness policies include free cover for children from birth up to age 21 which accounted for 4% of our critical illness claims.

Income Protection

The average length of time an Income Protection customer needed to claim for was 5 years 8 months, demonstrating the importance and value of this type of financial protection.

In addition to paying Income Protection claims, we also offer on a case-by-case basis a return to work support service. Following a claim for an accident or injury, we helped customers return to work by either fast tracking them through to a specialist medical consultant or treatments such as physiotherapy, and retraining for a new job.

Business Protection

In 2015 we launched our Business Protection range of policies aimed at small to medium sized enterprises. To add value for our business protection customers we partnered with a firm of solicitors to offer all policyholders access to LV= Business Care. LV= Business care is a 24/7 legal advice line providing legal advice on a number of business areas including, employment law and health and safety as well as commercial contracts and tenancy agreements.

WINNER
Investment Life & Pensions
Moneyfacts
Award 2015
Best Income Protection Provider

GOLD STANDARD AWARD WINNER PROTECTION

UK CUSTOMER EXPERIENCE AWARDS WINNER

Nicola and Jeremy's story

Critical illness customers Nicola and Jeremy were devastated when their son Sam was diagnosed with Hodgkin's Lymphoma We have a short film of them talking about how they coped when they found out, and how LV= supported them during their claim at **LV com/nicola-and-jeremy**

Nicola and Jeremy took out their LV= critical illness policy in February 2002 when Sam, their oldest son, was just 3 years old When Sam was 14, they found a lump on his neck, and when after a few weeks the lump was still there, they booked a doctor's appointment just to make sure everything was ok Unfortunately things weren't ok and, after a number of tests, Sam was diagnosed with Hodgkin's Lymphoma (a rare cancer that develops in the lymphatic system) From that day onwards, all of their lives changed

Jeremy I think my stepfather came over towards the end of January He said have you got the LV= life policy document I brought it to him and he had a little flick through He said that there's a provision in the policy should one of your children become sick

Nicola Insurance companies as a whole tend to have that reputation of if they can get out of it they will So we thought, we'll look into it but we didn't expect too much to come from it

Jeremy I called up I was met with a very sympathetic response I received the claim form very quickly I filled it in and not long after I was contacted by Helen who said that she was going to manage the claim for us and I just got the impression from speaking to her that she was working for us, you know, with us rather than against us It felt like she wanted to give us the money that we were entitled to

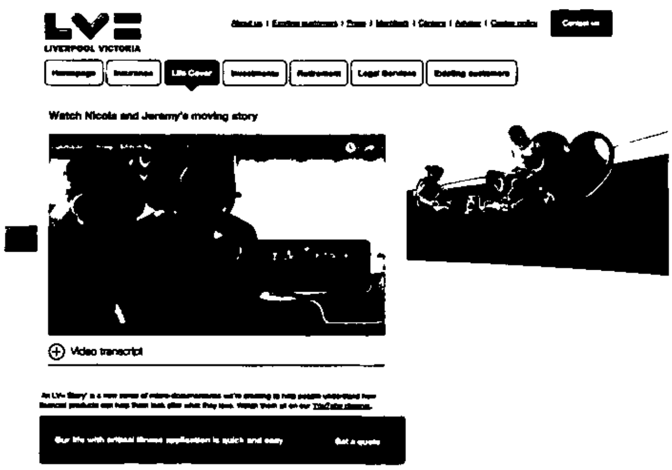
Nicola She sounded like she cared

Jeremy Very soon after that we were given a cheque for £25,000

Thankfully, Sam is now in remission, and Nicola and Jeremy have decided to keep their £25,000 payment aside for Sam for when he is older

> *Everybody thinks it's never going to happen to them and we thought the same, but not anymore, it happened in the blink of an eye and in a moment everything changes.*

Nicola and Jeremy, Critical illness customers since 2002



View the video
LV.com/nicola-and-jeremy

Supporting our members

I do get a sense of pride being involved. LV= is definitely a different type of mutual for all the right reasons.

Mike Hannaway
Member of the panel since 2004

Dialogue with members

The LV= Member Panel is a group of around 40 members from a variety of backgrounds who meet with our Board and senior leaders twice a year to challenge our performance and strategy The purpose of the Member Panel is to learn from, and keep in touch, with our membership It is an important forum in which to understand the needs of consumers and listen to their feedback and views

Exclusive member benefits

Throughout our 173 year history we have existed to increase the value of our business for our members and placed them at the heart of what we do As well as mutual bonus and excellent payouts on their investments we also offer members other ways to benefit from their ownership of the Society

Each of these benefits aligns to, and demonstrates, our overall goal, providing tangible support and value to members

Member Care Line
The Member Care Line offers three very different services Members can get free and confidential legal advice, ranging from how to challenge a parking ticket to advice on how to resolve a neighbourhood dispute Thousands of members have found this facility extremely useful and reassuring The Care Line also allows members to speak to medical staff if they are worried about a health condition and they can even talk to a counsellor if they are experiencing emotional distress, and need a sympathetic ear

Member Support Fund
The Member Support Fund provides grants to members in financial hardship and has helped hundreds of members get back on their feet in times of financial difficulty Applications for financial support are reviewed by a small committee of LV= members who approve requests We understand that people can face adversity, through no fault of their own, so this fund is especially significant

Member Community Fund
We know that we already do a tremendous amount for our local communities and causes that our employees are keen to support The aim of the Member Community Fund is to give back to good causes that are important to our members This fund allows members to put forward a charity, organisation or an individual for £10,000 in order for us to make a significant and lasting difference So far we have helped community centres, homeless shelters and individuals make a change for the better Any member can nominate something or someone that's important to them

Member Discounts
Another financial reward which is available to members is discounts on the majority of our general insurance products Members can save from 5-10% on their insurance premiums if they take out car, home, pet, travel caravan, motorcycle or classic car insurance

My wife and I would like to express our gratitude for the grant of £2,000 that was made to us by the Member Support Fund. This is an extremely kind and generous gift which means a lot to us and will go a long way towards us being able to stay in our home.

Mr Clay Feedback on our Member Support Fund

Strategic Report

Extraordinary

Delighting our customers and members so we stand out from other companies.

I believe that you get what you pay for. LV= provided the cover I wanted for the money I was prepared to pay, and they offered an excellent product that didn't cost the earth. Also the aftersales service was important to me and that was also the reason I chose LV=. Delighted with LV=.

Melvyn from Stockport

The following pages outline our performance during 2015 and give a review of our business areas and our strategy.

We have chosen to observe the requirement of the Department for Business Innovation Skills (BIS) narrative reporting regulations, which require the preparation of a strategic report, even though we are not formally required to do this.

Key Performance Indicators

Our key performance indicators are chosen to measure performance against our goal of growing member value, and our vision of being Britain's best loved insurer.

Our board also assesses progress against our strategic agenda, the way we manage risks plus a range of other financial and qualitative measures covering the significant aspects of our business Enterprise Value is no longer used as a key performance indicator because it is considered more appropriate to maintain a focus on a combination of profit levels, capital strength and the performance of the heritage with-profits fund when working towards our goal of growing member value Enterprise Value is still used as a target in the 2013-2015 and 2014-2016 LTIP schemes (see page 104) Additional performance indicators are reported in the individual business sections of this report

Britain's best loved insurer

To be Britain's best loved insurer

Explanation of measure
We use a combination of surveys to assess our performance against our vision to be Britain's best loved insurer.

2015 Target
To be one of the best loved insurers by continuing to rank in the top five for relevant opinion surveys and delivering excellent customer service levels whilst consistently treating the customer fairly

Performance

1st UK best loved
2014 2nd 2013 4th

UK customer satisfaction index of insurance companies 2nd
2014 1st
2013 3rd

IFAs quite/very satisfied 90%

YouGov Most recommended insurer

2015: 83%
2014: 80%
2013: 77%

General insurance customers very/extremely satisfied

Commentary
In an independent survey by Research Now 1,285 insurance customers ranked us the best loved insurer

As well as the results of opinion surveys our best loved vision is demonstrated through the many awards LV= has won during the year including the Moneywise 'most trusted insurer', The British Insurance awards for Best Customer Care and The Institute of Customer Service, UK Customer Satisfaction Award

2016 Target
Our aim is to maintain our position as one of the best loved insurers by continuing to rank in the top five for relevant opinion surveys and delivering excellent customer service levels whilst consistently treating the customer fairly

Staff engagement

Explanation of measure
Our people are a major differentiator for LV= and are crucial to delivering our best loved vision so it is important they are engaged with the work we do.

2015 Target
Focus on retaining engagement scores at or above the UK high performing organisations norm of 81% as defined by Willis Towers Watson, a global HR consultancy

Performance

86% engagement

LV= engagement 2015: 86%
UK high performing organisations norm 2015: 81%

LV= engagement 2014: 85%
UK high performing organisations norm 2014: 78%

Commentary
LV= has demonstrated strong levels of staff engagement with improvements against the prior year Levels of staff engagement are 5% higher than the UK high performing organisations norm and 13% higher than the UK financial services organisations norm

2016 Target
Focus on retaining engagement scores at or above the UK high performing organisations benchmark as defined by Willis Towers Watson

Achieved target
Progressing towards target
Missed target

Grow member value

Operating profit

Explanation of measure:
Our operating profit measure is the key performance measure for the profitability of the LV= group. See page 110 for definition.

2015 Target
To deliver superior returns commensurate with the markets in which we operate Planned operating profit was £69 million

Performance

£195m

2015:	**£195m**
2014:	£86m
2013:	£105m

Commentary
Operating profit of £195 million was significantly above target Strong results were delivered in both the general insurance and life businesses Results were also impacted by a large positive impact from model and valuation changes in the heritage business See page 44 for further details

2016 Target
To deliver returns in line with the markets in which we operate

Heritage with-profits fund performance

Explanation of measure:
This is the pre-tax return made on the main LV= with-profits fund, which is an actively managed investment fund consisting of our with-profits policyholders' funds that we manage on their behalf.

2015 Target
To deliver fund performance at or above benchmark levels of 2 7%

Performance

3.8%

LV= with-profits 2015	**3 8%**
Benchmark 2015	**2 7%**
LV= with-profits 2014:	11.4%
Benchmark 2014:	11.3%
LV= with-profits 2013:	11.1%
Benchmark 2013:	8.6%

Commentary
The return on the with-profits fund in 2015 was 3 8%, more than 1% above the benchmark The fund is managed on our behalf by Columbia Threadneedle Investments and saw out-performance mainly driven by UK equities See page 32 for further details

2016 Target
To deliver fund performance at or above benchmark levels

Capital strength

Explanation of measure:
To ensure the sustainability of the Society we monitor our regulatory capital cover ratio. See page 132 for definition.

2015 Target
To manage the regulatory capital cover ratio within the group's risk appetite framework

Performance

195%

2015:	**195%**
2014:	171%
2013:	178%

Commentary
At the end of 2015 our regulatory capital cover ratio was 195% Our successful capital raise in 2013 has helped us to maintain a strong capital position See page 33 for further details

2016 Target
To manage the capital cover ratio within the group's risk appetite framework in a Solvency II environment There are substantial differences between the calculations of the group's capital position under Solvency II and under the current approach See page 34 for details

Strategic Report
Governance
Our Accounts

Chairman's Review

Much of the Society's success can be attributed to our mutual status.

Mark Austen
Chairman

As we reach the end of my third year as chairman I am pleased to report that the group has had another successful year and has delivered an operating profit of £195 million This level of financial performance has enabled the board to allocate a mutual bonus of £27 million to eligible members' policies this year This means that over the past 5 years we will have allocated a total of £113 million in mutual bonuses to eligible members

Much of the Society's success can be attributed to our mutual status We do things differently from other financial services companies, and in many ways better Not only does our member ownership model mean we focus on generating operating profit but also on generating long-term value We have no conflict in doing what is right for our customers and members Nor do we have conflict between shareholders' timescales, often a few days or weeks, and customers' expectations which in insurance can extend to many years

There have been several major challenges in the insurance sector during 2015 For example, following eighteen months of benign weather conditions many areas of the country were battered by a series of extreme storms in the final few weeks of the year It is often said that you can only tell how good an insurance company is when you come to make a claim Everything suggests we have done very well I have been tremendously impressed with the way that our claims teams have responded to these unprecedented weather events, volunteering for extra duties and looking after our customers when they needed our help most

As soon as the flooding occurred we contacted all our customers in the affected areas to see if they had been impacted and if so what help they needed We drafted in extra staff to ensure we could deal with claims quickly and efficiently Those people whose homes or businesses have been severely damaged are likely to be out of

We do things differently from other financial services companies, and in many ways better.

their properties for many months to come while they are dried out and repaired but we will be with them every step of the way We believe our service to have been unmatched in the industry

The pace of legislative change affecting the financial services industry continued unabated in 2015 and we continue to exercise our influence at the heart of many of these initiatives as part of our overall corporate affairs programme

Following the Government's announcement on pension freedom reforms in 2014 we continue to have a close dialogue with members of Government and their related agencies as their thinking develops further We have been very much involved in the recent Financial Advice Market Review which seeks to improve the take-up of regulated financial advice We believe low cost, regulated advice services like the LV= Retirement Wizard can make a real impact in bringing affordable, accessible advice to all This is a message we have been making regularly to the Treasury and other Government officials

In the last quarter of 2015, the Government also announced plans to create a secondary annuity market We welcome this move but it is not without risk and we believe this further demonstrates the need for regulated advice

We have also been concerned for some time about the increase in exaggerated and fraudulent whiplash claims which add at least £90 onto the average car insurance premium We want to see tougher controls on claims management companies and excessive costs driven out of the system for the benefit of all motorists It was gratifying to hear the Chancellor announce measures to end the right to cash compensation for minor whiplash injuries and raise the upper limit for the small claims court for personal injury claims from £1,000 to £5,000 in his Autumn Statement We will continue to work with Government to ensure the plans are implemented in full and the associated cost savings passed on to customers

Following regulatory approval for the transaction with Teachers Assurance, where we will take over the majority of its business interests, we passed the final milestone on the 16 December 2015 when Teachers Assurance members voted 99% in favour of the deal

This deal represents a very good opportunity for the Society and will help with our objective to grow our life and pensions business Everything is in place to complete the transaction during the first half of 2016, subject to regulatory approval

The new Solvency II regulations came into effect on 1 January 2016 and following years of preparatory work the Society was ready for its implementation on time We are initially using the standard formula, but it is our intention to move to our own internal model, subject to regulatory approval

It is now approaching ten years since Mike Rogers and I joined the board and your Society has been transformed over this period Despite the UK financial services market remaining one of the most competitive in the world, LV= has done consistently well

Our strategy has and continues to remain the same Grow life and diversify within general insurance The board believes this strategy is the right way to create long-term sustainable value for our members and is confident about the Society's prospects for 2016

I would like to thank all our members, customers, employees and the board for their ongoing support

Chief Executive's Review

We remain focused on offering good value products and an excellent level of customer care for our customers and members.

Mike Rogers
Chief Executive

The challenging market conditions we saw in 2014 have continued during 2015 However we have maintained our underwriting discipline and have delivered an operating profit of £195 million, an increase of 127% over the prior year

In general insurance the home market remains tough but we have seen an improvement in motor rates In life, equity release sales have reduced as expected but we have seen a significant increase in pension and flexible guarantee bond sales We have also witnessed a change in buying behaviour with a notable shift towards blended solutions

Our focus on customers and members has once again been recognised in a number of external awards We have been voted one of the very best insurers for customer satisfaction in the 2015 UK Institute of Customer Service Customer Satisfaction Index In the Financial Adviser Outstanding Service Awards we achieved two five star ratings, in the main life and pensions category for the fifth year and in the investments category for the second year running

In November we announced two significant changes to the executive team Steve Treloar has been appointed as managing director, general insurance replacing John O'Roarke whose contract has come to its end In the last nine years John has fundamentally transformed the general insurance business He has turned a business that made a loss of £46 million on premium income of £0 3 billion in 2007 to one that is reporting a profit of £72 million on premium income of £1 5 billion in 2015 Under his leadership LV= has climbed from the twelfth to third largest private car insurer in the UK and more recently we have grown our home insurance and SME portfolios, as well as achieving record levels of customer satisfaction and renewal rates

Steve joins from Aviva where he was managing director of personal lines His in-depth knowledge of the general insurance market makes him the ideal person to build on the strong platform that John O'Roarke and the team have created

We have also created a new role of customer and member director and Katie Wadey joined LV= to fill this role in January 2016 She is responsible for delivering our objective of being a truly customer centric organisation and developing a compelling mutual advantage for members Katie brings an extensive background across a range of marketing and commercial disciplines from Tesco, BT, RBS, Barclays and British Gas

General insurance

Claims costs benefitted from good weather over the first eleven months of the year, although this has been offset by the impact of the extreme flooding that many areas of the country experienced in December Taken together, storms Desmond, Eva and Frank have cost £36m Despite this we have still achieved an operating profit of £72 million and a combined operating ratio of 96 1%

The motor market has remained competitive but we have seen some rate recovery in the second half of the year and we expect that to continue throughout 2016 We continue to diversify our portfolio away from motor with our in-force policy count growing in home, SME and our other categories

As part of our strategy to grow our range of electronically traded commercial products we launched our first online fleet product giving brokers immediate access to quotes and policy documentation

To extend our distribution footprint we also entered into a number of scheme agreements We joined Towergate Underwriting s home syndicate in a five year deal and joined Ingenie's panel of insurers providing underwriting capacity for the telematics brand aimed at younger drivers

Life

The impact of the pension reforms continues to be felt in the retirement market We have seen a marked change in buying behaviour with more pension savers shopping around for retirement income solutions As we offer a wide range of products we are well placed to take advantage of these market trends

We are also seeing a move towards blended solutions, combining the flexibility of drawdown with the guarantees provided by specialist annuities, and we continue to develop new products and services to position LV= at the forefront of the changing pensions environment

Throughout the year we have held a number of retirement seminars for IFAs to support them in helping customers navigate the new world, post pensions freedom To make it easier for IFAs to explain, recommend, apply and administer single or blended solutions we launched the LV= Retirement Account For the first time advisers are able to easily tailor multiple product solutions in a single application and policy for their clients

We retain our position as the leading provider of individual income protection and during the year we launched our first range of business protection insurance products Designed to protect small and medium sized businesses against the financial impacts of death or critical illness, we offer key person, shareholder and partnership insurance plus loan protection Protection is a market where we see further growth opportunities and as part of our commitment to being easy to do business with, we joined the UnderwriteMe comparison service in 2015

In partnership with the Government, we are currently in the process of trialling a 'Pensions Passport with members approaching retirement, sending this in place of the 'Wake-up pack' Customers are being sent a simple document outlining how much they have in their pension pot, in what type of scheme, and any special terms, such as guaranteed annuity rates attached to their pension The pilot aims to see whether the passport will better engage pension savers than the weight of material people currently receive from pension providers

The pension freedoms have undoubtedly been a positive move but the complexity of decisions at retirement is overwhelming for most people To help address the lack of affordable, accessible regulated advice we launched the first online regulated advice service for the retirement income market The service, LV= Retirement Wizard, aims to close the advice gap, helping people make the most of retirement savings that they have spent a lifetime building up

LV= Retirement Wizard was developed by Wealth Wizards, the UK based automated advice experts Following the launch, we acquired a majority stake in Wealth Wizards Limited, a deal that sees LV= inject development capital to enable the company to deliver on its ambition to develop a widely available 'white-label' automated advice platform

As a group with a closed book of with-profits business, we are examining carefully the findings of the recent Financial Conduct Authority (FCA) review published with regards to the treatment of long-standing customers, whose policies are no longer being actively marketed LV= aims to treat all its customers fairly, nonetheless we will be paying particular attention to the FCA s concerns regarding how organisations communicate with their customers about exit and paid-up charges and whether those customers may have suffered detriment as a result

Our people and culture

We believe that if we look after our people then we can rightly assume that they will look after our customers and members

Each year Willis Towers Watson conducts a survey among all 6,000 employees In 2015 our engagement score was 86%, up 1% on last year and 5% above the norm for UK High Performing Organisations

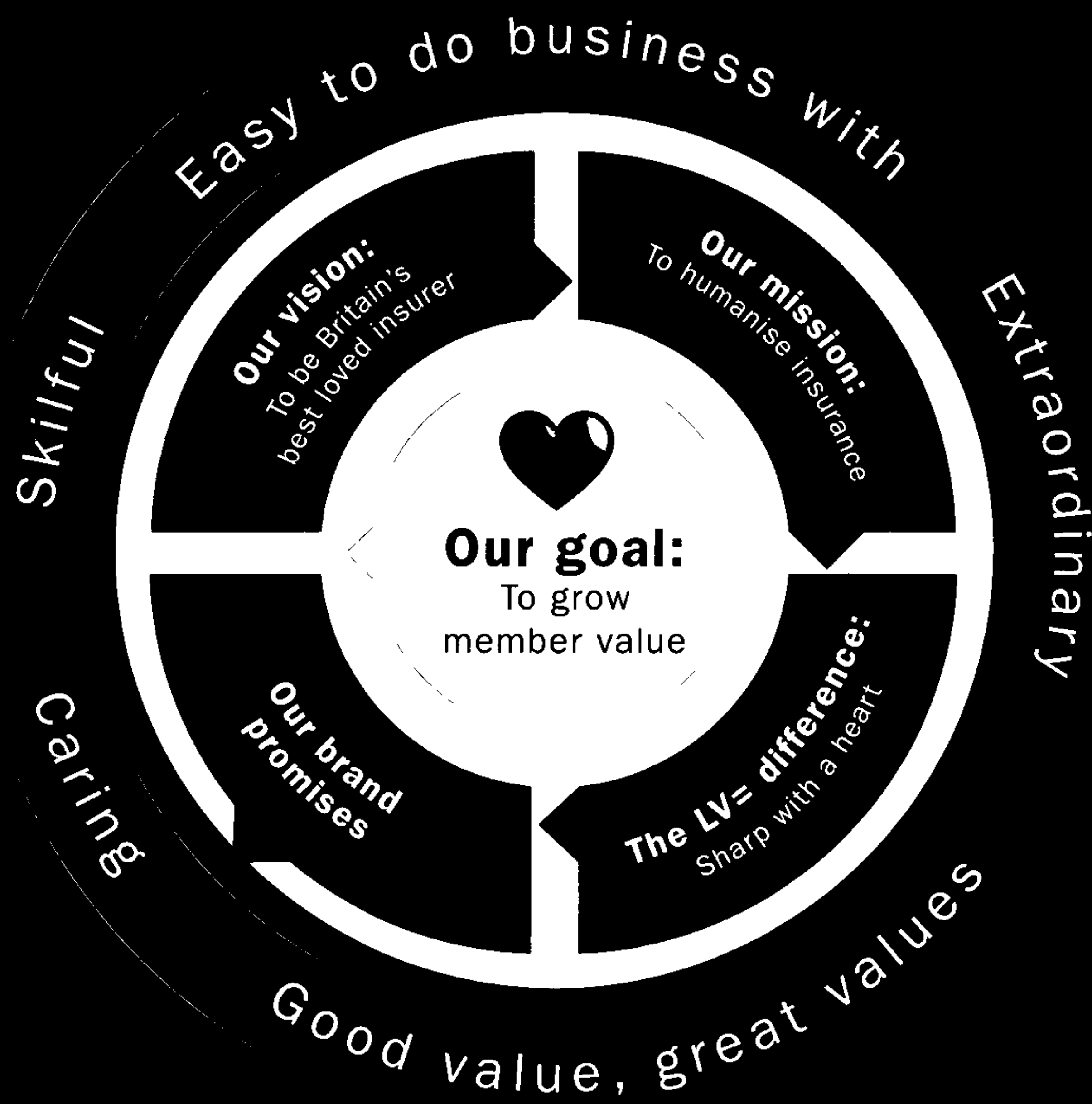
We have further built on our diversity and inclusion programme in the three streams of gender, sexual orientation and disability with a number of new forums, activities and networking opportunities Having a diverse, motivated and engaged workforce will play an important part in our future success

In summary, we are a financially strong mutual with a well-known brand and our composite model means we are well positioned for the future with growth opportunities in both our trading businesses We remain focused on offering good value products and an excellent level of customer care for our customers and members

The LV= Strategic Report on pages 13 to 72 was approved by the Board of Directors on 11 March 2016 and signed on its behalf by

Mike Rogers, Chief Executive

Our Objectives, Strategy and Business Model



Our goal is to grow value for our members

Our vision is to be Britain's best loved insurer and we also want to make insurance something that people can relate to – by achieving our vision and humanising insurance we believe people will trust us to look after their insurance needs

We have a clear point of difference which we call sharp with a heart This guides the way we do things and combines the competitive performance of a PLC with the trusted behaviours of a mutual

Our brand promises reflect aspects that we consider to be important to our customers

Good value, great values

Offering affordable well-designed products but not at the expense of doing the right thing

Easy to do business with

Offering a simple, hassle-free journey for all who deal with us, regardless of how they choose to do business

Skilful

Using our expertise to deliver solutions to financial issues that people come across throughout life

Caring

Caring about our customers and their loved ones when they need us most

Extraordinary

Delighting our customers and members so we stand out from other companies

LV= continues to meet its financial aims of delivering good returns to members, while ensuring a strong capital position on which to base future growth.

Strategic agenda

We had previously laid out an agenda highlighting eight key areas of management focus to ensure the sustainable growth of the Society well into the future as an aspiring and mission driven modern mutual – we continue to focus on these elements

1 Sustainable business model

2 Diversified general insurance earnings

3 Grow life to scale

4 Exploration of adjacent business areas

5 Go digital

6 Build a distinctive and relevant brand

7 Become customer centric

8 Broaden and deepen talent pool

1 Sustainable business model

For a mutual, managing the business in a sustainable manner is critical to ensure that the business continues to thrive and succeed well into the future Compared to PLCs, mutuals have a narrower set of funding options and hence typically need to be more cautious in approach The board and management believe that the strategy being executed enhances the sustainability of the Society However, there continues to be a need to be vigilant around threats

In particular, there are three relevant strands which are being monitored carefully

(a) Regulatory developments

During 2015, the key regulatory development was the impending implementation of Solvency II, a new EU-wide capital management regime designed to strengthen consumer protection and sector stability by ensuring that insurance companies hold adequate capital to cover their business risks During 2015, we invested a significant amount of resources, and worked with our regulator to ensure that LV= was ready and well-placed for the new regime when it came into effect on 1 January 2016

(b) Competitive developments

At LV= we take cognizance of the ever increasing competitive pressures of the markets we participate in We also recognise that the healthy rate of growth seen over recent years will likely moderate We have therefore successfully developed and launched new differentiated propositions in the market during 2015 to strengthen our competitive position

We have also implemented a group-wide cost management programme to ensure that the cost structure of the business is appropriate to help us meet the challenges ahead

(c) Capital structure

Constraints around raising new capital flexibly are a particular challenge for the mutual business model The primary source of capital for mutuals is annual retained earnings less any member distributions, although a limited amount of debt capital can also be raised Mutual capital therefore grows slowly, even for the strongest performing mutual, limiting the number of growth opportunities mutual businesses can engage with at any given time The ability of mutuals to withstand economic shocks is also restricted due to constraints on raising new capital

In 2015, the Mutual Shares Bill passed through Parliament and received Royal Assent This bill makes it possible for mutual insurers such as LV= to consider issuing shares These shares would be similar to the Core Capital Deferred Shares issued by Nationwide They would confer membership of the Society, but limit voting rights to one vote per member irrespective of shareholding We believe that there would be strong consumer and institutional interest in shares issued by LV= and as a result we are actively working with the Treasury and our regulators to ensure appropriate secondary legislation is passed which facilitates this The board is as yet unresolved whether indeed the shares would be issued However, supporting this initiative would give us additional options should we want to exercise them in the future

2 Diversified general insurance earnings

We have a very successful general insurance business selling a range of personal and commercial products We sell these to consumers directly and via brokers We have a particularly strong personal motor line with around 12% market share based on the number of vehicles insured We balance the pride in the success of our general insurance business with the recognition of risks that shorter policy lifespans present and the volatility often experienced by the motor insurance industry Over recent years therefore, we have put deliberate management focus on diversifying into other general insurance product lines utilising our strong brand and the successful personal motor line as launch pads

In the direct market, we are using our well-known consumer brand to extend our advertising to include home insurance Home insurance is also actively promoted to existing motor insurance customers In the broker market, several new schemes have been launched, such as the launch of Heartland to help support growth from the top 100 independent brokers, the Towergate Home Co-Insurance scheme and becoming the strategic partner for Jelf Our SME insurance line is also growing in scale and gaining recognition in the market

During 2015 we successfully delivered new travel and pet insurance offerings, enhancements to existing home insurance products for the broker channel, and system enhancements to allow direct home and commercial fleet customers access to on-line quote and buy

As a result of the sustained effort on diversification the proportion of non-personal motor policies in the overall portfolio has grown from 29% in 2013 to 36% at the end of 2015 Over the same period non-personal motor premiums have grown from 27% to 31% of total gross written premiums (the slower growth stems from the strengthening of motor rates during the last eight months of 2015) We aim to improve further on diversification over the next five years

During 2015 we successfully delivered new travel and pet insurance offerings.

3 Grow life to scale

Our life trading business consists of businesses that operate in the retirement and protection markets We also have a heritage business that mainly comprises our with-profits products This targeted approach has allowed us to compete in our chosen markets effectively and allowed us to establish significant businesses which have been successful However, this focused approach also means that despite strong growth the overall size of the life business is still markedly smaller than our general insurance business As a result, the strategy of the Society is to grow the life business to a size comparable to the general insurance business

In response to the pensions freedoms made possible by the Chancellor in the 2014 Budget, during 2015 we successfully developed and launched our Retirement Pathfinder to help IFAs model retirement scenarios alongside our Retirement Account that allows our retirement products to be blended into a single solution We believe this meets the needs of consumers who in future will see retirement as a process with multiple stages rather than a single event

We have also launched a fully regulated automated retirement advice solution, an industry first in the UK, to address the advice gap This is getting much attention in the media and by the Government and LV= is being seen as a leader in this exciting new area

LV=RetirementWizard

In addition, significant progress has been made on underwriting and administration system enhancements across both our retirement and protection businesses This gives us the ability to have better propositions, significantly improve customer experience and manage costs We expect the implementation of these to support the growth trajectory of the business over the medium-term

We continue to explore growth opportunities via partnerships with selected organisations whose customers would benefit from our products and expertise During 2015 we launched the LV= Corporation Solutions suite of tools and services to help corporate partners and intermediaries serve their customers better via improved engagement, education, and access to financial advice to get the most from their options at and in retirement

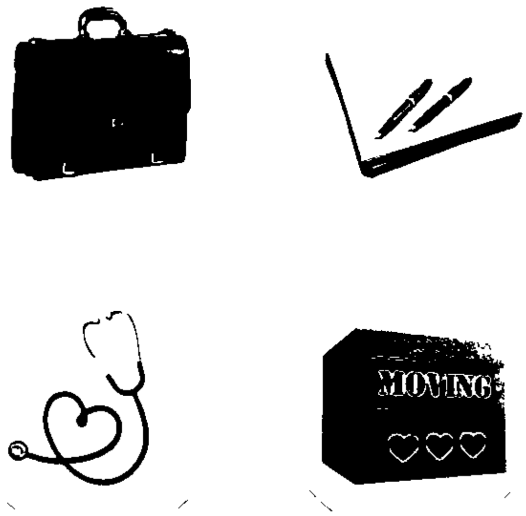
We are amongst the largest UK players (by asset size) in the with-profits market Apart from writing new business which we are doing successfully, we also consider consolidation opportunities where other mutuals look to close and have an orderly run-off of their policies In December 2014, we announced a transaction to take over the majority of Teachers Assurance business lines This deal was approved by Teachers Assurance members with an overwhelming majority (99% of votes cast were in favour of the transfer) at their special general meeting in December 2015 The transfer is scheduled to be completed during the first half of 2016, subject to regulatory approval

4 Exploration of adjacent business areas

Our group and shared services structure positions us well to support additional business areas alongside our existing life, heritage and general insurance businesses Although we are keen to only participate in areas where we have advantages, we continually investigate and, where appropriate, progress potential adjacent business areas which may give us greater diversification, make the most of our capabilities and assets and bring new profit streams into LV=

In particular, during 2015, we launched
- LV= Law – a non-insurance legal services proposition for our customers,
- Pensions Compass allowing defined benefit pension scheme members to understand their options at retirement,
- a business protection proposition, and
- QuickCover life insurance – a non-advised, instant life cover proposition

In addition, we worked closely with a number of employee benefit consultants to explore potential opportunities in the bulk annuity market



5 Go digital

At LV= we believe the increasingly digital business context presents exciting opportunities for us to engage with our customers, staff, partners, suppliers and other stakeholders Technological advancements also present opportunities for us to reinvent the ways in which we organise ourselves to conduct business

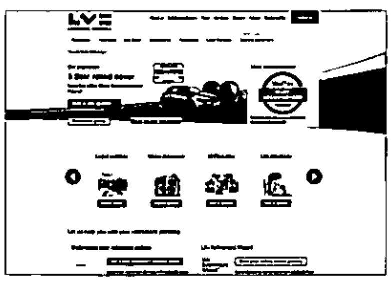
We have made substantial progress in this space Over the course of 2015, we invested significant resources in system enhancement projects across the organisation, driving continuous improvements to customer and intermediary journeys, enhancements to the way we use the data we hold and optimising the technology we have to help us drive greater efficiency

We have evolved our core technology infrastructure and undertaken test and learn activities, focused on improving our understanding of opportunities to change the risk model and introduced a culture of innovation with digital solutions

6 Build a distinctive and relevant brand

We have invested significant effort in building our brand in recent years As a result our brand is now amongst the most recognised brands in our target market and is widely seen as vibrant and modern We are proud of this achievement and continue to focus on ensuring that our brand stays fresh, relevant and distinctive to our target audiences

During 2015, we have focused on embedding the refreshed brand across our website and internal and external paper based and digital communications The results have been impressive For the fourth year running, YouGov ranked LV= as the Best Brand in their BrandIndex Insurance and Investments Buzz Rankings – a measure of how positively a brand is perceived by customers LV= was also recognised as the 'Best Loved' and the 'Most Recommended' insurance brand



YouGov MOST RECOMMENDED INSURER

7 Become customer centric

We believe that customer centricity in the design, development and delivery of our products and services is core to our business. We have a strong track record in treating customers well which is demonstrated by our excellent customer satisfaction and recommendation scores, our market-leading retention levels and the numerous industry awards we receive for customer satisfaction and recommendation.

We are committed to building ever greater engagement with our customers. We look to utilise customer feedback and data analysis to improve our understanding of customer needs and in developing relevant propositions to enhance customer experience. We also look at ways to increase customer awareness and knowledge about their options at various life stages.

During 2015, we have launched several new initiatives to engage with our customers such as hosted 'Business readiness' webinars and a new fully regulated automated advice service. We also launched an LV=/Mail on Sunday co-branded Retirement Guide, and a new Pensions Passport with the backing of the Treasury, to increase customer awareness about their options at, and in, retirement. Internally, we developed and embedded employee training tools and operational processes that put customer engagement at the heart of communications, claims handling and complaints management.

8 Broaden and deepen talent pool

We believe our ability to recruit, motivate and retain talented people is the key to our success. We are committed to providing appropriate opportunities and support to our employees to help them achieve their ambitions whatever their backgrounds. This positive and supportive culture creates high employee engagement levels that consistently exceed the benchmark for organisations that excel at employee engagement across the UK. We continually look to strengthen this high engagement culture that in turn makes us an attractive employer for future recruitment.

In 2015, we have embedded a talent management programme to identify and develop future leaders for our organisation; invested significant efforts in a diversity and inclusion programme; and engaged with other organisations to learn from their successes in furthering positive employee engagement.

I love LV= as they have given me a chance to be myself in the job and encouraged me to achieve and progress into further positions.

Sam Holmes, Bournemouth office

Business Model

Our products fall into the following categories
- **Life** protection and retirement products, including savings and investments, covering people's lives and incomes,
- **General Insurance** insurance for those more tangible items people love, their vehicles, homes, pets and holidays,
- **Heritage** focuses on savings and investment products that are no longer actively marketed, the majority of these being with-profits products,
- **Non-insurance** legal services and online retirement advice

Our portfolio includes a deliberate and careful balance of well established, profitable lines and selective investments in growth lines, all distributed to consumers directly and via brokers and IFAs This mix of business lines and distribution channels provides us with diversification of risks and helps mitigate the impact of adverse market conditions and business cycles which affect specific products or distribution channels

Our members' assets, and the premiums we receive every year, are managed on our behalf by our strategic partner, Columbia Threadneedle Investments This allows us to secure the best possible outcomes for our members and customers by focussing on our core expertise of risk based insurance business while benefiting from the investment management expertise of our partners The partnership arrangement with Columbia Threadneedle Investments is reviewed regularly to ensure the risk and return balance is appropriate for our members

As is common in our industry, reinsurance is used by LV= to help support our business lines where appropriate as it enables the transfer of risk of insurance losses that are outside our risk appetite, reduces the regulatory capital requirements imposed on the business, and helps improve our pricing competitiveness

We aim to grow member value consistently over the long-term while managing the risk involved in doing so appropriately We maintain, review, strengthen and develop a range of organisational capabilities that enable us to do that on an ongoing basis

I was treated politely and my enquiry dealt with confidently, efficiently and in a friendly manner. I wouldn't hesitate to recommend your company to friends and family.

General Insurance

Personal

- Car
- Motorcycle
- Specialist Vehicles
- Britannia Rescue
- Home
- Travel
- Pet
- Landlord
- Caravan
- Legal Services

Commercial

- Commercial Combined
  - Manufacturer's
  - Wholesaler's
  - Business
  - Leisure
- Commercial Motor
  - Fleet
  - Truck
  - Hire & Reward
  - Motor Trade Combined
  - Motor Trade Road Risks
- Package Insurance
  - Pub
  - Restaurant
  - Office & Surgery
  - Retail
  - Hotel & Guest House
  - Trades & Professions
- Property Owners
  - Property Investors
  - Residential
  - Commercial Property

Life

Protection

- Income Protection
- Term/Life Assurance
- Critical Illness
- Whole of Life
- 50 Plus
- Business Protection
- Protection Advice Service

Retirement

- Self-invested and personal pension
- Income Drawdown
- Fixed Term Annuity
- Enhanced Annuity
- Flexible Guarantee Funds & Bonds
- Equity Release
- Retirement Advice Service
- LV= Retirement Wizard

Heritage

- Pension Income Plus Annuity
- Flexible Savings Plan

The diagram represents the major product lines and services we currently sell, which are distributed directly or via intermediaries.
We have a significant number of additional product lines that are closed to new business including our Industrial Branch whole of life policies, Ordinary Branch pensions, and products sold by RNPFN

Strategic Report
Governance
Our Accounts

Group Finance Director's Review

The results for 2015 were particularly pleasing, with both of our trading businesses contributing to overall operating profit despite challenging market conditions.

Philip Moore
Group Finance Director

Operating profit	With-profits investments performance	Surplus capital
£195m	3.8%	£854m
+127%	1 1% above benchmark	+£165m

Overview

Operating profit in 2015 was £195 million (2014 £86 million), benefiting from solid trading profits in the general insurance business and strong trading profits in the life businesses There was also a significant contribution from the heritage business generated by changes made to the reserving assumptions The increase in profit before tax to £124 million (2014 £37 million) is mainly driven by the increase in operating profit

This record level of operating profit was achieved despite continuing challenging conditions faced across the business In our life business the retirement result is still being impacted by the 2014 budget changes leading to a shift in the buying behaviour of retirees In our general insurance business continued pressure on margins and extensive flooding towards the end of the year impacted the underwriting result

Economic conditions have also proved a drag on results with an increase in gilt yields driving down the value of debt securities In addition we saw credit spreads widening and the FTSE finishing the year down 4 9% on the 2014 closing position at 6,242

Our with profit investment returns at 3 8% have outperformed the benchmark for the fourth year running and we have declared a mutual bonus of £27 million, representing a 1% enhancement to eligible policies' asset share LV= continues to meet its financial aims of delivering good returns to members, while ensuring a satisfactory capital position on which to base future growth

During the year we have maintained a strong focus on ensuring we are ready to comply with Solvency II requirements from 1 January 2016 and the potential impact this will have on our capital position A significant capital management action taken was the general insurance business entering into a loss portfolio transfer agreement at the end of the year which reduced our capital requirements

Results for 2015

£m	2015	2014
General insurance	**72**	92
Life	**41**	(7)
Heritage	**88**	9
Group	**(6)**	(8)
Operating profit*	**195**	86
Pensions business IFRS adjustment	**(5)**	1
Short-term investment fluctuations and related items**	**(10)**	(2)
Centrally managed costs	**(29)**	(21)
Finance costs	**(24)**	(24)
Amortisation of acquired intangibles	**(3)**	(3)
Profit before tax*	**124**	37
Mutual bonus	**(27)**	(24)
Income tax expense	**(6)**	(47)
Pension scheme actuarial gain net of tax	**51**	19
Transfer to/(from) the Unallocated divisible surplus	**142**	(15)

* A definition of the measures we use to review our business performance is provided in the glossary section on page 110

** Short term investment fluctuations and related items includes the favourable impact of tax deducted from policy asset shares and the RNPFN fund totalling £nil million (2014 £34 million)

The operating profit contribution from our businesses is summarised in the table above Operating profit for the general insurance business comprises the trading results from insurance activity (underwriting profit) and investment returns For the life and heritage businesses, operating profit includes the trading performance of new and existing insurance business, the impact of actuarial model and valuation changes, and also a margin for prudence in the life valuation assumptions (such as credit default allowance) Unmatched movements in the value of investment assets or liabilities are reported in short-term investment fluctuations

Operating profit for the general insurance business of £72 million (2014 £92 million) was satisfactory given the challenges faced during the year The underwriting result dropped to £44 million (2014 £51 million) following extensive flooding towards the end of the year which resulted in claims of £36 million The result benefited from favourable prior-year claims run-off of £93 million (2014 £109 million) Price increases in motor insurance began to impact in the second half of 2015 which has mitigated some of the strain on profit experienced in recent years from lower premium rates on business written due to the continuing severe market price competition However, the impact of the rate increases achieved was eroded by an acceleration in market claims inflation and the level of large value claims The investment return reduced to £28 million (2014 £41 million) reflecting the less favourable market conditions

The life business has enjoyed a recovery from the initial impacts of the Government's announcement on pension freedom reforms in 2014 New business volumes have grown significantly, particularly in protection, flexible guarantee bonds and pensions The increase in contribution from this new business has helped drive an increase in operating profit to £41 million (2014 £7 million loss) Operating profit has also benefited from favourable one-off model and valuation changes in the year

The heritage business operating profit of £88 million (2014 £9 million) is driven by model and valuation changes of £91 million Of this, £69 million relates to the methodology used to value the liabilities for OB pension policies, which was adjusted during the year to reflect a change in the basis used to calculate the amount payable when the policyholder elects to take the proceeds from the policy as cash rather than as an annuity

Group operating profit includes unallocated group overheads and also the return on the group's free capital

Profit before tax for the group of £124 million (2014 £37 million) is driven by the increase in operating profit Costs booked below operating profit include the impact of short-term investment fluctuations, centrally managed costs and finance costs, mainly interest payable on our subordinated debt

The reduction in the tax charge during the year reflects lower gains made in policyholders' fixed-interest investments compared to 2014 This tax on investment gains in the with-profit business, which gets charged to policyholders' asset shares, fell from £34 million to £nil million The balancing reduction in the tax charge mainly reflects reduced general insurance profits

The actuarial gain on the pension schemes of £51 million (2014 £19 million) is mainly driven by the increase in discount rate reducing the value of the schemes liabilities This has been offset by the reduction in the value of the schemes' invested assets, reflecting market movements As at 31 December 2015 the schemes reported a combined asset, net of tax of £54 million (2014 £3 million)

The general insurance, life and heritage performance is explained in more detail in the relevant business review sections

Statutory results for 2015

Summarised income statement

£m	2015	2014
Gross earned premiums	**2,408**	2,264
Premiums ceded to reinsurers	**(384)**	(124)
Net earned premiums	**2,024**	2,140
Investment income	**401**	377
Net (losses)/gains on investments	**(282)**	832
Other income	**57**	47
Total income	**2,200**	3,396
Net benefits and claims	**(1,476)**	(1,584)
Net change in contract liabilities	**47**	(1,131)
Finance costs	**(24)**	(24)
Investment return allocated to external unit holders	**-**	(36)
Other operating and administrative expenses	**(623)**	(584)
Total benefits, claims and expenses	**(2,076)**	(3,359)
Profit before tax, mutual bonus and UDS transfer	**124**	37

Total income has decreased by £1,196 million to £2,200 million (2014 £3,396 million) This is primarily driven by the movement in net gains on investments from £832 million in 2014 to net losses on investments of £282 million in 2015 Unrealised losses of £275 million occurred in the value of debt securities as gilt yields increased and credit spreads widened in response to general market challenges in the second half of the year Unrealised losses on equities of £115 million reflect the overall fall in the FTSE during the year

In 2014 the high charge to the net change in contract liabilities was mainly driven by investment gains In 2015 the investment gain reversal has generated a credit to the statement of comprehensive income This has been partially offset by the increase in new business

Total income was also adversely impacted by a fall in net earned premiums of £116 million The overall fall in net earned premiums is driven by the new loss portfolio transfer agreement which the general insurance business entered into at the end of 2015 This resulted in reinsurance of 20% of its booked reserves, impacting premiums ceded to reinsurers by £242 million Gross earned premiums have increased by £144 million (6%) The underlying increase is driven by strong new business sales in pensions, flexible guarantee bonds and protection policies Gross earned premiums were essentially flat in the general insurance business

The new loss portfolio transfer agreement has also impacted the net benefit and claims figure, increasing the reinsurer's share of claims liabilities by £242 million This means that gross benefits and claims have actually increased, mainly in retirement, reflecting the increase in annuity claims as the one year products sold in 2014 in response to the budget announcement have matured

Other expenses have increased to £623 million (2014 £584 million) We have a continued focus on cost control and this increase is mainly due to the increase in staff costs, reflecting higher bonus and LTIP payments following the strong 2015 results The remainder of the increase is due to increased commission payments, reflecting the increase in and mix of new business sales

Profit before tax

£124m

+£87m

Unallocated divisible surplus

£1,101m

+£142m

Summarised balance sheet

£m	2015	2014
Assets		
Cash and cash equivalents	**1,186**	790
Financial assets – Fair value through income	**11,419**	11,791
Other assets	**1,934**	1,468
Total assets	**14,539**	14,049
Liabilities		
Insurance contract liabilities	**9,868**	9,715
Investment contract liabilities	**2,416**	2,106
Other liabilities	**1,154**	1,269
Unallocated divisible surplus	**1,101**	959
Total liabilities	**14,539**	14,049

The group retains a significant liquid cash position with a cash and cash equivalents balance of £1,186 million (2014 £790 million)

Investments held at fair value through income have decreased by £372 million to £11,419 million (2014 £11,791 million) Included in this balance are debt and other fixed income securities which have decreased by £916 million to £6,456 million (2014 £7,372 million) This decrease is generated by the impact on investment valuations from increases in yields Also included are variable yield securities which have increased by £549 million to £4,257 million (2014 £3,708 million), following increased levels of equities purchased to back new business sales in the life business

Associated with the group's investment in debt and other fixed income securities, cash and cash equivalents, and loans secured on residential and commercial property is credit counterparty risk The table below shows the credit profile of the group s investment in these assets, with 72% of the group's exposure to credit risk on these assets rated 'A or above (2014 74%)

Credit risk exposure

£m	2015	2014
AAA	**739**	998
AA	**3,304**	3,245
A	**1,933**	2,296
BBB	**1,585**	1,444
Below BBB	**59**	137
Not rated*	**728**	751
	8,348	8,871

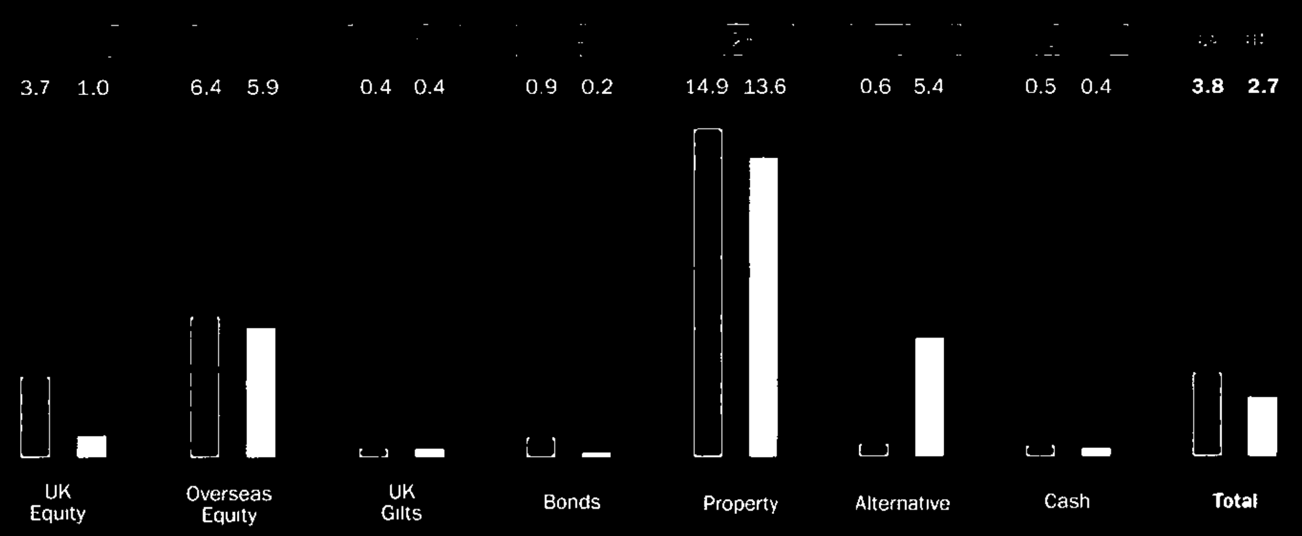
* Not rated includes balances for residential and commercial property totalling £706 million (2014 £709 million)

Insurance contract liabilities have increased by £153 million to £9,868 million (2014 £9,715 million) This increase is split between life with an increase of £51 million to £7,771 million (2014 £7,720 million) and general insurance which has seen an increase of £102 million to £2,097 million (2014 £1,995 million)

Investment contract liabilities have increased by £310 million to £2,416 million (2014 £2,106 million) following strong new business sales in retirement

Heritage LVFS with-profits fund performance

Assets under management
Heritage WP Fund performance %
Benchmark* performance %



UK Equity	31%
Overseas Equity	14%
UK Gilts	28%
Bonds	10%
Property	11%
Alternative	3%
Cash	3%

UK Equity	7%
Overseas Equity	3%
UK Gilts	19%
Bonds	56%
Property	2%
Alternative	0%
Cash	13%

Other group assets fund performance**

Assets under management
Fund performance %

* Benchmark performance is calculated using a blend of recognised metrics which reasonably represent the market level performance for the mix of assets included in the Heritage WP fund.

** Other group assets are assets invested by the general insurance and life business.

Investment performance

Columbia Threadneedle Investments – Our ongoing strategic partnership with investment managers Columbia Threadneedle Investments continues to prove successful with the LVFS with-profits fund once again exceeding the market standard benchmark

With-profits – The main LVFS with-profits fund delivered good relative performance for our with-profits members with an absolute performance of 3 8% This is above the benchmark of 2 7%, with outperformance in UK equities and a broadly in-line performance of UK gilts, which together form 59% of the fund's assets

Other group assets – Outside of the main LVFS with-profits fund the majority of assets are invested in UK corporate bonds and UK gilts Returns in these areas were subdued in the face of increases in yields and widening credit spreads

Capital management

Capital is managed on both economic and regulatory bases to ensure we have sufficient funds to meet our business objectives, the promises we have made to our members and policyholders and regulatory requirements

Capital is monitored and managed both at a group and entity level

We operate through three main companies

- LVFS is the parent company of the group and the company where we write the majority of our life insurance business LVFS is also the sponsor of our staff pension funds
- Liverpool Victoria Insurance Company (LVIC) and Highway Insurance Company (HICO) are the companies which write our general insurance business

We seek to deploy capital where we believe the risk is properly rewarded Asset and liability matching is extensively used and risks are hedged where we believe we would otherwise receive insufficient return for the risk taken or to reduce volatility

We report our capital position on a regulatory basis using legislation in force in 2015 which defines the capital requirements an organisation must meet The two different bases reported below are

- Peak 1 (a traditional valuation basis), and
- Peak 2 (more realistic for with-profits business)

LVFS capital resources

£m	2015	2014
Admissible assets*	**10,667**	10,282
Add capital requirements of regulatory related undertakings	**229**	256
Mathematical reserves (after distribution of surplus)	**(8,719)**	(8,470)
Regulatory current liabilities	**(770)**	(755)
Available capital resources	**1,407**	1,313
Capital requirements of regulatory related undertakings	**(229)**	(256)
Capital resources within RNPFN fund**	**(236)**	(247)
Peak 1 capital requirement	**(306)**	(300)
Peak 1 excess regulatory capital (excluding RNPFN)**	**636**	510
With-profits insurance capital component	**(129)**	(168)
Peak 2 excess regulatory capital (excluding RNPFN)**	**507**	342
Subordinated debt (after costs)	**347**	347
Pillar 1 excess regulatory capital including subordinated debt	**854**	689

* The admissible assets shown above are calculated on a regulatory basis and therefore differ from the total assets under management
** RNPFN denotes Royal National Pension Fund for Nurses which is a ring fenced fund The free assets attributable to this fund are reported as insurance contract liabilities of the Society

During 2015 the main movements in Pillar 1 regulatory capital were

£m	2015	2014
Excess capital at 1 January	**689**	720
Opening adjustments	**5**	2
Economic variances	**6**	(47)
Claims variances	**4**	–
Expense variances	**(24)**	(17)
New business	**(1)**	(16)
Impact of changes to valuation assumptions	**25**	12
OB pension cash benefits basis change	**69**	–
Movement in group undertakings*	**57**	68
Interest on subordinated debt	**(23)**	(23)
Mutual bonus	**(27)**	(24)
Change in Risk Capital Margin	**51**	(3)
Other	**23**	17
Excess capital at 31 December	**854**	689

* Movement in group undertakings relates to the change in the net asset value of the subsidiaries due mainly to profits generated and movements between admissible and inadmissible assets

Risk appetite
We have embedded our approach to risk management through our risk appetite The risk appetite for capital management is that we will hold sufficient solvency capital to ensure that the group can continue to trade following a severe adverse movement in markets See further details on risk management on pages 46 to 57

Capital management actions 2015
During 2015 we have taken a number of actions to improve our capital position and to reduce the sensitivity of our capital position to market movements including, in the latter part of 2015, the general insurance business entering into a loss portfolio transfer agreement resulting in reinsurance of 20% of its booked reserves A whole account 20% quota share arrangement effective 1 January 2016 has also been placed

Stress and scenario testing
In addition to calculating capital on the required regulatory regime, we undertake a series of stress and scenario tests to ensure the robustness of our solvency position in regard to different levels of new business growth, movements in investment markets and changes in other assumptions such as the expected lifetime of our enhanced annuity customers

In looking at movements in investment markets we consider a number of single stresses (e g a significant fall in equities) but more importantly because investment markets are highly correlated we consider how they will move together in stressed conditions For example, falls in equity markets will generally also see rises in credit spreads on corporate bonds We build a distribution of expected market events and we test a number of points on the distribution i e 1 in 10 year events, 1 in 100 year events, 1 in 200 year events In addition we run a number of 'real world' scenarios to test the robustness of our business model For example, we made use of the scenario used in the Bank of England's annual stress testing exercise for the banking sector, which investigated a global downturn and persistent low yield environment in 2015

We use the outcomes of the stress and scenario testing to develop the management actions we would undertake if our capital or other performance measures move outside of our defined risk appetite

The impact of some of these stresses is shown below and in note 4 of these financial statements

In order to plan for the future operations of the group, forecast plans are produced including stress and scenario testing to provide the board with assurance that the group will be able to withstand adverse events if they arise Selected market scenarios modelled and reported to the board, together with the impact on excess capital, are shown below

	Market Movements				Impact on Excess Capital (£m)
	Equity	Property	Fixed Interest	Credit Spread	
Scenario 1	-9 1%	-8 1%	0 0%	+1 87%	(99)
Scenario 2	-11 8%	-10 6%	0 0%	+2 40%	(122)
Scenario 3	-19 3%	-17 7%	0 0%	+3 75%	(196)
Scenario 4	0 0%	0 0%	-0 6%	0 0%	(121)

Solvency II
From 2016 our regulatory capital position will be reported under the new Solvency II regime The developments required for the transition to the Solvency II regime were a key focus for the group throughout 2015 The group is ready to comply with the Solvency II requirements with effect from 1 January 2016

LV= will calculate its regulatory capital position using the Solvency II standard formula approach from 1 January 2016 LV= will work with the Prudential Regulatory Authority (PRA) to agree a timeline to transition to the internal model approach at a future date In addition LV= has received PRA approval to utilise transitional relief and the volatility adjuster under the Solvency II regime from 1 January 2016 The group is working with the PRA to agree the use of the matching adjustment at a future date Using the matching adjustment will result in a better alignment of matched assets and long-term liabilities on a regulatory basis The internal model approach should provide a more appropriate basis for measuring the group's capital requirement than the standard formula approach and is also better aligned to the group's economic capital basis

Whilst LV= will use the Solvency II standard formula approach to determine its regulatory capital position from 1 January 2016, it will continue to manage the group's business primarily on an economic capital basis, within risk appetite on a regulatory basis

Work is underway to calculate the group's capital position under Solvency II as at 1st January 2016 The group will be reporting this information to the PRA in May 2016 and as at the signing date of the Annual Report it is difficult to estimate the final Solvency II capital position at 1 January 2016 However the group currently expects that, as at that date, it will be reporting a surplus of approximately 35% over the standard formula capital requirement Work is also underway on a number of capital optimisation initiatives which are aimed at increasing this surplus

This is lower than the surplus reported under Solvency I, Pillar 1 above, reflecting methodology differences between the two bases (including the impact of the Risk Margin under Solvency II) and also the impact of using a discount rate for long-term liabilities incorporating the volatility adjustment rather than one which is more closely aligned to the rate expected to be earned on the matching assets

Liquidity management

Liquidity management is required to ensure that the group has sufficient financial resources available to meet its obligations when they fall due

The group generates cash from profitable trading in the general insurance business and from realised margins on in-force long-term insurance policies Surplus cash is used to fund new business growth and central costs Investment fluctuations will also affect the liquidity of long-term insurance funds

When reserves are strengthened or released at a fund level, assets are either transferred from or paid to the Estate Fund The transfer of assets into or out of the funds will reduce or release assets to be used as surplus cash In addition, surplus capital is held at subsidiary level to ensure that individual entities are adequately capitalised and have sufficient liquidity to meet their obligations as they fall due

Operational liquidity

The table below summarises the operational liquidity generated for the Estate Fund Operational liquidity is generated from movements in free assets in the year (including cash and cash equivalents and surplus assets within funds in excess of matched liabilities) Operational liquidity excludes amounts attributable to RNPFN and also intra-group capital investments and repayments

The general insurance business returned funds of £37 million to the group

Increased new business sales of pensions and protection products have increased the level of new business cash consumption However, this has been offset by cash generated from sales of flexible guarantee bonds and annuities, although the latter being at lower levels than in 2014

The movement in non-recurring items reflects the favourable impacts of one-off model and valuation changes in the heritage business

Going forward we aim to maintain our strong operational liquidity position and to bring the life business into a cash generating position

LVFS operational liquidity

£m	2015	2014
General insurance surplus cash remitted	**37**	37
Life	**(10)**	(11)
Group items*	**(24)**	(24)
Tax paid	**(4)**	9
(Outflow)/inflow before non-recurring items, debt interest and mutual bonus	**(1)**	11
Non-recurring items**	**34**	(1)
Net inflow before debt interest and mutual bonus	**33**	10
Debt interest paid	**(23)**	(23)
Mutual bonus	**(27)**	(24)
Net outflow***	**(17)**	(37)
Operational liquidity held at 31 December	**507**	524

* Group items comprise centrally managed costs and also the net impact of the heritage with profits business
** Includes net impact of assumption changes and investment gains in life and heritage and dividends and capital repayments from non general insurance subsidiaries
*** Excludes intra group capital investments and repayments

Outlook

The results for 2015 were particularly pleasing, with both of our trading businesses contributing to overall operating profit despite challenging market conditions

Our strong brand and increasingly customer centric approach mean that LV= is well placed to retain existing customers and to attract new business The combination of offering products which people want alongside market leading customer service means that we can expect to see continued strong profit contributions being delivered across the group for the foreseeable future

The developments required for the transition to the Solvency II regime have been a key focus for the group for the last few years The rigour applied to this preparatory work and the careful management of the group's capital position mean that we are confident that the LV= group will continue to operate successfully under the Solvency II regime during 2016 and in the longer-term

General Insurance Review

We are the third largest private car insurer in the UK with around 12% market share.

John O'Roarke
Managing Director of General Insurance

2015 represented another year of solid progress for our general insurance business We increased our policy count by over 100,000 policies and ended the year with more than 4 7 million policies in force Our financial results were satisfactory in the context of challenging market conditions but were impacted by the combined effects of sustained low investment returns and the severe flooding which affected the northern parts of the country in December

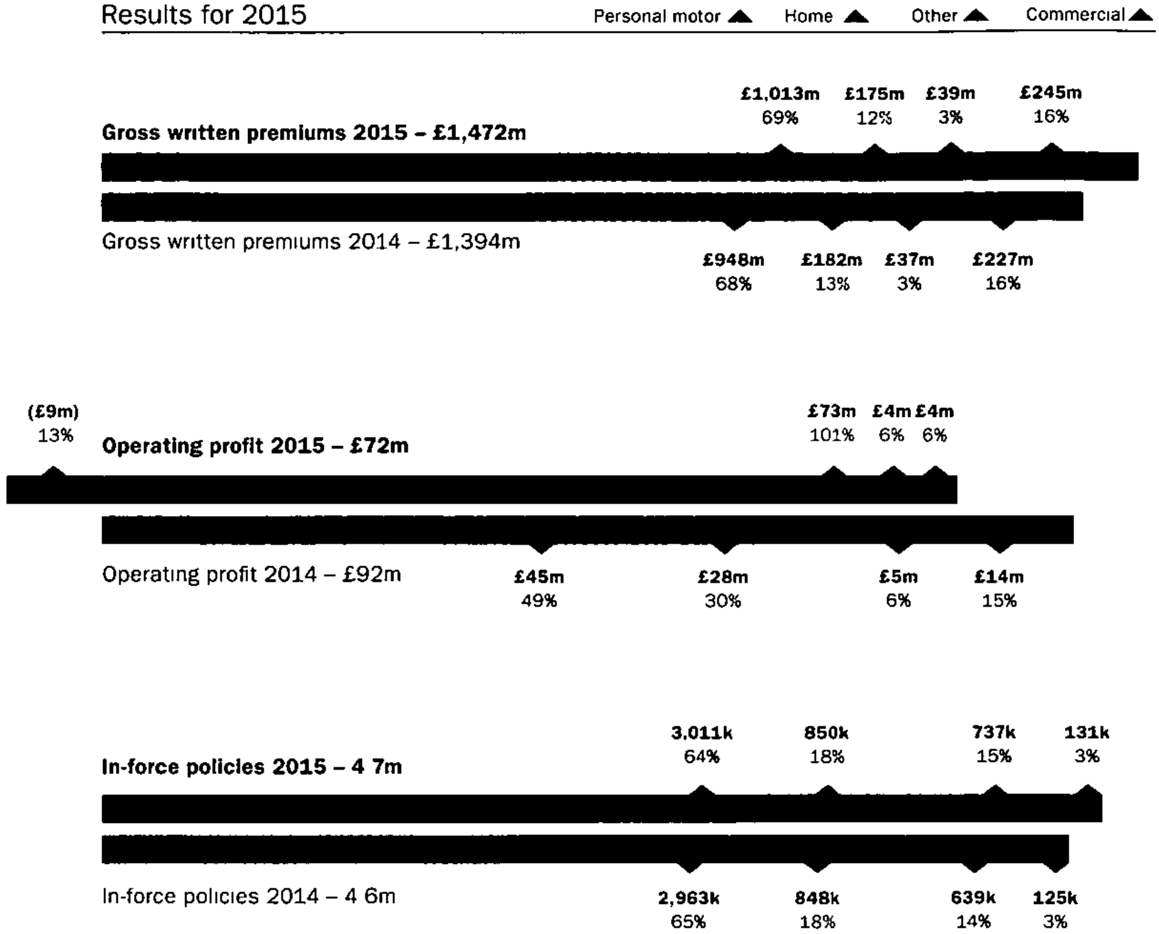
While pricing in the private motor market finally began to harden from the middle of the year, the impact of the rate increases achieved was eroded by an acceleration in market claims inflation and the level of large value claims This was driven by a number of factors, including an increase in underlying claims frequency as falling fuel prices and resurgent economic activity led to an increase in vehicle miles driven The market also saw an increase in subrogated costs as some market participants responded to the Competition and Market Authority's Private Motor Market Investigation by inflating non-fault repair and hire car costs Set against this backdrop, our view is that the market remains under-priced and will need to impose further rate increases in 2016

Our 2015 operating profit of £72 million was down 22% compared to 2014 due to the lower investment returns noted above and the impact of £36 million of flood-related claims on underwriting profits The underwriting result benefited once again from significant favourable prior-year reserve development amounting to £93 million, albeit £16 million lower than the equivalent figure in 2014 While we expect to see continued positive reserve run-off in future years it will be at a lower level than that experienced in recent years We have therefore continued to strengthen current year underwriting margins by increasing motor premium rates We increased motor new business rates by 14% and 13% in the direct and broker channels respectively We also took the opportunity to increase premium rates at renewal but at a lower rate than new business in order to recognise the importance of customer loyalty and longevity

Private motor insurance remains our most significant business line and we are the third largest private car insurer in the UK with around 12% market share, based on the number of vehicles insured Our strategy to lessen our dependence on motor continued apace in 2015 and more than half of the net growth in policy numbers came from non-motor lines

The two core businesses of direct and broker now underwrite 3 3 million and 1 4 million policies respectively In contrast to 2014 when both businesses contributed equally to operating profit (at £46 million each), the relative profit contributions this year were very different The direct business recorded a record operating profit of £91 million driven by a very strong underwriting result of £76 million However in broker, the commercial business was adversely impacted by the extreme weather conditions in December with flood and storm claims amounting to £23 million This, combined with weaker underwriting results in private motor, meant that our broker channel business reported an operating loss of £19 million We anticipate that the rating and underwriting actions we took in 2015 will restore this business to profitability in 2016

Results for 2015



£m	2015	2014
Underwriting result	**44**	51
Investment return	**28**	41
Operating profit	**72**	92
Centrally managed costs	**–**	(1)
Amortisation of acquired intangibles	**(2)**	(2)
Profit before tax	**70**	89

	2015	2014
Direct operating profit	**£91m**	£46m
Broker operating (loss)/profit	**£(19)m**	£46m
Loss ratio	**66 3%**	71 8%
Expense ratio	**29 8%**	24 3%
Combined ratio	**96 1%**	96 1%
Investment returns*	**1 3%**	2 0%
Direct premium income	**£837m**	£789m
Broker premium income	**£635m**	£605m
Pre-tax return on capital	**9 5%**	12 3%
Direct in-force policies	**3 3m**	3 2m
Broker in-force policies	**1 4m**	1 4m

* Quoted gross of expenses

THE BRITISH INSURANCE AWARDS 2015 WINNER THE CUSTOMER CARE AWARD
the definitive mark of achievement

Total in-force policies
4.7m
+0 1m

Road Rescue customers
925k
+108k

Broker Commercial premium written
£241m
+8%

Despite active management of the investment portfolio during 2015, the continuing low interest rate environment meant that we were only able to generate a total return of 1 3% on our invested assets, compared to 2 0% in 2014

Once again a key driver of our continued portfolio growth was the high level of personal recommendations made by existing customers For the second year running YouGov confirmed that we remain the most recommended insurer in the UK We believe this achievement derives directly from our policy of providing fairly-priced insurance products and exceptional customer service Also, the customer satisfaction surveys carried out by the Institute of Customer Service (ICS) showed that consumers continue to rank us as one of the very best insurers in the UK for customer satisfaction This is a tremendous accolade for all our customer-facing people and the leadership teams who support them

The private motor market continues to be affected by the activities of claims management companies encouraging the submission of spurious claims for whiplash It is encouraging therefore that the Chancellor's Autumn Statement set out Government plans to address the compensation culture, possibly by removing the entitlement to cash compensation for minor personal injuries We fully support the government's plans and have made a public commitment to pass on all savings to customers through lower premiums

Direct

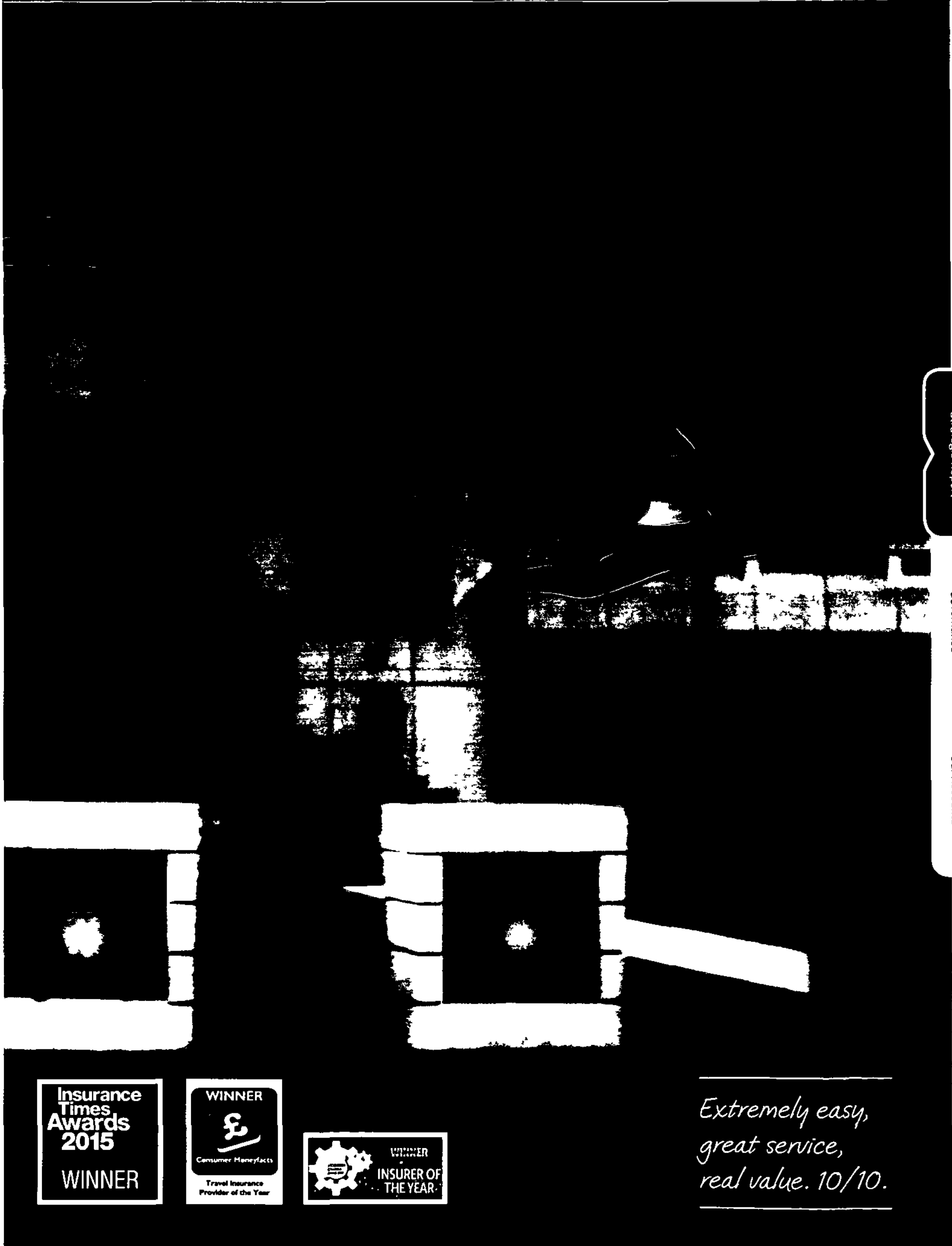
The number of policies held by our direct customers increased for the eighth year in a row In-force policies grew by over 100,000 to 3 3 million Motor insurance policies ended the year up by just over 45,000 at 1 95 million in-force policies reflecting an easing of competitive pressures in the second half of the year Once again, the strongest growth came in our road rescue business where in-force policies grew by 94,000 to 648,000 In addition to these stand-alone road rescue policies, we also sell road rescue as an add-on to our motor insurance policies These additional sales mean we now have 925,000 road rescue customers in total In home insurance, policies grew by 6% to 624,000 in-force policies Despite the growth in policy numbers, home premium income fell back slightly, by 1%, due to falling average premiums, to £136 million

Broker

In the broker channel we remained cautious on personal motor, holding policy volumes broadly flat while increasing gross premiums written by 6% to £355 million through selective rate increases Similarly in broker home insurance we focused on the maintenance of underwriting discipline rather than volume and allowed business to move to other panel members, with the result that gross premiums fell by 14% to £38 million Our commercial business continued to expand and we achieved our eighth consecutive year of significant premium growth with total commercial premium written up by 8% to £241 million Underwriting profits in the commercial business were adversely impacted by the end of year weather events

Looking ahead

We believe that 2016 will bring more attractive trading conditions as private motor insurers push through further premium rate increases in order to offset claims cost inflation Our general insurance business is well positioned to take advantage of these conditions with its reputation for excellence in customer service and fair pricing for both new and renewing customers We expect to see further growth in policy numbers and aim to see improving returns for LV= members over the medium-term



LV= Car insurance advert 2015

Life Review

Our customer centric and agile culture helps differentiate us from the competition.

Richard Rowney
Managing Director of Life and Pensions

Retirement Solutions sales
£1,552m
+21%

Operating profit
£41m
+£48m

Protection sales
£272m
+25%

Helping our customers protect their health, wealth, family and wellbeing

Our core vision remains unchanged – we continue to strive to be Britain's best loved insurer, acting as a challenger brand on the side of our customers We have been delighted to be recognised by consumers and the industry as the Most Trusted Life Insurer (MoneyWise) and the Most Recommended Insurer (YouGov) for the third consecutive year In addition we were proud to be awarded Outstanding Achievement from the Financial Adviser Service Awards alongside a further twenty five awards for our range of products and services

Such outstanding service can only be delivered by having an engaged and inspired workforce 2015 saw record levels of employee engagement with 97% of our colleagues expressing their belief in our brand and values Our customer centric and agile culture helps differentiate us from the competition and this has never been more tested than in responding to the pension freedoms which came into effect in April 2015 We responded swiftly to our customers' needs, sustaining market leading service when call volumes surged across the market, and were the first to market with our blended LV= Retirement Account proposition and online regulated advice service LV= Retirement Wizard

Our protection business has also had a strong 2015 again showing encouraging growth in relatively flat markets We leveraged our expertise in income protection to enter new markets by launching LV= Business Protection, offering specialised and good value protection, advice and tools to business customers across the UK

We are increasingly being recognised as thought leaders within the industry and have worked closely with the Government and our regulators to help shape the industry and make decisions that are in the best interest of our customers and members In 2015 our managing director, Richard Rowney, joined the expert panel on the Financial Advice Market Review to develop ways of making financial advice work better for everyone

Definitions

Present value of new business premiums (PVNBP)
The total of new single premium sales received in the year plus the discounted value, at the point of sale, of the regular premiums we expect to receive over the term of the new contract sold in the year. For Equity Release this represents the amount of loans provided.

New business contribution
The contribution to underlying operating profit as a result of new business written.

New business margin
The new business contribution as a percentage of sales on a PVNBP basis.

Internal rate of return (IRR)
The discount rate at which the present value of all expected future revenue is equal to the expected initial investment to write the business.

Payback period
The length of time required for the expected cash flows from new business to equal the amount of cash required to write the business.

2015 Results

Overall the life business has delivered an operating profit of £41 million, up from a £7 million operating loss in 2014

New business volumes have grown significantly, particularly in pensions as consumers increasingly utilise our draw-down expertise We have seen good growth in our specialist savings business with bond sales being particularly encouraging, and in protection we've experienced strong growth across all our major product lines

As a result, new business contribution before investment has nearly doubled to £47 million (2014 £25m) demonstrating profitable growth across the business

Operating profit has also benefited from favourable one-off model and valuation changes of £23 million (2014 £14 million adverse movement) Of this, £16 million relates to changes in protection business reinsurance

Results 2015

£m	2015	2014
Operating profit/(loss)	**41**	(7)
Pensions business IFRS adjustment	**(5)**	1
Short-term investment fluctuations	**(27)**	(10)
Centrally managed costs	**(2)**	(2)
Amortisation of acquired intangibles	**(1)**	(1)
Profit/(loss) before tax	**6**	(19)

New business

	Present value of new business premiums (PVNBP)		Single premiums		New regular premiums	
	2015 £m	2014 £m	**2015 £m**	2014 £m	**2015 £m**	2014 £m
Pensions	**801**	636	**708**	569	**14**	11
Annuities	**309**	387	**309**	387	**-**	-
Flexible Guarantee Bonds	**379**	153	**379**	153	**-**	-
Equity Release	**63**	105	**63**	105	**-**	-
Total retirement solutions	**1,552**	1,281	**1,459**	1,214	**14**	11
Protection	**272**	217	**-**	-	**35**	31
Total life	**1,824**	1,498	**1,459**	1,214	**49**	42

PVNBP Annuities sales comprised
Enhanced £116 million (2014 £205 million)
Traditional fixed term £193 million (2014 £139 million) and
Our one year fixed term annuity product was sold to support consumers in advance of the budget reforms coming into effect LV= no longer sells this product now that reforms are in force (2014 £43 million)

New business contribution

			New business margin	
	2015 £m	2014 £m	**2015 %**	2014 %
New business contribution before investment in new propositions				
Pensions*	**6**	1	**1**	-
Annuities	**4**	3	**1**	1
Flexible Guarantee Bonds	**9**	3	**2**	2
Equity Release	**7**	8	**11**	8
Total retirement solutions	**26**	15	**2**	1
Protection	**21**	10	**8**	5
Total life before investment in new propositions	**47**	25	**3**	2
Investment in new propositions	**(17)**	(11)		
Net new business contribution	**30**	14	**2**	1

* Calculated on a value add basis i e before pensions business IFRS adjustment

New business internal rate of return and payback period on a Solvency I basis

	Internal rate of return		Payback period	
	2015 %	2014 %	**2015 Years**	2014 Years
Pensions	**8**	7	**10**	10
Annuities	**20**	11	**5**	8
Protection	**14**	18	**6**	6
Total life	**13**	12	**7**	8

The numbers above are calculated on a Solvency I basis Going forward we will be managing our business and calculating our return on a Solvency II basis

Retirement solutions

The retirement business has successfully recovered in 2015 as consumers increasingly begin to make decisions about their retirement that were previously deferred from 2014 until the new pension freedoms came into effect in April 2015

Whilst consumers become accustomed to their range of options and choices ahead, we believe LV= is well placed to fulfil these needs We were first to launch our blended LV= Retirement Account proposition which combines innovative products such as the LV= Fixed Term Annuity and LV= Flexible Guarantee Funds Blending allows our customers to have personalised solutions that meet their individual needs Our innovative Retirement Account solution can give the assurance of a regular income, the flexibility to draw-down cash and/or the ability to keep a proportion invested all in one product This unique proposition provides the full breadth of retirement options, designed in a way to give customers the best possible outcome for their hard-earned savings

Total new business sales have increased by over 20% to £1 5 billion Pension sales have increased significantly as they become a core part of a blended portfolio, as well as our Flexible Guarantee Bond (Investment proposition) and Funds (Retirement Account proposition) which have increased to £379 million in 2015 (2014 £153 million) As expected enhanced annuities have continued to decline as consumers utilise the benefits of a guaranteed income later in life when income certainty is more important

New business contribution before investment in new propositions has increased for the retirement business to £26 million (2014 £15 million), reflecting both increases in sales and margins

We secured a majority stake in Wealth Wizards Ltd in August to support the development of digital regulated advice solutions supporting our aim to make financial advice affordable and accessible to the mass market Through this partnership we have been first to market with LV= Retirement Wizard, a fully automated and regulated advice solution offering online advice at a low fixed cost with a money-back guarantee Wealth Wizards also have their own branded Pension Wizard to help consumers maximise their long-term savings in the build-up to retirement, and are developing further innovations in the advice sector

Since the acquisition we have seen a significant rise in interest for automated advice across the industry and have been exploring a number of different partnerships which we will begin to launch in 2016 Our new LV= Corporate Solutions brand packages together a number of our at-retirement solutions, including our automated advice services, defined benefit scheme solution (Pension Compass), and wider education and guidance tools for the corporate market, to allow partners and their customers to access the full range of pension freedoms

Following the success of our new propositions, we are continuing to invest more in our back-office systems and processes to create easy-to-use solutions for our customers, partners and people We have made a significant investment in our digital strategy and believe that this will help sustain growth in future years

We remain confident that through our strong industry lobbying, backed up with market leading propositions, and continued high levels of customer satisfaction we can continue to challenge the industry and drive changes that mean everyone can get more from their hard-earned savings

Protection

We are pleased to report further growth in our protection business with new business sales up 25% on 2014 to £272 million against a relatively flat market Overall business performance was impressive, more than doubling new business contribution before investment to £21 million (2014 £10 million) through a combination of strong sales and good cost control, as well as additional benefits achieved through restructuring re-insurance and a review of mortality assumptions

We continue to strongly campaign on the wide ranging benefits of income protection, which provides a safety net for consumers if they are unable to work because of an accident or sickness We support initiatives such as '7 Families' which aims to raise public awareness of the financial impact of long-term illness or disability and to demonstrate the value of rehabilitation and counselling to help people get back to work We have also increased our training and support for intermediaries and are improving our online educational tools

We have taken the step to widen our proposition for small and medium business owners in the second half of 2015 by launching LV= Business Protection We have developed a differentiated proposition with specialist advice, tools and education which has received an excellent response from advisers and customers Following this success we continue to explore further opportunities to develop into adjacent markets where we believe our customer focus and brand could gain traction quickly

To support our goal of providing good quality propositions at a good price, a key priority in 2015 was to review the protection business model with a focus on lowering cost and increasing agility The newly designed operating model has enabled increased automation, faster and cheaper innovation, and a more intuitive new business platform which is due to launch in 2016

With the benefit of a more agile business model, we have brought together an advisory panel of industry experts to help us review digital trends and innovation to develop new ways of engaging consumers with protection With our deep consumer understanding, trusted brand and technical expertise we believe we are best placed to embrace technology and innovation in a historically conventional industry

Looking ahead

We do not expect growth to be sustained at 2015 levels as undoubtedly the competition will respond with disruptive solutions There appears to be no let-up in the pace of regulatory change, the launch of the secondary annuity market and forecast tax changes are all areas that will keep the life industry busy over the coming years We do however believe that we are well positioned and have laid some strong foundations for future profitable growth

Our agility and understanding of the needs of our customers has enabled us to move faster than the competition and we remain confident that we will see continued success over the medium-term We continue to explore and embrace emerging trends such as robo-advice which we believe can make financial services more accessible to the general public By leading the market in this way we can continue to lobby the industry from an informed position, supporting our vision of being Britain's Best Loved Insurer by ensuring the best possible outcomes for our customers and members


I have dealt with LV= quite a few times over the last decade with life insurance and have always come to the conclusion how speedy, professional and helpful you are. I have recommended LV= to everyone I know.
Moneywise
SERVICE AWARDS
2015
MOST TRUSTED
LIFE INSURER
LV=
WINNER
Investment Life & Pensions
Moneyfacts
Award 2015
Best Pension Service
STANDARD

Heritage Review

Results 2015

£m	2015	2014
Other products underlying operating loss	**(3)**	(2)
Model and valuation changes	**91**	11
Operating profit	**88**	9
Short-term investment fluctuations and related items*	**11**	30
Centrally managed costs	**–**	(1)
Profit before tax	**99**	38

* Short term investment fluctuations and related items contains the favourable impact of tax deducted from policy asset shares and the RNPFN fund totalling £nil million (2014 £34 millon)

In 2015 the guarantee bond business moved to the life business allowing heritage to focus on those policies that are not actively marketed

The heritage business includes ordinary branch and industrial branch with-profits policies along with some non-profit business and it also includes with-profits and unit-linked business acquired from the Royal National Pension Fund for Nurses ('RNPFN') The with profits policies are a mix of both unitised and conventional business Sales of the few open categories in 2015 were £9 million on a PVNBP basis (2014 £15 million) Total policies in-force are 654,000 of which 610,000 are with-profits and reserves are £4 3 billion

Heritage operating profit of £88 million (2014 £9 million) is driven by model and valuation changes of £91 million (2014 £11 million) Of this, £69 million relates to the methodology used to value the liabilities for OB pension policies, which was adjusted during the year to reflect a change in the basis used to calculate the amount payable when the policyholder elects to take the proceeds from the policy as cash rather than as an annuity Continued cost control has ensured that costs are being managed in line with the predicted run-off of the business

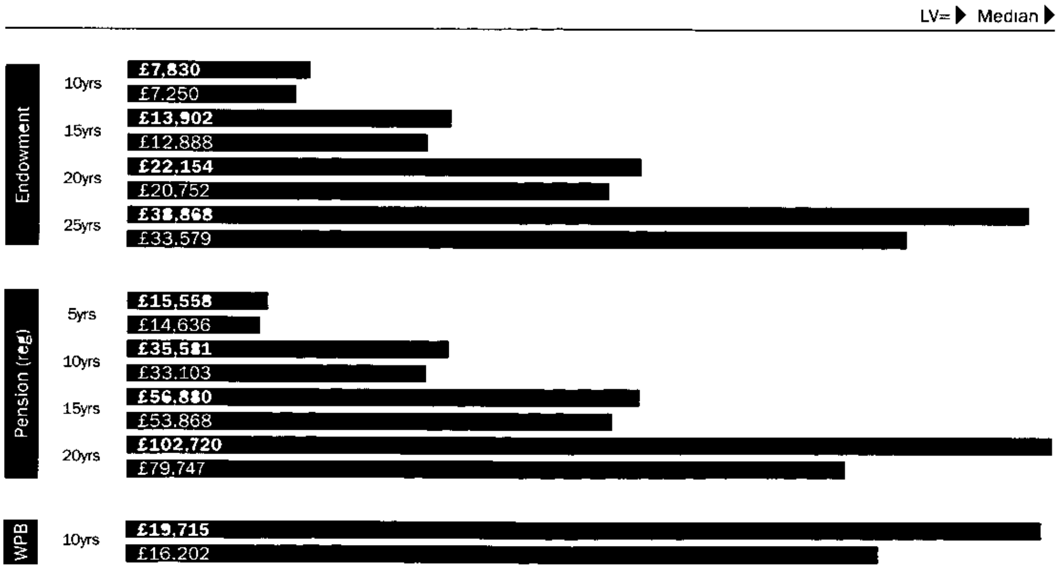
The main with-profits fund achieved an investment return of 3 8% for the year This was a strong performance in the face of difficult market conditions, out-performing market benchmarks by 1 1% This is the fourth year running that the fund has delivered returns above benchmark

In December 2014 we agreed terms with Teachers Assurance to take over the majority of its business interests Like LV=, Teachers Assurance is a member-owned mutual friendly society Everything is in place to complete the transaction in the first half of 2016, subject to regulatory approval Teachers Assurance currently manages 60,000 policies

We are examining carefully the findings of the recent Financial Conduct Authority (FCA) review published with regards to the treatment of long-standing customers, whose policies are no longer being actively marketed We aim to treat all our customers fairly, nonetheless we will be paying particular attention to the FCA's concerns

Heritage with-profits pay-outs and industry comparison

Recent maturity and surrender values for LVFS with-profits policies show that LV= continues to perform strongly, exceeding median pay-outs for all of the policy selected categories and achieving top quartile pay-outs in five of the nine categories, when compared against industry pay-outs



Notes

1 The pay outs are based on the following policies
Endowment – Policyholder aged 30 next birthday at entry monthly premium of £50 maturing 1 February 2015
Pension (regular) – Policyholder retiring at age 65 monthly premium of £200 maturing 1 January 2015
With Profits Growth Bond – An investment of £10 000 as at 1 November 2015

2 The industry pay outs are taken from the most recent past performance surveys and relate to maturities and bond surrenders during 2015 The sources are
Endowment – Money Management survey published March 2015
Pension (regular) – Money Management survey published February 2015
With Profits Growth Bond – Money Management survey published January 2016

I was dealt with courtesy and efficiency, these days that is refreshing. Thank you.

Risk Management

The effective management of the risks we accept supports the delivery of our strategy and protects the value that we create for members.

Steve Haynes
Chief Risk Officer

In operating in the life, general insurance and heritage sectors LV= takes on a range of risks that need to be understood and well managed These risks arise from the type of products we provide, the commitments we make to our customers, and the general environment in which we operate

Our approach to managing our risks

The effective management of the risks we accept supports the delivery of our strategy, protects the value that we create for members, and helps us to identify opportunities where we can make better use of our capital

Our risk management approach has the following core components

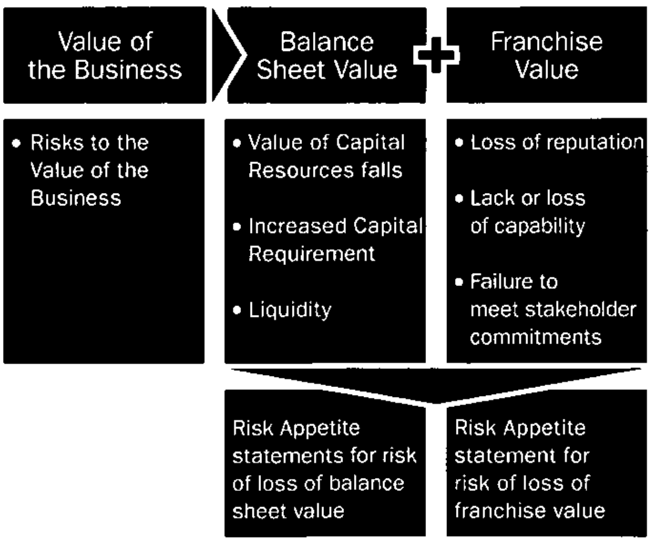
1 A risk appetite framework which sets out the type and amount of risk the group is able and willing to accept,

2 A risk management system that is used to identify, assess and manage the risks in accordance with the risk appetite framework, and

3 A risk governance culture which encourages all LV= employees to engage actively in risk management through the operation of group-wide risk policies, standards and procedures

Our risk appetite framework

The value of the business comprises the net value of the assets and liabilities ('Balance Sheet Value') plus its brand and reputation ('Franchise Value') and therefore the risk appetite framework is focused on safeguarding these value drivers by aligning risk to them



As a result of this approach the board has approved the following five risk appetite statements

Financial Strength (Balance Sheet value)	LV= will hold a level of capital surplus that is equivalent to being assessed as an S&P 'A' rated firm
Solvency Strength (Balance Sheet value)	LV= has no appetite to breach the regulatory Minimum Capital Requirement (MCR) and is only prepared to breach the Solvency Capital Requirement (SCR) in the event of a severe financial market led scenario
Liquidity (Balance Sheet value)	LV= will hold sufficient liquid capital resources to ensure it can meet its liquidity requirements in both normal and stressed circumstances
Reputation & Capability (Franchise value)	LV= will seek to avoid risks that materially impair its reputation, while ensuring that its treatment of customers and its operational capabilities are designed to deliver fair customer outcomes
Stakeholder Commitment (Franchise Value)	LV= will, in stressed market conditions and over a cumulative three year period, aim to generate sufficient profit after tax to meet its planned mutual bonus and debt interest payments without recourse to retained earnings

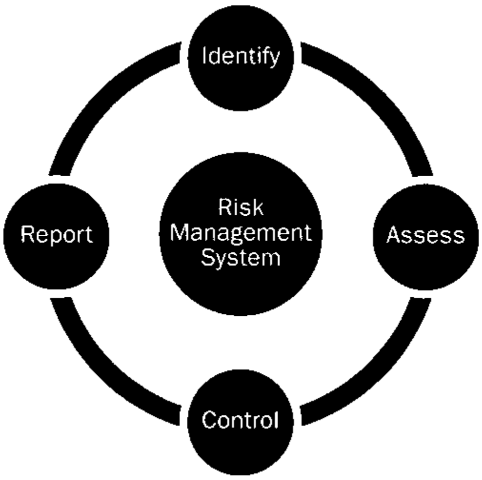
These risk appetite statements are supported by

- **Risk preference statements** which qualitatively set out the risks we believe we are capable of managing in order to generate a return, the risks we can support but which we share with third parties, and the risks we seek to avoid or minimise, and

- **Risk limits (or tolerances) and triggers** which quantify specific decision points, chiefly to provide an early warning to initiate actions which should ensure the risk appetite boundaries are not breached

Our risk management system

The risk management system is comprised of four core steps as detailed in the following figure



- **Identify** Risk identification is carried out on a regular basis, including as part of the business planning process and any major business initiatives The process draws on a combination of internal and external data and considers both normal conditions and stressed environments Risks are recorded on a business-wide risk register

- **Assess.** We measure risk on the basis of the capital we believe we need to hold (as well as other bases if appropriate) This supports our assessment of their significance relative to the potential return that can be earned from taking the risk, and therefore enables us to appropriately direct resources to their management

LV= has an internal capital model that calculates the amount of capital required in respect of each risk This assessment is performed at an individual risk, business line, entity, and group level and is based on the level of capital we would need to hold to survive an extreme risk event (assessed as being a 1 in 200 year event) The calculation is then adjusted to recognise any inter-relationships between all the risks within LV= to determine a group-wide capital requirement This model is then used to support the calculation of the group's own solvency assessment and the regulatory required level of capital, where these differ a reconciliation is produced and considered in detail by the board

There are some risks, such as liquidity, strategic and emerging, against which risk capital is not held and which are therefore excluded from the internal capital model These risks are assessed against measures agreed by the board that are aligned to the risk appetite statements

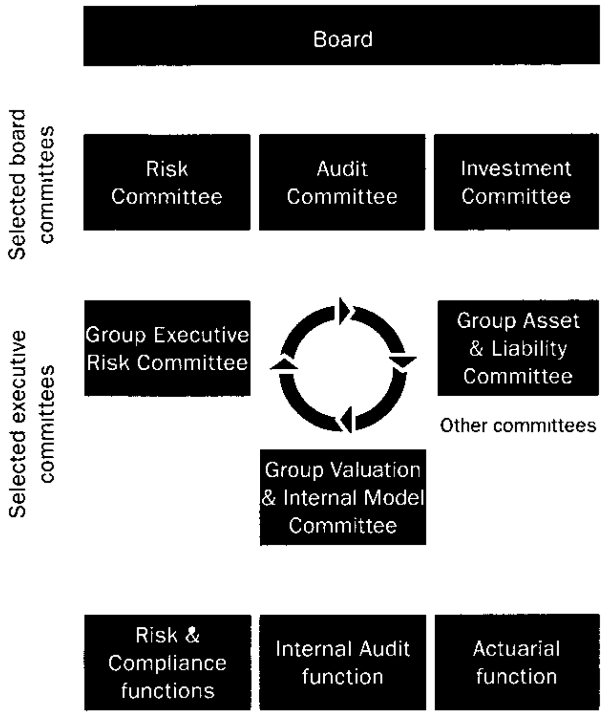
- **Control** Regular monitoring of the key risks is performed to ensure that the risk management and mitigation approaches applied (accept, avoid, transfer, control) are effective Monitoring includes reviewing (a) our risk exposures against the applicable appetites, and (b) key risk indicators against operating and financial risk limits and tolerances Early warning indicators are monitored as triggers for management decision, such as putting into effect pre-prepared contingency plans We monitor the effectiveness of controls in place to manage operational risks, including compliance with the group's policies and minimum standards

- **Report** Risk reporting is captured in the quarterly Group Risk Information Pack and through regular reports to the board and the Risk Committee by the chief risk officer The content is focused on
  - The current and projected risk and solvency profile of the group
  - The output of the most recent stress testing and scenario analysis
  - A review of the current and projected performance against risk appetite
  - A review and impact assessment of the principal risks
  - Analysis of risk experience and risk events
  - The performance ratings captured by the conduct risk dashboard

Our risk governance

Our risk governance framework operates through group-wide risk policies and business standards, the risk governance structure set out below, and clearly defined roles, responsibilities and delegated authorities

The figure below sets out the summary governance framework that was in operation during 2015



In this framework the board retains primary responsibility for strategy, performance management and risk control and it has therefore established the Risk Committee to assist in providing leadership, direction and oversight in respect of the group's principal risks The board delegates day-to-day risk management to the chief executive, who allocates operational aspects to executives within the group through delegated authority mandates Line management in the business is accountable for risk management, which together with the risk function and internal audit form our three lines of defence of risk management

- **First Line** Business operating functions which includes product development, underwriting, sales and distribution, customer service, claims handling, finance and capital management, IT, human resources and legal

  The first line is accountable for the management of all risks relevant to the business of the function or area and the management of this is facilitated through executive committees and the Group Asset and Liability Committee

- **Second Line** Group risk management function which also includes regulatory compliance and group financial crime

  The second line is accountable for providing objective challenge and oversight of the business management of all risks and for developing and maintaining the risk management framework The management of this is achieved through the operation of the Group Executive Risk Committee and business/support unit risk committees which monitor and keep risk exposures under regular review

  These committees are supported by the chief risk officer, who has responsibility for establishing and embedding a capital management and risk oversight framework and culture consistent with our risk appetite that protects and enhances the group's balance sheet and franchise value

  In addition through the group compliance function the chief risk officer provides verification of compliance with regulatory standards and informs the board, as well as the group's management, on key regulatory issues affecting the group

- **Third Line** Group internal audit function

  The third line is accountable for providing reliable independent assessment and reporting to the Audit and Risk Committees, board members and executive management on the adequacy and effectiveness of the risk management and control frameworks operated by the first and second lines of defence

Risk Policies

Our risk policies set out specific requirements for the management of the principal risks of the group along with the risk management framework that must be followed The chief executive along with the business and support unit directors annually confirm to the board that they have implemented the necessary controls to evidence compliance with the required systems and controls set out in these policies

Risk Culture

A core component of effective risk governance is the risk culture within LV= This culture is reinforced through our staff having clear roles and responsibilities, the right skills and capabilities, and the appropriate incentives and rewards We strive to embed a risk-aware culture and values in our business in three main ways
- by the leadership and behaviours demonstrated by management,
- by building skills and capabilities to support management, and
- by including risk management (through the balance of risk with profitability and growth) in the performance evaluation of key identified individuals

The remuneration strategy at LV= is designed to be consistent with its risk appetite, and the chief risk officer advises the Remuneration Committee on adherence to our risk framework and appetite

The principal risks to which LV= is exposed

The principal risks to which LV= is exposed have not changed significantly during 2015, and are detailed in the tables below in four broad groupings

- product risks,
- financial market risks,
- operational risks, and
- general environment (strategic and emerging) risks

The table below sets out a description of each risk, the board's preference for each risk (is it a risk we look to accept, avoid, transfer or control), and the risk management in place to control the risk The largest three risks are Life and health insurance longevity risk, general insurance reserving risk and credit risk from investing in fixed income assets

Product Specific Risks

Risk Type	Risk Preference	Risk Management
Life and health insurance risks arise principally from the sale of our protection and retirement products The most material risks are • **Longevity (top three risk)** • Mortality • Morbidity • Persistency • Expense In determining the price of our protection and retirement products and when reporting the results of providing these products we need to make a number of assumptions on our customers longevity, mortality, and/or morbidity In addition, we need to assess how long the customer will retain the product with LV= (persistency risk) and on the expected costs of providing and supporting the product and our customer (expense risk) The risk to LV= arises from the actual outcome being different to our assumptions	We will take life and health insurance risks where we have the appropriate core skills in pricing, underwriting and reserving We like longevity, mortality, and morbidity risks as they diversify well (i e have little or no correlation) against other risks we retain Persistency and expense risk are unrewarded and will generally be reduced to as low a level as is commercially sensible	• Risk appetites set to limit exposures to key life and health insurance risks • Extensive use of data, financial models and analysis to improve pricing and risk selection • Product design that ensures products and propositions meet customer needs • Use of reinsurance to transfer some of the longevity, mortality, and morbidity risks to other insurers • Documented claims management philosophies and procedures
General Insurance risks arise principally from the sale of our motor, home, and commercial insurance products The most material risks are • Premium • **Reserve (top three risk)** • Large loss • Natural catastrophe In designing and pricing our general insurance products we make a number of assumptions about the expected number of claims, the average cost of each claim, and the average premium we will receive (together these risks are defined as premium risk) We also assess each year the expected level of claims we will have to pay based on events which have already occurred but where claim settlement remains outstanding (reserve risk) We also make assumptions as to the number and average cost of motor insurance claims with a value greater than £1 million and also the number and average cost of those that will be settled not as a lump sum but by regular payments for the remainder of the policyholder's life (large loss risk) LV= may also be exposed to claims arising from natural catastrophe events (e g extreme weather) and an assumption is made as to the number and severity of such events (natural catastrophe risk) In all the above instances the risk to LV= arises from the fact that the actual outcome will be different from our assumptions	We will take general insurance risks where we have the appropriate core skills in pricing, underwriting, and reserving We seek general insurance risks as they diversify well against other risks we retain	• Risk appetites set to limit exposures to key general insurance risks • Extensive use of data, financial models and analysis to improve pricing and risk selection • Clearly defined delegations of underwriting authority with individual limits • Product design that ensures products and propositions meet customers' needs • Documented claims management procedures • Use of reinsurance to reduce the financial impact of a catastrophe and manage capital

Financial Market Risks

Risk Type	Risk Preference	Risk Management
Credit risk (top three risk) arises from investing in fixed income assets (government and corporate bonds) where there is a risk that the issuer may default on interest or capital or the bond may fall in value We invest in fixed income assets in order to match our liabilities to certain policyholders (principally holders of annuities but also holders of certain heritage and general insurance policies) The risk to LV= arises from changes in the value of the assets (e g driven by company/sector downgrades, reduced market liquidity) which are not reflected in the value of the underlying policyholder liabilities	We will take credit risk as we believe we have the expertise to manage it As an insurer, we benefit from being able to invest for the long-term due to the relative stability and predictability of our cash outflows	• Risk appetites set to limit overall level of credit risk • Credit limit framework imposes limits on credit concentration by issuer, sector and type of instrument • Investment restrictions on sovereign and corporate exposure to some Eurozone countries • Credit risk hedging • Specific asset de-risking
Other investment risk arises as part of our general investment performance and product pricing The most material risks are • Equity price • Property • Interest rate The risk to LV= arises from the performance of the investments being different from that assumed in the planning and pricing processes	We actively seek some market risks as part of our investment and product strategy We have a limited appetite for interest rate and inflation risks as we do not believe that these are adequately rewarded	• Risk appetites set to limit exposures to key market risks • Active asset management and hedging by the group investment management team • Asset and liability matching limits to manage the impact of interest rate changes
Liquidity risk arises from the possibility that, either because of the nature of the investments held or adverse market conditions we are unable to realise sufficient cash to be able, although solvent, to meet our commitments to customers or third party partners when they fall due or can only secure them at an excessive cost	We have no appetite for not meeting our commitments and therefore sufficient liquid financial resources are retained to meet payments in both normal and stressed market conditions	• Risk appetite set to ensure minimum liquidity ratios are maintained in normal and stressed market conditions • Asset liability matching to ensure cash flows are sufficient to meet liabilities • Limitations on the level and quality of collateral that can be held in respect of hedging arrangements
Credit counterparty risk arises from the holding of investment assets, hedging risks associated with certain investment assets, reinsuring certain product related risks to third parties, from normal trade credit such as brokers and premium finance The risk to LV= is that a counterparty defaults on its obligations or fails to meet them in a timely manner	In our life business we seek the additional return that is provided by illiquid assets, where this matches the term of our annuity liabilities This results in taking some credit counterparty risk (e g to commercial and equity release mortgages) We have limited appetite for other credit counterparty risk, but accept this risk selectively to optimise risk-adjusted returns	• Risk appetite set to limit counterparty exposures and concentrations • Investment restrictions on sovereign and corporate counterparty exposure to some Eurozone countries • Investment restrictions on aggregate and fund credit quality • Specific controls to manage exposure to asset counterparties and reinsurers

Operational Risks

Risk Type	Risk Preference	Risk Management
Operational risk arises from all aspects of running the business The principal categories of operational risk for LV= are • Fraud and crime • Information security • Legal and regulatory • People, processes, and IT systems • Financial processes • Business interruption • Customer/conduct • Outsourcing In order to process large volumes of transactions, we are dependent on various IT systems and platforms, across numerous and diverse products We also operate under the ever-evolving requirements set out by different regulatory and legal regimes (including tax), as well as utilising a significant number of third parties to distribute products and to support business operations Our IT, data management, compliance and other operational systems and processes incorporate controls that are designed to manage and mitigate the operational risks associated with our activities This includes threats such as computer viruses, attempts at unauthorised access, fraud and cyber-security attacks The risk to LV= occurs through the losses that could occur if the internal control framework to manage these core business processes fails	Operational risk will generally be reduced to as low a level as is commercially sensible, on the basis that taking operational risk will rarely provide us with an upside, and operational failures may adversely impact our reputation, impairing our ability to attract new business, or lead to poor customer outcomes	• Assurance activity and information on the operation of the controls from management, internal audit and risk functions, supported by operational risk and audit registers and first line control logs • Attestation process that reports to the board on the effectiveness of controls • Risk reporting and root cause analysis processes in respect of all reported operational losses • Significant investment in financial crime and fraud management resources • Scenario based approach to determine the appropriate level of capital to hold for operational risks • Consideration of how operational risks might materialise in a stressed situation (for example a catastrophe) in addition to day-to-day normality • Monitoring and reporting on the impact of our operational processes on our customers

Strategic Report
Governance
Our Accounts

General Environment (Strategic and Emerging) Risks

Risk Type	Risk Preference	Risk Management
LV= is exposed to a number of **strategic and emerging risks** that will typically be driven by one of or a combination of the following environmental factors • Political events • Environmental changes • Social and welfare changes • Technology change • Legal changes • Economic events We assess these risks from two perspectives 1 Do they change the markets we operate in such that they become incompatible with our strategic objectives 2 Do they limit LV= from operating effectively in its chosen markets	The board operates a comprehensive risk management system to help the business manage these inherent risks of operating in its chosen markets The risk management system is designed to help the board identify, assess, and manage such risks as soon as they become a realistic threat to the group	• Regular review of emerging risk registers • Scenario, war-gaming, and workshop sessions with internal/external experts • Stress testing analysis and assessment • Only taking risks the group has the ability to understand and manage • Annual business planning and strategy cycle with regular review of key risk indicators • Controls to minimise risk concentrations

The general environment risks that LV= is monitoring include

- Climate change – potentially resulting in higher than expected weather-related claims and inaccurate pricing of general insurance risk

- New technologies – failure to understand and react to the impact of new technology and its effect on customer behaviour and how we distribute products

- Regulatory change – our businesses face considerable regulatory change as a result of Solvency II, our corporate structure as a mutual and developments in regulation relating to customer outcomes and value for money, which could affect how much capital we hold, how we operate and how we sell and distribute our products

- Political risk – the Government in the UK incentivises long-term saving and private pension provision through tax benefits, while also providing an alternative through state provision In some markets there are (or could be in the future) restrictions and controls on premium rates, rating factors and charges Any change in public policy could influence the demand for, and profitability of, our products

- Cyber crime – criminals may attempt to access our IT systems to steal or utilise company and/or customer data, or plant malware viruses, in order to access customer or company funds, and/or damage our reputation and brand

- Prolonged low interest rate environment – if current low interest rates continue for a prolonged period it will adversely affect the margin we can earn between the returns we can offer customers and the return we earn on our investments, as well as the attractiveness of the returns we can offer to new customers

- New and emerging latent claims – new claims on policies written a long time in the past may arise as a result of court judgements extending liability, new legislation, new historic evidence and interpretation, emerging medical science on health effects of long-term exposures to chemicals etc

- Medical advances and healthier life styles – medical advances and healthier life styles may increase life expectancy of our annuitants and thus future payments over their lifetime may be in excess of the amounts we currently expect

- Pandemics, new diseases and antibiotic resistance – the adverse impact on mortality could adversely affect the profitability of our life protection products and might also disrupt our operations

- Big Data – failure to keep pace with the use of data to price more accurately and to detect insurance fraud could lead to loss of competitive advantage and financial losses

- Changes in customer behaviour – changes in the legal environment or as a result of advances in technology may change the rates at which customers exercise options embedded in their contracts or enable them to take advantage of additional information available to them to exercise options in a way that is adverse to us

The board assessment of our risks and risk management processes

Assessment of the risk and control environment

The board has overall responsibility for the group's risk and control environment and to support its management of risk the board utilises Audit and Risk Committees The Audit Committee is responsible for monitoring the internal control framework, which ensures the risks accepted are managed within risk appetite, and the Risk Committee is responsible for the effective operation of the risk management system

Audit Committee

The Audit Committee receives regular reports from the group internal audit director which set out the results of the audits performed in the period since the last meeting These reports highlight in particular significant control weaknesses or failings along with the recommended action to improve the control, and common or systemic themes arising from audits across the group This reporting enables the Audit Committee to gain an understanding of whether the internal control processes are operating as expected and to report on this assessment to the board

An overview of the activity of the Audit Committee in 2015 is set out on page 81

To support this activity the chief executive and his direct reports make an annual attestation and associated exception report to the Audit Committee on the effectiveness of the risk management system and controls being operated The attestation process is led by the chief risk officer

The attestation provides the following assurance to the committee, along with any material exceptions

- All material risks and controls have been identified, assessed and managed,
- Appropriate systems and controls have been implemented, which are adequately designed to manage the group s risk exposures and are capable of detecting, preventing and limiting fraud and error
- All reasonable steps have been taken to ensure that all material risks and key controls for business units, including all types of principal risks (i e strategic, financial and operational), have been identified, assessed and recorded, along with the associated key controls
- All risks outside of risk appetite have been identified and have appropriate mitigation plans in place to bring them within appetite, or they have been formally risk accepted, or they are included in the exception report
- An assessment of the internal control environment within each area of the business has been performed
- Adequate controls are in place to mitigate identified risks
- All risks are owned and understood
- All material control weaknesses that management are aware of are listed in the exceptions report
- There are no material areas of non-compliance with group policies

Risk Committee

The principal role of the committee is to assist the board in discharging its risk oversight responsibilities by

- Focusing on current risk exposure, future risk strategy and the embedding and maintenance of an appropriate culture in relation to the management of risk, and
- Providing assurance to the board on the effectiveness of risk management and of the risk management framework of the group and acting as the main conduit between management and the board on risk matters

In support of this the committee receives a regular report from the chief risk officer on changes in the risk profile, the performance against risk appetite, material risk events, and the operation of the risk management framework The Risk Committee also reviews at each meeting the principal risks of the group and their assessment against the board's appetite for such risks A summary of the activity of the Risk Committee is shown in the table overleaf

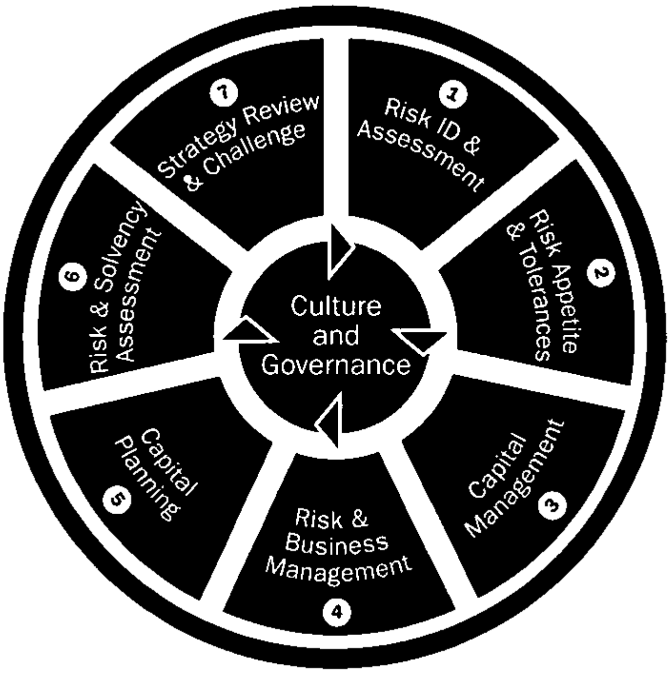
Board assessment

Based on the reports of these committees, the attestation from management, a detailed review of the exceptions report, and any additional reviews undertaken by the board itself, the directors make their assessment of the effectiveness of the risk management and internal controls systems and this is provided in the Directors' Report on page 94

The main areas of focus for the Risk Committee in 2015 are set out in the table below

Area of focus	Action in year
Oversight of the principal risks of the business	• One-to-one interviews with the managing directors of the general insurance and life businesses, the chief executive, the group finance director, the chief information officer and the group internal audit director • Receiving regular reports on the information security risk and control environment • Specific review of the risks posed by the ending of the arrangements with the ABC minority shareholders
Oversight of the operation and output of the Stress Testing and Scenario Analysis (STSA) Framework	• Agreeing STSA plan for the year • Challenging and advising on testing to be performed as part of the business plan • Reviewing the results of testing as part of the review of the business plan
Monitoring the investment risk activities performed by the Group Asset and Liability Committee (ALCO)	• Reviewing a quarterly ALCO report from the group finance director, who chairs the Group ALCO
Oversight of, including assessment and challenge of, the risk management framework	• Review of the principal risks of the group • Regular reports received from the chief risk officer • Approval of risk policies • Review of the effectiveness of the risk governance framework
Reviewing performance against risk appetite and proposing changes to risk appetite statements and limits	• Review of risk appetite statements and associated risk strategy principles • Regular reports received from the chief risk officer • Review of the capital management framework
Oversight of all regulatory compliance matters	• Regular reports received from the head of group compliance
Oversight of the group's conduct risk framework and dashboard	• Regular reports received from the chief risk officer and the head of group compliance • Detailed review of the product governance and conduct arrangements operated by the business units
Oversight of the ORSA process and review of the ORSA report	• Reviewed reports presented by the chief risk officer on the proposed ORSA process • Reviewed the interim and full year ORSA report
Review and challenge of the new general insurance reinsurance arrangements	• Held an ad hoc meeting to review the detailed terms of the reinsurance contract • Received follow up papers responding to the challenges raised by the committee
Assessment of the effectiveness of the committee	• Performed a review of the members and attendees on the committee's effectiveness

Assessment of the principal risks



The board has responsibility for assessing the principal risks of the group and whether the associated risk management and internal control systems are capable of ensuring that these risks can be managed without materially threatening the business model, future performance, solvency or liquidity Where in extreme scenarios it is assessed that the principal risks could provide a threat then the board has responsibility for ensuring appropriate plans are in place that enable, with reasonable expectation, the group to continue in operation and to meet its liabilities as they fall due over the period of review defined in the Directors' Report

The board, with support from the Risk Committee and the chief risk officer, undertake a regular and robust assessment of the principal risks This assessment is a central component of the Own Risk and Solvency Assessment (ORSA) process in operation across the group, which is shown in the figure above

The ORSA process comprises the activities set out in this figure, with each comprising a number of established processes within LV=, such as the regular identification and review of the principal risks and the current and future assessment of the solvency and liquidity of the group The output of these processes is detailed within regular management information and reports presented to and considered by the board The board reviews these records and documents as they become available, and this forms the basis of the ongoing ORSA assessment

The ORSA is not a one-off process – the activity takes place throughout the year, with the latest assessment set out in a quarterly report as well as the annual ORSA report, which is normally produced following completion of the business plan process in December

As part of the ORSA process the board and the Risk Committee have undertaken the following activities during 2015 to identify and assess the principal risks both in 2015 and over the next three years, along with their associated impact on solvency and liquidity

- Agreed a programme of stress testing and scenario activity to be performed in accordance with the group's stress testing and scenario framework This includes the following specific scenarios performed as part of the business plan review and assessment, all of which have been estimated to reflect a 1 in 200 year risk event
  - An economic downturn scenario that has been taken from the Bank of England stress testing exercise 2015 In this scenario global growth disappoints materially, triggering a severe and rapid deterioration in market sentiment globally and driving a significant flow of monies into safe haven assets during 2016 resulting in a fall in equity markets, wider credit spreads and a fall in government bond yields
  - A downturn in the motor insurance market leading to adverse combined and loss ratios in 2016, with sub-business plan trading performance in 2016-2017 which in turn reduces funds under management and therefore the level of investment income in 2016-2018
  - Researchers find an effective treatment for a prevalent cancer early in 2016 It either saves or materially prolongs lives of those diagnosed, requiring life insurers to materially increase the amount of capital they hold against longevity risk This new treatment is then fast-tracked into the National Health Service ensuring it can be applied to the majority of the UK population

In addition the board has assessed the resilience of the business plan under a number of individual and combined stresses at both a group and entity level These stress tests covered changes in corporate bond spreads, changes in the level and profile of interest rates, changes in the price of equities, as well as the impact of achieving alternative volumes of business sales

- Reviewed and updated the risk appetite statements and risk limits for the risk dimensions set out on page 47

- Reviewed and challenged in detail the register of financial market, insurance, operational, strategic, and emerging risks and agreeing which of these are the principal risks of the group This process includes an assessment of the impact of the risk, the current and prospective opportunities to mitigate the risk, and the controls in place to manage the risk

- Performed an in-depth review of the product risks of the group as a result of the product portfolios, including their impact on customers This covers both current and past products and assesses the governance and decision making undertaken by management along with an assessment of the level of conduct risk being taken by the group and the effectiveness of the associated controls

- Undertaken an in-depth review of the loss portfolio transfer and quota share reinsurance arrangements implemented in December 2015 and detailed on pages 137 of the annual report This covered the business operational and performance risks as well as the associated risk transfer

- Received a report from the chief risk officer on the impact of the proposed business plan for the period 2016 to 2018 on the risk and solvency profile of the group along with the report from the chief risk officer setting out the results of the ORSA process operated during 2015 Both of these reports were considered in detail with the impact on the principal risks, solvency and liquidity of the group being escalated to the board

- Considered a report from the chief risk officer setting out the results of a war-gaming scenario undertaken by management on solvency, the results of the reverse stress testing activity and a schedule of the actions available to the board should a material adverse risk event impact the group

As a result of the activity undertaken by the board and the Risk Committee the directors confirm in the Directors' Report that they have performed an appropriate assessment of the principal risks facing the group Based upon this assessment and the associated stress and scenario testing the directors have made a statement regarding the viability of the group in the Directors' Report on page 94

Outlook for 2016

Since 1 January 2016 a new regulatory regime, known as Solvency II, has applied to all UK and European insurers The group has been preparing for this new regime since 2010, significantly enhancing its risk management framework and system, and internal capital model to ensure they meet all the new regulatory requirements The board will be making a formal application to the PRA to use its own risk based capital model as the basis for determining the regulatory capital requirement under Solvency II, in the second quarter of 2016 Until this model is approved by the PRA, the group's regulatory capital requirement is being calculated by reference to the standard formula model

The board is confident that the group has implemented all the required changes to ensure compliance with Solvency II from 1 January 2016

During 2016, the risk management focus of the group, and in particular the Risk Committee will include the following

- The continued development of the group's risk based capital model,

- The development of the assessment of the principal risks of the group,

- The effectiveness of the risk management framework and system to identify, assess, and manage the principal risks of the group,

- The effectiveness of the integrated assurance framework in controlling the principal risks of the group within risk appetite,

- The level of customer risk and whether this is likely to support the group's aim of ensuring its treatment of customers and its behaviours deliver fair customer outcomes

I love that people really believe in the values – that's what makes LV= unique.

Corporate Responsibility Report

Julia Tyson
Group HR Director

We exist to protect the things that people love and we believe we're best placed to do this by operating in a responsible and ethical manner. This means looking after our people, investing in our communities and caring about our impact on the environment.

91%
of our people agree that we support our local communities

Over £1m
in community and member support

Prevented
£61.8m
in potential fraudulent claims

28,000
job applications received

5%
reduction in waste across the business

£50k
distributed through our Member Community Fund

Our approach to corporate responsibility

Doing the right thing for our members and customers is at the heart of our business Our approach to corporate responsibility helps us to focus on the areas that show why, as a mutual, we're different from other businesses

We have a duty of care to be a good corporate citizen, this means that we consider our social and environmental impact to be as important as our economic performance In an increasingly competitive market this approach means we are best positioned to meet customer needs, retain and attract the right talent and differentiate our brand

We focus our corporate responsibility strategy around four key areas:

1 Responsible business practice

- Codes of conduct
- Treating customers fairly
- Supply chain management
- Fighting financial crime
- Responsible investment

2 Our people and culture

- Talent management
- Employee engagement
- Reward and recognition
- Health and wellbeing
- Diversity and inclusion

3 Investing in our communities

- Community investment
- Community sponsorship
- Community fundraising
- Member support

4 Safeguarding our environment

- Managing our waste
- Sustainable business travel
- Energy and water conservation
- Reducing our carbon footprint

Caring

Caring about our customers and their loved ones when they need us most.

I love the feeling that if I've helped one customer or colleague I've made a difference, no matter how big or small. **Melanie Davies**, Bristol office

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1
Responsible business practice

Good business conduct

Our people are our business and we expect the highest professional standards of conduct from them We ask every employee to manage and conduct business with due skill, care and diligence, acting with integrity and beyond what is required to meet our legal and regulatory obligations We focus on educating our people through mandatory training, so that they can manage issues that adversely impact society and our business such as bribery and corruption, data protection and financial crime

It is important that our culture fosters open and honest dialogue and our 'Speak Up' policy provides our people with a confidential vehicle in which to call out behaviours and practices that are inappropriate

Fighting financial crime

We take financial crime extremely seriously and aim to protect our customers, members and employees against its harmful effects We have invested significantly in establishing a leading counter fraud infrastructure including specialist teams who respond to policy and claims fraud, as well as crime systems and controls to ensure LV= is protected We also proactively manage crime intelligence and analytics to support our investigation and wider business teams with strategic insight LV= works closely with external organisations like the Insurance Fraud Bureau, Insurance Fraud Enforcement Department, CIFAS and other regulated bodies to support the wider industry fight against fraud

Overall, our robust and insightful management of financial crime protected LV= from potential fraudulent losses of £61 8 million in 2015

Putting customers first

We follow the Financial Conduct Authority (FCA) 'Treating Customers Fairly' principles, which aim to ensure that customers receive a fair outcome when they deal with financial services companies The principles mirror our own ethos to look after our customers' and members' best interests

Actively seeking feedback, and responding to customer insight is important as it helps us to adapt to our customers' needs We pride ourselves on going above and beyond the expectations of our customers to create the 'wow' factor and differentiate ourselves from our competitors

When a customer expresses dissatisfaction, our employees are equipped to resolve issues and deliver improvements quickly Every month we reach out to around 10,000 customers, who have been in contact with us about their policy, to find out how they felt about the level of service they received Where a customer gives a negative response a 'hot alert' is triggered and we will immediately contact the customer to investigate the matter more fully

Sometimes things don't always go to plan and when a complaint arises, as well as trying to solve the problem as quickly as possible, we also analyse the issue to identify preventable measures and share our learnings across the business to prevent the problem from reoccurring

This root cause analysis allows us to amend processes so they are less likely to impact our customers again

The table below details the number of complaints we received and the number referred to the Financial Ombudsman Service (FOS) in 2015

	Complaints received	Complaints referred to FOS	Outcome in LV='s favour
General Insurance	57,038	602	75 3%
Life*	3,015	76	81 8%
Heritage	519	28	87 7%
Legacy businesses**	1,597	33	86 4%

* Includes protection retirement solutions tied advisors whole of market

** Includes bank

We take financial crime and its harmful effects extremely seriously.

Offering electronic payments to settle a claim faster is just one example of responding to what our customers want.

Last year we demonstrated our ethos of closer working relationships when we brought together our claims suppliers at an annual conference

At the meeting we were able to share our vision and values, together with our business drivers and work on common issues

Working together on a shared outcome helps us and our partners to understand our objectives and drive better performance.

Supply chain management

Partnering with organisations that have the same values and principles as us is essential as it enables us to deliver on our brand promises Our culture of partnering with reputable suppliers means that we've fostered an environment where we can work together on achieving the best outcome for our members and customers

It is important that we find the right partners to help us deliver good value products and services At procurement stage, our due-diligence process ensures that all partners are financially stable, compliant with legislation and follow our codes of conduct and ethical approach We also regularly review our suppliers approach to information security, disaster recovery, employee referencing, and their own supply chains

Over the coming year we are implementing a Supplier Relationship Management (SRM) process The objective of SRM is to have a better management framework to assess and monitor a supplier's performance and capabilities

In accordance with the Modern Slavery Act 2015, LV= is committed to improving our practices to combat slavery and human trafficking We will be conducting a comprehensive review to identify and assess potential risk areas in our supply chains and introducing systems which mitigate the risk of slavery and human trafficking

Responsible investment

With £9 5 billion funds under management, we're a significant investor on behalf of our members and customers We've partnered with Columbia Threadneedle Investments (CTI) to manage our assets with the goal of returning long term financial benefits The business follows governance and responsible investment principles and procedures based on the United Nations backed Principles for Responsible Investment (PRI) and is a signatory to the UK Stewardship Code on corporate governance

In evaluating which investment vehicles are best for LV=, CTI ensure that decisions reflect the approach LV= takes to responsible investment They make investment decisions that are not based solely on financial performance, they also take Environmental, Social and Governance (ESG) factors into consideration Core to CTI's investment philosophy is the belief that well-governed companies are better positioned to manage risks and challenges inherent in business, are likely to be able to capture better opportunities for growth, and, as such, they are likely to outperform competitors over the long-term The consideration of ESG issues is integral to its investment analysis and decision making process they and are evaluated when researching potential companies to invest in

CTI considers a holistic understanding of risks and opportunities associated with certain companies, sectors, or themes, as part of generating sustainable returns for clients like us

CTI are also active owners, voting on ESG issues and placing substantial value on transparency of communication and information by corporate entities with frequent and detailed dialogue with corporations around the globe

Tax

Tax has a significant impact on our business, from the tax regime applicable to the financial results of the Society and its subsidiaries to the taxation of our products and policyholders We recognise our responsibility to manage this efficiently and appropriately

The core principles of our tax policy are as follows
- To comply with tax laws and regulations,
- To manage our tax affairs efficiently and proactively,
- To maintain an open and transparent relationship with the tax authorities, and
- To undertake tax planning to ensure an efficient tax position, but not to undertake planning which may be perceived as not within the spirit of the law

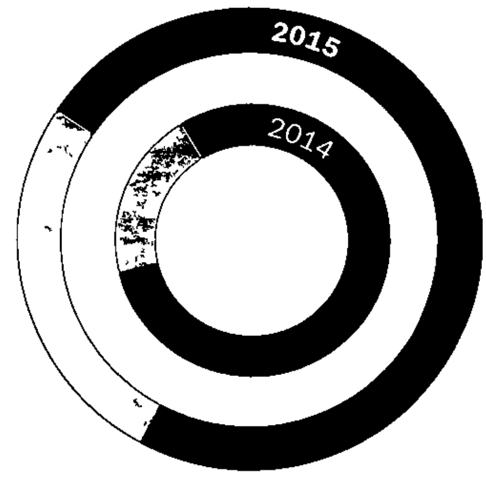
Tax governance

The board recognises its responsibility to comply with tax laws and has approved the tax policy, for which the group finance director is accountable

The head of taxation is responsible for the day-to-day implementation of the tax policy which is also approved and adhered to by our subsidiary companies

Total UK tax contribution

Our contribution to the UK Exchequer is significantly more than the UK corporation tax that we pay on profits During 2015, through our operations and commercial activity, we have paid and collected taxes in excess of £270 million (2014 £216 million) The composition of the total taxes borne and collected by the group is given below



2015	£m
▶ Insurance premium tax	88
▶ Employee payroll taxes	69
▷ Annuity payroll taxes	72
▶ Corporation tax	31
▶ VAT	5
▶ Business rates	3
▶ Stamp taxes	1
▶ Other	1

2014	£m
▶ Insurance premium tax	85
▶ Employee payroll taxes	69
▷ Annuity payroll taxes	44
▶ Corporation tax	10
▶ VAT	3
▶ Business rates	3
▶ Stamp taxes	1
▶ Other	1

Tax transparency

The combination of complex legislation and prescriptive accounting standards can sometimes make it difficult for larger groups to explain the relationship between their profits and the tax they pay For us, further complexity is added by the fact that we are an insurance group headed by a friendly society Mutual insurance business written in a friendly society is not subject to corporation tax on profits in the same way as insurance business written in a shareholder owned company would be Business written in the Society is exclusively mutual business and therefore, corporation tax payable by the Society only relates to policyholder tax (tax paid on the net investment return) levied on certain types of business The usual relationship between accounting profits and the corporation tax charge does not therefore hold true for the Society For the group subsidiary companies, corporation tax is generally charged on trading profits arising in the year

There can also be large differences between the tax charge disclosed in the income statement and tax actually paid to HMRC in the year, disclosed in the cash flow statement This is partly due to when corporation tax is paid to HMRC, but also as a result of timing differences between the accounting treatment and tax treatment of certain items of income and expenditure These differences are recognised as deferred tax in the financial statements

A reconciliation between the tax charge in the income statement and tax paid disclosed in the cash flow statement is given below

£m	2015	2014
Tax charge per income statement	**6**	47
Accounting adjustments including deferred tax	**2**	(23)
Tax instalments repayable/(payable) next year	**7**	(16)
Tax instalments from prior years' charge paid in this year	**16**	2
Tax paid per cash flow statement	**31**	10

Total contribution to the UK Exchequer in 2015 from LV=

£270m

2014 £216m

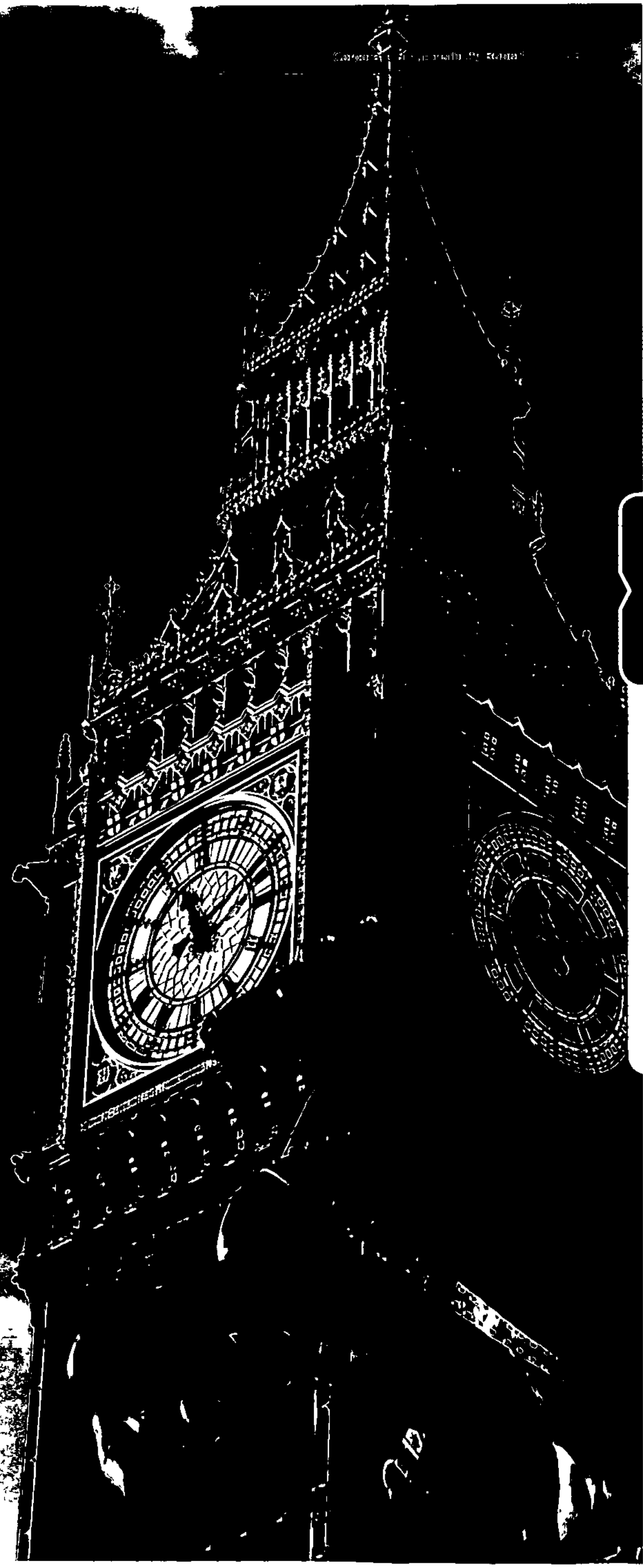
Informing public policy

We believe we have a responsibility to engage with public policymakers, such as the Government and Parliament, where public policy directly affects our business, members and customers. We also work closely with trade associations, such as the Association of British Insurers (ABI), to shape industry-wide responses to relevant public policy issues.

The new pension freedom and choice changes came into effect in April 2015 and LV= is one of the few providers that genuinely welcomed the new freedoms. We believe the retirement landscape will change for the better, allowing retirees to shop around and giving customers more choice and control over how they manage their retirement income. However with growing evidence that consumers are not shopping around we called on Government and the FCA to do more to encourage people to look around for the best deal at retirement.

In August last year, the Government introduced the Financial Advice Market Review to examine the current regulatory and legal framework governing the provision of financial advice and guidance to consumers. Its principal aim is empowering consumer choice through access to information, advice and guidance. With our new online retirement advice service, LV= Retirement Wizard, and our investment in Wealth Wizards, we have been well placed to comment on the role of online advice and have been heavily involved in informing the Review. We firmly believe low cost, regulated advice services can make a real impact and will continue to work with the Government and policy makers to share our views and insights on this important issue.

We have also focused on campaigning about the significant increase in exaggerated and fraudulent whiplash claims which add £90 onto car insurance premiums. We want to see tougher controls on claims management companies and excessive costs driven out of the system for the benefit of all motorists and have been calling on the Government to introduce further reforms in this area. We were pleased to hear the Chancellor announce measures to end the right to cash compensation for minor whiplash injuries and raise the upper limit for the small claims court for personal injury claims from £1,000 to £5,000. Following his 2015 Autumn Statement we publicly promised to pass the cost savings on directly to our customers once the reforms are implemented. There is still much detail to be discussed and agreed but we will continue to work with the Government and the ABI to ensure the plans are implemented in full.



2 Our people and culture

Our members and customers trust our people to help them with some of the most important financial decisions they will make in life Creating an inclusive culture which encourages our people to be the best they can be is crucial for our ongoing success

Our customer focus is articulated through the use of four simple values – values that help us work towards our ultimate goal to be 'Britain's best loved insurer'

Make it feel special

We go to great lengths to delight our customers – delivering a memorable experience and creating a 'wow' factor every time they have contact with us

Know your stuff

We want every single person that works here to be the best they can be and keep their finger on the pulse

Treat people like family

We believe that treating people like family helps build a place where people love to work

Don't wait to be asked

We encourage our people to take the initiative, empowering them to take personal responsibility and drive the business forward

Recruiting and retaining talented people

During the year we received over 28,000 applications for 1,800 roles, which we believe demonstrates that people really want to work for LV= or progress within the business

Alongside the delivery of all operational recruitment activity, we placed a significant emphasis on understanding the resource requirements for departments that needed more niche or highly technical skill sets Due to the success of an innovative recruitment campaign for our actuarial team, we were recognised at the prestigious 2015 Recruiter Awards, for 'Best Recruitment Team'

In 2015 we redefined our employee value proposition, essentially to understand why our people love working for LV= Our exciting new employer brand launching in 2016, will help us to ensure that we are attracting and hiring the right talent for years to come

We are committed to supporting our people in achieving their potential and realising their ambitions Our culture of continuous improvement means that we give our people the tools and resources to do their job, whilst offering coaching and role progression programmes designed to enhance their skills and broaden their career opportunities The importance we place on 'growing our own talent resulted in over 700 people moving into an alternative role within the business last year

We are committed to being an employer of choice and we believe in creating an environment where our people are valued and empowered to do their job.

Highly engaged employees

We are committed to being an employer of choice and we believe that by providing an environment where our people are valued and empowered to do their job, they will provide an outstanding service to our customers.

We have built a culture that values its people, their opinions and their needs, a place where our employees are encouraged to make their own decisions so they can demonstrate the LV= difference and feel good about working for us. The Institute of Customer Service recently recognised our people engagement work by awarding us winners in the category 'HR Employee Engagement Strategy 2015'.

Our annual 'Engage' survey is a prime measure of how we are exceeding in setting the right culture. For the eighth year running our overall employee engagement has increased. At 86% it is 5% above the norm for high performing organisations and 13% above other UK financial services organisations.

Engage su

We're delighted that in our 2015 employee survey 'Engage', our people rated us highly in the following key areas:

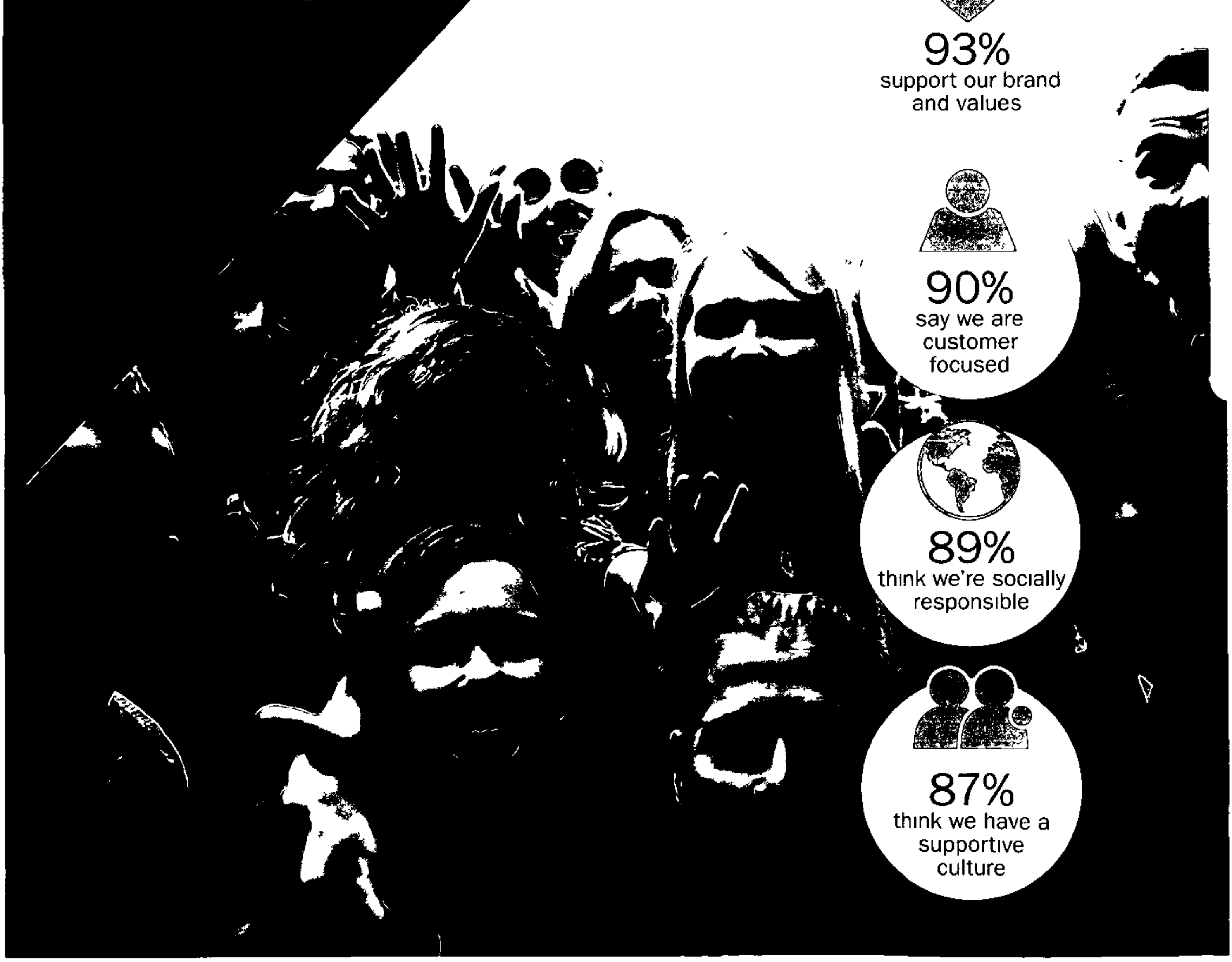
95% say we support diversity in the workplace

93% support our brand and values

90% say we are customer focused

89% think we're socially responsible

87% think we have a supportive culture



Reward and recognition

We regularly review our pay levels to ensure they are competitive both internally and externally with market rates. All our employees are paid at least the Living Wage Foundation rates of pay. In 2015, the average full time employee salary was £30,800 (2014: £30,000). In addition to basic pay, all our employees participate in an incentive scheme which is structured around both individual and business performance. In 2015 the average bonus was 11.8% of salary.

All employees automatically become members of the LV= Pension Plan when they start working for us. They also have access to the LV= Pensions Village which allows them to track their contributions and the potential to influence their retirement plans.

We understand that the needs of our employees are different; we are therefore committed to giving all employees the opportunity to select benefits tailored to their individual needs.

Recognition plays a significant part in our employee proposition: we offer a peer to peer platform, built on our values, to enable employees to recognise the contributions of others. Nearly 30,000 e-cards were sent in 2015, reflecting our collaborative working environment. We actively encourage employees to make suggestions to improve customer experience through our 'Innovate' platform which was launched last year. Since 'Innovate' was launched our employees have submitted 1,360 ideas, both big and small, with over 370 ideas progressing towards or already implemented.

Wellbeing

To achieve our vision to be Britain's best loved insurer, we need to be best loved by our people. Ensuring that we have a happy and healthy workforce guides our wellbeing programme which focuses on promoting greater physical and mental health, helping managers deal with stress and building individual resilience. Not only is this good for our employees but LV= benefits too with a more engaged and motivated workforce.

Through our annual employee survey, 'Engage', we monitor the impact that our approach to wellbeing is having on our people. We're proud that as a result of our focus, our people are telling us that we're helping to create a positive culture where people are better able to balance their work and personal lives.

84%
of our people think that LV= cares about their wellbeing*

+5%
than other high performing UK organisations

*From our 2015 'Engage' survey

Diversity and inclusion

Open, honest and fair That's how we treat our people We've worked hard – and continue to work hard – to create a positive, inclusive atmosphere, based on respect for people's differences We're committed to equality of opportunity and treatment for all those who work for us

As a customer centric business we also recognise that our people need to understand and reflect the diversity of our customers so that we are better positioned to serve them We know that when an employee can bring their best and true self to work, they bring a diversity of thinking into the business

Our Diversity and Inclusion programme seeks to challenge the business to provide inclusive products for our customers, and to ensure our work environment is accessible and inclusive for all – from the culture we create to the people processes we operate

Over the last 18 months, led by our Executive Committee, we've built a governance structure and strategy to focus our work As every aspect of diversity matters to us, we ve engaged our people to inform our approach and have made real progress – focusing on the themes of gender, sexual orientation and disability

A year of PRIDE

Treating people with dignity and respect and creating an environment where they feel comfortable is vital as we believe people perform better when they can be themselves Our LV= Pride champions provide an internal network across our sites for colleagues who identify as lesbian, gay, bisexual, transgender or questioning (LGBTQ), are an ally, or are looking for more information Including 'Q' ensures our approach is inclusive of those questioning their sexual orientation or gender identity Building awareness is integral to establishing an LGBTQ confident environment so our LV= Pride champions this year delivered a series of drop in sessions across our sites so that colleagues could learn more about the topic, and we could draw on their valuable ideas and insight

We also extend our engagement to other organisational networks and charities to deepen insight into what matters for our people and customers, as well as sharing the great work that we already do

In March LV= became a Stonewall Diversity Champion member Joining Britain's leading best practice forum for sexual orientation and gender identity gives us access to expertise, guidance and resources, and builds visibility of our commitment to LGBTQ equality for our colleagues, our customers and our members

Disability

Our focus on disability has gathered momentum over the last year as feedback from our regular employee Disability Listening Groups further informs our strategy From these discussions we've acted on some key areas practical improvements to the working environment, sharing stories from colleagues who have a disability, raising awareness of less visible impairments – including mental health, and accessible products for customers

One significant outcome has been the impact of our Customer Equality Forum to inform disability related issues The forum acts as a central point for the business to improve accessibility and prevent disadvantage Last year we asked our people to feed back on ways in which we could do things differently for customers with a disability, leading to a number of suggested improvements that are now under review

We're members of the Business Disability Forum, a leading charity which helps businesses become disability-smart We're proud that our achievements in this area were recognised at their 2015 Disability-smart awards

"I've never been happier or more comfortable than I am now – and I have LV= to thank for a lot of that. The support I've had here from everyone has been incredible and I'm lucky enough to have a great line manager who supports me to get involved in lots of great things.

We have a brilliant Pride Network, which is sponsored by our CEO, and as members we all wear rainbow lanyards. That way people know they can come to us confidentially with any issues they might be facing, whether it's a parent who needs advice on how to talk to a son or daughter who's coming out or someone struggling to find the confidence to be themselves." **Debbie Cannon**

Stonewall

Business Disability Forum
Building disability-smart organisations

We've changed the way disability modifications to a customers' vehicle are presented when looking for a quote on our website This has stopped these customers paying more for these essential modifications or being declined for a policy

Acting with PACE

Standing for Potential, Ambition, Connections and Empowerment our LV= PACE network is one of the key drivers to building a sustainable talent pipeline of female leaders within the business With an ever growing membership from both our male and female workforce, the network has been pivotal in helping people recognise the value that gender diversity brings to an organisation As well as enabling women to take ownership of their careers, and to forge connections with senior role models, the network provides opportunities for mentoring and work shadowing Many male colleagues are members, and value the insight they gain about the challenges that women face in building careers With regular speaker events from inspirational women, and men, our growing network is integral to ensuring that we support equal opportunities for everyone

711 employees signed up to the PACE network

10 PACE employee events

603 people attended

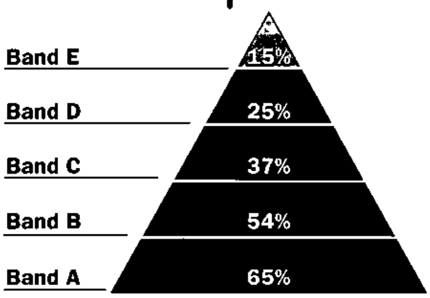
Gender pay gap

Under new plans announced by the Government in February 2016 firms with over 250 employees will need to report pay differences between their male and female counterparts from 2018 In advance of these new guidelines we will begin to report the gender split at each level within LV=

Proportionately the split between the overall number of males and females working for LV=, as at the end of 2015, was 53% female/47% male From a job role perspective where a band A is most junior and band E most senior, the pyramid below shows the ratio of female employees in each band

Overall gender split at LV= %

53% female ♀



2016 and beyond

Last year we laid the foundations for our multi-cultural programme, engaging with our people on ethnicity, and profiling religious celebrations throughout the year We will build from this in 2016, in addition to maturing our multi-generational programme so that the aspirations and expectations of each age group – from baby boomers to millennials – are reflected in our plans and priorities

3 Investing in our communities

In line with our mutual heritage we've never forgotten the importance that we play in bringing our financial and practical support to benefit others Our culture of investment, partnering and fundraising reflects our belief that to thrive as a business, we need to help our communities to thrive too

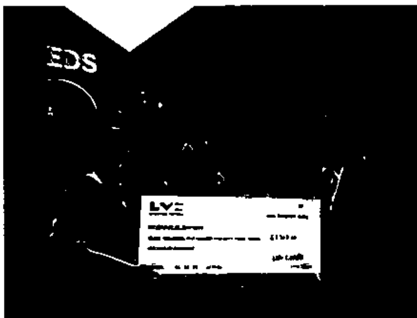
Community investment

With over £490,000 distributed in community investment during 2015 to good causes, charities and projects we're proud of the impact that our support is making up and down the country

Our people are leading the way in delivering our community investment agenda Our network of 16 Regional Community Committees is made up of over 80 employee volunteers who last year helped around 300 causes

We realise the benefit that sharing the skills and expertise of our people brings to both good causes and reciprocally back to LV= So as well as giving financial support, more than 3,400 hours of employee time was donated across our communities In 2015 we launched an employee volunteering hub providing even more opportunities for individuals and teams to go out and lend their support As well as providing valuable support to good causes, charities and community groups, our approach to volunteering helps to deepen employee engagement and drive a positive culture

Community investment	**£490,215**
Community partnerships	**£109,003**
Community fundraising	**£265,042**
Member relations	**£178,245**



Leeds light the way

Our Leeds Community Committee has once again been rallying our people during 2015 to raise funds for local charity Candlelighters. Candlelighters gives much needed support to Leeds families in their fight against children's cancer. Now in its fourth year of support, the Committee runs regular events including raffles, bake sales and tombolas.

Last year this resulted in over £3,500 being raised for the charity, bringing the total donations raised by our Leeds team over the last four years to an amazing £10,000.

A Garden for Ruby

Working with the charity Well Child, a team from LV= Brentwood helped to transform a garden space for local girl Ruby. Suffering with a severe brain condition, Ruby is unable to walk or talk. Our volunteers spent two days transforming the family's garden by building an outdoor space which is accessible by wheelchair and is fun for Ruby to play in.

"We can't put into words what this means. We can't thank you enough." **John, Ruby's Dad**

Community partnerships

Our newest partnership is with Age UK in support of their 'Call in Time' programme With over 1 million older people in the UK not speaking to a family member, friend or anyone they know for periods of a month or longer, we felt we could lend our support to help enhance the lives of those already in a position of loneliness and isolation Empathy is at the heart of LV= and 'Call in Time' enables our people to broaden how they use their customer support skills By giving up thirty minutes a week to make a call they are reaching out to those most in need of personal contact

Established local partners LV= KidZone and LV= Streetwise continued their important work with children in and around Bournemouth Working with Bournemouth Council the beach safety scheme, LV= KidZone, reunited 116 lost children with their families during the summer Over 8,000 children passed through the doors of the interactive safety centre, LV= Streetwise, learning about safety dangers inside and outside of the home

Our sponsorship of the entrance pavilion at the Mary Rose Museum continued last year With in excess of 1 million visitors since its opening in 2013, our support is helping to preserve this iconic ship and its artefacts for future generations

The LV= Brentwood Half Marathon reached its 4th year with over 3,500 local people taking part in the 2015 run

Working with Suffolk College our Ipswich team are in their third year of 'Choose LV= , a partnership which supports 16-18 year olds to make informed career decisions and introduce them to the opportunities that the world of insurance presents

Community fundraising

Raising money for charities is well established across LV= and we make sure we do everything we can to help our people in their fundraising efforts Over 250 employees accessed our pound for pound matching scheme raising more than £150,000 for causes close to their hearts, with an additional £70,000 in matched funding from LV= In 2015 our salary sacrifice scheme Pennies for Charity attracted a phenomenal 47% of our people donating the odd pennies from their pay every month which, together with our Give As You Earn scheme raised just over £60,000

Our people drive the agenda when it comes to our national charity support and they never fail to get behind our partners Children in Need and Comic Relief For BBC Children in Need over 230 LV= people volunteered for our call centre support from our Huddersfield, Leeds and Bournemouth sites, handling 5,267 calls and taking nearly £150,000 in donations and pledges during the evening

Chloe from our LV= Exeter office has been making calls as part of the 'Call in Time' scheme since October.

"I was a little nervous on my first call to Marguerite but we spoke about our families and the 30 minutes flew by She looks forward to our chat each week and is always so grateful I honestly believe that it benefits us both – it gives Marguerite somebody to talk to and it gives me a real buzz knowing I'm making a difference to somebody else's life and her friendship is really special to me Over Christmas I received a personalised card from Marguerite which now takes pride of place on my desk at work "

Member relations

As covered in the members section on page 6 we have a number of exclusive member benefits Overall in 2015 we spent £178,245 in pursuit of creating support and value to members

Member Care Line

The Member Care Line is a free benefit offering legal, medical and counselling services to our members over the phone Expert help is available 24 hours a day, every day and in 2015 the care line handled 1,671 calls from members seeking guidance and advice

Member Support Fund

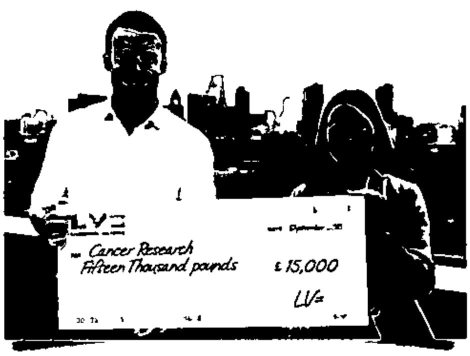
The Member Support Fund provides grants to members in financial hardship Applications for financial assistance are reviewed by a small committee of LV= members who approve requests for support In 2015 the fund awarded grants to 48 members and their families, totalling £58,245

Member Community Fund

The Member Community fund helps support good causes which are important to our members Any member can nominate something or someone close to their hearts and four times a year we make an award of £10,000 (with an element of discretion) to good causes, charities or individuals where we believe we can make a significant and lasting difference In 2015 we donated £50,000 to good causes put forward by members

AGM donation charity

Every year we donate an amount to charity that is raised through the number of AGM votes we receive Depending on the overall turnout we pledge to donate between £15,000 and £25,000 to a charity nominated by a member who casts a vote In 2015 Cancer Research UK benefited from our donation



We are extremely grateful for the donation from LV= It shows the generosity of the organisation, and the members who voted for us to receive the donation

James Teodorini, Cancer Research UK

The Member Care Line offers free telephone legal advice for members.

The Member Support Fund paid for a full time carer to take her disabled daughter for a break at Center Parcs.

A Member Community Fund award went to Warsash Sea Cadets to allow them to buy a rib safety boat.

CANCER RESEARCH UK

Charity donation as a result of AGM votes.

4 Safeguarding our environment

As a responsible business we are continually striving to reduce the impact that our operations have on the environment Improving efficiencies across our business, particularly around energy usage and waste management is not only good for the environment but it helps us limit the costs associated too

To better understand, manage and influence our impacts, in 2015 we embarked on the development of an environmental management system To deepen our understanding we conducted a full review of our environmental management policy and practice, analysing data on the areas where we have most impact on the environment The review has identified three key areas of our business operations that we have most influence over

- Waste management
- Energy usage
- Business travel

Last year we became an associate member of the All Party Parliamentary Environment Group With membership made up of MPs, Members from the House of Lords, Non Governmental Organisations (NGOs) and business, the group meets five times a year to hear from Ministers, Parliamentarians and key experts in the environment sector

the all-party parliamentary environment group

49 tonnes of paper saved = 833 mature trees

85% of our people think that LV= is an environmentally responsible company

Waste management

Over the last year we ve been looking at ways that we can reduce waste and raise awareness about the responsibility that we as a business have in managing this We reported 1,570 tonnes of total waste produced in 2014 and this has fallen to 1,484 tonnes in 2015 – resulting in a 5 1% reduction year on year Over half of the reduction in waste has been due to reduced paper usage, with 49 tonnes saved

Energy usage

Through our annual carbon reduction commitment we were delighted to have reduced our energy tonnage by 29% We have also undertaken an energy saving audit for each one of our sites with further identified energy saving opportunities These will be incorporated into our environmental planning going forward

Business travel

Our internal travel portal continues to give our people viable options to travel less or in ways that have less impact on the environment
We offer a lift share scheme so that colleagues can share journeys to other LV= offices The roll out of our video conferencing facilities continued and more employees now have access to this technology Our train and bus season ticket loans encourage our people to use public transport when commuting to and from work And our 'Bike to Work' scheme is a great way to get our people cycling, whilst our support for national activities such as 'Walk to Work' and 'Bike to Work' week helps our people try alternative forms of travel

Strategic Report
Governance
Our Accounts

Corporate Governance Report

The following pages outline our corporate governance framework and our approach to remuneration.

Skilful

Use our expertise to deliver solutions to financial issues that people come across throughout life.

LV= are a quality insurance company who offer a great product at reasonable prices. I have been very pleased with their service over many years.

Gareth from Leicester

Our approach to Corporate Governance

We comply with the UK Corporate Governance Code, Annotated Version for Mutual Insurers (the 'Annotated Code')

Compliance with the Annotated Code for the year ended 31 December 2015

The board considers that we comply with the applicable principles and provisions of the Annotated Code with the following exceptions

i a decision taken by the board to allow the chairman to be a member of the Audit Committee The Audit Committee membership includes three independent non-executive directors as required by the Annotated Code and the chairman's membership of the committee is in addition to this The Annotated Code recommends that the chairman may only be a member of the Audit Committee in 'smaller companies'[1] However, the chairman has recent and relevant financial experience and makes a valuable contribution to the Audit Committee The chairman was a member of the Audit Committee prior to his appointment as chairman of the board in 2013

ii a decision taken by the board that only the chairman will offer himself for annual re-election by members at the Annual General Meeting The board has determined that the annual election of the chairman provides an adequate means for members to register concern with the performance of the board directors who continue to stand for re-election at least every three years

Alignment of the board to the group's culture, values and governance arrangements

The role of the board is to set the tone from the top on the group's governance, culture and values and to be collectively responsible for the long-term success of the group For the board this means not only ensuring that we comply with all relevant laws and regulations and ensuring that we have high standards of internal control and risk management, but that we run our business with integrity The board ensures that the group's values are adhered to in everything we do and that we will deliver on our strategy to be Britain's best loved insurer by keeping our customers at the heart of our business and ensuring that our workforce is positively engaged

Working as a collective board

During the year, the board comprised a non-executive chairman, five independent non-executive directors (until the resignation of John Edwards in September 2015) and four executive directors who collectively possess an appropriate balance of expertise in the financial services industry, including general insurance and life insurance, investments, risk and governance This ensures a balance of skills, understanding and perspectives relevant to the group s business As members of a unitary board, the non-executive directors meet, without the executive directors present, to constructively challenge and help develop proposals on strategy The particular skills and experience that each director brings to the board are included on pages 78 to 79 and the composition and tenure is summarised below

[1] For mutual insurers smaller companies are defined by the Annotated Code as mutual insurers which fall below the threshold for compliance with Solvency II this is not the case for the Society

Board member composition
(until 24 September 2015)

Executive	4
Non-Executive	6

We therefore satisfy the Annotated Code's recommendation that at least half of the board should consist of non executive directors.

From 25 September 2015. Executive: 4, Non Executive: 5

Board member balance
(until 24 September 2015)

Male	8
Female	2

20% female representation on the board.

From 25 September 2015. Male: 7, Female: 2

Board members' tenure
(until 24 September 2015)

0-3 years	2
4-6 years	5
6+ years	3

In accordance with the Society's Rules, all directors offer themselves for re election every 3 years. The chairman voluntarily offers himself for re election annually.

From 25 September 2015. 4 6 years. 4

Appraising the board's performance

Every year the performance of board members is reviewed both individually and as a collective The senior independent director, with the assistance of the non-executive directors and taking into account the views of the executive directors, reviews the performance of the chairman and the chairman reviews the performance of all other directors

During the annual review, each director is also encouraged to highlight any potential skills gaps or areas of development so that training can be provided in order to ensure each director's continued understanding and expertise The chairman, in his capacity as chairman of the Nomination Committee, reviews and agrees individual training and development aims with each non-executive director

Board effectiveness

The Annotated Code recommends that mutual insurers of our size commit to an externally facilitated review of board effectiveness at least every three years

An external review of the board was undertaken by an expert consultant in the area of board effectiveness, Coletta Tumelty, during the year Ms Tumelty has no connection with the Society other than the appointment to review the board s effectiveness and providing ad hoc management advice and support

The board agreed a number of actions, building on earlier themes and an update on progress made against some of the key outputs is set out below

Outputs from the 2015 board evaluation	Action taken
Decision-making Ensure time is scheduled to review major past board decisions to derive learning and inform future actions and debate	The board will schedule time in future board meetings to review major past board decisions
Succession planning and board composition To ensure succession planning takes into account the importance of diversity of the board and early discussion of succession planning	Continued focus on the recruitment process to promote diversity on the board, recruiting from diverse professional backgrounds and personalities with a track record of providing challenge
Strategy Build upon the strategy process, ensuring sufficient time is allocated in the board agenda to discuss strategic topics	Meetings with management are arranged outside of board meetings to facilitate further discussions on strategy, aims and objectives Additional meetings of non-executive directors provide greater input into the development of future board agendas
Information and support Continue to make improvements to the form and focus of board papers to assist the board's collective decision-making and challenge	Continued progress on developing the forward plan for board meetings and improving board papers, in particular the executive summaries so that these signpost risks, concerns and areas for discussion to facilitate challenge by the board Training will be scheduled for those preparing papers and feedback will be provided by the board A tailored training programme has been agreed including training on Solvency II and key governance topics
Effective challenge Extend effective challenge around proposals and strategic projects	Schedule sufficient time during board meetings to allow thorough challenge by both the non-executive and executive directors, around proposals and strategic projects

The Board

David Neave
Non-Executive Director

Mark Austen
Chairman

Philip Moore
Group Finance Director

Richard Rowney
Managing Director of Life and Pensions

Mike Rogers
Chief Executive

Cath Keers
Non-Executive Director

John O'Roarke
Managing Director of General Insurance

James Dean
Non-Executive Director

Caroline Burton
Non-Executive Director

Mark Austen (66) Chairman

Mark was appointed chairman of LV= at its 2013 AGM after being an independent non-executive director for the Society since 2006 Mark qualified as a chartered management accountant in 1972 and spent the majority of his career at PricewaterhouseCoopers LLP managing their global financial services consulting business His broad range of skills includes advising organisations on their strategies, acquisitions, operations, HR policies and technology Mark is also a non-executive director of Alpha Bank London Ltd

Chairman, chair of the Nomination Committee and member of the Audit, Risk, Investment and Remuneration Committees

Mike Rogers (51) Chief Executive

Mike spent 20 years working for Barclays Bank where he carried out a variety of roles in the UK and overseas Among his senior appointments at Barclays, Mike was managing director of Small Business, Premier Banking and UK Retail Banking achieving a post-graduate Diploma in Leadership from Exeter University in 1995 In May 2006 he joined LV= as chief executive leading the business into profitability and transforming it into the vibrant and successful mutual it is today Mike is also a non executive director for RBS Group and is a member of the Board of the Association of British Insurers (ABI) and the ABI's representative on the Prudential Regulation Authority s (PRA) Practitioner Board

Member of the Investment Committee and Nomination Committee and chairman of various LV= group subsidiaries

Philip Moore (56) Group Finance Director

Having held executive positions at several leading financial institutions both in the UK and abroad, Philip's career in finance has spanned over 30 years He has acquired extensive knowledge in areas such as risk management, mergers and acquisitions, finance and actuarial and asset management Philip was chief executive at Friends Provident until 2007 and chief risk officer and group finance partner at Pensions Corporation LLP between 2008 and 2010 He was appointed group finance director of LV= in 2010 As well as being part of the board and executive team at LV=, Philip is also a non-executive director and chairman of the Audit Committee of Towergate Insurance and a trustee and chairman of the finance committee of the Royal British Legion

Member of the Investment Committee and director of various LV= group subsidiaries

Richard Rowney (45) Managing Director of Life and Pensions

Richard spent 14 years at Barclays Bank holding a number of senior positions across corporate and retail banking including overseeing integration of the Woolwich and Barclays retail banks He joined LV= in 2007 as chief operating officer where he transformed the operational support areas to ensure they could support the fast growing trading businesses going forward Richard was appointed managing director of life and pensions in 2010 and has led the transformation of this business to create one of the UK's leading protection and retirement specialists Richard works closely with the local community and is an independent director of the Dorset Local Enterprise Partnership

Director of various LV= group subsidiaries

John O'Roarke (58) Managing Director of General Insurance

John qualified as a chartered accountant and has spent 30 years in the insurance industry

He worked for Churchill Insurance for 13 years where he was finance director and then managing director, leading the company to become one of the UK s best known insurers John was appointed chief operating officer of RBS Insurance in 2003 but left in 2005 to set up ABC Insurance, acquired by LV= in 2006 He became managing director of LV= general insurance the same year, leading the team that has quadrupled the size of the general insurance business and produced strong profit contributions John is also chairman of the Insurance Fraud Bureau

Director of various LV= group subsidiaries

John O'Roarke will be leaving LV= during 2016 Steve Treloar will succeed him as managing director of general insurance (subject to regulatory approval) Steve joins LV= from Aviva where he was most recently managing director of personal lines Prior to this he has held a number of senior roles at Aviva and RBS Insurance over a 19 year career

James Dean (58) Non-Executive Director (Senior Independent Director)

James joined the board in 2012 and was appointed as the senior independent director in September 2015 He is a chartered accountant and is recognised as an expert in insurance accounting having spent much of his 30 years' experience in audit and advisory roles As a senior partner at Ernst & Young LLP he dealt with clients such as AXA UK plc, Prudential plc, Legal & General Group plc, RSA Insurance Group plc and Aviva plc, serving on boards outside the firm including as chairman of the ICAEW Insurance Committee He is also a former global IFRS leader for the insurance sector of Ernst & Young LLP and holds a non-executive director appointment at Rathbone Brothers Plc and is chairman of the Stafford Railway Building Society

Chairman of the Audit Committee and member of the Risk and Nomination Committees

As the senior independent director, James provides a sounding board to the chairman and is available to members if they have concerns which contact through the normal channels of chairman, chief executive and other executive directors has failed to resolve or for which contact is inappropriate

Caroline Burton (66) Non-Executive Director

Caroline joined the board in 2011 She has a life insurance background and is a highly experienced figure in the asset management industry having spent 26 years with Guardian Royal Exchange plc, where she was in charge of investments from 1990 until 1999
She acts as a pensions and business adviser for a number of pension funds and charities and her expertise puts her in good stead to monitor the management of LV='s assets She is chairman of TR Property Investment Trust plc and a non-executive director of BlackRock Small Companies Investment Trust plc

Chairman of the Investment Committee (from 12 June 2015) and member of the Audit, Remuneration and Nomination Committees

Cath Keers (50) Non-Executive Director

Cath has over 20 years marketing and sales experience having worked at BSkyB Ltd, Next plc and Avon Cosmetics Ltd In 2008 she won a lifetime achievement award for her outstanding impact during her career at O2, where she was customer director in charge of refocusing the organisation's customer strategy She brings a wealth of retail industry expertise to the LV= board, which she joined in 2010, and holds other non-executive positions at Royal Mail Group Ltd and the Home Retail Group plc (for Homebase and Argos)

Chairman of the Remuneration Committee and member of the With-Profits and Nomination Committees

David Neave (56) Non-Executive Director

David has 35 years of experience in the general insurance industry, with a particular specialism in personal lines and technical expertise in a range of functions including underwriting, claims and partnerships David started his career at Royal Insurance Group plc, which merged with Sun Alliance Group plc in 1996 to become the insurance group RSA He held various roles including managing director of corporate partnerships and claims services director for the overall UK business Most recently he was managing director of general insurance for the Co-operative Banking Group Limited, resigning in 2012, after seven years in the role David joined the LV= board in 2013 He has also been chairman of the Insurance Fraud Bureau and the ABI Financial Crime Committee and a director of the Motor Insurers' Bureau and the International Co-operative and Mutual Insurance Federation He is also a non-executive director of FirstPort Insurance Services Limited and a member of Accenture's insurance advisory board

Chairman of the Risk Committee and member of the Audit and Nomination Committees

David Barral (54) Non-Executive Director **(appointed 7 March 2016)**

David has had a 35 year career in financial services and joins us from Aviva Plc where he was the chief executive of UK and Ireland life insurance, the largest business unit within the Aviva group Previous positions include sales director, marketing director and chief operating officer David brings a mix of strategic, transformation and operational experience with a strong focus on customers, risk and governance He is a former chairman of the ABI Retirement and Savings Committee and a regular contributor to Speakers for Schools, the independent education charity David is also the non-executive chairman of Virgin Wines

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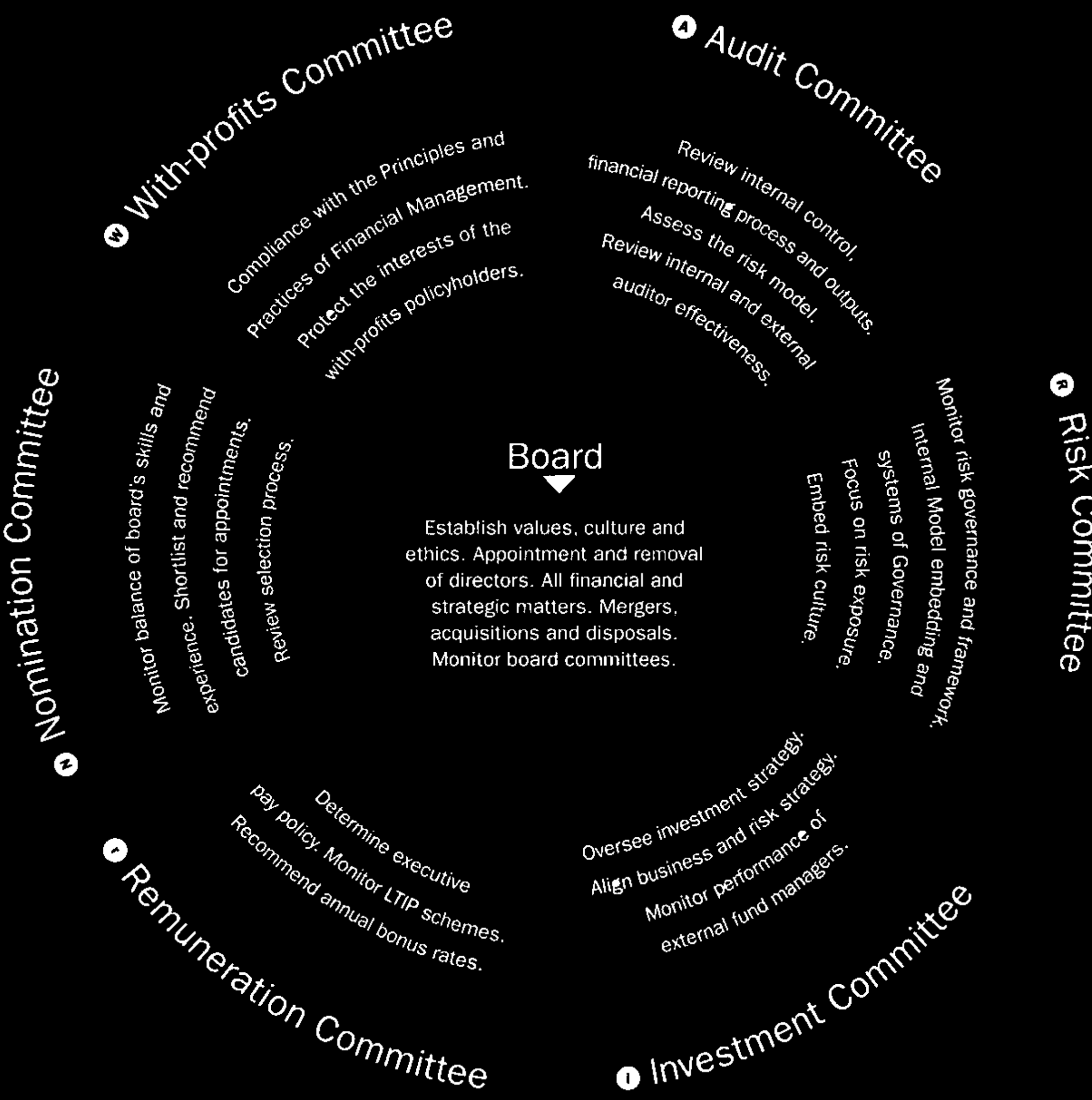
The terms of appointment for the non-executive directors are available for review, upon request, from the Society's registered office and before the Society's AGM

Executive directors may be invited to become non-executive directors of other companies, subject to the agreement of the Society These appointments provide an opportunity to gain broader experience outside LV= and therefore benefit the Society Providing that appointments are not likely to lead to a conflict of interest, executive directors may accept non-executive director appointments and retain the fees received

Each executive director's external commitments are listed above All non-executive directorships have been approved by the board and are deemed not to conflict with the Society's business
Each executive director retains the fees received from the external appointment Details of such fees are made available on page 101

Board committees



Each committee is provided with sufficient resources to undertake its duties. A full list of duties and the activities undertaken during the year can be found on pages 81 to 88.

The terms of reference for the board committees are reviewed each year and published on our website. They can be viewed at **LV.com/boarddocs**

Board and Committee membership and attendance in 2015

Against each name in the table below is shown the number of meetings at which the director was present and the number of meetings that the director was eligible to attend

	Liverpool Victoria Friendly Society Board*	A Audit Committee	R Risk Committee	I Investment Committee	r Remuneration Committee	N Nomination Committee	W With-profits Committee
Meetings in the year	13	13	4	3	6	2	6
Mark Austen	13/13	11/13	3/4	3/3	6/6	2/2	n/a
John Edwards (resigned 24/09/15)	9/9	n/a	2/3	3/3	n/a	1/1	4/4
Cath Keers	11/13	n/a	n/a	n/a	6/6	2/2	4/6
Caroline Burton	12/13	12/13	n/a	3/3	6/6	2/2	n/a
Mike Rogers	13/13	n/a	n/a	3/3	n/a	2/2	n/a
Philip Moore	13/13	n/a	n/a	3/3	n/a	n/a	n/a
John O'Roarke	9/12	n/a	n/a	n/a	n/a	n/a	n/a
Richard Rowney	13/13	n/a	n/a	n/a	n/a	n/a	n/a
James Dean	13/13	13/13	4/4	n/a	n/a	2/2	n/a
David Neave	13/13	13/13	4/4	n/a	n/a	2/2	n/a

n/a Not applicable * Excludes committees of the board but includes ad hoc and strategy and plann ng meetings

A Audit Committee

The membership of the Audit Committee at the end of the year was

- James Dean (chairman)
- Mark Austen
- Caroline Burton
- David Neave

The company secretary acts as secretary to the Audit Committee The Audit Committee is required to meet at least three times a year, in accordance with its terms of reference, and has an agenda linked to events in the group's financial calendar including approving any press releases to the market on financial reporting During the year, the committee met 13 times which included approval of all quarterly financial and trading disclosures The committee is expected to meet seven times in 2016 Other individuals may be invited to attend all or part of any meeting as and when appropriate including, but not limited to, the chief executive, the group finance director, the internal audit director, the chief risk officer, the group financial controller and the group chief actuary

The external auditors (currently PricewaterhouseCoopers LLP (PwC)) attended all of the committee's main meetings in 2015, except when their own performance was being reviewed

The board considers that all the members of the committee are independent (with the exception of the chairman, Mark Austen, due to his length of tenure) and bring significant and relevant skills and experience to the function of the committee All members undertake induction training and continuing professional development James Dean, in particular, as the chairman and a former senior partner at Ernst & Young LLP, has the requisite 'recent and relevant financial experience', as recommended by the Annotated Code

The terms of reference of the Audit Committee include all the matters required under the Annotated Code and follow FRC guidance Compliance with the committee s terms of reference is reviewed annually to ensure the committee has discharged all of its responsibilities through the year

The primary purposes of the Audit Committee are to

- Review the effectiveness of the group s internal controls and risk management systems alongside the work of the Risk Committee
- Review assessment of risk models and the assumptions underpinning the ICA approach used to meet regulatory requirements
- Review the financial reporting process and outputs so as to ensure the balance, transparency and integrity of published financial information and the group's process for monitoring compliance with laws and regulations affecting financial reporting
- Review the effectiveness of the internal audit function (whose remit covers all risk classes)
- Review the effectiveness of the external audit process (the remit for which is external reporting matters) including the appointment and ensuring the independence of the external auditor and the use of the external auditor for non audit work
- Engage independent counsel and other advisers as it deems necessary to assist in the carrying out of its duties

Significant judgements, key assumptions and estimates

The Audit Committee pays particular attention to matters it considers to be important by virtue of their impact on the group's solvency, results or remuneration of senior management, or the level of complexity, judgement or estimation involved in their application on the consolidated financial statements The main areas of focus during the year are set out in the following significant issues table below

Area of focus	Audit Committee action in year	Conclusion / outcome
Financial reporting		
Goodwill The appropriateness of the £220m carrying value of goodwill that we hold on our Statement of Financial Position	The committee has reviewed the results of the annual impairment assessment which compares the recoverable amount against the carrying value for both the general insurance and life businesses as separate cash generating units Consideration has been given to the appropriateness of value in use calculations, including discount rates applied	The committee has concluded that methodologies used to measure the value of goodwill held on the Statement of Financial Position are appropriate Results of these calculations confirmed that carrying values were supportable and therefore no additional impairment was required
Pension scheme accounting The methodology and assumptions used for accounting for the group pension schemes, the net pension benefit asset for the LV scheme is £87m and the pension benefit obligation for the Ockham scheme is £3m as at 31 December 2015	The committee has considered the assumptions used for calculating IAS 19 'remeasurement of defined benefit schemes' and approved changes made where appropriate The committee also considered whether it was appropriate to recognise the pension benefit asset for the LV scheme by reviewing the recoverability of this asset	The committee is satisfied that remeasurements have been calculated using appropriate assumptions and as a result the pension accounting is appropriate The committee agrees that it is appropriate to recognise that the pension benefit asset is recoverable
Financial reporting developments The Association of Financial Mutuals updated the Annotated UK Corporate Governance Code with the purpose of enhancing disclosures regarding the long-term viability and strategy of companies and also requiring robust assessment and monitoring of principal risks	The committee has reviewed the update to the Annotated Corporate Governance Code issued in November 2014 and adopted in 2015 The committee has assessed the governance processes and procedures in place within LV= with respect to the requirements of the new Code The committee has also considered the appropriateness of making the viability statement over a period of three years	The committee considered that the policies and procedures in place at LV= are sufficient and appropriate to enable LV= to confirm that we have implemented the requirements of the new Code in 2015 including enhanced disclosures within the Annual Report The committee is satisfied that a period of three years is appropriate for the viability statement
Insurance liabilities (Life £7.771m, General Insurance £1.353m)		
Assumptions used to estimate retirement product liabilities The pension reforms that were effective from April 2015 have had a significant impact in the at retirement market, necessitating consideration of the appropriateness of the assumptions used to value the liabilities held for retirement products	The committee has reviewed management's assessment of the impact of the changes in the at retirement market on the assumptions within the liability calculation for retirement products following the changes which have arisen as a result of the pension reforms effective from April 2015	The committee concurred with management as to the reasonableness of the revised assumptions used to value the liabilities in respect of retirement business

Area of focus	Audit Committee action in year	Conclusion / outcome
Insurance liabilities (Life £7,771m, General Insurance £1,353m)		
OB pension cash benefits The valuation methodology includes an assumption on the level of policy holder benefits which will be taken as cash as opposed to an annuity Uncertainty attaches to the impact on this assumption of future levels of take up as a result of pension reforms which came in to force in 2015 and the planned creation in 2017 of a market for the sale of in-force annuities to third parties In addition, there was a change, which was approved by the Society's board in November 2015, in the basis for calculating the amount of cash settlements Although the assumption for the overall level of cash take ups remained unchanged from the previous year the net impact of the change of the basis of calculation had a positive impact on heritage operating profit of £69m The change has been shared with the Financial Conduct Authority (FCA) whose formal response is awaited	The committee considered the assumptions concerning the level of cash benefit take up in the light of current and past trends and also the uncertainties attached to future policy holder behaviour The committee also considered the adjustments made to the methodology used to value the OB Pension liabilities to allow for the new cash benefits basis and the impact these changes had on the valuation result The committee noted that any matters arising from the FCA's response would be addressed when received	The committee was satisfied that the valuation methodology carried out by management was appropriate
Changes in unit costs The calculation of the insurance contract liabilities is impacted by changes in unit costs, which are reviewed annually A full review of the methodology is planned for 2016 Pending the review, unit costs have been maintained at 2014 levels (adjusted for inflation)	The committee reviewed the unit cost assumptions for the 31 December 2015 valuation and discussed with management the validity of this approach The proposed unit costs were reviewed against the 2015 actual costs and the expected costs from the 2016-2018 business plan These comparisons supported the approach adopted	The committee agreed with the conclusions of management The committee continues to see refinement of the unit cost methodology as a key area of focus for management going forward
Other key life assumptions and methodology matters The calculation of the group s long-term insurance contract liabilities requires other assumptions in addition to those above to be made for future experience	The committee reviewed reports from management proposing a number of changes to the calculation of the long-term insurance contract liabilities The committee considered market data and has also reviewed the benchmarking provided by the external auditor As a result of this the committee agreed a number of changes to the calculation of the long-term insurance contract liabilities These included proposed changes to the mortality, morbidity and persistency assumptions for certain products so as to reflect more closely the emerging experience	The committee concurred with management as to the reasonableness of the revised assumptions
The governance around the setting of the general insurance claims reserves and the ultimate level of claims reserves held at the year end This area is inherently subjective In addition, specific market factors such as claims farming, settlements via periodic payment orders (PPOs) and Ministry of Justice claims reforms increase the uncertainty around future settlement costs and the valuation of general insurance contract liabilities (£1,353m as at 31 December 2015)	A specific LVGIG Audit Committee (with the same membership as the LVFS Audit Committee) acts as committee of the LVGIG board This committee receives and reviews detailed reports from general insurance management which support the level of claims reserves held The LVGIG Audit Committee then forms its own conclusions and makes recommendations to the LVGIG board on the level of general insurance reserves that should be held The LVGIG Audit Committee reviews work performed by external experts as part of the process of reaching an opinion	Regular reviews of the general insurance reserving process have given the committee comfort that methods and assumptions used are appropriate and reasonable

Area of focus	Audit Committee action in year	Conclusion / outcome
Insurance liabilities (Life £7,771m, General Insurance £1,353m)		
Release of prior year general insurance reserves The appropriateness and rationale behind the release of £93m of prior year reserves during 2015	The committee has reviewed the level of prior year reserve releases during 2015 as they continue to be significant Detailed explanations from general insurance management have been received and reviewed Reports from external experts have also been reviewed	The committee is satisfied with the process put in place by management to analyse the prior year release and make appropriate modifications to the reserving process
Loss portfolio transfer In the latter part of 2015 the group entered into a loss portfolio transfer agreement resulting in reinsurance of 20% of its general insurance booked reserves as at 31 December 2015 This had an impact of £242m Significant accounting judgements in relation to the transfer of significant insurance risk were made in determining whether the agreement should be classified as a reinsurance contract	The committee reviewed a summary from management which, after considering the timing of all cash flows under the contract, concluded that it transferred significant insurance risk The committee reviewed whether or not the judgements made by management were reasonable and, after taking into account the relevant financial reporting standards, whether the contract resulted in the transfer of significant insurance risk	The committee concluded that the accounting for the loss portfolio transfer as reinsurance is appropriate based on relevant financial reporting standards and the terms of the reinsurance agreement
Solvency II		
Balance sheet assurance The PRA required larger insurers and all firms that are applying for internal model approval to obtain independent assurance over their Solvency II balance sheet The PRA required that a two-step assurance process was conducted	The committee reviewed the findings from step one during March 2015 and provided oversight of the resolution of issues identified in this review The committee reviewed the final report in December 2015	The committee approved the submission of the step one report to the PRA The committee approved submission of the final report to the PRA which demonstrated that our Solvency II balance sheet was constructed in line with Solvency II rules
Solvency II preparatory phase reporting As part of the preparations for the new reporting requirements under Solvency II, larger insurers were required to participate in a preparatory phase in order to demonstrate that the appropriate reporting processes were in place ahead of Solvency II go-live	The committee was asked to review and agree the future governance for the regular submission of the quarterly reports The committee was asked to review and approve the preparatory phase subset of Solvency II reporting for submission to the PRA	The committee approved the quarterly submission governance framework The committee approved the submission of the preparatory reporting to the PRA
Solvency II applications – Transitional deduction and volatility adjustment Transitional deduction allows insurers to phase in, over 16 years, any increase in technical provisions caused by the introduction of Solvency II The volatility adjuster offers insurers protection from the volatility associated with short-term market movements in bond spreads	The committee considered the impact on capital that would arise were LV= granted approval to use these measures The committee has overseen the development of the necessary application packages for submission to the PRA	The committee recommended applying for these measures to the board The committee reviewed the application packages for both these measures and recommended to the board that they approve their submission to the PRA
Matching adjustment The committee discussed the features and potential benefits to the group of seeking PRA approval to use matching adjustment as part of managing the assets backing its non-profit annuity portfolio Matching adjustment forms part of the Solvency II long-term guarantee package and enables entities to take account of illiquidity premium, inherent in credit asset prices, when valuing associated long-term insurance liabilities	After considering the rationale and operational implications for matching adjustment, the committee concluded that the group should seek PRA approval for matching adjustment	The committee reviewed and discussed the formal application and recommended its submission to the PRA in December 2015

Area of focus	Audit Committee action in year	Conclusion / outcome
Solvency II		
Solvency II validations A regular cycle of model validation is undertaken which includes monitoring the performance of the Internal Model, reviewing the ongoing appropriateness of its specification and testing its results against experience	The committee assessed the results of validation testing which covered all of the material components of the Internal Model and the systems of governance operated across the group	The committee concluded that the Internal Model is appropriate for producing the ICA but identified and reported to the board a number of limitations such as • The nature and quality of the evidence and documentation supporting expert judgements, • Improvements required to the longevity and general insurance components of the Internal Model

Summary of key activities during 2015 by which the Audit Committee discharged its responsibilities

Internal controls

- Monitored the group's internal controls by considering a number of reports on the key controls and risk management functions and identified key issues, initiating actions for these to be resolved,

- Considered the results of in-depth testing carried out by management and internal audit and also reports from the external auditor on internal controls and findings from audit procedures, for example analysis of journals Specifically, focus was directed towards testing for fraud in revenue recognition The results of testing led the committee to conclude that controls in this area are robust,

- Conducted an annual review of the effectiveness of all material internal control processes including financial, actuarial, operational and compliance controls and risk management systems, which was carried out by the group risk management function The review's aim was to assess the effectiveness of the control environment and identify any areas for improvement, and

- Reviewed the arrangements through which employees can raise concerns about possible irregularities relating to financial reporting or other matters including reviewing all whistleblowing reports

Financial reporting

- Analysed and scrutinised the key accounting policies, judgements and actuarial assumptions with management, the external auditors and the actuarial function holder,

- Reviewed procedures for dealing with any complaints regarding accounting, reporting, internal control or auditing matters,

- Considered management's regular reviews of the going concern status of the group, ensuring that appropriate capital and liquid assets are in place to allow the group results to be reported on a going concern basis,

- Monitored the financial results communicated to members, including the Annual Report,

- Reviewed and recommended all external financial reporting for the Society (including press releases and any interim announcements put onto the regulatory news service of the London Stock Exchange) to the board (or the Disclosure Committee) together with supporting narrative, ensuring estimates, judgements and reporting issues are considered so that there is appropriate balance, transparency and integrity of information contained in the Annual Report,

- At the request of the board, the committee considered whether the 2015 Annual Report was fair, balanced and understandable and whether it provided the necessary information for stakeholders to assess LV='s position, performance, business model and strategy In reviewing the Annual Report the Audit Committee has concluded that, when taken as a whole, it meets the fair, balanced and understandable test and provides the information necessary for members to assess the Society's position, performance, business model and strategy The committee reached this conclusion by ensuring that
  - The key events or transactions which affected the group's financial performance or position are properly disclosed and described
  - The group's financial performance and position overall is fairly described with an appropriate balance between good news and bad news
  - The main risks to which the business is exposed are discussed within the Annual Report and disclosed where necessary
  - The group's business and sources of income are described together with any changes in the period
  - The factors which may affect future performance such as business trends and areas of volatility are identified
  - The material estimates and areas of uncertainty are highlighted
  - There is consistency between the narrative and financial reporting sections of the Annual Report and with the half-year results published in 2015
  - The committee and board have sufficient time to review the Annual Report and provide input
  - Financial and factual verification of the financial statements was carried out internally

- Recommended to the board the Society's PRA annual return, ICA submissions and Valuation Reports, and

- Recommended to the board the design, calibration, validation and results from the group and its subsidiaries internal capital model (including ICA and ORSA)

Internal audit

- Reviewed the effectiveness and activities of the group internal audit function by commissioning an external quality review This review, carried out by Ernst and Young LLP, confirmed that the function was well-established with advanced practices and no significant areas for development Overall the committee was pleased with the outcome of this review which provided a good endorsement of the function, the quality of its work and its compliance with the appropriate guidance,
- Ensured that significant findings and recommendations made by group internal audit and management's proposed responses were received, discussed and appropriately acted upon,
- Reviewed the proposed internal audit plan for the coming year to ensure it reflected the priorities in the group's plans and was derived from a risk-based assessment of the business and a review against the group s risk profiles Changes to the group internal audit plan were reviewed and approved on a quarterly basis,
- Met privately with the internal audit director,
- The committee was satisfied that the group internal audit function had the appropriate resources and access to suitable external consultancy resource where necessary, and
- An annual programme of internal quality assurance was completed and actions arising were implemented to continue to improve the effectiveness of the function

External audit

- The committee reviewed an evaluation of the effectiveness of the external auditors, which was prepared by internal audit using input from across the group Key stakeholders involved in the 2014 year end audit process were interviewed and/ or completed a questionnaire to evaluate the effectiveness of the external auditors' processes and key individuals, and also to identify opportunities to enhance the effectiveness and added value from the external auditors Areas assessed were expertise, communication, team, and delivery The committee concluded that the external auditors were effective and recommended the reappointment of the external auditors for a further one year term, agreeing the terms of engagement, scope and audit fee for the forthcoming period PwC has been LV='s auditor since 2008 The committee noted that the current FRC transitional guidance indicates that the group should tender the audit, at the latest, in time for the 2018 AGM The committee will continue to consider annually the need to go to tender for audit quality and independence reasons Subject to the outcome of this process continuing to be satisfactory, it is currently expected that PwC will remain in office and a resolution to reappoint PwC for the 2016 audit will therefore be proposed at the AGM,
- Reviewed the policy for and monitored the use of the external auditors for any non-audit related work to ensure its continued independence was not prejudiced and to ensure that the provision of such services did not impair the external auditors objectivity Any engagement above £100,000 requires prior approval by the chairman of the Audit Committee and must be reported to the committee at its next meeting The fees paid or invoiced for non-audit activities in 2015 were £747,000 which was 27% of the fees paid to the external auditors in 2015 In addition to this fees paid or invoiced for non-audit assurance services in 2015 were £933,000,
- Reviewed and approved the external auditors' proposed audit scope and approach for the current year as set out in its 2015 audit plan, in the light of the group's present circumstances and changes in regulatory and other requirements,
- Discussed with the external auditor any audit problems encountered in the normal course of audit work, including any restrictions on audit scope or access to information as part of ensuring that significant findings and recommendations made by the external auditors and management's proposed response were received, discussed and appropriately acted upon, and
- Met privately with the external auditors, PwC

Committee's effectiveness

The committee reviews its own effectiveness annually and, during the year, this review was led by the committee's chairman The committee also reviews the effectiveness of each meeting prior to conclusion to ensure continuous improvement

Achievements in 2015

Oversight of preparations for Solvency II and implementation of Solvency II reporting, including review of the governance for Solvency II reporting and assumption setting

Reviewed and approved the Solvency II balance sheet assurance report, prepared by the auditors, prior to submission to the PRA

An external review of the effectiveness of the internal audit team was undertaken and an action plan agreed

Reviewed and approved the submission of ICA+ for group and life in September 2015 and general insurance in December 2015

Reviewed the updated Annotated Corporate Governance Code and the application of the new Code requirements, specifically going concern, viability and the assessment of principal risks

Priorities for 2016

Continued focus on the areas outlined in the significant issues table on pages 82 to 85

Oversight of the Teachers Assurance acquisition and review of the subsequent controls and reporting requirements associated with this transaction

Review and approval of Solvency II submissions

Consider the impact of the FCA review published with regards to the treatment of long standing customers, whose policies are no longer being actively marketed

Consider the impact of IFRS 9 'Financial instruments' which addresses the classification, measurement and recognition of financial assets and financial liabilities

Consider the appropriateness of the current IFRS treatment under the Solvency II regime

The Risk Committee

The Risk Committee met four times in 2015 and is expected to meet four times in 2016

The Risk Committee is made up of
- David Neave (chairman)
- Mark Austen
- James Dean
- John Edwards (until September 2015)

The Risk Committee meets at least four times a year with other attendees including, but not limited to
- the chief executive,
- the group finance director,
- the chief risk officer,
- the internal audit director,
- the head of compliance, and
- the group chief actuary

The principal role of the committee is to consider the risks faced by LV= and advise the board

More details of the group's policy on risk management and the activities of the committee during the year are set out in the Risk Management section on pages 46 to 57

Remuneration Committee

The Remuneration Committee met six times during 2015 and is expected to meet four times in 2016

The committee is made up of three non-executive directors
- Cath Keers (chairman)
- Caroline Burton
- Mark Austen

Input is provided by the HR director, the chief executive and the chief risk officer, who attend by invitation

On behalf of the board, the committee determines
- The group s policy on executive remuneration, and
- The specific packages for each of the executive directors and certain senior managers, including the group-wide LTIP scheme and the divisional LTIP scheme for the general insurance business

The activities undertaken during the year include
- Monitoring the LTIP schemes against risk and performance,
- Recommending the annual bonus rates and targets for the chief executive and other executives based on performance, market comparison and budget analysis,
- Appointing Deloitte LLP as the group's remuneration consultants During the year, Deloitte also provided the group with advice in relation to internal audit services, pension advisory services and risk and regulatory advice
- Review and approval of the Directors' Remuneration Report for the Annual Report,
- Evaluating the performance of the committee and individual members, led by the chairman, and
- Updating its terms of reference following a review of the committee's effectiveness against the terms of reference

More details of the group's policy on executive and senior management remuneration, and the activities of the committee during the year are set out in the Report on Directors' Remuneration on pages 96 to 109

Nomination Committee

During the year, the Nomination Committee comprised all the independent non executive directors, the chairman and the chief executive
- Mark Austen (chairman)
- Cath Keers
- David Neave
- Caroline Burton
- James Dean
- John Edwards (until September 2015)
- Mike Rogers (chief executive)

The Nomination Committee met twice in 2015 and is expected to meet three times in 2016

The committee
- Evaluates the balance of skills, knowledge and experience on, and required by, the board for board appointments and certain senior management roles, and
- Prepares a description of the role and capabilities required for any particular appointment

Recruitment consultants The Zygos Partnership (TZP) were instructed to help compile a shortlist of candidates for interview for the board vacancy following the resignation of John Edwards TZP has no other connection with the Society and was used solely for the purpose of assisting with the recruitment of the board vacancy The committee then recommended appointments to the board for approval

Recruitment consultants were also retained to identify the successor to John O Roarke as managing director of the general insurance business At the conclusion of the recruitment process the Nomination Committee recommended the appointment of Steve Treloar to the board

During the year, the committee undertook the following activities
- Discussed succession planning,
- Reviewed the job specification of the senior independent director and time commitment required for the role and recommended to the board the appointment of a new non-executive director to the role,
- Instructed external search consultants to begin the recruitment process for a non executive director and an executive director,
- Discussed the professional development plans and non-executive director training for 2015,
- Reviewed its effectiveness against its terms of reference, and
- Evaluated the performance of the committee's meeting effectiveness

Investment Committee

The committee meets at least twice a year (it met three times in 2015 and is expected to meet twice in 2016) and the chief risk officer and representatives from the group's asset manager, Columbia Threadneedle Investments usually attend by invitation

The Investment Committee comprises three non-executive directors

- John Edwards (chairman until May 2015 and member until September 2015)
- Caroline Burton (chairman from May 2015)
- Mark Austen

and two executive directors

- Mike Rogers, and
- Philip Moore

The group chief risk officer is also a member of the Investment Committee Regular attendees include the group chief investment officer and the group chief actuary

It is responsible for

- Developing, recommending and overseeing the investment strategy for the group, aligned to its business and risk strategy,
- Monitoring and reviewing the operational performance of Columbia Threadneedle Investments covering its relative investment performance against mandates set, service levels, contract terms and conditions including its charges compared to alternative providers, and
- Investment activity undertaken by management including the oversight of the group's Asset and Liability Committee (ALCO) delegated activities and effectiveness of decisions and actions

During the year, the committee undertook the following activities

- Reviewed counterparty risk and compliance with the counterparty policy,
- Monitored the effectiveness of the derivative portfolio and investment performance portfolio,
- Discussed credit exposure and proposed actions,
- Reviewed the Society's with-profits investment strategy benchmarks in comparison to peers,
- Discussed Columbia Threadneedle Investments' performance including compliance with delegated authorities, and
- Evaluated the performance of the committee and individual members, led by the chairman

With-profits Committee

The With-profits Committee meets at least four times a year (it met six times in 2015 and is expected to meet five times in 2016), and comprises

- Graham Berville (independent chairman)
- Steve Sarjant (independent member)
- Cath Keers
- John Edwards (until September 2015)
- John Perks, the managing director of our retirement solutions business

Graham Berville has extensive and relevant industry experience and was formerly CEO of Police Mutual and holds a number of other non-executive positions

Regular attendees include the with-profits actuary and the chief actuary for the life business

The role of the committee is to

- Bring independent judgement to the assessment of compliance with the statement of Principles and Practices of Financial Management, and
- Monitor how any competing or conflicting interests between different groups of policyholders are resolved

The committee can engage external professional advisers to assist in delivering its objectives effectively and draws on the expertise of the with-profits actuary Input is also provided by the chief actuary and the actuarial function holder, who attend by invitation

During the year, and in addition to its core responsibilities, the committee undertook the following activities

- Reviewed its effectiveness against its terms of reference,
- Reviewed effectiveness against its three-year plan,
- Continued with an extensive programme of improvements to with-profit member communications,
- Considered the impact on with-profit members of various potential acquisitions and played a key advisory role in the proposed acquisition of and plans for implementation for the Teachers with-profits fund,
- Evaluated the performance of the committee and individual members, led by the chairman, and
- Benchmarked its performance with the other significant with-profits committees in the UK

Executive Committee

The chief executive chairs this weekly committee meeting to monitor our business performance It also meets in order to help him meet the responsibilities which the board has delegated to him and as a precursor to its monthly reporting to the board

Matters reserved for the board

There is a clear list of matters which only the board can decide on, other matters are delegated to the chief executive Matters reserved for the Society's board are outlined in the table below

The board ensures that directors, especially the non-executive directors, have access to independent professional advice where they judge it necessary to discharge their responsibilities as directors and have access to the advice and services of the company secretary

In 2015 the board met ten times for formal board meetings, once on an additional ad hoc basis to discuss specific issues and twice for strategy and planning sessions

In 2016 the board expects to meet at least ten times and to have two strategy and planning sessions

Under the Society's rules all directors are required to stand for re-election at least once every three years Mike Rogers and James Dean will be offering themselves for re-election at the 2016 AGM As Mark Austen has served a term beyond six years, Mark s performance and independence is subject to rigorous review and, as chairman, voluntarily, and in line with the recommendations of the Annotated Code for mutual insurers of its size, offers himself for re-election each year

Strategy and planning	• establishing the tone from the top for values, culture and ethics, • determining and overseeing delivery of the group's strategy, • approval and monitoring of long-term strategic plans and objectives, and • approval and monitoring of the group annual business plan for the coming three years
Appointment and removal of officers	• appointment and removal of the Society's chairman, deputy chairman (if appointed), senior independent director, company secretary, group chief executive, chief investment officer, chief risk officer, with-profits actuary and actuarial function holder and directors of the Society and its subsidiaries
Financial matters	**Approval of** • capital or revenue expenditure exceeding £5 million or greater than £2 5 million where this expenditure is over the agreed budget, or any expenditure deemed to be outside the normal course of business, • the annual bonus declaration, • the Individual Capital Assessment and its submission to the PRA, • recommendations if any to the Financial Condition Report, • the Valuation Report and the Annual Report, and • Solvency II financial reporting, including approval of the ORSA, the Internal Model and its embedding, Risk Appetite Statements and Systems of Governance as recommended by the Risk and Audit Committees
Mergers, acquisitions and disposals	• mergers, acquisitions and disposals either by the Society or any of its subsidiaries with a value greater than £5 million, and • approval of mergers, acquisitions and disposals and overseeing effective integration
Governance and compliance	**Approval of** • the Notice of AGM (including reappointment of auditors), any proposed amendments to the memorandum and rules and related documentation in connection with the AGM, • the Notice of the results of the AGM and any resolutions to be raised at the Member Panel where there was a significant vote against, • approval and periodic review to discuss specific policy statements as the board may determine from time to time including principal risk policies (except those delegated to the Risk Committee), • any political donations (none made), • the membership of board committees, • the terms of reference of board committees, subsidiary company boards and the Executive Asset and Liability Matching Committee, and • policy changes in pension entitlement and staff pension scheme funding

Board Diversity policy

The board recognises that diversity and inclusion are central to business success, today and for the future, reflecting the diversity of its people, customers, members and communities in which it operates

The board has adopted the following diversity policy 'LV= recognises and embraces the benefits of having a diverse board, and sees diversity at board level as an essential element in maintaining a competitive advantage A truly diverse board will include and make good use of differences in the skills, industry experience, background, race, gender and other qualities of directors These differences will be considered in determining the optimum composition of the board and, when possible, should be balanced appropriately All board appointments will be made on merit, in the context of the skills and experience the board as a whole requires to be effective The Nomination Committee reviews and assesses board composition on behalf of the board and recommends the appointment of all new directors to the board'

In reviewing board composition, the Nomination Committee will consider the benefits of all aspects of diversity including, but not limited to, those described above, in order to maintain an appropriate range and balance of skills, experience and background on the board In identifying suitable candidates for appointment to the board, the Nomination Committee will consider candidates on merit against objective criteria and with due regard for the benefits of diversity on the board

As part of the annual performance evaluation of the effectiveness of the board, board committees and individual directors, the Nomination Committee will consider the balance of skills, experience, independence and knowledge on the board and the diversity of the board

During 2015 LV= continued to progress its diversity and inclusion programme based on the research that Brook Graham Associates, a diversity and inclusion specialist consultancy, had conducted on its behalf and the work undertaken by the group in 2014

The purpose and objectives of LV='s diversity and inclusion programme are

- To create a culture at LV= where everybody feels comfortable with being themselves
- Its people are self-aware and accept personal accountability for diversity and inclusion
- The diverse perspective of its people, customers, members and communities it operates in are reflected in what they do
- Its people and leaders are as diverse as the customers and members it serves

Our progress included the development of the programme to include five main areas of diversity gender, disability, sexual orientation, ethnicity and multigenerational ensuring it reached out to all representative groups of its staff and customers alike LV='s commitment starts at the top of the business with group executives sponsoring each of the diversity programmes

The board has a strong interest in the development and progression of women at all levels of the group and in 2015 grew its women's network 'PACE' (which stands for Potential, Ambition, Connections and Empowerment) by 100% to over 730 members, its largest diversity and inclusion network With an ever growing membership from both its male and female workforce, the network has been pivotal in helping people recognise the value that gender diversity brings to an organisation As well as helping women to learn from more senior role models, build confidence and take ownership for their own careers, the network provides opportunities for mentoring, work-shadowing and insight for male colleagues about the challenges that women face With regular speaker events from inspirational women and men, the growing network is working towards the aim of supporting equal opportunities for everyone Today PACE is recognised as an influential network for the business and our people on all gender-related issues

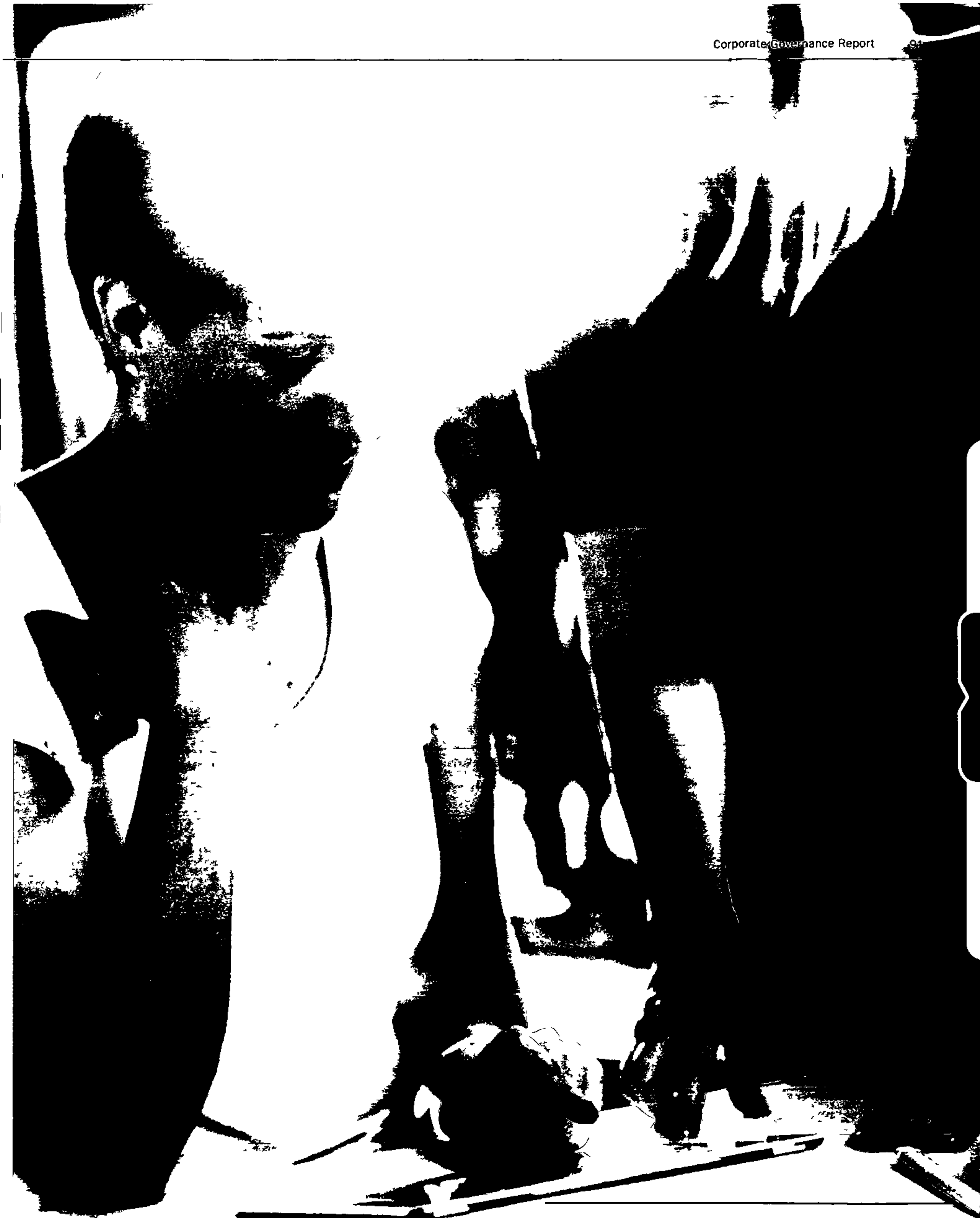
The main achievement of our overall diversity and inclusion programme to date has been the enabling voice for minority groups and so creating the opportunity for them to shape and influence our culture, workplace and customer propositions resulting in them feeling that they can bring their true self to work

We are proud of our association with a range of external partners who provide us with access to further networks, research and best practice on diversity and inclusion across the UK These include Everywoman, We are the City, City Women's Network, Stonewall and the Business Disability Forum

The chairman is an active member of the 30% Club which is committed to bringing more women to boards This is a group largely comprising chairmen of major firms committed to achieving gender balance at all levels of organisations A short term goal was for boards to comprise 30% women by the end of 2015

The Society has not set a specific target but, during the recruitment process for a new non-executive director, requested a diverse shortlist and long lead-times to ensure women had the opportunity to apply and could be considered for the role During 2015, women made up 20% of the full board and, of the non-executive directors, the Society had 33% female representation

In addition the chairman is contributing to 'Speakers for Schools', an associated programme to encourage all students, particularly women, to achieve their full potential



I dealt with a lovely lady called Katie who was absolutely brilliant. She couldn't have been more helpful and made everything a lot easier.

Directors' Report

LV= aims to maintain our position as one of the UK's best loved insurers by delivering excellent customer service while consistently treating the customer fairly.

Rachel Small
Company Secretary

Business activities and future prospects

LV= is an incorporated friendly society that, together with various subsidiaries, carries out insurance and financial services business in the United Kingdom, through LVFS and its subsidiaries These activities include with-profits insurance, life protection (both term and whole of life), annuities, equity release, motor, home, pet and travel insurance The directors consider that all the activities undertaken by the group during the year were within the Society's rules and relevant regulatory permissions

The board sets objectives and priorities supported by key performance indicators (KPIs) and targets, which it monitors on an ongoing basis throughout the year

During 2015, the key objectives and priorities were aligned to our strategic agenda

Sustainable business model

- Deliver the profit target results for each individual business unit
- Meet the benchmark target investment return achieved on our with-profits fund
- Ensure we have sufficient capital to withstand economic and market shocks on our regulatory and economic capital bases and manage our capital coverage ratio within the group's risk appetite framework in a Solvency II environment
- Continue to improve our financial reporting systems and processes to enhance our profit, cash and capital reporting and forecasting models and to support the reporting requirements under Solvency II
- Oversee preparations and readiness for Solvency II and implementation of Solvency II reporting and governance This includes reviewing all applications including Matching Adjustment, Transitional Relief and Volatility Adjuster and our external auditor's balance sheet assurance report
- Continue to develop the effectiveness and maturity of our Risk Management Framework and development and approval of the ORSA and associated Validation Report
- Review the updated Annotated Corporate Governance Code and the application of new Code requirements, specifically going concern, viability and the assessment of principal risks
- Return value to our membership through our commitment to delivering a mutual bonus for eligible members and to continue to support all our members via member discounts, the Member Support Fund, the Member Community Fund and the Member Care Line

Diversified general insurance earnings
- Oversee the development of new general insurance product offerings and growth in the SME markets

Grow life to scale
- Oversee the Teachers Assurance acquisition, which is to be completed in the first half of 2016, subject to regulatory approval, including a review of controls and reporting requirements associated with this transaction
- Oversee the Wealth Wizards acquisition

Exploration of adjacent business areas
- Oversee the launch of LV=Law and the LV= Retirement Wizard and Pension Compass tools

Go digital
- Oversee the go digital agenda including approval of system enhancement projects and approval of the launch of a major programme to improve the general insurance claims and service model

Build a distinctive and relevant brand
- Oversee our refreshed brand across the group and to make further progress towards our vision to be Britain's best loved insurer

Become customer centric
- Maintain our position as one of Britain's best loved insurers by delivering excellent customer service while consistently treating the customer fairly

Broaden and deepen talent pool
- Retain staff engagement scores at or above those of the high performing organisations (as defined by Willis Towers Watson) and to develop and retain our key talent

Performance against these objectives and priorities is regularly reviewed at board meetings

Business strategy

The board has chosen to set out the group's full strategic report information required under applicable law and regulations in full which can be found on pages 13 to 71 of this report

Board directors and interests

The current members of the board and details of its various committees are shown on pages 76 to 89 together with their dates of appointment

During 2015 John O'Roarke was a minority shareholder in Liverpool Victoria General Insurance Group with a 22 22% shareholding in the Ordinary B Class of shares (equivalent to approximately 0 25% of the total Ordinary share capital of LV= General Insurance Group) and was a party to a contract for LVFS to purchase his shareholding during 2016

The shareholding was repurchased by LVFS in February 2016 Further details are given in note 52 to the financial statements

We continued to maintain liability insurance cover for our directors and officers during the year and as at the date of approval of these financial statements

With-profits bonus declaration

The board has declared an annual bonus for the year ended 31 December 2015 at 1% of the sum assured for industrial branch business and at 2% of the sum assured for conventional ordinary branch life business Interim bonus rates will also be at these levels Final bonus rates in 2015 maintain our competitive position

Basis of accounting

These accounts are presented using International Financial Reporting Standards (IFRS), as adopted by the European Union, drawn up on a going concern basis Further details about the directors' responsibilities for the accounts are described on page 95

Going concern and viability statement

In accordance with the provisions of the annotated version of the UK Corporate Governance Code, the directors are required to assess the prospect of the group as a going concern generally over the next 12 months and also its longer term viability

Going concern

Under the annotated version of the UK Corporate Governance Code the directors are required to state whether the business is a going concern In considering this requirement, the directors have taken into account the following
- The group plan, which was approved by the board in December 2015 and in particular the forecast regulatory solvency position Sensitivity analysis is included within this forecast (for further detail on this analysis see page 34)
- For the group, regulatory solvency is given more attention than liquidity This is because, by the nature of its business, the group holds very substantial liquid assets on its balance sheet which would enable it to pay claims and expenses as they fall due for at least a 12 month period
- The principal risks and uncertainties that could impact the group s solvency and liquidity over the next 12 months (for further detail on the principal risks and uncertainties assessed in 2015 see pages 49 to 52)

Having due regard to these matters and after making appropriate enquiries, the directors confirm that they consider it appropriate to prepare the financial statements on the going concern basis

The board sets objectives and priorities supported by key performance indicators (KPIs) and targets, which it monitors on an ongoing basis throughout the year.

Viability statement
The board is also required to assess the prospects of the Society and the group over a longer period than the 12 months required for the going concern review

The board conducted this review for a period of three years as this is aligned with the period used for the internal group plan, which was approved by the board in December 2015 and which covers the three year period from 2016 to 2018 It should be noted that life insurance is a long-term business and the board looks out on a longer basis than three years in certain areas Beyond a three year horizon the board does not have an expectation that there will be a material change in the principal risks affecting the solvency, liquidity or performance of the group

The group's three year plan covers the group's regulatory solvency position, profitability, operational liquidity and other key financial ratios over the period These metrics are subject to sensitivity analysis, which involves flexing a number of the main assumptions underlying the forecast both individually and in unison

As part of the viability statement review the directors have carried out a robust assessment of principal risks which could threaten the group's business model, future performance, solvency or liquidity, paying particular attention to the impact on the capital position of a combination of risks to create a scenario, considering correlation of risks and evaluating their combined impact (for further detail on stress and scenario testing carried out as part of the Own Risk and Solvency Assessment (ORSA) process see pages 55 and 56) In addition, further analysis is carried out to evaluate the potential impact of other principal risks occurring (for further detail on principal risks and uncertainties assessed in 2015 see pages 49 to 52) Agreeing an appropriate long-term regulatory capital basis for managing and reporting the group's capital position is also an important area of focus (see Capital Management on pages 33 to 35)

The review also considers mitigating actions available to the group should an extreme stress scenario occur Based on the results of this review, the directors have a reasonable expectation that the Society and the group will be able to continue in operation and meet its liabilities as they fall due over the three year period of their assessment

Fixed assets
Changes in our fixed assets are shown in note 30 to the financial statements

Margin of solvency
Throughout the year and at 31 December 2015 we held the required capital resources for each business class as prescribed by the PRA

Independent auditor
A resolution for the re appointment of PricewaterhouseCoopers LLP as auditor will be proposed at the 2016 AGM

Assessment of risk
We look to create value for members by maintaining an appropriate balance between the returns that we seek and the level and type of risk we take on in order to achieve these returns

In accordance with the annotated version of the UK Corporate Governance Code, the directors have carried out a robust assessment of the principal risks facing the group and Society, including those which would threaten its business model, future performance, solvency or liquidity

A full overview of our risk management can be found on pages 46 to 57 and further details of the ongoing monitoring and the annual review of the effectiveness of risk management systems can be found in the Audit Committee report on pages 81 to 86 Note 4 of these accounts also provides further detail about our risk management and control

Internal control
The board has overall responsibility for the group's internal control systems and for monitoring effectiveness Implementation and maintenance of the internal control systems are the responsibility of the executive directors and senior management The performance of the internal control systems is reviewed by the relevant board committees, principally the Audit Committee which receives reports from the internal audit, compliance and risk functions The Audit Committee report on pages 81 to 86 describes the main features of the internal control and risk management systems in relation to the financial reporting process and the process for preparing consolidated accounts, which are a subset of the internal control systems under the supervision of the board's committees

The group's internal control systems are designed to manage, rather than eliminate, the risk of failure to meet business objectives and can only provide reasonable, and not absolute, assurance against material misstatement or loss In assessing what constitutes reasonable assurance, the board has regard to materiality and to the relationship between the cost of, and benefit from, internal control systems

The regular review of the effectiveness of the system of risk management and internal control concluded that these systems remain effective and there were no significant failings or weaknesses to report

Our employees

Details about our people, our people policies including the employment of disabled persons, our diversity and inclusion programme and engagement with our staff generally can be found on pages 64 to 68 of this report, headed 'Corporate Responsibility Report

Charitable donations

A full view of our charitable donations and corporate social responsibility activities can be found on pages 68 to 70 No political donations were made in 2015

Statement of disclosure of information to the auditor

As at the date of this report each director confirms that

1) so far as he or she is aware, there is no information relevant to the audit of the Society's and the group's financial statements for the year ended 31 December 2015 of which the auditor is unaware,

2) he or she has taken all steps that he or she ought to have taken in his/her duty as a director to make him/her aware of any relevant audit information and to establish that the Society's auditor is aware of that information

Directors' statement of responsibility

The Friendly Societies Act 1992 (1992 Act) requires a Friendly Society's Committee of Management to prepare accounts for each accounting period As we are incorporated under the 1992 Act our board of directors has assumed the responsibilities and duties of the Committee of Management in relation to these accounts

These accounts must comply with the relevant provisions of the 1992 Act, and present fairly the financial position, financial performance and cash flows of the Society and the group at the end of the accounting period In carrying out this duty, the directors have chosen to use IFRS as adopted by the European Union

A fair presentation of our accounts in accordance with IFRS requires our directors to

- Select suitable accounting policies and ensure they are applied consistently,

- Prepare the accounts on a going concern basis, unless it is inappropriate to presume that the Society and the group will continue in business,

- Make judgements and accounting estimates that are reasonable and prudent,

- Present information, including accounting policies, in a manner that provides relevant reliable comparable and understandable information,

- Provide additional disclosures when compliance with the specific requirements in IFRS is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Society's and the group's financial position and financial performance, and

- State that the Society and the group have complied with applicable IFRSs, subject to any material departures disclosed and explained in the accounts

The directors are also responsible for maintaining

- Proper accounting records which are intended to disclose with reasonable accuracy, at any time, the financial position of the Society and the group,

- Appropriate internal control systems to safeguard our assets and to prevent and detect fraud and other irregularities, and

- The integrity of the corporate and financial information included on our website LV com

Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions

Each of the directors, whose names and functions are shown on pages 78 and 79, confirm that to the best of their knowledge and belief

- The group financial statements, which have been prepared in accordance with IFRS as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and profit of the group,

- The Business Reviews on pages 28 to 45 of the Strategic Report include a fair review of the development and performance of the business during the financial year and the financial position of the group at the end of 2015, and

- A description of the group's principal risks and details of the group s risk governance structure are provided on pages 46 to 57

Having taken all the matters considered by the board and brought to the attention of the board during the year into account, the directors are satisfied that the Annual Report, taken as a whole, is fair, balanced and understandable, and provides the information necessary for our members and investors to assess the Society's and the group's position and performance, business model and strategy

By order of the Board of Directors

Rachel Small

Rachel Small, Group Company Secretary
11 March 2016

Report on Directors' Remuneration

At the heart of our remuneration framework is the link to our long-term business strategy and the long-term sustainability of the Society.

Cath Keers
Chairman of the Remuneration Committee

Annual Statement

Dear Member,

In 2015, LV= has performed exceptionally well in a very challenging market. Our life business showed its resilience and sound business model to generate excellent results, following the unpredictability of 2014 with the announcement of pensions freedoms. Our general insurance business faced pricing challenges in an increasingly competitive industry, but once again generated strong results, building upon our powerful brand and customer proposition.

As the chair of the Remuneration Committee, I and my colleagues seek to ensure we offer a reward package that attracts the best people to lead the group, and that our pay arrangements appropriately reflect our long-term business strategy and that variable incentive payouts reflect the business performance that has been delivered on your behalf.

Pay and the link to our long-term business strategy

At the heart of our remuneration framework is the link to our long-term business strategy and the long-term sustainability of the Society.

We currently operate two variable incentive schemes for this purpose – an annual bonus scheme and a long-term incentive plan (LTIP). The annual bonus is driven by a balanced scorecard of financial and non-financial measures covering risk, people, strategy and customer, and a proportion of any award may be deferred and paid out in a later year, ensuring that our executives remain focused on both the short-term and long-term health of the Society. Our LTIP, which measures performance over three years, is intended to reward participants for delivering high performance in business results which is sustainable over the long-term. To this effect, long-term growth in group profit is now the primary measure used as it is a measure that grows member value, provides the resources for us to invest in the Society's future, and can be used to fund the mutual bonus.

For our executive directors, we also require that two-thirds of any LTIP award is deferred for a further two years following the end of the performance period, with any such payments linked to the value of the Society's with-profits fund, further aligning the remuneration executives receive and members' interests.

Variable pay-outs and the link to performance

The annual bonus in 2015 was weighted 60% on financial measures (normalised group operating profit) and 40% on individual and strategic measures Group operating profit in 2015 was £195 million, representing 127% growth on the previous year The Remuneration Committee has reviewed the elements of the group operating profit to calculate a normalised group operating profit of £91 million, which resulted in full payment in respect of this measure The individual strategic measures are tailored for each executive director, but stem from our balanced scorecard of financial and non-financial objectives Following our 2015 success, our executive directors received on average 81% of their maximum bonus opportunity, as a clear reflection of their achievements in the year A portion of each bonus received by Mike Rogers, Philip Moore and Richard Rowney will be deferred for payment over the next three years, with the value linked to the value of investments in the with-profits fund, ensuring a continued link to the performance of the Society

Our success has also been shared with our employees via our group annual incentive scheme, with the average percentage bonus received by our employees being 11 8% of salary

Our 2013-15 Group LTIP scheme was based on stretching targets relating to Enterprise Value growth, with our chief executive and group finance director also having an element of their award linked to Relative Investment Performance Annualised Enterprise Value growth over the three year performance period was 10%, representing significant growth but not exceeding the stretching target set by the committee that would have resulted in maximum vesting This resulted in a payment of 45% of maximum under this element Our annualised investment performance over the three year performance period has been strong, and has outperformed the industry benchmark by 117bps The annualised Relative Investment Performance element of the awards given to the chief executive and group finance director has therefore generated maximum payments for this part of their awards We've included more details of our LTIP performance on page 103

In addition to the above, the group also made a one-off payment to John O'Roarke under the general insurance divisional LTIP Further details are shown on page 105

Remuneration in 2016

Salary

We review directors salaries at the same time as we look at salaries for the whole employee population and we determine any increases for our executive directors in exactly the same way as our broader employee group In making any pay increases, we consider affordability and the pay increases that we see across our industry competitors When it comes to individual pay increases, we consider individual performance and talent potential, comparing salaries to similar roles both externally and internally In 2016, salaries for our all-employee population will increase on average by 2% and the salary increases to be awarded to our executive directors are in line with this

Variable incentives

The committee continually keeps under review our remuneration policy, remuneration levels and all incentive arrangements We have recognised the increased need to focus on strategy to strengthen our capital position, as required under Solvency II, and to protect the long-term interests of you, our members

With that in mind the committee has approved a change to the weightings of our annual bonus scheme for 2016, reducing the emphasis placed on financial objectives from 60% to 55%, and increasing the weighting on strategy from 10% to 15% We are not proposing any other changes to the operation of our annual bonus or our LTIP for 2016

Recruitment

As confirmed in 2015, John O'Roarke will be stepping down from the board and his position as managing director of our general insurance business in 2016 We ve successfully appointed Steve Treloar to replace John, and he will start with us in mid-2016 Steve's remuneration package will be in line with our existing remuneration policy that was approved by members in May 2015, and we will be disclosing full details in next year's Report on Directors' Remuneration

Listening to members

We want to hear from you and we continue to make every effort to listen to the views of our members to help shape our remuneration structures at LV= Our Member Panel is made up of around 40 members We held two Member Panel meetings in 2015, which were both really well attended and provided us with great feedback on our policies and how we communicate with you

We've listened and have incorporated your feedback on the structure of our Report on Directors' Remuneration this year We've simplified the structure of the report to make it easier to read and we hope that you'll find it to be more user-friendly and informative as a result We're continuing to look at ways to improve how we report to you, and we d welcome your feedback on both the changes to our report this year and also any other areas where you think we can improve

We have always aimed to comply with the highest standards of corporate governance and, whilst we have made structural changes to the Report on Directors' Remuneration, it has again been prepared in line with the reporting requirements which apply to listed companies Since we are not proposing any significant changes to the remuneration policy that was approved by members at the 2015 AGM, at the 2016 AGM we will only have one remuneration resolution put to a member vote, being the advisory vote on the 2015 Report on Directors Remuneration

I hope that as members you will support the resolution to approve the payments made in the year under review at this year's AGM As always, the committee and I are keen to receive feedback so we can take on board your views when setting future policy

Yours sincerely

Cath Keers
Chairman of the Remuneration Committee

Remuneration at a glance

Achieved target
Progressing towards target
Missed target

LV= financial performance in 2015

£195m operating profit
2014 £86m

195% capital cover ratio
2014 171%

3.8% heritage with-profits fund performance
Benchmark 2 7%

LV= non-financial performance in 2015

1st UK best loved
2014 2nd

86% engagement
UK high performing organisations 81%

Financial measures used for the annual bonus plan and long-term incentive plan

The chart below shows how the actual performance of the financial measures under the annual bonus scheme and 2013-2015 LTIP scheme compared with the targets set

2015 Annual Bonus

	Threshold £55m	Target £69m	Maximum £82m	Payout % of max
Normalised group operating profit[1]	£91m			100%

(1) The group operating profit after removal of one off items (see page 102)

2013-2015 LTIP

	Threshold 7%	Maximum 18%	Payout % of max
Group Enterprise Value growth (p a)	10%		45%

	Threshold 0bp	Maximum 60bp	Payout % of max
Relative Investment Performance (p a relative to benchmark)	117 bp		100%

How much our executive directors earned in 2015 from our ongoing remuneration policy

	Total remuneration (£'000)	Annual bonus (% of maximum)	Long-term incentives (% of maximum)
M Rogers	£1,970	86%	59%
P Moore	£1,100	81%	59%
R Rowney	£980	92%	45%
J O'Roarke[1]	£616	65%	–

(1) In addition to this remuneration from our ongoing policy J O Roarke received remuneration from the general insurance LTIP totalling £10 1 million For further details see page 105

Remuneration Policy

Our Remuneration Policy was approved by members at the AGM held on 21 May 2015 There are no proposed changes to the Remuneration Policy and we will continue to follow the already agreed policy in 2016 except for the change to annual bonus weightings, described in more detail on page 107 The full Remuneration Policy can be found in the LV= Annual Report 2014 The key elements of our remuneration framework are set out below

	Operation	Maximum opportunity
Salary	Salaries are reviewed annually (but not necessarily increased) taking account of several factors including individual experience, responsibilities, function and sector, along with individual and group performance	No prescribed maximum
Benefits	Include car allowance, medical insurance, income protection cover, and group product discounts, which are available to all staff and directors on equal terms	
Pension	Directors can elect to join a defined contribution pension scheme or receive a cash sum in lieu of pension contributions	Up to 22% of salary
Annual Bonus	The annual bonus pot is measured against annual group and divisional financial objectives, accounting for 55% of the assessment, and a balanced scorecard of objectives covering risk, people, strategy and customer, accounting for the remaining 45%	Chief executive maximum payment of 150% of salary Other directors maximum payment of 120% of salary
Group long-term incentive plan (LTIP)	LTIP pay-outs will be made in cash One-third of any payment will be made after three years when the scheme vests, one-third will be deferred for a further year and one-third will be deferred for two years after vesting For 2016 awards will be based on performance over three years and measure group adjusted average pre-tax profits and group relative investment performance for the chief executive and finance director, and group adjusted average pre-tax profits for the other directors	Maximum pay out is capped at two times the original award, the value of which is up to Chief executive 100% of salary Other board executives 75% of salary
Deferral	At least 40%-60% of the variable remuneration paid to executive directors is delivered in long-term pay If this ratio is not met through the LTIP, then a portion of the annual bonus payment for that year will be deferred for three years and the value tied to the value of investments in the with-profits fund	
Malus / clawback	Deferred payments are subject to recovery provisions, at the discretion of the committee, where it has come to light that awards were made in error or where new information is made available that would have changed the value of the original award	

Details of our policy on recruitment and promotions, service contracts, payments for loss of office, and non-executive directors can be found in our full Remuneration Policy as set out in the LV= Annual Report 2014

Annual Report on Remuneration

The Remuneration Committee

The Remuneration Committee determines the broad policy for remunerating the executive directors and agrees the remuneration of each executive director and other senior managers The committee reviews remuneration policy and strategy at least once a year and all incentive and bonus schemes are established and monitored by the committee

Members of the committee are provided with regular training and topical briefing sessions on developments and trends in executive remuneration, particularly as this relates to the financial sector

Committee membership, attendance and advisors to the committee

During 2015 the committee members were Cath Keers, who chaired the committee, Mark Austen, and Caroline Burton The chief executive is invited to meetings except when his own remuneration is being discussed Other senior employees, such as the chief risk officer, the human resources director and the head of reward, regularly provide advice to the committee and normally attend meetings by invitation

During the year we took the decision to undertake a review of our committee advisors New Bridge Street (which is part of Aon plc) was the independent external adviser to the committee prior to the review Following a competitive tender process, the committee appointed Deloitte LLP as their advisors with effect from 16 June 2015 During the course of the year, Deloitte LLP provided advice to the committee on remuneration levels and structures, and attended committee meetings at the invitation of the committee The committee undertakes due diligence periodically to ensure that our committee advisor remains independent of the Society and that the advice provided is impartial and objective Both New Bridge Street (NBS) and Deloitte LLP are members of the Remuneration Consultants' Group and, as such, voluntarily operate under the code of conduct in relation to executive remuneration consulting in the UK

The total fees paid to NBS in respect of services that materially assisted the committee during the year were £33,190 During the year, Aon plc provided other services to the Society including pension scheme advice, however the committee considers that adequate structures were in place to ensure the independence of the advice received from NBS

The total fees paid to Deloitte in respect of services that materially assisted the committee during the year were £43,620 While fee estimates are required for bespoke pieces of work, fees are generally charged based on time with hourly rates in line with the level of expertise and seniority of the adviser concerned During the year, Deloitte also provided the group with advice in relation to internal audit services, pension advisory services and risk and regulatory advice

Committee activities in 2015

In 2015 the committee met six times The matters which were addressed included

- Review of the overall policy relating to directors' remuneration,
- Review of all-employee remuneration policy, structures and levels,
- Review of salary and bonus levels,
- Review of the sales incentives scheme, operated within the life business,
- Preparation for the incoming Solvency II regulations,
- Preparation of the report on directors' remuneration, and
- Other routine matters throughout the year

All-employee remuneration

The committee also takes an active role in overseeing remuneration arrangements for the wider employee population LV= has committed to paying at least the Living Wage Foundation's minimum hourly rates of pay to all employees, with employees paid a minimum of £8 25 per hour outside London and £9 40 in London

LV= conducts regular salary benchmarking, both internally and externally against the wider market, to ensure our employee pay rates remain competitive We also offer all employees the opportunity to participate in an incentive arrangement (bonus or sales incentive) as well as the opportunity to individually select the benefits they receive as part of their total reward package

Remuneration for the past year (year ended 31 December 2015)

Summary table of executive directors' remuneration – Audited

The remuneration of individual directors, including that of the highest paid director, was as follows

£'000		Salary and fees	Other benefits[1]	Pension[2]	Annual bonus[3]	Long-term incentives[4]	Total from ongoing remuneration policy	General insurance division long-term incentive[5]	Total
M Rogers	2015	538	17	118	700	597	1,970	–	1,970
	2014	528	15	116	636	371	1,666	–	1,666
P Moore[6]	2015	368	15	51	360	306	1,100	–	1,100
	2014	360	14	50	270	191	885	–	885
R Rowney	2015	326	15	72	360	207	980	–	980
	2014	320	13	67	200	–	600	–	600
J O'Roarke	2015	300	15	66	235	–	616	10,126	10,742
	2014	294	13	65	300	–	672	–	672
Total	**2015**	**1,532**	**62**	**307**	**1,655**	**1,110**	**4,666**	**10,126**	**14,792**
	2014	1,502	55	298	1,406	562	3,823	–	3,823

Notes

1 Benefits include car allowance medical insurance income protection cover and life cover

2 This comprises the value of any payments by LV= into the defined contribution section of our pension scheme and any cash allowance paid in lieu of forgone contributions as appropriate A breakdown can be found in the Pensions section on page 105

3 This relates to the payment of the annual bonus for the year ended 31 December 2015 Further details of this payment are set out below For M Rogers P Moore and R Rowney an element of these full year amounts will be subject to deferral

4 This relates to the vesting of the 2013 LTIP award The performance period for this award ended on 31 December 2015 Two thirds of the figures shown are deferred to be paid in equal tranches in April 2017 and April 2018

5 This relates to the vesting of the general insurance divisional LTIP award Further details regarding this scheme can be found on page 105

6 P Moore also received fees relating to external non executive directorships totalling £85k

Summary table of non-executive directors' remuneration – Audited

£'000		Non-executive directors receive no benefits or pension contributions and do not participate in variable incentive schemes	Salary and fees	Total
M Austen	2015		181	181
	2014		177	177
D Neave	2015		70	70
	2014		68	68
J Edwards[1]	2015		53	53
	2014		73	73
C Keers	2015		69	69
	2014		67	67
C Burton	2015		69	69
	2014		64	64
J Dean	2015		70	70
	2014		68	68
Total	**2015**		**512**	**512**
	2014		517	517

1 Resigned on 24 September 2015

The aggregate remuneration paid to the Society's directors in 2015 was £15,304k (2014 £4,340k)

Annual bonus for the year ended 31 December 2015 – Audited
The annual bonus for the year under review was based on performance against annual group financial objectives, risk metrics and a balanced scorecard of personal objectives Details of actual performance against targets are as follows

	Weighting	Threshold £55m	Target £69m	Maximum £82m	Payout % of maximum
Normalised group operating profit	60%			£91m	100%

The Society operates a performance range for profit targets (see chart above) which is considered to be stretching at all levels Threshold is the level of performance that must be achieved to release 70% of the bonus pot Target is the level of performance that must be achieved to release 100% of the bonus pot Maximum is the level of performance that must be achieved to release 130% of the bonus pot

The Remuneration Committee adjusts reported operating profit when measuring actual performance against target to remove certain one-off items The review in 2015 reduced group operating profit of £195 million to the normalised group operating profit shown above of £91 million

The Remuneration Committee looks at the performance of the business in the round to understand any internal and external factors that have impacted performance and the broad trajectory of the business and market conditions, for example, before determining the appropriate level of bonus to be released

For J O'Roarke, bonus profit targets are based on the performance of the general insurance business The general insurance operating profit of £72 million in 2015 generated a payout of 75% of the maximum

The table below gives a broad indicator of how each executive director performed against their individual and strategic objectives along with a description of those objectives The total bonus awarded to each director and the percentage deferred is also set out

	Individual and strategic objectives (40% weighting)	Payout (% of maximum)	Total actual bonus (% of salary)	Payable in 2015 (% of salary)	Deferred (% of salary)
M Rogers	• Continue to deliver strong progress against the key strategic themes, based on the five-year strategic plan • Ensure the capital sustainability of the group, including Solvency II • Operate within the group's risk appetite – capital, earnings, liquidity, brand, regulatory, operational • Deliver exceptional customer satisfaction scores, to be Britain's best loved insurer • Deliver the group's financial plans and targets • Continue to demonstrate leading employee engagement scores at the level of high performing organisations	65%	129%	92%	37%
P Moore	• Improve finance's operational performance by implementing systems enhancements and delivering process improvements • Meet all delivery milestones to ensure full compliance with regulatory requirements for the group, including Solvency II • Develop an updated investment strategy for general insurance funds and design and deliver the with-profits investment strategy • Deliver the financial plans and targets for the group	52%	97%	69%	28%
R Rowney	• Lead the strategic growth of the life and retirement business, including successfully launching new products and services to stay ahead of the market • Build a distinctive and relevant brand, ensuring high levels of customer satisfaction • Deliver a market-leading digital solution, through the use of strategic partnerships • Operate within risk management framework, consistently delivering best outcomes for customers	79%	110%	74%	36%

	Individual and strategic objectives (40% weighting)	Payout (% of maximum)	Total actual bonus (% of salary)	Payable in 2015 (% of salary)	Deferred (% of salary)
J O'Roarke	• Deliver agreed profit and capital targets through the continued growth of SME, home and commercial motor proposition, to support core personal motor product • Successfully implement new initiatives, such as LV= Legal Services • Implement opportunities to upgrade digital capabilities and deliver enhanced customer experience • Deliver the general insurance people agenda, including ensuring robust succession planning in place for senior roles	50%	78%	78%	0%

Risk is taken into account when appraising all performance measures and the committee may reduce or cancel any bonus payment if it considers that risk exceeded acceptable levels In addition, no bonus payments will be made unless the group achieves a pre-determined level of profits

Any variable pay amount deferred will be paid in equal parts over the following three years During the deferral period, the value of deferred amounts will be tied to the value of members' invested funds, thereby creating a link to ongoing performance

Group LTIP payments made in the year (2013 – 2015 scheme) – Audited
The group LTIP scheme which started on 1 January 2013 is based on performance to 31 December 2015 For the 2013-2015 scheme, the pay-out is based on both the growth in Enterprise Value (75% of award for M Rogers and P Moore, and 100% for R Rowney) and the Relative Investment Performance (25% of award for M Rogers and P Moore) The performance condition and actual performance for the award vested is as follows

M Rogers and P Moore

	Weighting	Threshold	Actual	Maximum	Vesting
Group Enterprise Value growth (p a)	75%	7%	10%	18%	90%
Relative Investment Performance (p a relative to benchmark)	25%	0bp	117 bp	60bp	200%

Total vesting percentage (M Rogers and P Moore) **118%**

(Maximum 200%)

R Rowney

	Weighting	Threshold	Actual	Maximum	Vesting
Group Enterprise Value growth (p a)	100%	7%	10%	18%	90%

Total vesting percentage (R Rowney) **90%**

The vested awards are subject to a claw-back provision

(Maximum 200%)

Group LTIP awards made in the year (2015 – 2017 scheme) – Audited

	Type of award	Face value of award	Basis of award (£'000)	% of face value of award that would vest at threshold performance: Growth in group adjusted average pre-tax profit	% of face value of award that would vest at threshold performance: Relative Investment Performance	% of face value of award that would vest at maximum performance	Vesting determined by performance over
M Rogers	Cash	100% of salary	530	50%	75%	200%	3 years to 31 December 2017
P Moore	Cash	75% of salary	271	50%	75%	200%	
R Rowney	Cash	75% of salary	240	50%	n/a	200%	

Group LTIP – Performance of current schemes

	Enterprise Value growth [1]					Relative Investment Performance [2]				
LTIP Scheme	Threshold	Award at threshold (% of base award)	Maximum	Maximum award %	Cumulative performance [3]	Threshold	Award at threshold (%of base award)	Maximum	Maximum award %	Cumulative performance [4]
2013-2015 scheme	7%	50%	18%	200%	10%	0 bp	75%	≥60 bp	200%	117bp
2014-2016 scheme	6%	50%	19%	200%	12%	0 bp	75%	≥60 bp	200%	57bp

	Growth in group adjusted average pre-tax profits					Relative Investment Performance [2]				
LTIP Scheme	Threshold	Award at threshold (% of base award)	Maximum	Maximum award %	Cumulative performance [5]	Threshold	Award at threshold (%of base award)	Maximum	Maximum award %	Cumulative performance [4]
2015-2017 scheme	5%	50%	13%	200%	See note 5 below	0 bp	75%	≥60 bp	200%	107bp

For scheme participants measured on investment performance 75% of their award is based on Enterprise Value performance and 25% on Relative Investment Performance for all scheme years

1 Annualised growth in group Enterprise Value for LTIP purposes
2 Annualised investment performance return relative to benchmark return
3 Annualised growth in group Enterprise Value for LTIP purposes from start of scheme to 31 December 2015
4 Annualised investment performance return relative to benchmark return from start of scheme to 31 December 2015
5 Annualised growth in group adjusted average pre tax profits from start of scheme to 31 December 2015 Group pre tax profit for 2015 was £124 million with growth being affected by a number of non recurring items This is not necessarily indicative of the final out turn which will be assessed after 31 December 2017

Group LTIP summary of awards and amounts vested during 2015 – Audited

£'000	Award	Unvested awards at 1 January 2015 [1]	Awards made in the year	Additional/ (reduced) value on vesting of 2013-2015 scheme	To be paid in respect of 2013-2015 scheme	Of which deferred	Unvested awards at 31 December 2015 [2]
M Rogers	2013-2015	508	–	89	597	398	–
	2014-2016	521	–	–	–	–	521
	2015-2017	–	530	–	–	–	530
P Moore	2013-2015	260	–	46	306	204	–
	2014-2016	266	–	–	–	–	266
	2015-2017	–	271	–	–	–	271
R Rowney	2013-2015	230	–	(23)	207	138	–
	2014-2016	236	–	–	–	–	236
	2015-2017	–	240	–	–	–	240

1 Unvested awards are shown at the base award level Unvested awards at 1 January 2015 are in respect of awards granted in 2013 and 2014
2 Unvested awards at 31 December 2015 are in respect of awards granted in 2014 and 2015

General Insurance divisional LTIP payments made in the year (2013 – 2015 scheme) – Audited
During 2013, certain key management personnel within the general insurance business subscribed for 4 5 million £1 'B' ordinary shares in Liverpool Victoria General Insurance Group Limited (LVGIG) Pursuant to the Articles of Association of LVGIG the Society was required to purchase these shares in 2016 for a price equal to minimum value plus a percentage of the increase in the market value (plus ordinary dividends paid) of the general insurance business from 1 January 2013 to 31 December 2015, as set out below

a) 0% if the growth rate is less than 9%,
b) 5% if the growth rate is 9%,
c) Between 5% and 15% on a straight line basis to the extent the growth rate is between 9% and 19%, or
d) 15% if the growth rate is greater than 19%

The annualised market value increase over the scheme period was agreed at 15 7% resulting in a total amount to be paid to John O Roarke in respect of this scheme of £11 1 million (representing remuneration of £10 1 million and return of initial investment of £1 million) This amount was settled in full in February 2016

See note 52 for further details of the general insurance LTIP scheme

Pensions – Audited
Since the closure of the defined benefit (DB) section of our pension scheme to future accrual in 2013, executive directors have had the choice of receiving contributions into the defined contribution (DC) section of our pension scheme or being paid an equivalent cash allowance During 2015, all executive directors received cash payments in lieu of pension R Rowney was a member of the DC scheme until 1 September 2014 and received cash payments in respect of pension payments above the statutory annual allowance for pension contributions On 1 September 2014 he left the pension scheme and has received cash payments in lieu of pension from that date

Details of pension remuneration for the executive directors at 31 December 2015 are shown in the table below

£'000	Pension value from cash allowance	Total pension value
M Rogers	118	118
P Moore	51	51
R Rowney	72	72
J O'Roarke	66	66

Additional information on 2015 remuneration

Percentage change in remuneration levels

The table below shows the movement in the salary, benefits and annual bonus for the group chief executive between the current and previous financial year compared to that of the total bill for the same elements for all employees

	Salary			Taxable benefits			Bonus		
	2015 (£'000)	2014 (£'000)	% change	2015 (£'000)	2014 (£'000)	% change	2015 (£'000)	2014 (£'000)	% change
Chief executive	541	530	2%	17	15	13%	700	636	10%
% change based on a static population excluding the CEO			2%			2%			15%
Ratio of CEO pay to average employee FTE salary	18 1	18 1							

Relative importance of the spend on pay

The table below shows the group's actual spend on pay (for all employees) relative to the mutual bonus, which represents a significant, discretionary disbursement of profit to members

	Total remuneration		
	2015 £m	2014 £m	% change
Staff costs	270	248	9
Mutual bonus	27	24	13

Chief executive's remuneration over seven financial years

The total remuneration figures for the chief executive during each of the last seven financial years are shown in the table below The total remuneration figure includes the annual bonus based on that year's performance and LTIP awards based on three year performance periods ending in the relevant year

The annual bonus pay-out and LTIP vesting level as a percentage of the maximum opportunity are also shown for each of these years

	2009	2010	2011	2012	2013	2014	2015
Total remuneration (£'000)	997	1,247	2,177	2,622	2,364	1,666	1,970
Bonus % of maximum awarded %	77%	86%	95%	100%	74%	80%	86%
LTIP % of maximum vesting %	0%	0%	100%	100%	90%	25%	59%

Payments to past directors

No payments were made to past executive directors during the year ended 31 December 2015

Directors' loans

As at 31 December 2015 there were no loans outstanding to directors

Results of members' votes on remuneration resolutions at 2015 AGM

At the Society s AGM in May 2015, two resolutions on remuneration were approved by members

	2014 Directors Remuneration Report	Policy on Directors Remuneration
Votes cast in favour	44,532	43,766
Votes cast against	2,376	2,826
Abstensions	2,415	2,732
Spoilt papers	4	3
Total votes cast	49,327	49,327

Remuneration decisions taken in respect of the coming year (year ending 31 December 2016)

Executive director base salary

The Remuneration Committee agreed to increase executive director base salary levels by a maximum of 2% with effect from 1 April 2016 Current base salary levels and those which will apply from 1 April 2016 are as follows

	w e f 1 April 2016	w e f 1 April 2015	Percentage increase
M Rogers	£551,400	**£540,600**	2%
P Moore	£376,800	**£369,400**	2%
R Rowney	£334,300	**£327,700**	2%
J O Roarke	£301,700	**£301,700**	0%

Performance targets to be applied for the annual bonus and group LTIP (2016-2018 Scheme) in 2016

For 2016, the annual bonus will continue to be based on a balanced scorecard of group financial and non-financial objectives The key change for 2016 is that the financial objective weighting has been reduced from 60% to 55%, with the non-financial measures accounting for the remaining 45% We have increased the weighting on our strategic non-financial measure to 15%, to reflect our focus on long-term member interests, and have introduced a measure for diversity and inclusion, reflecting our commitment to recognising how a diverse workforce can strengthen LV='s business, both now and in the future

The weightings of our 2016 scorecard are shown below

Target	Measure	Weighting
Financial	Normalised group operating profit	55%
Strategic	Progress made towards delivery of five-year strategic objectives	15%
Customer and Member	Customer satisfaction and 'Best Loved' metrics	10%
Risk and Compliance	Treating customers fairly and operating within the group's risk appetite metrics	10%
People	High employee engagement versus high performing organisations Diversity and inclusion metric	10%

The LTIP awards to be granted in 2016 will be subject to a performance condition relating to growth in group adjusted average pre-tax profits and, for the chief executive and group finance director, a proportion of the awards will be linked to the group's Relative Investment Performance

Performance condition	Weighting
Growth in group adjusted average pre-tax profits	75% for chief executive and group finance director and 100% for managing director, life and pensions
Group Relative Investment Performance	25% for chief executive and group finance director only

The group LTIP scheme will only pay out if the growth within group pre-tax profit (adjusted for exceptional items and excluding the effects of short-term fluctuations in investment performance of the with-profits fund) over the scheme period exceeds a threshold target growth rate

Group Relative Investment Performance relates to the annualised performance return of the with-profits fund The scheme will only pay out for this element if the performance return is greater than benchmark

Non-executive directors' fees
Fees for the non-executive directors are determined by the board, based on the responsibility and time committed to the group's affairs and appropriate market comparisons Individual non-executive directors do not take part in discussions regarding their own fees Fees are reviewed annually and changes are implemented from 1 June each year

A summary of current fees is as follows

	w e f 1 June 2015
Chairman	£182,000
Base fee	£52,000
Additional fees	
Senior independent director	£5,332
Investment Committee chair	£8,531
Committee chair fees	£12,797
Membership of Audit/Risk/Remuneration Committee	£5,332
Membership of Investment Committee	£3,563
Membership of With-Profits Committee	£4,266

Fees effective from 1 June 2016 will be approved in April 2016

The directors approved the Directors' Report on Remuneration on 11 March 2016

Cath Keers
Chairman of the Remuneration Committee

"The person I spoke to was really helpful and is a credit to your organisation. Many thanks."

Glossary

LV= Use of non-GAAP* measures

Non-GAAP measure	Why we use a non-GAAP measure	Definition
Profit before tax	Because LV= is a mutual, any 'left-over' profit it has is transferred to the Unallocated divisible surplus, leaving a final balance for profit each year of £nil This would mean that if we applied the strict GAAP definition our profit before tax would simply be equal and opposite to our tax charge We believe that this would be a confusing and meaningless figure for users of our Annual Report and we therefore try to provide an alternative measure for profit before tax which readers would recognise and which would allow meaningful comparisons with the profit before tax disclosed by other companies	Our measure of profit before tax is defined as profit before tax, mutual bonus allocated, and transfer to Unallocated divisible surplus
Operating profit	Our operating profit measure is the key performance measure for profitability for the LV= group, life and general insurance businesses and executive remuneration in these areas is linked to this metric For the group this measure represents the longer-term return from all its businesses and the cost of ongoing central overheads such as support functions For the general insurance business this measure represents the return from insurance activities, i e underwriting profit and investment returns	Operating profit can be defined as profit before tax adjusted for any short-term investment fluctuations, which represent the difference between the long-term average return currently expected from assets and the actual investment return achieved on these assets in the current period, and also any centrally managed costs (see below) and amortisation or impairment of acquired intangibles
Pensions business IFRS adjustment	In order to provide comparable reporting across its pension products LV= reports self-invested pension plan operating profit on a value-add basis	The adjustment required to convert self-invested pension plan operating profit from a value-add basis to a pure IFRS (income-expenses) basis
Centrally managed costs	LV= reports some of its costs below operating profit	These are the costs which are not associated with running the trading business of the group These costs tend to be one-off costs and are often connected to strategic initiatives of the group
Operational liquidity	Certain liquid assets reported in the Statement of Financial Position are required to match reserves and therefore do not provide a true measure of the available liquidity of the group i e the 'free' funds available to meet its obligations as they fall due	Operational liquidity is generated from movements in free assets in the year (including cash and cash equivalents and surplus assets within funds in excess of matched liabilities) Operational liquidity excludes amounts attributable to RNPFN and also intra-group capital investments and repayments

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

A to Z

ABI Association of British Insurers

AFS Association of Friendly Societies

Asset shares Asset shares reflect the amount of money paid into with-profits policies by way of premiums and investment returns, less the costs of administering those policies

Association of Financial Mutuals (AFM) The trade body that represents mutual insurers, friendly societies and other financial mutuals in the UK It was formed in January 2010 after a merger of the Association of Friendly Societies and the Association of Mutual Insurers

BIS Department for Business Innovation and Skills

Capital resources The amount of capital that we have to run our business

Columbia Threadneedle Investments A leading international investment manager with a strong track record of outperformance across asset classes

Enhanced annuity An enhanced annuity is essentially a conventional annuity which provides a higher level of income to the purchaser To qualify for an enhanced annuity, the purchaser's state of health or medical history must be such that their life expectancy is lower

Financial Conduct Authority (FCA) A regulatory body formed as one of the successors to the Financial Services Authority (FSA) It focuses on the regulation of conduct by both retail and wholesale financial services firms

FTSE FTSE is an independent company that provides indices to measure how stockmarkets and other financial markets perform In the UK, the FTSE 100 index is widely used by the media to report on the valuation of the largest 100 quoted companies on the UK Stock Exchange

GWP Gross written premiums

ICA Individual capital assessment is the process by which the Prudential Regulatory Authority (PRA) requires insurance companies to make an assessment of the regulated company's own capital requirements, which is then reviewed and agreed by the PRA

IFRS International Financial Reporting Standards are used to ensure a company's reported accounts are prepared to common standards across the world

ILAG Investment and Life Assurance Group

Industrial branch Part of our heritage business and typically contains small premium whole of life and endowment policies

Loss Portfolio Transfer (LPT) In a loss portfolio transfer a reinsurer assumes and accepts an insurer s exsisting open and future claims liabilities through the transfer of the insurer's loss reserves

LVFS Liverpool Victoria Friendly Society

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

Mutual bonus A discretionary enhancement to asset shares to share the results of the group's performance

OEICs Open-ended investment companies are investment funds similar to investment trusts They are open-ended because they can take money from new investors at any time Equally they can pay back investors whenever the investor chooses OEICs often adopt an umbrella structure where the investor can get access through the umbrella fund to a number of sub-funds which invest with different objectives

Ordinary branch Part of our heritage business and typically consists of traditional with-profits endowments, whole of life policies, annuities and pensions

Pension annuity An annuity uses the proceeds of a pension fund to provide an income for a fixed-term or the rest of your life

Periodic payment orders (PPOs) An annuity style award paid to claimants instead of a lump sum, where indexed payments can be varied to meet likely future changes in circumstance This transfers mortality and investment risk from the claimant to the insurer

PHI Permanent Health Insurance is an insurance policy paying benefits to policyholders who are incapacitated and hence unable to work due to illness or accident

Prudential Regulatory Authority (PRA) A regulatory body formed as one of the successors to the Financial Services Authority (FSA) It is responsible for the prudential regulation and supervision of financial services firms

Protection A policy providing a cash sum on the death or critical illness of the life assured

PVIF Present value of acquired in-force business occurs when a life insurance company makes an acquisition Part of the purchase price represents the value of the insurance contracts in the target company This is, in effect, the present value of the policies acquired

Quota Share (QS) A type of pro rata reinsurance contract in which the insurer and reinsurer share premiums and losses according to a fixed percentage

RCM Risk capital margin is the additional capital a firm would need to hold to cover the effects of a number of 'What if?' scenarios that have been prescribed by the PRA These scenarios assess the capital implications from combined movements in financial markets (equity, property, credit spreads, interest rates) and persistency of the business

RNPFN Royal National Pension Fund For Nurses

Risk appetite The amount of risk that a business is prepared to accept or keep when carrying out its everyday activities

Self Invested Personal Pension (SIPP): Unlike normal personal pension plans, where the pension company limits your choice of investments to those that it manages, SIPPs allow investors the opportunity to make their own investment decisions

SME Small and Medium Enterprises – within the commercial line of the general insurance business

Solvency II An EU-wide project that sets out to provide a comprehensive new framework for insurance supervision and regulation This aims to strengthen protection for policyholders by ensuring that companies allocate enough capital to cover all the risks in their business

TCF Treating Customers Fairly is an industry-wide initiative designed to ensure financial providers meet basic principles of product information, suitability and performance

UK Corporate Governance Code The Code sets out standards of good practice for listed companies It covers, amongst other things, the board composition and its accountability and relations with business owners LV= complies with the Annotated Code as published by the Association of Financial Mutuals (AFM)

Unallocated divisible surplus (UDS) The amounts that have yet to be formally declared as bonuses for participating policyholders together with the free assets of the group

UWP Unitised with-profits

With-profits fund An investment fund where we combine all of our with-profits investors' money and manage it on their behalf The fund normally invests in UK and overseas shares, fixed interest securities including Government stocks and bonds, property, cash, and our own business activities We regularly monitor where we invest the fund to take account of future liabilities

Our Accounts

Overview

The rest of this report outlines our accounting figures for the 2015 financial year.

Easy to do business with

Offering a simple, hassle-free journey for all who deal with us, regardless of how they choose to do business.

Just so easy to give us all the cover we needed at a very reasonable price. Also a well known reliable company.

Janet from Bristol

Independent Auditors' Report to the Members of Liverpool Victoria Friendly Society Limited

Report on the financial statements

Our opinion

In our opinion, Liverpool Victoria Friendly Society Limited's Group financial statements and Society financial statements (the 'financial statements')

- give a true and fair view of the state of the Group's and of the Society's affairs as at 31 December 2015 and of the Group's and the Society's result and cash flows for the year then ended,
- have been properly prepared in accordance with International Financial Reporting Standards ('IFRSs') as adopted by the European Union, and
- have been prepared in accordance with the requirements of the Friendly Societies Act 1992

What we have audited

The financial statements, included within the Annual Report, comprise

- the Group and Society Statements of Financial Position as at 31 December 2015,
- the Group and Society Statements of Comprehensive Income for the year then ended,
- the Group and Society Statements of Cash Flows for the year then ended, and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information

The financial reporting framework that has been applied in the preparation of the financial statements is applicable law and IFRSs as adopted by the European Union

Our audit approach

Overview

Materiality

- Overall group materiality of £33 0 million, which represents 3% of the Group's Unallocated Divisible Surplus ('UDS')

Audit scope

- The Group consists of 24 active statutory entities, but primarily operates through three main trading entities (the Society, Liverpool Victoria Insurance Company Limited and Highway Insurance Company Limited) at 11 locations across the UK In our view, all three main trading entities required full scope audits of their complete financial information, due to their size and risk characteristics
- In addition to the Group's head offices in Bournemouth, we visited four other locations Our testing at those other locations primarily focussed on the systems and controls in place over the recording and processing of new business and claims The testing of controls over claims processing was relevant to our focus on the valuation of general insurance claims liabilities, particularly in relation to the completeness of recorded claims and the consistency of case estimates
- Taken together, the procedures we performed over the three main trading entities and the Group consolidation entries accounted for all of the Unallocated Divisible Surplus ('UDS') and all of the Group's net earned premiums and profit before tax, mutual bonus and transfer to the UDS

Areas of focus

- The valuation of long-term insurance contract liabilities
- The valuation of general insurance contract liabilities
- The accounting basis for a new loss portfolio transfer reinsurance arrangement entered into by the general insurance business
- The valuation of difficult to value investments included in financial assets held at fair value through income
- The valuation of the defined benefit pension schemes

The scope of our audit and our areas of focus

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) ('ISAs (UK & Ireland'))

We designed our audit by determining materiality and assessing the risks of material misstatement in the financial statements In particular, we looked at where the directors made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain As in all of our audits we also addressed the risk of management override of internal controls, including evaluating whether there was evidence of bias by the directors that represented a risk of material misstatement due to fraud

The risks of material misstatement that had the greatest effect on our audit, including the allocation of our resources and effort, are identified as 'areas of focus' in the table overleaf We have also set out how we tailored our audit to address these specific areas in order to provide an opinion on the financial statements as a whole, and any comments we make on the results of our procedures should be read in this context This is not a complete list of all risks identified by our audit

Area of focus	How our audit addressed the area of focus

The valuation of long-term insurance contract liabilities (£7 8bn (2014 £7 7bn))

Refer to notes 23 and 28 for further information

The Group financial statements include liabilities for the estimated cost of settling benefits and claims associated with life products These long-term liabilities are included within insurance contract liabilities

We focussed on this area because of the significance of these amounts in deriving the Group's result, and because of the use of a suite of economic and demographic data and assumptions which are often highly subjective

In particular, we focussed on

- The expense assumptions used to estimate the future cash flows in respect of the long-term insurance contracts – in particular the assumed rate of growth of expenses, and their allocation between the insurance entities, product types and whether they are incurred in maintaining existing policies or processing new business, and
- The longevity assumption (i e life expectancy of policyholders) used to estimate the Group s long-term liability for enhanced annuity contracts (i e where the annuitants have existing medical conditions or are smokers)

Summary

Our work to address the valuation of the long-term insurance contract liabilities was supported by our in-house life actuarial specialists, and included the following procedures

- We tested the underlying company data, including key reconciliations, and this testing was performed with no material exceptions
- We compared the methodology, models and assumptions used against recognised actuarial practices and by applying our industry knowledge and experience, and found them to be reasonable
- We performed an independent annual benchmarking survey which allowed us to further challenge the assumption setting process by comparing certain assumptions used relative to the Group's industry peers

Additional testing on the specific assumptions is set out below

Testing on specific assumptions

Expense allocations

We examined the expense allocations to assess whether or not they appropriately reflected the long term expense profile of the business

We assessed the reasonableness of significant judgments made in setting the assumptions, including the split between acquisition (new business) and maintenance costs and the allocation of costs to different products based on the current year's experience and consideration of factors which could increase costs in the future

We tested the completeness of relevant expenses used in the calculation by agreeing them to the underlying financial records, and tested that in-force policy numbers agreed to the Group s policy administration systems

We performed independent calculations to quantify the impact of differences between management's assumptions and those which we would have selected ourselves and determined that we were able to accept the valuation on the grounds of materiality

Expense Inflation

We assessed the appropriateness of the expense inflation assumptions used by management to derive unit costs, and in particular whether the use of a lower inflation assumption in respect of the Protection and Retirement Solutions businesses than that used in the respect of the Heritage business was justified, based on level of growth expected in the respective businesses We assessed whether the forecast growth was reasonable by considering the accuracy of management's forecasting in the past and whether expected volume increases appropriately reflected developments in the market, such as the ongoing annuity reforms

Longevity assumptions

Management use industry data (the CMI 2013 model) to derive longevity assumptions to model longevity for the Society's enhanced annuity contracts Management compares this data with their own experience in order to assess whether industry data remains appropriate for the setting of the assumption We examined their analysis, testing data back to the Society's records Our independent benchmarking shows that the decision to continue with the CMI 2013 model is in line with a number of other insurers in the industry

We considered the appropriateness and accuracy of the data used by management to model longevity for the Society's enhanced annuity portfolio In particular, we considered the extent to which the assumptions used, based on this data, were consistent with other sources of information, such as medical studies and industry-wide mortality investigations

Based on the work performed we found that the assumptions used were supported by the evidence we obtained

Area of focus	How our audit addressed the area of focus
The valuation of general insurance contract liabilities (£1 4bn (2014 £1 3bn)) ***Refer to note 23 for further information*** The Group financial statements include liabilities for the estimated cost of settling general insurance claims These are included within insurance contract liabilities We focused on this area due to the significance of these liabilities to the Group's balance sheet and because of the inherent subjectivity of their valuation In particular, we focussed on • The accuracy of claims data used to estimate the claims liabilities, in particular, the completeness of recorded claims and the consistency in setting case estimates, • Whether any changes to the underlying risk profile of the policies written (for example, the concentration of younger drivers or changes to post code mix) are appropriately reflected in the calculations of claims liabilities, and • The methods and assumptions used in estimating the costs of claims for general insurance products (mainly motor policies), in particular for those claims such as personal injury, which can take a long time to settle and where the amounts concerned can be large	***Summary*** Our work to address the valuation of the general insurance claims liabilities, was supported by our in-house non-life actuarial specialists, and included the following procedures • We assessed and tested the governance process in place to determine the claims liabilities • We tested the completeness, consistency and accuracy of claims data • We performed methodology and assumptions reviews over 74% of the claims liabilities and key indicator checks to identify any anomalies (as explained below) over the remaining balance ***Specific areas of focus*** ***Completeness of recorded claims and consistency of case estimates*** We tested the systems and controls in place over the recording and processing of claims In order to assess the completeness of recorded claims, we observed whether there was any evidence of claims being recorded on any medium other than directly onto the claims systems, and tested the operation of the controls over the handling of complaints We tested the effectiveness of the quality assurance processes over the work of the claims handlers in order to determine whether claims were being assessed on a consistent basis and examined a sample of claims to obtain evidence that they were based on the most recent claims information ***Consistency of risk exposure*** We assessed management's assertion that there had been no significant changes in the risk profile for material lines of business using quantitative, evidential analysis and we were provided with data by accident year for key exposure categories such as age and gender ***Methodology and assumptions*** We carried out a substantial amount of our work on the claims liabilities at 30 September 2015, rolling forward our work to the year end We evaluated the methodology and assumptions used by management to estimate the most significant components of the claims liabilities as at 30 September 2015 We also took into account any changes to the types of risks underwritten by the business, which could increase the level of uncertainty and judgement in the estimates We considered the run-off of prior year liabilities, the sensitivity of the liabilities to alternative methods and assumptions and, where relevant, industry benchmarking Where we felt it was appropriate, we performed independent calculations to quantify the impact of differences between management's actuarial analysis or assumptions and those which we would have conducted or selected ourselves based on our understanding of market trends and the particular circumstances of the Group We also examined trends in ratios, including those between the initial case estimates and the final costs of settlement *Based on the work performed, the recorded general insurance claims liabilities are consistent with the evidence obtained*

Area of focus	How our audit addressed the area of focus
The accounting basis for a new loss portfolio transfer reinsurance arrangement entered into by the general insurance business ***Refer to note 27 for further information*** At the end of December 2015, the general insurance business entered into a retroactive loss portfolio transfer (LPT) arrangement (encompassing 20% of net claims reserves existing at 31 December 2015) The accounting for the loss portfolio transfer arrangement is an area of focus due to the magnitude of the arrangement and the complex and subjective judgements required to determine whether the contract transfers significant insurance risk, which impacts the accounting treatment The outcome of these judgements has a material impact on presentation and disclosure	We read the contract terms and critically assessed whether or not the judgements made by management were reasonable and, after taking into account the relevant financial reporting standards, whether the contract resulted in the transfer of significant insurance risk, supporting the treatment of this arrangement as reinsurance We assessed risk transfer under the contract by testing management's analyses, which included a distribution analysis of the Group s result for the likely range of the ultimate reserve outcomes That range represents approximately 90% of the scenarios simulated by the Group's capital model We also assessed the uncertainty of the timing of cash flows under a range of scenarios *Based on the work performed, we determined that the contract transferred significant insurance risk and should be accounted for as reinsurance*
The valuation of difficult to value investments included in financial assets held at fair value through income ***Refer to notes 16, 17 and 19 for further information*** The Group financial statements include loans secured on residential property (equity release mortgages) with a fair value of £0 6bn (2014 £0 7bn) which are designated as financial assets held at fair value through income Because of their nature, quoted prices are not available for these and the Group uses internal models to estimate their fair value The fair value of the mortgages is estimated using a discounted cash flow model which takes into account the contractual rate of interest charged on the mortgages, the expected mortality or morbidity of the policyholder, the risk of default (including the risk that in such an event the sale proceeds are less than the carrying value of the mortgage) and prepayment risk (the risk that policyholder repays early, shortening the term of the mortgage and reducing the total amount of interest received) Changes to these assumptions can have a material impact on the calculation of the fair value of the mortgages	For loans secured on residential property we assessed the methodology and assumptions used by management in the calculation of the year end values We reconciled the model data to the policy administration system We tested controls over data maintained in the policy administration system including the contractual loan agreements and property valuations In order to update our understanding of the model we re-performed the fair value calculations for a single loan We compared the assumptions used against appropriate benchmarks and investigated any significant differences *Based on the work undertaken, we determined that the methods and assumptions used to value loans secured on residential property were appropriate*
The Group also uses derivative financial instruments to manage market risk, the market values of these at the year-end comprised assets of £0 10bn (2014 £0 13bn) and liabilities of £0 14bn (2014 £0 16bn) We focus on this area because of the significance of the notional values associated with these contracts and because certain contracts require the use of bespoke valuation models	In respect of the derivative financial instruments, our valuation specialists independently re-performed the valuation of all of the positions at the year end In doing this we agreed key information to original contracts and tested the existence of the derivatives by obtaining confirmations from the respective counterparties *Based on the work undertaken, we did not identify any material differences between the valuation we calculated and that determined by management's models*

Area of focus	How our audit addressed the area of focus
The valuation of the defined benefit pension schemes ***Refer to note 42 for further information*** Although the aggregate net pension asset is currently valued at £0 08bn (2014 asset of £0 01bn), it consists of a much larger defined benefit obligation of £1 20bn (2014 £1 37bn) offset against the fair value of the schemes' assets of £1 29bn (2014 £1 38bn) The schemes were subject to a triennial valuation during 2015 We have focussed on the defined benefit obligation in particular, as significant levels of judgement and technical expertise are applied in its estimation Changes in the key assumptions (such as salary increases, inflation, discount rates, and mortality) can have a material impact on the calculation of the liability	We assessed the appropriateness of the methodology used to derive the key financial and demographic assumptions with reference to generally accepted industry practice We also assessed the reasonableness of those assumptions by benchmarking them against independent industry data We noted that the discount rate and inflation assumptions were relatively less prudent than in the previous year, but remained within our benchmark range We tested the employee data used by the actuary to calculate the pension liability by agreeing a sample of that data to information supplied by the scheme administrator and noted no exceptions We obtained external confirmations for the pension schemes' assets and tested the value of listed securities by comparing prices to external market information for a selection of assets covering approximately 99% of the balance at the year end No material exceptions were noted in the valuation of these assets We examined the trust deed and rules for the LV scheme which allowed us to accept management's conclusion that the net pension benefit asset for that scheme should be recognised in full

How we tailored the audit scope

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the geographic structure of the Group, the accounting processes and controls, and the industry in which the Group operates

The Group is structured along three business units, being 'Life' (including Protection and Retirement Solutions), 'Heritage' and 'General Insurance' The Group's financial statements consist of a consolidation of 24 active statutory entities, but the Group primarily operates through three main trading entities, the Society, encompassing the 'Life' and 'Heritage' business units, and two general insurance companies

All three main trading entities are material to the Group and were audited by the Group engagement team In establishing the overall approach to the Group audit, we determine the type of work that we needed to perform at each entity to be able to conclude whether sufficient appropriate audit evidence had been obtained as a basis for our opinion on the Group financial statements as a whole

In our view, all three main trading entities required a full scope audit of their complete financial information, due to their size and their risk characteristics This, together with our testing of the consolidation at Group level gave us the evidence we needed for our opinion on the Group financial statements as a whole and accounted for all of Unallocated Divisible Surplus ('UDS), the Group s net earned premiums, and profit before tax, mutual bonus and transfer to the UDS

Materiality

The scope of our audit was influenced by our application of materiality We set certain quantitative thresholds for materiality These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and on the financial statements as a whole

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows

Overall group materiality	£33 0 million (2014 £30 0 million)
How we determined it	3% of Unallocated Divisible Surplus (UDS)
Rationale for benchmark applied	In arriving at this judgement we considered the financial measures which we believed to be most relevant to the members of the Society as a body Members' interests in the Group are represented primarily by the UDS and, consequently, the UDS was considered to be the primary metric to use to determine materiality We have also had regard to other relevant measures such as the Group's regulatory capital surplus and the other performance metrics such as operating profit within the Strategic Report
Component materiality	Each component in our audit scope was audited to a local statutory audit materiality that was less than our overall group materiality The range of materiality applied across components was between £1 9 million and £31 million

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £1 7 million (2014 £1 5 million) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons

Going concern

The directors have voluntarily complied with Listing Rule 9 8 6(R)(3)(a) of the Financial Conduct Authority and provided a statement in relation to going concern, set out on page 93, required for companies with a premium listing on the London Stock Exchange

The directors have requested that we review and report on this statement as required under the Listing Rules for premium listed companies We have nothing to report having performed our review

The directors have also chosen to voluntarily report how they have applied the UK Corporate Governance Code – An annotated version for Mutual Insurers (the 'Code') Under ISAs (UK & Ireland) we are required to report to you if we have anything material to add or to draw attention to in relation to the directors' statement about whether they considered it appropriate to adopt the going concern basis in preparing the financial statements We have nothing material to add or to draw attention to

As noted in the directors' statement, the directors have concluded that it is appropriate to adopt the going concern basis in preparing the financial statements The going concern basis presumes that the Group and Society have adequate resources to remain in operation, and that the directors intend them to do so, for at least one year from the date the financial statements were signed As part of our audit we have concluded that the directors' use of the going concern basis is appropriate However, because not all future events or conditions can be predicted, these statements are not a guarantee as to the Group's and Society's ability to continue as a going concern

Other required and voluntary reporting

Consistency of other information

Friendly Societies Act 1992 opinions

In our opinion

- the Directors' Report has been prepared in accordance with the Friendly Societies Act 1992, and the regulations made under it, and
- the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements

ISAs (UK & Ireland) reporting

As a result of the directors' voluntary reporting on how they have applied the Code, under ISAs (UK & Ireland) we are required to report to you if, in our opinion:

• information in the Annual Report is – materially inconsistent with the information in the audited financial statements, or – apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Group and Society acquired in the course of performing our audit, or – otherwise misleading	We have no exceptions to report
• the statement given by the directors on page 95, in accordance with provision C 1 1 of the Code, that they consider the Annual Report taken as a whole to be fair, balanced and understandable and provides the information necessary for members to assess the Group's and Society's position and performance, business model and strategy is materially inconsistent with our knowledge of the Group and Society acquired in the course of performing our audit	We have no exceptions to report
• the section of the Annual Report on page 82 to 85, as required by provision C 3 8 of the Code, describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee	We have no exceptions to report

The directors' assessment of the prospects of the group and of the principal risks that would threaten the solvency or liquidity of the group

As a result of the directors' voluntary reporting on how they have applied the Code, under ISAs (UK & Ireland) we are required to report to you if we have anything material to add or to draw attention to in relation to:

• the directors' confirmation on page 94 of the Annual Report, in accordance with provision C 2 1 of the Code, that they have carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity	We have nothing material to add or to draw attention to
• the disclosures in the Annual Report that describe those risks and explain how they are being managed or mitigated	We have nothing material to add or to draw attention to
• the directors' explanation on page 94 of the Annual Report, in accordance with provision C 2 2 of the Code, as to how they have assessed the prospects of the Group, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions	We have nothing material to add or to draw attention to

The directors have requested that we review and report on the statement that they have carried out a robust assessment of the principal risks facing the group and the statement in relation to the longer-term viability of the group, as required under the Listing Rules for companies with a premium listing on the London Stock Exchange Our review was substantially less in scope than an audit and only consisted of making inquiries and considering the directors' process supporting their statements, checking that the statements are in alignment with the relevant provisions of the Code, and considering whether the statements are consistent with the knowledge acquired by us in the course of performing our audit We have nothing to report having performed our review

Propriety of accounting records and information and explanations received

Under the Friendly Societies Act 1992 we are required to report to you if, in our opinion

- we have not received all the information and explanations we require for our audit, or
- proper accounting records have not been kept by the Society, or
- the Society financial statements are not in agreement with the accounting records

We have no exceptions to report arising from this responsibility

Opinion on additional disclosures

Directors' Remuneration Report

The Society voluntarily prepares a Directors' Remuneration Report in accordance with the provisions of the Companies Act 2006 The directors have requested that we audit the part of the Directors' Remuneration Report specified by the Companies Act 2006 to be audited as if the Society were a quoted company

In our opinion, the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006

Matters on which we have agreed to report by exception

Corporate governance statement

The Society prepares a corporate governance statement in accordance with the Disclosure Rules and Transparency Rules in the Financial Conduct Authority and has chosen to voluntarily comply with the UK Corporate Governance Code – An annotated version for Mutual Insurers The directors have requested that we review the parts of Corporate Governance Statement relating to the Society's compliance with the ten further provisions of the UK Corporate Governance Code specified for auditor review by the Listing Rules of the Financial Conduct Authority as if the Society were a premium listed company We have nothing to report having performed our review

Responsibilities for the financial statements and the audit

Our responsibilities and those of the directors

As explained more fully in the Directors' Statement of Responsibility set out on page 95 the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and ISAs (UK & Ireland) Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors

This report, including the opinions, has been prepared for and only for the Society's members as a body in accordance with Section 73 of the Friendly Societies Act 1992 and for no other purpose We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing

What an audit of financial statements involves

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error This includes an assessment of

- whether the accounting policies are appropriate to the Group's and the Society's circumstances and have been consistently applied and adequately disclosed,
- the reasonableness of significant accounting estimates made by the directors, and
- the overall presentation of the financial statements

We primarily focus our work in these areas by assessing the directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report

Andrew G Hill (Senior Statutory Auditor)

for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London

11 March 2016

- The maintenance and integrity of the Liverpool Victoria Friendly Society Limited website is the responsibility of the directors, the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website
- Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions

Statement of Comprehensive Income
Year ended 31 December 2015

	Notes	Group 2015 £m	Group 2014 Restated – see Note 1 £m	Society 2015 £m	Society 2014 Restated – see Note 1 £m
Gross earned premiums	5	**2,408**	2,264	**987**	845
Premiums ceded to reinsurers	5	**(384)**	(124)	**(99)**	(88)
Net earned premiums	5	**2,024**	2,140	**888**	757
Fee and commission income	7	**18**	13	**5**	3
Investment income	8	**401**	377	**372**	324
Net (losses)/gains on investments	9	**(282)**	832	**(247)**	822
Other income	10	**39**	34	**3**	5
Total income		**2,200**	3,396	**1,021**	1,911
Gross benefits and claims	11	**(1,814)**	(1,666)	**(793)**	(664)
Claims ceded to reinsurers	11	**338**	82	**73**	74
Net benefits and claims	11	**(1,476)**	(1,584)	**(720)**	(590)
Gross change in long-term contract liabilities	25	**(63)**	(1,189)	**(66)**	(1,190)
Change in long-term contract liabilities ceded to reinsurers	25	**127**	(7)	**127**	(7)
Change in non-participating value of in-force business	25	**(17)**	65	**(17)**	65
Net change in contract liabilities	25	**47**	(1,131)	**44**	(1,132)
Finance costs	12	**(24)**	(24)	**(23)**	(24)
Investment return allocated to external unit holders		**-**	(36)	**-**	-
Other operating and administrative expenses	13	**(623)**	(584)	**(204)**	(185)
Other expenses		**(647)**	(644)	**(227)**	(209)
Total benefits, claims and expenses		**(2,076)**	(3,359)	**(903)**	(1,931)
Profit/(loss) before tax, mutual bonus and UDS transfer		**124**	37	**118**	(20)
Mutual bonus	15	**(27)**	(24)	**(27)**	(24)
Income tax (expense)/credit	37	**(6)**	(47)	**1**	(34)
Transfer (to)/from the Unallocated divisible surplus	51	**(91)**	34	**(92)**	78
Profit for the year		**-**	-	**-**	-
Other comprehensive income					
Items that will not be reclassified to profit or loss					
Re-measurements of defined benefit pension schemes, net of tax	42	**51**	19	**51**	19
Transfer to the Unallocated divisible surplus	51	**(51)**	(19)	**(51)**	(19)
Total comprehensive income for the year		**-**	-	**-**	-

As a Friendly Society, all net earnings are for the benefit of participating policyholders and are carried forward within the Unallocated divisible surplus Accordingly, there is no profit for the year shown in the Statement of Comprehensive Income

The Group and the Society have not presented a Statement of Changes in Equity as there are no equity holders in either the Group or Society as the Society is a mutual organisation

Statement of Financial Position

As at 31 December 2015

	Notes	Group 2015 £m	Group 2014 Restated – see Note 1 £m	Society 2015 £m	Society 2014 Restated – see Note 1 £m
Assets					
Intangible assets	31	**249**	236	**1**	–
Pension benefit asset	42	**87**	21	**87**	21
Property and equipment	30	**39**	19	**9**	8
Investments in group undertakings	32	**–**	–	**770**	767
Corporation tax asset	38	**10**	–	**8**	–
Prepayments and accrued income	34	**125**	123	**91**	78
Deferred acquisition costs	26	**99**	97	**–**	–
Financial assets					
– Fair value through income	16	**11,419**	11,791	**9,651**	9,335
– Derivative financial instruments	17	**97**	131	**95**	130
Loans and other receivables	20	**77**	118	**87**	101
Reinsurance assets	27	**890**	503	**492**	365
Insurance receivables	33	**261**	220	**20**	18
Cash and cash equivalents (excluding bank overdrafts)		**1,186**	790	**449**	387
Total assets		**14,539**	14,049	**11,760**	11,210
Liabilities					
Unallocated divisible surplus	51	**1,101**	959	**1,036**	893
Participating insurance contract liabilities	23	**3,972**	3,862	**3,972**	3,862
Participating investment contract liabilities	18	**554**	552	**554**	552
Non-participating value of in-force business	24	**(321)**	(338)	**(321)**	(338)
		5,306	5,035	**5,241**	4 969
Non-participating insurance contract liabilities	23	**5,896**	5,853	**3,784**	3,840
Non-participating investment contract liabilities	18	**1,862**	1,554	**1,862**	1,554
		7,758	7,407	**5,646**	5,394
Net asset value attributable to external unit holders		**220**	622	**–**	–
Pension benefit obligation	42	**3**	11	**3**	11
Provisions	43	**10**	14	**9**	10
Corporation tax liability	40	**–**	16	**–**	10
Deferred tax liability	39	**42**	18	**42**	18
Financial liabilities					
– Derivative financial instruments	17	**144**	160	**144**	123
– Subordinated liabilities	21	**356**	356	**347**	347
– Other financial liabilities	22	**96**	116	**95**	144
Insurance payables	35	**286**	38	**29**	23
Trade and other payables	36	**318**	256	**204**	161
Total liabilities		**14,539**	14,049	**11,760**	11,210

The financial statements on pages 122 to 214 were approved by the Board of Directors on 11 March 2016 and signed on its behalf by

Rachel Small

R S Small
Company Secretary

Statement of Cash Flows
Year ended 31 December 2015

	Notes	Group 2015 £m	Group 2014 Restated – see Note 1 £m	Society 2015 £m	Society 2014 Restated – see Note 1 £m
Cash and cash equivalents at 1 January		**772**	768	**381**	301
Cash flows arising from					
Operating activities					
Cash generated from operating activities before movements in investments held at fair value through income	55	**319**	218	**270**	351
Net increase in investments held at fair value through income		**(285)**	(630)	**(528)**	(637)
Cash generated from/(used in) operating activities		**34**	(412)	**(258)**	(286)
Proceeds from sale of investment properties		**–**	79	**–**	79
Dividend income received		**96**	81	**108**	78
Interest and other income received		**339**	307	**262**	241
Utilisation of provisions		**(3)**	(5)	**(2)**	(4)
Finance cost paid		**(1)**	(1)	**–**	(1)
Income tax paid		**(31)**	(10)	**(16)**	–
Net cash flows generated from operating activities		**434**	39	**94**	107
Investing activities					
Increase in investment in group undertakings		**–**	–	**(6)**	(1)
Acquisition of group undertakings	50	**(8)**	–	**(8)**	–
Purchase of capitalised intangibles	31	**(10)**	(7)	**(1)**	–
Purchase of property and equipment		**(6)**	(5)	**(4)**	(3)
Net cash flows used in investing activities		**(24)**	(12)	**(19)**	(4)
Financing activities					
Interest on subordinated debt		**(23)**	(23)	**(23)**	(23)
Net cash flows used in financing activities		**(23)**	(23)	**(23)**	(23)
Net increase in cash and cash equivalents		**387**	4	**52**	80
Cash and cash equivalents at 31 December		**1,159**	772	**433**	381

Cash and cash equivalents comprise

	Group 2015 £m	Group 2014 £m	Society 2015 £m	Society 2014 £m
Bank balances	**202**	153	**96**	105
Short-term bank deposits	**984**	637	**353**	282
Cash and cash equivalents per the Statement of Financial Position	**1,186**	790	**449**	387
Non-offsettable bank overdrafts (see note 36)	**(27)**	(18)	**(16)**	(6)
Cash and cash equivalents per the Statement of Cash Flows	**1,159**	772	**433**	381

The Group classifies the cash flows for the acquisition and disposal of financial assets and the net purchases/sales of investment properties as operating cash flows, as the purchases are funded from the cash flows associated with the origination of insurance and investment contracts

Notes to the Financial Statements

Year ended 31 December 2015

Significant accounting policies

This section describes the LV= Group's significant accounting policies and accounting estimates that relate to the financial statements and notes as a whole If an accounting policy or an accounting estimate relates to a specific note, the applicable accounting policy and/or accounting estimate is contained within the relevant note

1 Significant accounting policies

1 1 Basis of presentation

The Group financial statements consolidate the results of the Society and its subsidiary companies The Group's and Society's financial statements conform to International Financial Reporting Standards (IFRS) and interpretations issued by the IFRS Interpretations Committee (IFRIC) as published by the International Accounting Standards Board and adopted by the European Union In addition the Society's financial statements comply with the Friendly Societies (Accounts & Related Provisions) Regulations 1994 (the Regulations)

In accordance with IFRS 4 on Insurance Contracts, the Group has applied existing accounting practices for insurance contracts and participating investment contracts modified as appropriate to comply with the IFRS framework and applicable standards Further details are given in accounting policy 1 3b below

Insurance contracts are accounted for in accordance with the Statement of Recommended Practice issued by the Association of British Insurers in December 2005, and amended in December 2006 Whilst this SORP is no longer in force, the Group continues to apply it, as it was existing accounting practice for insurance contracts when the Group first time adopted IFRS The Group measures the liability on with-profits contracts in line with the 'realistic' reporting regime of the Prudential Regulation Authority (PRA) More detail on the valuation of insurance and investment contracts is given in the accounting policies disclosed within Notes 23 and 18 respectively

The financial statements have been prepared under the historical cost convention as modified by the revaluation of investment properties and financial assets and liabilities (including derivatives and non-participating investment contract liabilities) at fair value through income Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency') Unless otherwise noted, the consolidated financial statements are presented in millions of pounds sterling, which is the Group's presentation and functional currency

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below These policies have been consistently applied to all years presented, unless otherwise stated

After making enquiries, the directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future The Group therefore continues to adopt the going concern basis in preparing its consolidated financial statements

Restatements

Tax on pension scheme surplus

The Society and Group are recognising a pension scheme asset in relation to the main LV= defined benefit pension scheme in accordance with IAS19 / IFRIC14 As the LV= defined benefit pension scheme is closed to future accrual and no additional defined pension benefits are being earned, under the scheme rules this asset is only available as a refund to the sponsoring employer Under UK legislation, surplus payments made from a UK pension scheme to the sponsoring employer are received net of an income tax deduction of 35% The Statement of Financial Position and Statement of Other Comprehensive Income for both the Society and Group have been restated to reflect a £7m deferred tax liability and associated tax charge in relation to this pension scheme asset

Presentation of cash flows regarding interest on subordinated debt

The Statement of Cash Flows for both the Group and Society has been restated to present interest on subordinated debt within financing activities This was previously included within finance costs paid in operating activities

1 2 Significant accounting estimates and judgements

The preparation of financial statements in accordance with IFRS requires the use of estimates It also requires management to exercise judgement in applying the accounting policies The key areas involving a high degree of judgement or complexity, or areas where assumptions are significant to the financial statements are highlighted under the relevant note Significant accounting estimates and judgements are disclosed in

- Fair value of financial assets (Note 16)
- Insurance contract liabilities (Note 23)
- Reinsurance assets (Note 27)
- Intangible assets (Note 31)
- Pension benefit asset/(obligation) (Note 42)
- Consolidation (Note 48)

1 3 Accounting policies

a Consolidation

Subsidiaries

Subsidiaries are all entities, including Open Ended Investment Companies (OEICs), over which the Group (directly or indirectly) has control

The Group controls an entity when the Group has all of the following

- power over the relevant activities of the entity, for example through voting or other rights,
- exposure to, or rights to, variable returns from its involvement with the entity, and
- the ability to affect those returns through the power over the entity

The assessment of control is based on the consideration of all the facts and circumstances The Group reassesses whether it controls an entity if facts and circumstances indicate that there are changes to one or more of the three elements of control

Subsidiaries are fully consolidated from the date on which control is transferred to the Group using uniform accounting policies consistently applied across the Group They are excluded from consolidation from the date on which control ceases

The Group uses the purchase method of accounting to account for the acquisition of subsidiaries Accordingly, the cost of an acquisition is measured as the fair value of the cash or other assets given, equity instruments issued and liabilities incurred or assumed at the date control passes

Notes to the Financial Statements continued

Year ended 31 December 2015

1 Significant accounting policies (continued)

Identifiable assets acquired, liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest

The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the Statement of Comprehensive Income for the period 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

Where the Group invests in specialised investment vehicles (such as OEICs), owns greater than 50% of the unit shareholding and has the power to direct the relevant activities which expose the Group to variable returns, they are consolidated The interests of other parties in these vehicles will be classified as liabilities and appear as 'Net asset value attributable to external unit holders' because they are puttable instruments The external unit holders' share of the net investment return on the OEICs is charged or credited to the Statement of Comprehensive Income as Investment return allocated to external unit holders Details of the Society's subsidiaries are given in Note 46

Associates and joint ventures in property holding companies

The Group invests in associate companies and jointly controlled entities that hold investment properties Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of more than 20% and less than 50% of the voting rights Joint ventures are arrangements where the Group has joint control and rights to the net assets of the entity

The investments in associates and the Group's interests in jointly controlled entities have not been consolidated under the equity method but are designated as investments at fair value through income under UK unlisted investments in accordance with the exemptions permitted under IAS 28 applicable to investment-linked insurance funds

b Contract classification

The Group issues contracts that transfer insurance risk, financial risk or both

Insurance contracts are those contracts that transfer significant insurance risk Such contracts may also transfer financial risk As a general guideline, the Group defines as significant insurance risk the possibility of having to pay benefits on the occurrence of an insured event that are at least 10% more than the benefits payable if the insured event did not occur

Investment contracts are those contracts that transfer financial risk with no significant insurance risk

All with-profits contracts have been classified as participating contracts as these contracts entitle the holder to receive, as a supplement to guaranteed benefits, additional benefits or bonuses

- that are likely to be a significant portion of the total contractual benefits,
- whose amount or timing is contractually at the discretion of the Group, and
- that are contractually based on
  i) the performance of a specified pool of contracts or a specified type of contract,
  ii) realised and/or unrealised investment returns on a specified pool of assets held by the fund, or
  iii) the unallocated surplus of the fund that issues the contract

c Foreign currencies

Investment assets and liabilities denominated in foreign currencies are translated to sterling at rates of exchange ruling at the end of the year Purchases and sales of investments denominated in foreign currencies are translated at the rates prevailing at the dates of the transactions Exchange gains and losses are dealt with in that part of the Statement of Comprehensive Income in which the underlying transaction is reported

d Financial assets and liabilities

Recognition

The Group classifies its financial assets and liabilities upon initial recognition into the following categories

- Financial assets and liabilities at fair value through income
- Derivative financial instruments
- Loans and receivables
- Other financial liabilities

The accounting policy for each type of financial asset or liability is included within the relevant note for the category

Derecognition

A financial asset is derecognised when

- the rights to receive cash flows from the asset have expired, or
- the Group has transferred its rights to receive cash flows from the asset and has
  - transferred the risks and rewards of the asset, or
  - transferred control of the asset

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires

e Liability adequacy testing

Insurance and participating investment contract liabilities

'At each reporting date, an assessment is made of whether the recognised long-term contract liabilities are adequate, using current estimates of future cash flows If that assessment shows that the carrying amount of the liabilities (less related assets) is insufficient in light of the estimated future cash flows, the deficiency is recognised in the Statement of Comprehensive Income by setting up an additional liability

Notes to the Financial Statements continued

Year ended 31 December 2015

1 Significant accounting policies (continued)

General insurance

At each Statement of Financial Position date liability adequacy tests are performed to ensure the adequacy of insurance contract liabilities, net of related deferred acquisition costs In performing these tests, current best estimates of future contractual cash flows and claims handling and administration expenses, as well as investment income from the assets backing such liabilities, are used

Any deficiency is immediately charged to the Statement of Comprehensive Income initially by writing off deferred acquisition costs and by subsequently establishing an unexpired risk provision Any deferred acquisition cost written off as a result of this test cannot subsequently be reinstated

f Impairment of non-financial assets

Assets that have an indefinite useful life, for example goodwill, are not subject to amortisation and are tested annually for impairment Assets that are subject to amortisation or depreciation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount The recoverable amount is the higher of an asset's fair value less costs to sell and value in use

For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units)

Non-financial assets, other than goodwill, that suffered impairment are reviewed for possible reversal of the impairment at each reporting date

g Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and in hand, and short-term deposits with an original maturity of three months or less

For the purpose of the Statement of Cash Flows, Cash and cash equivalents are as defined above but are shown net of outstanding bank overdrafts

h Collateral

Collateral is received or pledged against derivative contracts in the form of cash collateral and non-cash collateral

Cash collateral

Cash collateral received, which is not legally segregated from the Group, is recognised as an asset with a corresponding liability for its repayment in the Statement of Financial Position

Cash collateral pledged, which is legally segregated from the Group, is derecognised from Cash and cash equivalents and a corresponding asset for its return is recognised in the Statement of Financial Position

Non-cash collateral

Non-cash collateral received against derivative contracts where the counterparty is not in default, that is neither sold nor repledged, is not recognised in the Statement of Financial Position Non-cash collateral pledged against derivative contracts where the Group is not in default is not derecognised from the Statement of Financial Position and remains within the appropriate asset classification

1 4 Changes and future developments in accounting policies

(i) New and amended standards adopted by the Group

There were no new or amended accounting standards adopted by the Group for the first time for the financial year beginning on or after 1 January 2015

(ii) New standards and interpretations not yet adopted

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after 1 January 2016, and have not been applied in preparing these consolidated financial statements None of these are expected to have a significant effect on the consolidated financial statements of the Group, except for the following

Amendment to IAS 1 'Presentation of financial statements' seeks to clarify the disclosure requirements including considering the impact of materiality on the level of disaggregation and extent of disclosures presented, disclosure of additional sub totals and reconciliation to those required by IAS 1, and also additional flexibility regarding the order of notes to the financial statements This amendment is effective from 1 January 2016 and will be adopted by the Group The Group has reviewed the disclosures included in the financial statements against this amendment As this amendment merely clarifies the existing requirements of IAS 1 the Group does not consider the impact of the amendment to be significant

IFRS 9, 'Financial instruments', addresses the classification, measurement and recognition of financial assets and financial liabilities The complete version of IFRS 9 was issued in July 2014 It replaces the guidance in IAS 39 that relates to the classification and measurement of financial instruments IFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets amortised cost, fair value through OCI and fair value through P&L The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset Investments in equity instruments are required to be measured at fair value through profit or loss with the irrevocable option at inception to present changes in fair value in OCI not recycling There is now a new expected credit losses model that replaces the incurred loss impairment model used in IAS 39 For financial liabilities there were no changes to classification and measurement except for the recognition of changes in own credit risk in other comprehensive income, for liabilities designated at fair value through profit or loss The standard is effective for accounting periods beginning on or after 1 January 2018

The Group is currently assessing the impact of this new standard

There are no other IFRSs or IFRIC interpretations that are not yet effective that are expected to have a material impact on the Group

Notes to the Financial Statements continued
Year ended 31 December 2015

Segmental information

This section details the disclosures arising under IFRS 8 Operating segments These segmental disclosures are based on operating segments that reflect the level within the Group at which key strategic and resource allocation decisions are made and the way in which operating performance is reported internally to the Group board of directors

2 Segmental information

Accounting for operating profit
Operating profit is the profit earned from normal core business operations It is a non-GAAP measure and calculated as IFRS profit before tax, mutual bonus and UDS transfer, adjusted for the following items
- centrally managed strategic costs,
- finance costs,
- amortisation of acquired intangibles,
- short-term investment fluctuations This represents the difference between the long-term average return currently expected over the lifetime of the free Estate and Life assets and the actual investment return achieved on these assets in the current period, and
- accounting differences between the basis upon which the results of the pensions business are managed and the accounting requirements of IFRS

The activities of each operating segment are described below

General Insurance
The principal activity is to underwrite general insurance business through both direct and broker distribution channels The primary sources of premium income are from the sale of Motor and Home products and Commercial Insurance for Small and Medium Size Enterprises The General Insurance business also underwrites Road Rescue, Pet Insurance and Travel Insurance

Life
The principal activity is the provision of Protection and Retirement Solution products The core products offered in Protection are Life, Critical Illness, Income Protection and Unemployment Insurance The core products offered in Retirement Solutions are Annuities, Self-Invested Personal Pensions (SIPPs), Equity Release Mortgages and Flexible Guarantee Bonds

For the purposes of this segmental disclosure, insurance and investment contract liabilities, operating profits, IFRS profit before tax and net change in contract liabilities shown for the Life business, are calculated after allocating the non-participating value of in-force business to this segment

Heritage
This segment comprises LVFS' with-profits business (both ordinary branch and industrial branch) along with some non-profit business and unit-linked business, which was acquired from the Royal National Pension Fund for Nurses ('RNPFN') Most of the Heritage products are no longer actively marketed, although Heritage continues to sell newer with-profits products via the Life business channels

Central items and other
This segment comprises centrally held items such as group functions

Transactions between reportable segments are on normal commercial terms, and are included within the reported segments

The profit measure used by the Group board of directors to monitor performance is Operating profit before tax Operating profit before tax by segment is shown in the table below, together with a reconciliation of the Total operating profit before tax to the IFRS result before tax The following tables give details of the Group's profit, revenue and expenses and assets and liabilities with reference to the operating segments defined above

a) Segment profit

2015	General Insurance £m	Life £m	Heritage £m	Central items and other £m	Total £m
Total operating profit/(loss) before tax	**72**	**41**	**88**	**(6)**	**195**
Pensions business IFRS adjustment	–	(5)	–	–	(5)
Short-term investment fluctuations and related items*	–	(27)	11	6	(10)
Centrally managed costs	–	(2)	–	(27)	(29)
Finance costs	–	–	–	(24)	(24)
Amortisation of acquired intangibles	(2)	(1)	–	–	(3)
Profit/(loss) before tax, mutual bonus and UDS transfer	**70**	**6**	**99**	**(51)**	**124**

2014	General insurance £m	Life £m	Heritage £m	Central items and other £m	Total £m
Total operating profit/(loss) before tax	92	(7)	9	(8)	86
Pensions business IFRS adjustment	–	1	–	–	1
Short-term investment fluctuations and related items*	–	(10)	30	(22)	(2)
Centrally managed costs	(1)	(2)	(1)	(17)	(21)
Finance costs	–	–	–	(24)	(24)
Amortisation of acquired intangibles	(2)	(1)	–	–	(3)
Profit/(loss) before tax, mutual bonus and UDS transfer	89	(19)	38	(71)	37

* Short-term investment fluctuations and related items contains the favourable impact of tax deducted from policy asset shares and the RNPFN fund totalling £nil (2014 £34m)

Notes to the Financial Statements continued

Year ended 31 December 2015

2 Segmental information (continued)

b) Segment revenue and expenses

All revenues disclosed in the tables below are external

Year ending 31 December 2015	General Insurance £m	Life £m	Heritage £m	Central items and other £m	Total £m
Gross earned premiums	1,420	935	53	-	2,408
Premiums ceded to reinsurers	(284)	(77)	(23)	-	(384)
Net earned premiums	**1,136**	**858**	**30**	**-**	**2,024**
Investment and other income	67	(11)	108	12	176
Total segmental income	**1,203**	**847**	**138**	**12**	**2,200**
Gross benefits and claims	(1,018)	(499)	(297)	-	(1,814)
Claims ceded to reinsurers	265	51	22	-	338
Net benefit and claims	**(753)**	**(448)**	**(275)**	**-**	**(1,476)**
Net change in contract liabilities	-	(218)	266	(1)	47
Other expenses	(380)	(175)	(30)	(62)	(647)
Total segmental expenses	**(1,133)**	**(841)**	**(39)**	**(63)**	**(2,076)**
Profit/(loss) before tax, mutual bonus and UDS transfer*	**70**	**6**	**99**	**(51)**	**124**

Year ending 31 December 2014	General insurance £m	Life £m	Heritage £m	Central items and other £m	Total £m
Gross earned premiums	1,418	781	65	-	2,264
Premiums ceded to reinsurers	(36)	(64)	(24)	-	(124)
Net earned premiums	1,382	717	41	-	2,140
Investment and other income	74	495	647	40	1,256
Total segmental income	1,456	1,212	688	40	3,396
Gross benefits and claims	(1,000)	(364)	(302)	-	(1,666)
Claims ceded to reinsurers	8	52	22	-	82
Net benefit and claims	(992)	(312)	(280)	-	(1,584)
Net change in contract liabilities	-	(767)	(302)	(62)	(1,131)
Other expenses	(375)	(152)	(68)	(49)	(644)
Total segmental expenses	(1,367)	(1,231)	(650)	(111)	(3,359)
Profit/(loss) before tax, mutual bonus and UDS transfer*	89	(19)	38	(71)	37

Gross written premiums for investment contracts which are deposit accounted for and not included above are £515m (2014 £393m)

* As a Friendly Society, all net earnings are for the benefit of participating policyholders and are carried forward within the Unallocated divisible surplus, resulting in the profit for each financial year being zero Therefore the resulting Profit before tax required to be disclosed under IFRS 8 will always be equal to the tax charge being £6m (2014 £47m) and £(1)m (2014 £34m) for the Group and Society respectively

In order to present a more meaningful disclosure the Profit before tax, mutual bonus and UDS transfer is disclosed in the tables above

Notes to the Financial Statements continued

Year ended 31 December 2015

2 Segmental information (continued)

c) Segment assets and liabilities

As at 31 December 2015	General Insurance £m	Life £m	Heritage £m	Central items and other £m	Total £m
Assets					
Property and equipment	**6**	**–**	**–**	**33**	**39**
Financial assets	**1,783**	**5,270**	**4,031**	**770**	**11,854**
Reinsurance assets	**398**	**461**	**31**	**–**	**890**
Other assets	**340**	**107**	**18**	**105**	**570**
Cash and cash equivalents	**685**	**140**	**205**	**156**	**1,186**
Total assets	**3,212**	**5,978**	**4,285**	**1,064**	**14,539**
Liabilities					
Insurance and investment contract liabilities	**(2,093)**	**(5,496)**	**(4,374)**	**–**	**(11,963)**
Subordinated liabilities	**(9)**	**–**	**–**	**(347)**	**(356)**
Other liabilities	**(395)**	**(203)**	**(112)**	**(409)**	**(1,119)**
Total liabilities excluding UDS	**(2,497)**	**(5,699)**	**(4,486)**	**(756)**	**(13,438)**
Net Assets	**715**	**279**	**(201)**	**308**	**1,101**
Consolidation adjustments	**(560)**	**(386)**	**321**	**625**	**–**
Unallocated divisible surplus (UDS)	**155**	**(107)**	**120**	**933**	**1,101**

As at 31 December 2014	General Insurance £m	Life £m	Heritage £m	Central items and other Restated – see Note 1 £m	Total Restated – see Note 1 £m
Assets					
Property and equipment	8	–	–	11	19
Financial assets	2,103	4,705	4,463	989	12,260
Reinsurance assets	138	335	30	–	503
Other assets	344	95	20	18	477
Cash and cash equivalents	321	119	204	146	790
Total assets	2,914	5,254	4,717	1,164	14,049
Liabilities					
Insurance and investment contract liabilities	(1,995)	(4,862)	(4,613)	(13)	(11,483)
Subordinated liabilities	(9)	–	–	(347)	(356)
Other liabilities	(198)	(113)	(141)	(799)	(1,251)
Total liabilities excluding UDS	(2,202)	(4,975)	(4,754)	(1,159)	(13,090)
Net Assets	712	279	(37)	5	959
Consolidation adjustments	(596)	(403)	338	661	–
Unallocated divisible surplus (UDS)	116	(124)	301	666	959

In 2014 Flexible Guarantee Bonds were reported in Heritage and in 2015 they have been reported in the Life business The 2014 segmental information has been restated to show Flexible Guarantee Bonds in Life

Within the Central items and other segment, there is a balance of £752m (2014 £454m) which relates to Estate net assets The Heritage with-profits policyholders have access to the Estate assets, if required to settle guarantees and bonuses

Included within the Consolidation adjustments is £321m (2014 £338m) of non-participating value of in-force business which is generated from the non-participating policies written in the Life business Under IFRS GAAP this is matched against the participating contracts which are held within Heritage

During 2015 there was a transfer of £243m from Heritage net assets to Estate net assets, with a consequent opposite impact on the UDS This was due to a model and basis change together with a change to the commutation rate and the basis on which future pension transfers will occur (from guaranteed fund to asset share)

d) Major customers

The directors consider the Group s external customers to be individual policyholders As such, the Group is not reliant on any individual customer

Notes to the Financial Statements continued
Year ended 31 December 2015

Capital and risk management

This section details the capital and risk management approach of the Society and Group 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 PRA's capital requirements

3 Capital management

Policies and objectives

The Group s key capital management objectives are

(i) To ensure the Group's strategy can be implemented and is sustainable,

(ii) To ensure the Group's financial strength and to support the risks it takes on as part of its business,

(iii)To give confidence to policyholders and other stakeholders who have relationships with the Group, and

(iv)To comply with capital requirements imposed by its UK regulator, the PRA

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 PRA capital requirements based on the higher of,

a the Risk Capital Margin (RCM) determined in accordance with the PRA's regulatory rules under its realistic capital regime, or

b the Individual Capital Assessment (ICA) which takes into account certain business risks not reflected in the RCM, and which is submitted to the PRA

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

The capital requirement in the annual PRA return is the statutory minimum capital requirement plus an additional component for each with-profits fund The statutory minimum capital requirement is based on EU directives

Management intends to maintain surplus capital in excess of the RCM and ICA 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

The Group complied with all externally imposed capital requirements to which it was subject throughout the reporting period

Measurement and monitoring of capital

The capital position of the Group is monitored on a regular basis and reviewed formally on a monthly basis by the Group Asset and Liability Committee (ALCO) These objectives are reviewed and benchmarks are set by which to judge the adequacy of the Group's capital and ensure that sufficient capital is available

The Group's capital requirements are forecast on a regular basis and compared against the available capital and the Group's minimum internal rate of return The internal rate of return forecast to be achieved on potential investments is also measured against minimum required benchmarks 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

Change to regulatory reporting regime

The new European-wide Solvency II insurance regulations replace the current regulatory regime on 1 January 2016 Future capital measurement and reporting will meet Solvency II requirements

Capital statement

The following tables set out the capital available to the Society under the regulatory regime in force at 31 December 2015

Regulatory Capital	2015 £m	2014 £m
Admissible assets excluding lower tier two capital	**10,896**	10,538
Mathematical reserves and other liabilities	**(9,489)**	(9,225)
Subordinated debt capital	**347**	347
Capital resources	**1,754**	1,660
RNPFN surplus not available to Group	**(236)**	(247)
Available capital resources	**1,518**	1,413
Capital resource requirements,		
- Regulatory solvency requirements	**(306)**	(300)
- Regulatory related undertakings	**(229)**	(256)
Regulatory excess capital (excluding RNPFN surplus)	**983**	857
With-profits insurance capital component	**(129)**	(168)
Realistic excess capital (excluding RNPFN surplus)	**854**	689

Notes to the Financial Statements continued

Year ended 31 December 2015

3 Capital management (continued)

Capital resources (Society and Group)

Movements in capital resources are analysed below

2015	**Society's participating contract business £m**	**RNPFN participating contract business £m**	**Other UK non-participating business £m**	**Total long term business £m**	**Other activities £m**	**Consolidation adjustments £m**	**Group total £m**
Capital at 1 January	**1,660**	**–**	**15**	**1,675**	**2,177**	**(1,990)**	**1,862**
Effect of investment variations	**90**	**–**	**–**	**90**	**–**	**–**	**90**
Effect of changes in assumptions	**63**	**–**	**–**	**63**	**–**	**–**	**63**
New business	**(91)**	**–**	**–**	**(91)**	**–**	**–**	**(91)**
Effect of changes in regulatory requirements	**–**	**(11)**	**–**	**(11)**	**(3)**	**5**	**(9)**
Other	**32**	**–**	**(10)**	**22**	**14**	**(5)**	**31**
RNPFN Fund not available to the Group	**–**	**11**	**–**	**11**	**–**	**–**	**11**
Capital resources as at 31 December	**1,754**	**–**	**5**	**1,759**	**2,188**	**(1,990)**	**1,957**

2014	Society's participating contract business £m	RNPFN participating contract business £m	Other UK non participating business £m	Total long term business £m	Other activities £m	Consolidation adjustments £m	Group total £m
Capital at 1 January	1,650	–	14	1,664	2,134	(1,943)	1,855
Effect of investment variations	53	–	–	53	–	–	53
Effect of changes in assumptions	(11)	–	–	(11)	–	–	(11)
New business	(93)	–	–	(93)	–	–	(93)
Effect of changes in regulatory requirements	–	53	–	53	(3)	(44)	6
Other	61	–	1	62	46	(3)	105
RNPFN Fund not available to the Group	–	(53)	–	(53)	–	–	(53)
Capital resources as at 31 December	1,660	–	15	1,675	2,177	(1,990)	1,862

During 2015 LVFS's excess capital resources increased by £165m to £854m as shown in the table below

Excess capital	**2015 £m**	2014 £m
Excess capital at 1 January	**689**	720
Opening adjustments	**5**	2
Economic variances	**6**	(47)
Claims variances	**4**	–
Expense variances	**(24)**	(17)
New business	**(1)**	(16)
Impact of changes to valuation assumptions	**25**	12
OB pension cash benefits basis change	**69**	–
Movements in group undertakings*	**57**	68
Interest on subordinated debt	**(23)**	(23)
Mutual bonus	**(27)**	(24)
Change in risk capital margin	**51**	(3)
Other	**23**	17
Excess capital at 31 December	**854**	689

* Movement in group undertakings relates to the change in the net asset value of the subsidiaries, due mainly to profits generated and movements between admissible and inadmissible assets

Our key benchmark, the Regulatory Capital Cover ratio is 195% (2014 171%) This ratio represents the value of our capital resources compared to the capital resources required

Notes to the Financial Statements continued

Year ended 31 December 2015

3 Capital management (continued)

Reconciliation of capital resources

The following table reconciles the Unallocated divisible surplus presented in the Statement of Financial Position to the total capital resources calculated on a regulatory basis

2015	Society's participating contract business £m	Other UK non participating business £m	Total long term business £m	Other activities (note 4) £m	Consolidation adjustments £m	Group total £m
Unallocated divisible surplus	**1,036**	**–**	**1,036**	**–**	**65**	**1,101**
Shareholdings in related undertakings	**–**	**5**	**5**	**2,218**	**(2,223)**	**–**
Regulatory adjustments						
– Adjustment to reserves to realistic basis	**399**	**–**	**399**	**–**	**–**	**399**
– Adjustment to subsidiaries (note 1)	**(178)**	**–**	**(178)**	**–**	**168**	**(10)**
– Inadmissible assets (note 2)	**(86)**	**–**	**(86)**	**(30)**	**–**	**(116)**
	1,171	**5**	**1,176**	**2,188**	**(1,990)**	**1,374**
Lower tier two capital	**347**	**–**	**347**	**–**	**–**	**347**
Capital Resources (excluding RNPFN)	**1,518**	**5**	**1,523**	**2,188**	**(1,990)**	**1,721**
RNPFN Fund not available to the Group (note 3)	**236**	**–**	**236**	**–**	**–**	**236**
Capital Resources	**1,754**	**5**	**1,759**	**2,188**	**(1,990)**	**1,957**

2014	Society's participating contract business Restated – see Note 1 £m	Other UK non participating business £m	Total long term business Restated – see Note 1 £m	Other activities (note 4) £m	Consolidation adjustments £m	Group total Restated – see Note 1 £m
Unallocated divisible surplus	893	–	893	–	66	959
Shareholdings in related undertakings	–	15	15	2,204	(2,219)	–
Regulatory adjustments						
– Adjustment to reserves to realistic basis	357	–	357	–	–	357
– Adjustment to subsidiaries (note 1)	(170)	–	(170)	–	163	(7)
– Inadmissible assets (note 2)	(14)	–	(14)	(27)	–	(41)
	1,066	15	1,081	2,177	(1,990)	1,268
Lower tier two capital	347	–	347	–	–	347
Capital Resources (excluding RNPFN)	1,413	15	1,428	2,177	(1,990)	1,615
RNPFN Fund not available to the Group (note 3)	247	–	247	–	–	247
Capital Resources	1,660	15	1,675	2,177	(1,990)	1,862

Notes

1 Represents the difference between the cost of investment in subsidiaries and the value for regulatory purposes net of the capital requirement

2 Inadmissible assets include pension scheme, deferred tax and goodwill

3 RNPFN denotes Royal National Pension Fund for Nurses, which is a ring-fenced fund The free assets attributable to this fund are reported as insurance contract liabilities of the Society

4 Other activities include the non-life insurance activities and the non-insurance activities of the Group

Capital resources – Long-term insurance contracts

i) Participating insurance contracts

The liabilities in respect of the Group's participating (with-profits) business are determined in accordance with the 'realistic balance sheet' regime prescribed by the PRA Under this regime, the liabilities to policyholders include both declared bonuses and the constructive obligation for future bonuses, based in general on the asset shares for the relevant policies The expected costs of the guarantees underlying the business are included, along with the impact of smoothing policy benefits in accordance with the Group's current practice An allowance is made for actions that management would take in adverse conditions, such as reducing bonus rates

The assets are taken at market value, estimated where required, with an allowance for the future surplus expected to arise on the non-participating business written in the participating fund The whole of the available capital resources within each participating fund is available to meet the regulatory and other solvency requirements of the fund The regulatory capital requirement is the Risk Capital Margin, determined by applying a stress prescribed by the PRA to the participating liabilities and to the assets supporting them For participating contract funds, the liabilities included in the Statement of Financial Position comprise only amounts relating to policyholders

Notes to the Financial Statements continued

Year ended 31 December 2015

3 Capital management (continued)

ii) Non-participating insurance contracts

The liabilities in respect of the Group's non-participating (non-profit) business are determined by discounting the cash flows projected to arise under the relevant policies at a risk-adjusted discount rate The assumptions used to project the cash flows include prudent margins The capital requirement for the business is the long-term insurance capital requirement determined in accordance with PRA regulations

iii) Other non-insurance activities

The other activities of the Group have available capital resources which are higher than the minimum requirements set by the PRA or FCA for each of the regulated entities In principle, the excess is available to the Society In practice, higher levels of capital are held within each regulated entity to provide appropriate cover for risk and new business growth This restricts the ability of the capital resources to meet requirements that arise elsewhere in the Group

iv) RNPFN fund

The capital resources in the RNPFN fund are available to support only the business within the fund The fund benefits from a capital support facility provided by the Society However, with the capital resources of the fund being in excess of its capital requirement, no calls to date have been made on this facility

Sensitivity of long-term insurance contract liabilities

The value of the long-term insurance contract liabilities is sensitive to changes in market conditions and in the demographic assumptions used in the calculation, such as mortality and persistency rates

Market conditions – Assumptions are made about future investment returns and interest rates when valuing the liabilities, based on current market conditions These also have an effect on the value placed on the assets held to support the liabilities An adverse change in market conditions may therefore reduce the level of the available capital resources

Demographic assumptions – Changes in the mortality, morbidity, expense or persistency experienced by the business may result in the need to change the assumptions used to value the liabilities This may increase or reduce the value placed on the liabilities The sensitivity of the liabilities to changes in the assumptions varies according to the type of business For example, a change in mortality rates has a different impact for annuity liabilities than for term assurance liabilities

Further disclosure of the impact on the Unallocated divisible surplus of changes in market conditions and demographic assumptions is provided in Note 4

Financial guarantees and options

a) Participating insurance contracts

As part of its normal operating activities, the Society has given guarantees and options, including interest rate guarantees, under its participating insurance contracts

A provision is made for these guarantees and options within the realistic valuation of the Group's participating business Under the PRA's rules, the cost of the guarantees and options is measured at fair value using a market-consistent stochastic model A stochastic approach includes measuring the time value of the guarantees and options, which represents the additional cost arising from the uncertainty surrounding future economic conditions The time value is evaluated by projecting a large number of possible future outcomes under a wide range of economic scenarios (for example, possible outcomes for interest rates and equity returns)

The material guarantees and options under the participating business are shown below

i) Guaranteed annuity rates – the RNPFN fund contains a number of individual pension and other policies, where the policyholder has the option at maturity to take the benefits in the form of an annuity based on guaranteed conversion rates

ii) Maturity value guarantees – many of the Group's participating insurance contracts have minimum maturity values, in the form of either a cash payment or an annuity, reflecting the original guarantee under the policy increased by past declared bonuses

iii) Money-back guarantees – some of the policies written by the Group provide a guarantee that the value of the policy at a certain point in time will be at least equal to the total premiums paid

b) Non-participating insurance contracts

The Group has also written non-participating contracts which include guarantees and options An appropriate provision for these guarantees and options has been included within the liabilities in accordance with the PRA's rules

c) Equity release loans

The Group's assets include a number of equity release loans, the principal and accrued interest of which are due to be repaid out of the proceeds from the sale of an associated domestic property The loans include the guarantee that any shortfall of the sale proceeds to the loan will be written off The loans also include guaranteed terms under which they can be repaid early Further details are disclosed within Note 16

Notes to the Financial Statements continued

Year ended 31 December 2015

4 Risk management and control

The Group's primary business activities include the provision of insurance, investment and retirement products to UK-based customers In providing these products the Group accepts and needs to manage risk A description of these risks and how they relate to the Groups' products is outlined below and the Group's approach to managing and controlling these risk through its governance and risk management framework is set out on pages 46 to 57

As part of its risk management programme, the Group records its current and projected risk position across a defined set of risk categories In addition a measure of the sensitivity on Profit before tax, Unallocated divisible surplus, and Long-term insurance contract liabilities under both deterministic and stochastic scenarios is performed

Management uses the insight gained through these sensitivities to help manage the Group s risk exposure and sustainability The models, scenarios and assumptions used are reviewed regularly and updated as necessary including any interdependencies between risk types This section includes the impact on the three measures of a sensitivity test that calibrates to a reasonably possible change in a single risk type

Principal risks

The Group uses a standard categorisation to group types of similar risks All such risks are subject to the same risk management and control framework, however they impact the business and its financial performance in different ways The following sections provide more detail on these risks and how they impact the Group

(a) Insurance risk

Insurance risk arises both from the claims commitment that the Group has made to its policyholders and the pricing assumptions made in respect of the policy of insurance As such, this covers the following risks

- The timing and the amount of the claim is uncertain and hence there is a risk that the exposure to loss arising from this claims experience is different to that anticipated
- The product is priced assuming certain assumptions covering how long the policy will be maintained by the customer (persistency risk) and the cost of administering the product over its life cycle (expense risk) There is a risk that across the Group s insurance portfolio the actual experience is different to that assumed when the product is priced This is more likely the longer the term of the product and therefore is usually only a significant factor in life insurance products

Experience shows that the larger the portfolio of similar insurance contracts, the smaller the relative variability about the expected outcome will be In addition, a more diversified portfolio is less likely to be affected by a change in any subset of the portfolio 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 writes a diverse mix of insurance business across a diverse group of people and businesses

However, 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

The Group assesses its insurance risk in two broad categories life insurance risk and general insurance risk and the specific components of each of these are further outlined below

(i) Life insurance

The Group's life insurance ('Life') activities primarily involve the provision of Protection, Annuity, Pension and Equity Release products These products provide key benefits to the policyholder and their dependants, either securing their income during times of illness and their retirement or providing financial support to their beneficiaries in the case of loss of life

Once an insurance contract has been accepted a commitment then arises to meet the future benefits that have been offered to the policyholder (this may include certain guarantees e g sum assured, guaranteed annuity options), which crystallises at the point that the policyholder ultimately makes a claim

Life insurance contracts are long-term in nature and provide policyholder benefits over a number of years In addition, the ultimate liabilities that arise will vary by the type of different contracts that are written For example, death claims are certain for whole of life assurance and although the sum assured is fixed there are potential product factors that can influence this (e g values are index linked), whereas other liabilities are more open ended e g annuities and enhanced annuities that are ultimately dependent on how long someone lives

A number of key assumptions are made when determining the future claims liability that will arise from these policyholder commitments These are based on prior experience and latest forecasts in trends and patterns and include the future life expectancy and health of policyholders, the extent to which contracts will be terminated early, how much insurance contract administration costs will increase, growth in the value of investment returns, interest rates and tax rates

Details of life insurance contract liabilities and associated valuation assumptions are disclosed in Notes 23 and 28 respectively

Differences in actual experience versus the original key assumptions will give rise to different liabilities than originally anticipated In addition the assumptions made regarding the length of time the policy stays in force and the cost of administering the policy may vary from original assumptions Wherever these outcomes vary from the original or most recent estimated they may give rise to potential life insurance risks exposures, the primary life insurance risks prevalent within the Group's products are described below

Mortality, longevity 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

Notes to the Financial Statements continued
Year ended 31 December 2015

4 Risk management and control (continued)
Protection product liabilities are, in the main, based on the estimated life expectancy of the policyholders Generally, the potential risk is that more policyholders die earlier than expected and this will give rise to increased liabilities resulting from increased death claims In the reverse situation, insurance contract liabilities will reduce if policyholders live longer than expected For some whole of life policies where reinsurance is used to manage risk, the insurance contract liabilities will increase if policyholders live longer than expected

Annuity product liabilities are also based on the estimated life expectancy of the policyholders The potential risk is that if more policyholders live longer than anticipated this will give rise to increased liabilities and reduced profits, arising from the additional regular income payments to annuitants

Certain of the Group's protection products also have liabilities which are based on the expected health of the policyholders The risk, known as morbidity risk, is that more policyholders fall ill or become incapacitated than anticipated and this will give rise to increased liabilities and reduced profits In the reverse situation, insurance contract liabilities will reduce and profits increase if the number of policyholders becoming ill or injured decline

Mortality, longevity and morbidity risk is managed in the Group through the assessment of the risk associated with individual policyholders against a set of acceptance (underwriting) criteria, which may include an individual's medical history, occupation, smoking and drinking habits (i e indicators of life expectancy) The actual experience of policyholders is then regularly monitored to assess that the underwriting criteria remain appropriate and that the level of risk being assumed by the Group remains within its risk appetite Finally, a proportion of mortality, longevity and morbidity risk is transferred via reassuring policy commitments through agreements with reinsurance companies

Persistency
In pricing life insurance business, the Group makes assumptions as to how long the policyholder is likely to retain the product The risk is that policies do not remain in force as long as expected, whether they are lapsed, declared as paid-up, surrendered or transferred prior to maturity or expiry In addition, for equity release products persistency risk arises from voluntary early redemptions prior to the end of the loan contract

The level of persistency influences the ability to recover initial costs of sale from the premiums and charges that relate to the product Experience shows that the risk of a policy being lapsed/surrendered or a loan being redeemed is greater in the early years but reduces significantly as time passes Persistency risk arises from the actual experience being different to that assumed when pricing the product

For certain Heritage products which incorporate significant guarantees or options, the level of persistency influences the estimated cost of the guarantees and options The risk for these products is that a larger proportion of the portfolio remains in-force to avail of these guarantees and options

Expense
In pricing life insurance business, assumptions are made as to how long the Group will need to continue to service and maintain the product and communicate with the policyholder The Group is exposed to the risk that the charges it deducts from policyholder benefits are not sufficient to cover the full extent of these expenses In addition, the Group makes an assumption as to how much this service and maintenance will cost each year Expense risk is the exposure from these assumptions on cost and duration varying from the assumed levels, with higher than expected expenses reducing profits The Group manages this risk through an on-going assessment of the factors that will generate additional expenses in the product servicing costs and the average duration of life insurance products

Life insurance exposure
The Group's exposure to life insurance risk is captured in the long-term insurance and investment contract liabilities set out below The products listed below cover the Group's protection, annuity, and pensions products and also the investment exposure arising from the Group's savings and investment products

	2015			2014		
	Gross	**Reinsurance**	**Net**	Gross	Reinsurance	Net
Group	**£m**	**£m**	**£m**	£m	£m	£m
Whole life	**2,140**	**(8)**	**2,132**	1,828	59	1,887
Endowment	**295**	**-**	**295**	346	-	346
Term Assurance	**204**	**(202)**	**2**	183	(180)	3
Immediate and deferred annuity contracts	**4,112**	**(91)**	**4,021**	4,364	(96)	4,268
UWP pensions and protected retirement plans	**1,126**	**-**	**1,126**	1,109	-	1,109
Critical illness	**99**	**(75)**	**24**	72	(46)	26
Income protection	**103**	**(115)**	**(12)**	121	(101)	20
ISA	**78**	**-**	**78**	76	-	76
Other	**123**	**(1)**	**122**	127	(1)	126
	8,280	**(492)**	**7,788**	8,226	(365)	7,861
Long-term claims liabilities	**40**	**-**	**40**	41	-	41
Unit linked	**1,867**	**-**	**1,867**	1,559	-	1,559
	10,187	**(492)**	**9,695**	9,826	(365)	9,461

Notes to the Financial Statements continued

Year ended 31 December 2015

4 Risk management and control (continued)

Life insurance risk sensitivities

The table below sets out the impact on the long-term contract liabilities (both investment and insurance contracts), the Unallocated divisible surplus and Profit before tax for movements in key assumptions

Sensitivity analysis for the change in assumptions used in long-term insurance and investment contract liabilities	Impact on Profit before tax	Impact on the Unallocated divisible surplus	Impact on gross long term insurance and investment contract liabilities
Increase in mortality rates by 10% – Non annuity products	**(10)**	**(10)**	**73**
Decrease in mortality rates by 10% – Annuity products	**(57)**	**(57)**	**118**
Increase in morbidity rates by 10%	**(22)**	**(22)**	**100**
Reduction in persistency by 25%	**3**	**3**	**(71)**
Increase in persistency by 25%	**(1)**	**(1)**	**83**
Increase in expenses by 10%	**(36)**	**(36)**	**47**

The persistency sensitivities are performed as multiplicative stresses to the persistency assumptions for all products and therefore implicitly allow for offsets between products exposed to different directional sensitivities

(ii) General insurance

The Group's insurance activities are primarily concerned with the pricing, accepting and management of risks from its policyholders In accepting risks the Group commits to paying claims and therefore these risks must be understood The Group manages these risks through its underwriting strategy, reinsurance arrangements and proactive claims handling

For a portfolio of insurance contracts where the theory of probability is applied to pricing and provisioning, the principal risk that the Group faces under its insurance contracts is the risk that actual claims exceed the carrying value of the Group's claims reserves The risk arises from the inherent uncertainties as to the occurrence, amount and timing of insurance claims For general insurance contracts this is primarily represented by exposure to risks which may lead to significant claims in terms of frequency or value These would include major weather events, subsidence and large single claims arising from either the motor business (injury claims) or SME business (liability and/or property claims) There is also a risk that the prices charged for unexpired risks to which the Group is contractually committed may prove to be insufficient to absorb the cost of the claims which they will generate and any related deferred acquisition cost Procedures are in place to measure, monitor and control exposure to all these risks

Property business (domestic and commercial) is exposed to catastrophic risks such as those resulting from storms or floods as well as risks such as subsidence The Group has entered into reinsurance contracts which provide protection against catastrophic weather events There have been no recent events that have triggered the reinsurance cover and so there is currently no reinsurance claims asset held on this account

Motor business is exposed to the risk of large bodily injury claims, where the claim amounts can be significant due to the cost of care required for the claimant The Group has entered into excess of loss reinsurance contracts which reduce its exposure to large claims The Group's retention is £5m per claim (2014 £5m per claim, £5m-£10m layer 68% placed)

SME business is exposed to large individual property losses and also to liabilities arising from employment and commercial activities The Group has entered into reinsurance contracts which provide protection against these liabilities

Experience shows that the larger the portfolio of similar insurance contracts, the smaller the relative variability about the expected outcome will be In addition, a more diversified portfolio is less likely to be affected by a change in any subset of the portfolio The Group has developed its insurance underwriting strategy 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

In addition to the reinsurance contract described above, the Group has also entered into a Loss Portfolio Transfer Agreement resulting in reinsurance of 20% of its booked reserves as at 31 December 2015 The Group also entered into a 20% Quota Share arrangement for 2016 to 2018 (each year treated separately) Whilst the primary driver of these transactions was efficient capital management, the contract also has the effect of reducing the Group's exposure to general insurance concentration risk

The Group has historic Quota Share and Excess of Loss reinsurance contracts, relating to some of the Motor business which reduce the Group's exposure to large claims

Notes to the Financial Statements continued

Year ended 31 December 2015

4 Risk management and control (continued)

The table below sets out the Group s concentration of general insurance contract liabilities by type of contract

	2015			2014		
	Gross	Reinsurance	Net	Gross	Reinsurance	Net
	£m	£m	£m	£m	£m	£m
Motor	**1,067**	**(326)**	**741**	1,074	(112)	962
Commercial	**206**	**(44)**	**162**	171	(13)	158
Household	**72**	**(14)**	**58**	56	–	56
Other	**8**	**(2)**	**6**	6	–	6
	1,353	**(386)**	**967**	1,307	(125)	1,182

The claims provision is the estimated cost of outstanding claims from expired risks The provision is calculated largely from using the Group's historic claims development data How much the past claim development will reflect future claims development will be impacted by the following factors

- Changes in actuarial processes and methodology
- Changes in risk profile
- Changes in underwriting, rating and policy conditions
- Changes in legislation and regulation e g PPOs, Ministry of Justice reforms, changes to the Ogden discount rate, etc
- Changes in other external factors e g 'claims farming / accident management firms

It is therefore important that the impact of these items on claims development is understood Whilst every effort has been made to ensure the claims provision appropriately allows for such changes, there remains uncertainty in the eventual reserve outcome as a result This uncertainty can change from year to year depending on the timing and magnitude of these items

The Group has identified the major uncertainties surrounding the future development of claims Where appropriate these have been allowed for explicitly An additional provision is also held within the claims provision to cover the uncertainty around further fluctuations in claim development with a given degree of confidence

The claims provision includes a specific allowance for claims identified as having the potential to settle on a PPO basis This allowance is based on the mean cost of claims derived from a range of scenarios based on the PPO settlement rate for these claims If all of these claims settled as PPOs, the reserves would deteriorate by an estimated £11m from the position shown above

Uncertainty in claims estimation is larger for claims such as PPOs for which annually indexed payments are made typically over the lifetime of the injured party Claims reserves for PPOs are held on a discounted basis and are sensitive to a change in the discount rate The table below provides a sensitivity analysis of the potential impact of a change in a single factor with all other assumptions left unchanged Other potential risks beyond the ones described in the table could have an additional financial impact on the Group

	Increase/(decrease) in Profit before tax		Increase/(decrease) in Unallocated divisible surplus	
	2015	2014	2015	2014
	£m	£m	£m	£m
Impact of a 1% increase in the discount rate used to value PPOs	**19**	15	**19**	15
Impact of a 1% reduction in the discount rate used to value PPOs	**(29)**	(23)	**(29)**	(23)

The claims provision is also sensitive to the number and cost of large motor claims (defined as greater than £1m), which have been incurred but not reported and reserved We would typically expect a number of large claims from expired risks to be identified in the future, either from being newly reported or from existing claims increasing in magnitude above the £1m threshold

The claims provision allows for £41m of late reported/reserved large claims above £1m gross of reinsurance Therefore, if for example nine new claims were reported, each being £5m above the £1m threshold, this would lead to a £4m deterioration in the reserves, whereas seven new claims of this type would lead to a £6m improvement

Notes to the Financial Statements continued

Year ended 31 December 2015

4 Risk management and control (continued)

The tables below reflect the cumulative incurred claims including both claims notified and incurred but not reported ('IBNR') for each successive accident year at each Statement of Financial Position date, together with the cumulative payments to date The Group aims to maintain appropriate reserves in order to protect against adverse future claims experience and developments

Analysis of claims development – gross of reinsurance	2006 £m	2007 £m	2008 £m	2009 £m	2010 £m	2011 £m	2012 £m	2013 £m	2014 £m	2015 £m	**Total £m**
Initial estimate of gross provision	551	560	540	607	771	906	1,086	1,075	1,049	1,047	
One year later	528	513	540	589	823	913	1,039	1,013	998		
Two years later	505	489	500	589	839	899	1,015	997			
Three years later	490	486	490	588	833	892	990				
Four years later	477	488	491	603	823	889					
Five years later	478	492	487	599	827						
Six years later	477	495	481	598							
Seven years later	478	495	480								
Eight years later	480	497									
Nine years later	480										
Current estimate of cumulative claims	480	497	480	598	827	889	990	997	998	1,047	7,803
Cumulative payments to date	(475)	(469)	(476)	(589)	(774)	(843)	(888)	(791)	(716)	(471)	(6,492)
Liability recognised in the Statement of Financial Position for 2006 to 2015 accident years	5	28	4	9	53	46	102	206	282	576	1,311
Liability recognised in the Statement of Financial Position in respect of prior accident years											27
Claims handling provision											15
Gross general insurance claims liabilities as at 31 December 2015											**1,353**

Analysis of claims development – net of reinsurance	2006 £m	2007 £m	2008 £m	2009 £m	2010 £m	2011 £m	2012 £m	2013 £m	2014 £m	2015 £m	**Total £m**
Initial estimate of gross provision	513	506	507	584	762	897	1,061	1,055	1,037	911	
One year later	475	463	483	578	803	897	1,022	993	931		
Two years later	467	440	464	565	819	891	1,001	941			
Three years later	451	441	457	562	805	886	962				
Four years later	444	430	458	577	796	872					
Five years later	442	431	454	570	796						
Six years later	441	431	452	567							
Seven years later	443	431	450								
Eight years later	442	430									
Nine years later	441										
Current estimate of cumulative claims	441	430	450	567	796	872	962	941	931	911	7,301
Cumulative payments to date	(439)	(428)	(449)	(564)	(773)	(837)	(888)	(790)	(715)	(471)	(6,354)
Liability recognised in the Statement of Financial Position for 2006 to 2015 accident years	2	2	1	3	23	35	74	151	216	440	947
Liability recognised in the Statement of Financial Position in respect of prior accident years											7
Claims handling provision											13
Net general insurance claims liabilities as at 31 December 2015											**967**

Notes to the Financial Statements continued

Year ended 31 December 2015

4 Risk management and control (continued)

(b) Financial markets risk

As a result of the insurance, investment and retirement products offered to policyholders the Group is exposed to financial markets through the investment of premiums and investment lump sums in various investment assets such as equities, gilts, corporate bonds and property Investing in these assets exposes the Group to risk, collectively described as financial markets risk Details of investment contract liabilities and the fair value estimation of current investment assets are disclosed in Notes 18 and 19 respectively

Financial markets risk is defined as the risk that arises from adverse fluctuations or increased volatility in asset values, asset income or interest rates This includes credit spread widening The Group manages these risks through aligning the investment strategy, asset allocation and performance benchmarks with the Group's risk appetite and utilising asset liability matching and stochastic modelling techniques These actions aim to match the risks arising from the liabilities under the Group's insurance and investment contracts with the risks inherent in its assets and the capital available to ensure the Group is able to meet policyholder commitments when they fall due and to achieve a sufficient return for members

In addition to the actions summarised above the Group may also look to use derivative instruments particularly to assist in hedging policyholder guaranteed options and, where cost effective, to transfer risks it believes are either unrewarded or which it believes can be better managed by a third party For example, derivatives are used to reduce exposure to fluctuations in interest rates, exchange rates and for efficient portfolio management purposes The principal derivatives used for this function are interest rate contracts (including interest rate swaps and options), forward foreign exchange contracts and equity derivatives (index futures and options) respectively The Group does not hold derivatives for investment purposes, they are held purely as a risk management technique to manage financial market risk exposures within its investment holdings (see Note 17 on how these are used)

The Group is not exposed to financial markets risk in respect of assets held to cover unit linked liabilities as these risks are borne by the holders of the contracts concerned, except to the extent that income from the fund based management charges levied on these contracts varies directly with the value of the underlying assets Such assets are, however, prudently managed in order to meet policyholders' risk and reward expectations In addition, regulatory requirements prescribe the type and quality of assets that can be held to support these liabilities

The key types of financial markets risk to which the Group is exposed are set out in more detail in the following paragraphs

i) Asset performance risk

Asset performance risk is the risk that the fair value or future cash flows of an asset or liability will fluctuate because of changes in market prices, other than those arising from interest rate or currency risks Those changes may be caused by factors specific to the asset or liability or its issuer or by factors affecting all similar assets or liabilities (i e systemic)

There is a range of assets that the Group and Society can invest in to achieve the desired levels of capital growth and income performance The performance characteristics and the associated risks vary by the different types of investment assets, and the Group is primarily exposed to asset performance risk arising from its investment in equities, property, gilts and corporate bonds

Equity price risk

The Group is exposed to equity price risk from daily fluctuations in the market values of the equity portfolio These assets are used to support contractual liabilities arising from investment and long-term insurance contracts For investment and long-term linked insurance contracts the price movements are matched with corresponding movements in contractual obligations For participating insurance contracts the aim is to achieve growth in excess of the obligations For general insurance contracts, equities are held to achieve an investment return The risks from investing in equities are managed by investing in a diverse portfolio of high quality securities ensuring that holdings are diversified across industries and concentrations in any one company or industry are limited by parameters established by the Investment Committee In addition, the Group may use derivatives to reduce the level of equity price risk

Decreases in the market price of equities will negatively impact the profits and capital of the Group The impacts of an increase or decrease in equity prices by 20% can be found in the summary of market risk sensitivities shown on page 143

Property price risk

The Group is subject to property price risk due its exposure to the residential property market through its equity release products, where sustained underperformance in UK residential property prices could result in proceeds on sale being exceeded by the mortgage debt at the date of redemption (see Note 16 for disclosures relating to loans secured on residential property)

This risk is managed through limits on the maximum loan to value ratio and seeking to limit concentrations in particular geographic areas In addition, monitoring of actual experience in house prices versus expected is undertaken

Notes to the Financial Statements continued

Year ended 31 December 2015

4 Risk management and control (continued)

Corporate bond price risk (Credit spread risk)

The credit spread risk represents the risk of adverse fluctuation in the values of assets and liabilities due to changes in the level of corporate bond credit spreads This represents the main market risk exposure of the Group's investments in investment grade corporate bonds

A widening of corporate bond spreads over and above risk-free yields will lead to a fall in the fair value of the Group's portfolio of corporate bonds and vice versa For investment and long-term linked insurance contracts this movement is matched with corresponding movements in contractual liabilities, whereas in the general insurance business the liabilities are undiscounted and so unaffected in current value by changes in credit spreads meaning that the change in asset value will be reflected in profit The Group monitors credit spread risk by regularly reviewing its exposure to corporate bonds by sector (e g financial or non-financial), credit rating and duration and through its asset and liability matching tools

Widening in credit spreads, over and above risk-free yields, will cause bond values to decrease and negatively impact the profits and capital of the Group/Society The impacts of changes in credit spreads (widening by 100 basis points (1%) and narrowing by 50 basis points (0 5%)) can be found in the summary of market risk sensitivities shown on page 143

ii) Interest rate risk

Interest rate risk is the risk that the fair value or cash flows of a financial instrument will vary as market rates of interest vary For the Group, interest rate risk primarily arises from holding assets and liabilities, actual or notional, with different maturity or repricing dates, creating exposure to change in the level of interest rates, whether real or nominal It mainly arises from the Group's investments in debt and fixed-income securities, including gilts, and their relative value placed on insurance liabilities

In addition, it also arises in certain products sold by the Group and the features, including guarantees (e g surrender values, annuity options and minimum surrender and maturity values), which can lead to the present value of claims being higher than the value of the backing assets, when interest rates change

The Group manages interest rate risk using investment performance benchmarks with appropriate durations and, in some instances, using derivatives to achieve a closer cash flow match

Exposure to interest rate risk is monitored using several techniques, including scenario testing, stress testing and asset liability duration control In the case of the latter, the Group monitors interest rate risk by calculating the mean duration and term structure of exposure of the investment portfolio and the associated liabilities The mean duration is an indicator of the sensitivity of the assets and liabilities to changes in current interest rates The mean duration of the liabilities is determined by discounting the expected future cash flows from the contracts written using best estimates of mortality and voluntary terminations at an appropriate discount rate

The mean duration of the assets is calculated in a consistent manner discounting the expected future cash flows from the investments at an appropriate yield The Group makes use of derivatives, in addition to physically held assets, to manage the interest rate exposure resulting from the liabilities These derivatives are principally interest rate swaps and swaptions

Until 30 June 2015, the general insurance business managed the risk posed by interest rate volatility on their corporate bond portfolio, through an active use of gilt yield hedges, in the form of contracts for difference

iii) Foreign currency risk

The Group predominantly operates within the UK and is therefore not significantly exposed to currency exposures within its normal trading activities However, the Group's investment strategy and policies allow for a limited level of investment in overseas markets, via both equities and fixed interest securities The main currency exposures here are to the Euro and US dollar

The risk to the Group is that the fair value or future cash flows of an overseas investment asset will change as a result of changes in foreign exchange rates Currency risk is managed by the use of exposure limits and authorisation controls operated with the Group's risk management framework The investment management agreement between the Group and the Group's asset manager, Columbia Threadneedle Investments, specifies the limits for holdings in overseas investment asset categories Asset allocation limits are set, which ensure that each fund has an appropriate mix of assets and is not over or under exposed to a particular overseas asset category or specific investment

Notes to the Financial Statements continued

Year ended 31 December 2015

4 Risk management and control (continued)

The table below summarises the Group's exposure, after hedging, to foreign currency exchange risk in sterling

	2015 Euro £m	2015 US Dollar £m	2015 Yen £m	2015 Other £m	2015 Total £m	2014 Euro £m	2014 US Dollar £m	2014 Yen £m	2014 Other £m	2014 Total £m
Derivatives	**(74)**	**(97)**	**–**	**(18)**	**(189)**	(58)	(75)	–	(14)	(147)
Equity securities	**164**	**221**	**54**	**88**	**527**	109	294	62	76	541
Debt securities	**26**	**73**	**–**	**–**	**99**	29	46	–	–	75
Cash and cash equivalents	**9**	**2**	**–**	**–**	**11**	18	11	–	–	29
	125	**199**	**54**	**70**	**448**	98	276	62	62	498

A strengthening of the value of sterling against the foreign currency (increase in exchange rates), in which the investment asset is denominated, will lead to a devaluation of the asset value and any associated income flows A weakening of the value of sterling against the foreign currency will have the reverse impact

The sensitivity of investment assets to a 10% increase/decrease in Euro and US Dollar exchange rates, net of derivatives, is £13m (2014 £10m) and £20m (2014 £28m) respectively In determining the percentage rates to use in this sensitivity analysis the movements in actual market rates of Euro and US Dollars during 2015 were taken into account The above table incorporates all material currency risk to Profit before tax Therefore, a 10% increase/decrease across all currencies could impact Profit before tax by up to £45m (2014 £50m)

Some foreign debt securities are denominated in sterling so bear no direct currency risk and have not been included within the above table

iv) Investment concentration

Investment concentration risk arises through exposure to particular asset types, geographical markets, industry sectors, groups of business undertakings or similar activities The Group may suffer losses in the investment portfolio as a result of over exposure to particular sectors engaged in similar activities or similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political and other conditions

The Group's trading activities are UK-based and associated insurance and investment contract liabilities are impacted by the UK marketplace and hence there is a high concentration in corresponding matching UK investment assets

The Group invests in a portfolio of assets and seeks to maximise portfolio expected return for a given amount of portfolio risk, or equivalently minimise risk for a given level of expected return, by carefully choosing the proportions of various assets The Investment Committee sets the Group's investment strategy and recommends to the Board the policy and limits required Responsibility for implementation is delegated to the Chief Investment Officer, with day to day investment activities being undertaken by the Group's investment manager, Columbia Threadneedle Investments

The investment management agreement between the Group and Columbia Threadneedle Investments specifies the limits for holdings in certain asset categories Asset allocation and performance benchmarks are set, which ensure that each fund has an appropriate mix of assets and is not over or under exposed to a particular asset category or specific investment The Funds Management Group monitors the actual asset allocation and performance against benchmarks with oversight provided by Group ALCO and the Investment Committee

Eurozone exposure

The table below shows the Group's exposure by country of incorporation of the counterparty at 31 December 2015

	2015 Sovereign £m	2015 Non Sovereign £m	2015 Total £m	2014 Sovereign £m	2014 Non Sovereign £m	2014 Total £m
Italy	**–**	**24**	**24**	–	17	17
Portugal	**–**	**–**	**–**	–	1	1
Spain	**–**	**90**	**90**	–	102	102
Other Eurozone	**53**	**1,379**	**1,432**	38	1,476	1,514
Total	**53**	**1,493**	**1,546**	38	1,596	1,634

The Group has no exposure to either Greece or Cyprus Non-sovereign exposure includes £84m (2014 £96m) of subordinated debt

Notes to the Financial Statements continued

Year ended 31 December 2015

4 Risk management and control (continued)

Summary of market risk sensitivities

The table below sets out the impact on long-term contract liabilities (both investment and insurance contracts), the Unallocated divisible surplus and Profit before tax for movements in sectors of the market that the Group is invested in, net of derivatives

	2015			2014		
Sensitivity analysis to movements in key market sectors	**Impact on Profit before tax £m**	**Impact on the Unallocated divisible surplus £m**	**Impact on gross long term insurance and investment contract liabilities £m**	Impact on Profit before tax £m	Impact on the Unallocated divisible surplus £m	Impact on gross long term insurance and investment contract liabilities £m
Equity values fall by 20%	**(27)**	**(21)**	**(626)**	(42)	(31)	(557)
Equity values increase by 20%	**54**	**43**	**629**	51	39	560
Property values fall by 12 5%	**(16)**	**(15)**	**(25)**	(16)	(15)	(18)
Property values increase by 12 5%	**15**	**14**	**28**	16	15	18
Credit spreads fall by 50bps	**41**	**40**	**65**	57	53	69
Credit spreads increase by 100bps	**(72)**	**(71)**	**(118)**	(104)	(96)	(124)
Fixed interest yields fall by 50bps	**1**	**2**	**450**	(22)	(19)	470
Fixed interest yields increase by 100bps	**–**	**(2)**	**(749)**	40	35	(781)

In determining the percentage rates to use in the sensitivity analysis reference has been made to those used for internal reporting within the Group

For fixed interest yield sensitivities there has been a significant amount of hedge rebalancing since 2014 resulting in the overall reduction in sensitivities to Profit before tax and the Unallocated divisible surplus reported in 2015

Asset values and, where appropriate, asset shares are adjusted to reflect the change in each sensitivity Future policy related liabilities are recalculated using these revised values and, where appropriate, economic scenarios generated by an asset model calibrated to the revised risk-free rate

(c) Credit counterparty risk

Credit counterparty risk (credit risk) is defined as the risk of loss if another party fails to perform its obligations or fails to perform them in a timely fashion Exposure to credit risk may arise in connection with a single transaction or an aggregation of transactions (not necessarily the same type) with a single counterparty

The Group encounters credit counterparty risk from different sources, firstly within the business activities associated with its insurance, investment and retirement products and secondly in the financial assets held in the Group's investment portfolio

Credit counterparty risk is managed via a Group policy and risk limits covering aspects such as total exposure, and concentration Group counterparty exposures are monitored by Group ALCO, with ultimate oversight of risk being undertaken by the Risk Committee

The principal credit counterparty risks within the Group are as follows

Insurance sales counterparties

In the life business and general insurance broker division, sales are conducted by and premiums are collected via intermediaries (primarily IFAs and brokers) and there is a credit risk exposure to these counterparties on the outstanding premiums from the contracts that have been written through these sales channels The creditworthiness of the intermediaries is assessed and credit limits are used to manage any potential concentration risk associated with individual counterparties

In addition, general insurance policyholders who purchase motor and home insurance products directly from LV= have the option to take out premium finance, provided they meet the qualifying criteria, and there is an exposure to outstanding premiums due from these policyholders The creditworthiness is assessed at the time of sale and outstanding premiums are monitored and collected via a dedicated budget accounts function

Receivables due from policyholders, agents and brokers are shown in the credit risk exposure table on the following page under insurance receivables The concentrations of credit risk with respect to insurance receivables are limited due to the size and spread of the Group's trading base No further credit risk provision is therefore required in excess of the normal provision for doubtful receivables

Notes to the Financial Statements continued

Year ended 31 December 2015

4 Risk management and control (continued)

Insurance claim recoveries counterparties

Credit exposures also arise within general insurance motor and home claims, where claims expense recoveries are due from other insurers' policyholders who are at fault for any repairs expense suffered by the Group's policyholders This also occurs in reverse with liabilities that the Group owes other insurers Where the net position with another general insurer results in monies being due to the Group, a credit exposure arises These exposures are managed via a dedicated recoveries team and an industry wide compensation scheme is in place to provide cover for default by an individual insurer

Reinsurance counterparties

Once insurance contracts have been written, both the life and general insurance businesses use reinsurance agreements to transfer an element of potential insurance risk exposure from contract liabilities This does not, however, discharge the Group's liability as primary insurer If a reinsurer fails to pay a reinsurance claim, the Group remains liable for the payment to the policyholder To manage this exposure the creditworthiness of reinsurers is considered by reviewing their financial strength prior to finalisation of any contract, which is then regularly reviewed Group exposures are regularly monitored by Group ALCO

Equity release mortgage counterparties

The retirement business provides an equity release product and hence this business is exposed to credit risk arising from mortgage loans provided This risk is managed by using the residential property as security against the loan, assessment of the risk and maintaining a low loan to value ratio Note 16 provides further disclosure on loans secured on residential property and provisions for 'No Negative Equity Guarantees' There have been no negative equity claims in the past in relation to the Loans secured on residential properties

Commercial mortgage lending

The retirement business also provides commercial mortgage lending, which is exposed to credit risk arising from the loans provided This risk is managed by using the property as security against the loan The Group has appointed AgFe as its mandated originator and asset manager for these loans, using their considerable expertise to source and underwrite loan prospects

Investment counterparties

The principal other source of credit risk arises from the assets held in the investment portfolio The risk is that the investment counterparty enters financial difficulties and the fair value of the asset diminishes or the income stream (e g dividends or interest payments) is not paid, alternatively the counterparty becomes insolvent and the value of the asset is written off

The investment portfolio contains a range of assets, including equities, corporate bonds and other fixed income securities and cash deposits The credit counterparty risk policy stipulates approved counterparties, permitted investments and geographical territories, as well as detailing specific asset class exposure limits These are implemented within the investment management agreement with Columbia Threadneedle Investments The policy and agreements also require that asset holdings are within regulatory limits that restrict excessive concentrations with individual counterparties or with particular asset classes

In addition, the Group uses derivatives to transfer elements of financial markets risk exposures Where possible, significant counterparty exposures are mitigated by the use of collateral For over-the-counter derivative transactions undertaken by the Group, collateral is received from the counterparty The collateral can be sold or re-pledged by the Group and is repayable if the contract terminates or the contract's fair value decreases Details of collateral received and pledged is included within the offsetting disclosure on page 146

The fair value of the derivative is matched by collateral received from the counterparty, which increases or reduces in line with the contract's fair value Subject to collateral value disputes, which we seek to resolve with minimum delay, the extent of the derivative credit risk exposure is limited to the fair value movement on a day to day basis which is below the minimum transfer amounts within the Credit Support Annex

For corporate bond holdings, exposures are also monitored by industry sector and by credit rating In order to minimise its exposure to credit risk the Group invests primarily in higher graded assets, rated BBB and above

Notes to the Financial Statements continued
Year ended 31 December 2015

4 Risk management and control (continued)
The tables below show the credit profile of the Group's assets The credit risk profile of the Society is materially consistent with that of the Group

Credit risk exposure 2015	**AAA £m**	**AA £m**	**A £m**	**BBB £m**	**Below BBB £m**	**Not rated £m**	**Total £m**
Debt and other fixed income securities	**739**	**2,856**	**1,379**	**1,401**	**59**	**22**	**6,456**
Loans secured on residential property	–	–	–	–	–	**593**	**593**
Deposits with credit institutions	–	–	**6**	–	–	–	**6**
Loans secured on commercial property	–	–	–	–	–	**113**	**113**
Short-term deposits	–	**273**	**529**	**182**	–	–	**984**
Cash and bank balances	–	**175**	**25**	**2**	–	–	**202**
Insurance receivables	–	**16**	**2**	–	–	**243**	**261**
Loans and other receivables	–	–	–	–	–	**71**	**71**
Derivative assets	–	–	–	–	–	**97**	**97**
	739	**3,320**	**1,941**	**1,585**	**59**	**1,139**	**8,783**
Reinsurance assets							
– non-linked	–	**710**	**91**	–	–	**9**	**810**
– linked	–	**80**	–	–	–	–	**80**
	739	**4,110**	**2,032**	**1,585**	**59**	**1,148**	**9,673**

Credit risk exposure 2014	AAA £m	AA £m	A £m	BBB £m	Below BBB £m	Not rated £m	Total £m
Debt and other fixed income securities	998	2,997	1,893	1,348	114	22	7,372
Loans secured on residential property	–	–	–	–	–	684	684
Other financial assets held at FVTPL	–	–	–	–	–	2	2
Loans secured on commercial property	–	–	–	–	–	25	25
Short-term deposits	–	143	357	94	23	20	637
Cash and bank balances	–	105	46	2	–	–	153
Insurance receivables	–	15	2	–	–	203	220
Loans and other receivables	–	–	35	–	–	83	118
Derivative assets	–	–	–	–	–	131	131
	998	3,260	2,333	1,444	137	1,170	9,342
Reinsurance assets							
– non-linked	–	321	106	1	–	5	433
– linked	–	70	–	–	–	–	70
	998	3,651	2,439	1,445	137	1,175	9,845

Notes to the Financial Statements continued

Year ended 31 December 2015

4 Risk management and control (continued)

Offsetting financial assets and financial liabilities

Financial assets and liabilities are offset in the Statement of Financial Position when the Group intends to apply a current legally enforceable right to offset Master netting arrangements and collateral are utilised by the Group to minimise credit risk exposure

The following financial assets and liabilities are subject to offsetting, enforceable master netting arrangements and similar agreements

An analysis is included of netting arrangements which meet the offsetting criteria within IAS 32 and are set off in the Statement of Financial Position and those which do not meet the criteria

				Related amounts not set off in the Statement of Financial Position		
As at 31 December 2015	**Gross amounts of recognised financial assets £m**	**Gross amounts of recognised financial liabilities set off in the Statement of Financial Position £m**	**Net amounts of financial assets presented in the Statement of Financial Position £m**	**Financial instruments £m**	**Collateral received £m**	**Net amount £m**
Financial assets						
Derivative financial assets	**97**	**–**	**97**	**–**	**(94)**	**3**
Total	**97**	**–**	**97**	**–**	**(94)**	**3**

				Related amounts not set off in the Statement of Financial Position		
	Gross amounts of recognised financial liabilities £m	**Gross amounts of recognised financial assets set off in the Statement of Financial Position £m**	**Net amounts of financial liabilities presented in the Statement of Financial Position £m**	**Financial instruments £m**	**Collateral pledged £m**	**Net amount £m**
Financial liabilities						
Derivative financial liabilities	**144**	**–**	**144**	**–**	**(144)**	**–**
Bank overdrafts	**56**	**(29)**	**27**	**–**	**–**	**27**
Total	**200**	**(29)**	**171**	**–**	**(144)**	**27**

				Related amounts not set off in the Statement of Financial Position		
As at 31 December 2014	Gross amounts of recognised financial assets £m	Gross amounts of recognised financial liabilities set off in the Statement of Financial Position £m	Net amounts of financial assets presented in the Statement of Financial Position £m	Financial instruments £m	Collateral received £m	Net amount £m
Financial assets						
Derivative financial assets	131	–	131	(7)	(116)	8
Total	131	–	131	(7)	(116)	8

				Related amounts not set off in the Statement of Financial Position		
	Gross amounts of recognised financial liabilities £m	Gross amounts of recognised financial assets set off in the Statement of Financial Position £m	Net amounts of financial liabilities presented in the Statement of Financial Position £m	Financial instruments £m	Collateral pledged £m	Net amount £m
Financial liabilities						
Derivative financial liabilities	160	–	160	(7)	(149)	4
Bank overdrafts	52	(35)	17	–	–	17
Total	212	(35)	177	(7)	(149)	21

Notes to the Financial Statements continued

Year ended 31 December 2015

4 Risk management and control (continued)

Offsetting financial assets and financial liabilities (continued)
In accordance with IFRS 7 the collateral reported in the table above is limited to the amount reported in the Statement of Financial Position for the associated financial instrument

Total collateral held by the Group in relation to derivative financial assets is entirely cash collateral and totals £96m (2014 £116m) No collateral received from the counterparty has been sold or repledged (2014 £nil)

Total collateral pledged by the Group is £146m (2014 £150m) and is split between corporate bonds pledged in relation to cash flow swaps £144m (2014 £112m), cash collateral paid of £2m (2014 £35m) and future margin of cash of £nil (2014 £3m)

Collateral posted to LV= by the counterparty to a derivative contract which is valued as being 'in-the-money' can be drawn upon following certain events of default as defined in the relevant International Swaps and Derivatives Association (ISDA) agreement This includes failure by the counterparty to comply with or perform any agreement or obligation defined in the ISDA or Credit Support Annex if such failure is not remedied within 30 days after notice of such failure is given Bankruptcy of the counterparty to a trade could also result in collateral posted being drawn upon to mitigate any financial exposure to the Group

Impairment
The Group reviews the carrying value of its financial assets held at amortised cost at each Statement of Financial Position date If the carrying value of a financial asset is impaired, the carrying value is reduced through a charge to the Statement of Comprehensive Income As at 31 December 2015 £1m (2014 £1m) was impaired which primarily relates to receivables where there is no realistic prospect of recovery

The table below provides information regarding the maximum credit risk exposure to financial assets held at amortised cost, together with the extent to which they are due, overdue and impaired The table also illustrates the ageing of financial assets that are overdue but not impaired

Age analysis of assets past due but not impaired 2015	**<30 days £m**	**31 to 60 days £m**	**61 to 90 days £m**	**>90 days £m**	**Total past due but not impaired £m**	**Past due and impaired £m**	**Neither past due nor impaired £m**	**Total £m**
Loans and other receivables	–	–	1	–	1	–	76	77
Insurance receivables	5	2	–	–	7	1	253	261
	5	2	1	–	8	1	329	338

Age analysis of assets past due but not impaired 2014	<30 days £m	31 to 60 days £m	61 to 90 days £m	>90 days £m	Total past due but not impaired £m	Past due and impaired £m	Neither past due nor impaired £m	Total £m
Loans and other receivables	–	–	–	1	1	–	117	118
Insurance receivables	5	1	–	–	6	1	213	220
	5	1	–	1	7	1	330	338

(d) Liquidity risk
Liquidity risk is the risk that the Group cannot make payments as they become due because there are insufficient assets in cash form

The Group encounters potential liquidity risk exposures from its different business activities It principally arises from its insurance and investment contracts and the timing of the associated policyholder commitments In the general insurance business there is the potential for increased demand for cash, above normal claims expense patterns, for example to meet adverse UK weather events In the life business increased demands for cash can also arise from events such as higher instances of death/sickness claims or mass surrenders/lapses of policies In addition, the Group uses derivatives to transfer potential exposures on financial markets risks and certain derivative contracts, for example, interest rate swaps can result in additional collateral calls

Liquidity is maintained at a prudent level, with a buffer to cover contingencies including the provision of temporary liquidity to subsidiary companies A Group Liquidity Risk Policy and associated standards have been set to maintain sufficient liquid assets At Group there is a liquidity risk appetite statement which requires that sufficient liquid resources are maintained to cover net cash outflows both on a business as usual basis and under stressed conditions This is captured in a liquidity cover ratio and is monitored by the Group ALCO

Notes to the Financial Statements continued

Year ended 31 December 2015

4 Risk management and control (continued)

The risk exposure is managed using several methods and techniques, which 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 these fall due,
- Forecasting additional cash demands under stressed conditions and management actions to be taken to liquidate sufficient assets to meet the increased demands, and
- Appropriate matching of the maturities of assets and liabilities The Group undertakes asset and liability management to ensure that the duration of liabilities is matched by assets

The maturity of the financial and reinsurance assets of the Group has been disclosed within the individual notes to the financial statements

The table below summarises the maturity profile of the financial liabilities, insurance and investment contract liabilities and the non-participating value of in-force business of the Group The results are based on the remaining undiscounted contractual obligations and as such will not tie into the balances disclosed within the Statement of Financial Position, with the exception of non-unit linked long-term insurance contracts, participating investment contracts and the non-participating value of in-force business, for these items the maturity profiles are determined based on the estimated timing of the discounted net cash flows

For non-participating investment contract liabilities, a maturity analysis based on the earliest contractual repayment date would present all the liabilities as due on the earliest period of the table (within one year) as these options can be exercised immediately by the policyholder

Group

Maturity profile of financial, insurance and investment contract liabilities 2015	**Within 1 year £m**	**1 3 years £m**	**3 5 years £m**	**Over 5 years £m**	**Unit linked £m**	**Total £m**
Participating insurance contract liabilities	**371**	**615**	**555**	**2,431**	**–**	**3,972**
Participating investment contract liabilities	**27**	**26**	**40**	**461**	**–**	**554**
Non-participating value of in-force business	**(21)**	**(38)**	**(31)**	**(219)**	**(12)**	**(321)**
Non-participating insurance contract liabilities	**224**	**370**	**410**	**2,790**	**5**	**3,799**
General insurance claims liabilities	**598**	**506**	**135**	**114**	**–**	**1,353**
Non-participating investment contract liabilities	**–**	**–**	**–**	**–**	**1,862**	**1,862**
Net asset value attributable to unit holders	**220**	**–**	**–**	**–**	**–**	**220**
Financial liabilities						
– Derivative financial instruments	**–**	**–**	**–**	**144**	**–**	**144**
– Subordinated liabilities	**–**	**–**	**–**	**360**	**–**	**360**
– Other financial liabilities	**2**	**–**	**–**	**94**	**–**	**96**
Insurance payables	**286**	**–**	**–**	**–**	**–**	**286**
Trade and other payables	**262**	**2**	**3**	**24**	**–**	**291**
	1,969	**1,481**	**1,112**	**6,199**	**1,855**	**12,616**

Group

Maturity profile of financial, insurance and investment contract liabilities 2014	Within 1 year £m	1 3 years £m	3 5 years £m	Over 5 years £m	Unit linked £m	Total £m
Participating insurance contract liabilities	347	620	514	2,381	–	3,862
Participating investment contract liabilities	26	27	39	460	–	552
Non-participating value of in-force business	(22)	(26)	(23)	(253)	(14)	(338)
Non-participating insurance contract liabilities	278	380	372	2,823	5	3,858
General insurance claims liabilities	617	484	123	83	–	1,307
Non-participating investment contract liabilities	–	–	–	–	1,554	1,554
Net asset value attributable to unit holders	622	–	–	–	–	622
Financial liabilities						
– Derivative financial instruments	38	–	–	122	–	160
– Subordinated liabilities	–	–	–	360	–	360
– Other financial liabilities	1	–	–	115	–	116
Insurance payables	38	–	–	-	–	38
Trade and other payables	202	25	1	16	–	244
	2,147	1,510	1,026	6,107	1,545	12,335

Notes to the Financial Statements continued

Year ended 31 December 2015

4 Risk management and control (continued)

For investment and long-term linked insurance contracts (unit linked) the Group matches all the assets on which the unit prices are based with assets in the portfolio The Group is responsible for ensuring there is sufficient liquidity within the asset portfolio to enable liabilities to unit linked policyholders to be met as they fall due

Society

Maturity profile of financial, insurance and investment contract liabilities 2015	**Within 1 year £m**	**1 3 years £m**	**3 5 years £m**	**Over 5 years £m**	**Unit linked £m**	**Total £m**
Participating insurance contract liabilities	**371**	**615**	**555**	**2,431**	**–**	**3,972**
Participating investment contract liabilities	**27**	**26**	**40**	**461**	**–**	**554**
Non-participating value of in-force business	**(21)**	**(38)**	**(31)**	**(219)**	**(12)**	**(321)**
Non-participating insurance contract liabilities	**224**	**367**	**408**	**2,780**	**5**	**3,784**
Non-participating investment contract liabilities	**–**	**–**	**–**	**–**	**1,862**	**1,862**
Financial liabilities						
– Derivative financial instruments	**–**	**–**	**–**	**144**	**–**	**144**
– Subordinated liabilities	**–**	**–**	**–**	**350**	**–**	**350**
– Other financial liabilities	**1**	**–**	**–**	**94**	**–**	**95**
Insurance payables	**29**	**–**	**–**	**–**	**–**	**29**
Trade and other payables	**200**	**–**	**–**	**–**	**–**	**200**
	831	**970**	**972**	**6,041**	**1,855**	**10,669**

Society

Maturity profile of financial, insurance and investment contract liabilities 2014	Within 1 year £m	1 3 years £m	3 5 years £m	Over 5 years £m	Unit linked £m	Total £m
Participating insurance contract liabilities	347	620	514	2,381	–	3,862
Participating investment contract liabilities	26	27	39	460	–	552
Non-participating value of in-force business	(22)	(26)	(23)	(253)	(14)	(338)
Non-participating insurance contract liabilities	276	377	370	2,812	5	3,840
Non-participating investment contract liabilities	–	–	–	–	1,554	1,554
Financial liabilities						
– Derivative financial instruments	1	–	–	122	–	123
– Subordinated liabilities	–	–	–	350	–	350
– Other financial liabilities	–	–	–	144	–	144
Insurance payables	23	–	–	–	–	23
Trade and other payables	154	–	–	–	–	154
	805	998	900	6,016	1,545	10,264

Notes to the Financial Statements continued

Year ended 31 December 2015

4 Risk management and control (continued)

(e) Operational risk

Operational risk is defined as the potential for loss resulting from inadequate or failed internal processes, people and systems or from external events It is inherent to every part of the business and covers a wide spectrum of issues Senior management are responsible for ensuring that the material operational risks as relevant to their area of responsibilities are identified, assessed and managed using the approach as outlined in the Group's Enterprise Risk Management Framework A formal attestation process provides assurance about the effectiveness of the overall control environment and reports on any material exceptions

Operational risk is unrewarded and is therefore inherently unattractive Consequently, the Group seeks to minimise exposure to operational risk as far as it is cost-effective to do so The Group will always seek to uphold its brand image as 'Britain's best loved insurer' with customers, employees and other external parties and the Group has no appetite whatsoever for regulatory weaknesses or failings that lead to censure actions

The Group uses a number of categories under which operational risk and its management can be considered and these are outlined in the following paragraphs

Crime

The Group is potentially exposed to the risk of internal fraud, claims-related fraud and external fraud by third parties

The risk of internal fraud is managed through a number of controls including background checks on employees prior to recruitment, segregation of duties and effective system access controls with regular review of access rights The Group has arrangements in place by which employees may, in confidence, raise concerns about possible improprieties, together with arrangements for the proportionate and independent investigation of such matters Claims-related fraud is managed by processes designed to fully validate claims and ensure that only genuine claims are settled Systematic anti-fraud monitoring techniques are deployed to detect external fraud activity

Financial processes

The Group needs to ensure that it has robust processes governing financial reporting, planning and budgeting, asset and expense management, trading and investment activity, treasury, pricing and transaction processing The risk is managed through a number of controls which include effective budgetary control and reconciliation processes, segregation of duties, defined authority limits and effective system access controls with regular review of access rights

Change management

The Group uses robust project management disciplines to prevent mismanagement of change programmes which would otherwise impact business delivery or the control environment

Business interruption

The Group is potentially exposed to disruption of business activities arising from system and technology outages and loss of access to buildings or normal business environment The risk is controlled by the maintenance and regular testing of business recovery plans, by effective management of the physical security of office buildings and availability of back-up systems and of contingency sites

Legal and regulatory

The Group needs to ensure it complies with its legal and contractual obligations and could potentially be exposed to losses arising from unenforceable or unfair contracts or to costs of litigation from dissatisfied customers Legal and Compliance departments help to ensure the monitoring of emerging legislative/regulatory change and compliance with existing laws/regulations The Group takes steps to ensure that contract terms applicable to customers and third party suppliers are carefully drafted and are subject to a comprehensive sign-off procedure, including sign-off by legal experts

IT

Naturally, the Group is reliant on the integrity and performance of its IT systems to underpin its operational activities The Group protects itself from under-performance/failure of systems and from obsolescence or under-delivery of systems by robust system testing and capacity monitoring, regular review of systems capability versus business requirements and by maintenance and regular testing of business recovery plans

Employees

The Group needs to comply with employment, health and safety laws or agreements and so protect itself from litigation or claims arising from employment practices It also needs to ensure that it has adequate numbers of fit-for-purpose employees to support its operational activities and the products and services that it provides to customers The Group has detailed HR procedures, accompanied by the provision of relevant training to staff to ensure compliance with laws/agreements Employees are subject to background checks prior to recruitment and there are job descriptions and annual performance reviews for all staff There is regular review of attrition rates across the business and there are takeover procedures and succession planning for senior management roles

Notes to the Financial Statements continued

Year ended 31 December 2015

4 Risk management and control (continued)

Sourcing/outsourcing

The Group needs to ensure that it selects wisely when appointing third parties for the delivery of specific services and supplies To ensure that the chosen suppliers are fit-for-purpose and can provide the service that both the Group and its customers would reasonably expect, there are due diligence checks on potential suppliers and resultant contracts are subject to a comprehensive review and sign-off procedure, including sign-off by legal experts Detailed service level agreements are drawn up to clearly specify the expectations for the standard of service that the Group would expect to receive and there is periodic review of the business continuity arrangements of the third party to check on its ability/speed to be able to continue to provide the desired service capability in the event of business interruption

Products and markets

The Group needs to ensure that it designs, prices and sells products that meet clear customer needs and are sold to the right target group, are priced fairly whilst allowing margin for profit and are supported by product literature that is fair, clear and not misleading and by systems that can faithfully handle the entire life cycle of the product, from new business sale right through to claim/maturity/termination

Design of new products and changes to existing products are subject to robust new product approvals and pricing procedures Product literature is subject to a comprehensive literature sign-off procedure, including sign-off by legal experts There is also a timely post-implementation review process to check that the target market is being reached Applications for insurance are subject, as appropriate, to detailed underwriting guidelines and underwriters have authority limits All resultant business is captured on systems that are subject to systems controls and quality checking

There is client/policy verification at outset and at various transactional points through to claim/maturity stage to protect against fraudulent activity There is considerable compliance monitoring undertaken in this area to ensure that we are conduct risk compliant

Customers

To ensure that we meet our legal, regulatory and business obligations to individual and groups of customers, we need to ensure that there is adequate disclosure of information to customers both at the outset and during the lifetime of their policy We also take careful steps to ensure that we maintain appropriate and secure records and copies of documentation and that records are only retained for the necessary duration

There is considerable training of appropriate customer-facing staff to minimise any exposure to mis-selling and we ensure that we clearly segregate clients' money from the Group's money To ensure we deal with issues in a courteous, timely and fair manner we have detailed complaints handling procedures and we undertake complaints analysis to spot any patterns of weakness and so improve aspects of our processes and procedures as and where necessary There is considerable compliance monitoring undertaken in this area to ensure that we are conduct risk compliant

Information security

Adequate security of information is vital and the Group takes considerable steps to minimise exposure to corruption or erasure of information, to prevent abuse of systems access rights and to protect against the loss or inappropriate disclosure of data The Group has stringent information security requirements supported by effective system access controls with regular review of access rights for leavers/joiners There is also the provision of relevant training to staff to ensure that all are aware of the Group's expectations and requirements in this subject area

For more detail on the strategic and emerging risks the Group is facing see page 52 within the separate Risk management section on pages 46 to 57

Notes to the Financial Statements continued

Year ended 31 December 2015

Performance

The notes included within this section focus on the performance and results of the Group and Society Information on the income generated, benefits and claims paid, expenditure incurred and mutual bonus declared are presented here

5 Net earned premiums

Accounting for net earned premiums

Long-term insurance and participating investment contracts

Regular premiums on long-term insurance and participating investment contracts are recognised as income when due for payment For single premium business, recognition occurs on the date from which the policy is effective Reinsurance premiums payable are accounted for when due for payment

General insurance contracts

General insurance premiums written reflect business coming into force during the year Earned premium is written premium adjusted for unearned premium Unearned premium is that proportion of a premium written in a year that relates to periods of risk after the Statement of Financial Position date Unearned premiums are calculated on a time apportionment basis The proportion attributable to subsequent periods is deferred as a provision for unearned premiums

Non-participating investment contracts

Premiums and claims relating to non-participating investment contracts are not recognised in the Statement of Comprehensive Income but are recorded as contributions to and deductions from the non-participating investment contract liabilities recorded in the Statement of Financial Position

	Group		Society	
Gross earned premiums	**2015 £m**	2014 £m	**2015 £m**	2014 £m
Long-term insurance and investment contracts – participating business				
Investments and savings – single premium	**379**	153	**379**	153
Pensions and annuities – single premium	**6**	14	**6**	14
Investments and savings – regular premium	**27**	31	**27**	31
Pensions and annuities – regular premium	**11**	12	**11**	12
Long-term insurance contracts – non-participating business				
Pensions and annuities – single premium	**375**	461	**375**	461
Life and health protection – regular premium	**181**	165	**180**	164
Long-term linked insurance contracts				
Life and health protection – regular premium	**9**	10	**9**	10
General insurance contracts				
Motor	**977**	912	**–**	–
Commercial	**245**	227	**–**	–
Household	**168**	176	**–**	–
Other	**86**	79	**–**	–
Change in unearned premiums provision	**(56)**	24	**–**	–
Gross earned premiums	**2,408**	2,264	**987**	845
Premiums ceded to reinsurers				
Long-term insurance premiums	**(100)**	(88)	**(99)**	(88)
General insurance business	**(283)**	(36)	**–**	–
Change in unearned premiums provision	**(1)**	–	**–**	–
	(384)	(124)	**(99)**	(88)
Net earned premiums	**2,024**	2,140	**888**	757
Gross written premiums for non-participating investment contracts which are deposit accounted for and not included above (refer to Note 18)	**515**	393	**515**	393

All contracts are written in the UK

In the latter part of 2015 the Group entered into a Loss Portfolio Transfer Agreement resulting in reinsurance of 20% of its general insurance business booked reserves as at 31 December 2015 This has had an impact of £242m on premiums ceded to reinsurers

Notes to the Financial Statements continued
Year ended 31 December 2015

6 New business premiums

Gross new business premiums – long-term contracts	Group 2015 £m	Group 2014 £m	Society 2015 £m	Society 2014 £m
Long-term insurance and investment contracts – participating business				
Investments and savings – single premium	**379**	153	**379**	153
Pensions and annuities – single premium	**6**	14	**6**	14
Investments and savings – regular premium	**1**	1	**1**	1
Long-term insurance contracts – non-participating business				
Pensions and annuities – single premium	**375**	461	**375**	461
Life and health protection – regular premium	**30**	27	**30**	27
Long-term linked insurance contracts				
Life and health protection – regular premium	**5**	4	**5**	4
	796	660	**796**	660
Non-participating investment contracts				
Pensions and annuities – single premium	**497**	382	**497**	382
Pensions and annuities – regular premium	**9**	11	**9**	11
	1,302	1,053	**1,302**	1,053

Gross written premiums for non-participating investment contracts are deposit accounted for and not included within net earned premiums (see Note 18)

Recurrent single premium rebates from the Department for Work and Pensions are included as new business single premiums

Pensions vested into annuity contracts during the year are included as new annuity single premium business at the annuity purchase price

Where periodic premiums are received other than annually, the periodic new business premiums are stated on an annualised basis

Group gross premiums earned – general insurance business	2015 £m	2014 £m
Motor	**929**	958
Commercial	**238**	217
Household	**170**	164
Other	**83**	79
	1,420	1,418

7 Fee and commission income

Accounting for fee and commission income
Adviser fees earned from financial intermediary services and commission income are taken to income when earned This primarily comprises initial income receivable on services provided to clients during the year when policies have gone on risk and renewal commission earned during the year as amounts fall due

	Group 2015 £m	Group 2014 £m	Society 2015 £m	Society 2014 £m
Commission income	**17**	12	**5**	3
Adviser fees	**1**	1	**–**	–
	18	13	**5**	3

Notes to the Financial Statements continued

Year ended 31 December 2015

8 Investment income

Accounting for investment income

Investment income includes dividends, interest from investments at fair value, interest on loans and receivables, interest on loans secured on residential and commercial property Dividends are included on an ex-dividend basis Interest receivable on loans and receivables is calculated on an effective interest rate basis The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability

	Group		Society	
	2015	2014	**2015**	2014
	£m	£m	**£m**	£m
Income from investments at fair value through income				
– Interest income	**292**	287	**226**	215
– Dividend income	**96**	81	**86**	72
Interest on loans and receivables	**1**	1	**–**	1
Interest on loans secured on residential property	**11**	8	**10**	6
Interest on loans secured on commercial property	**1**	–	**1**	–
Interest income from group undertakings	**–**	–	**27**	27
Dividend income from group undertakings	**–**	–	**22**	3
	401	377	**372**	324

9 Net (losses)/gains on investments

Accounting for net (losses)/gains on investments

Realised gains and losses

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

Unrealised gains and losses

Unrealised gains and losses on investments represent the difference between the valuation of fair value assets at the Statement of Financial Position date and their valuation at the last Statement of Financial Position 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

	Group		Society	
	2015	2014	**2015**	2014
	£m	£m	**£m**	£m
Investments at fair value through income				
– Debt securities	**(185)**	438	**(141)**	436
– Equity securities	**68**	264	**64**	220
– Derivatives at fair value through income	**(27)**	30	**(24)**	75
– Loans and mortgages	**(138)**	100	**(135)**	91
Investments in group undertakings	**–**	–	**(11)**	–
	(282)	832	**(247)**	822

Included within net (losses)/gains on investments are realised gains of £265m (2014 £173m) for the Group and realised gains of £309m (2014 £165m) for the Society

Notes to the Financial Statements continued

Year ended 31 December 2015

10 Other income

	Group 2015 £m	Group 2014 £m	Society 2015 £m	Society 2014 £m
Interest income	**26**	24	**–**	–
Unit linked income	**2**	3	**2**	3
Other income	**11**	7	**1**	2
	39	34	**3**	5

11 Net benefits and claims

Accounting for net benefits and claims

Long-term insurance and participating investment contracts

Maturity claims and regular annuity payments are accounted for when due for payment Surrenders are accounted for on the earlier of the date when paid or when the policy ceases to be included within the long-term insurance contract liability Death claims and other claims are accounted for when the Group is notified The value of claims on participating contracts includes bonuses paid or payable Claims values include related internal and external claims handling costs Reinsurance recoveries are accounted for in the same period as the related claim

General insurance contracts

Claims incurred comprise claims and related internal and external claims handling costs paid in the year and changes in the provisions for outstanding claims, including provisions for claims incurred but not reported and related claims handling costs, together with any other adjustments to claims from previous years

The estimated cost of claims includes expenses to be incurred in settling claims and a deduction for the expected value of recoveries However, it is likely that the final outcome will prove to be different from the original liability established Provisions are adjusted at the Statement of Financial Position date to represent an estimate of the expected outcome

	Group 2015 £m	Group 2014 £m	Society 2015 £m	Society 2014 £m
Gross benefits and claims				
Long-term insurance and participating investment contracts				
Benefits and claims paid	**797**	663	**794**	661
Change in the provision for claims	**(1)**	3	**(1)**	3
General insurance contracts				
Claims paid	**972**	1,051	**–**	–
Change in the provision for claims	**46**	(51)	**–**	–
	1,814	1,666	**793**	664
Claims ceded to reinsurers				
Long-term insurance and participating investment contracts				
Benefits and claims paid	**(73)**	(74)	**(73)**	(74)
General insurance contracts				
Claims paid	**(4)**	(13)	**–**	–
Change in the provision for claims	**(261)**	5	**–**	–
	(338)	(82)	**(73)**	(74)
	1,476	1,584	**720**	590
Net benefits and claims for non-participating investment contracts which are deposit accounted for and not included above (refer to Note 18)	**243**	168	**243**	168

In the latter part of 2015 the Group entered into a Loss Portfolio Transfer Agreement resulting in reinsurance of 20% of its general insurance booked reserves as at 31 December 2015 This has had an impact of £242m on the Movement in reinsurers' share of claims liabilities

Notes to the Financial Statements continued
Year ended 31 December 2015

12 Finance costs

	Group 2015 £m	Group 2014 £m	Society 2015 £m	Society 2014 £m
Interest expense on subordinated liabilities (see Note 21)	**23**	23	**23**	23
Other interest expense	**1**	1	**–**	1
	24	24	**23**	24

13 Other operating and administrative expenses

Accounting for other operating and administrative expenses
Other operating and administrative expenses are accounted for as incurred Acquisition costs relate to the costs of acquiring new business during the financial year These include all commission and incentive payments to sales staff and third parties incurred in writing new contracts In the general insurance business, where the benefit of these costs will be recognised in future accounting periods the costs are deferred

	Group 2015 £m	Group 2014 £m	Society 2015 £m	Society 2014 £m
Commission paid on acquisition of business	**195**	182	**51**	41
Movement in deferred acquisition costs	**(2)**	1	**–**	–
Amortisation and impairment of intangible assets	**5**	3	**–**	–
Depreciation on property and equipment	**6**	4	**3**	1
Investment management expenses and charges	**22**	21	**23**	25
Auditors' remuneration	**3**	1	**2**	1
Employee benefits expense (see Note 41)	**270**	248	**270**	248
Internal staff costs capitalised as attributable costs of IT assets	**(6)**	(4)	**–**	–
Management charge allocated to group undertakings	**–**	–	**(243)**	(217)
Rent, rates and other facilities expense	**19**	21	**17**	15
Marketing and advertising	**35**	38	**13**	16
Other staff costs	**31**	28	**8**	18
IT costs	**39**	39	**35**	19
Fees	**63**	60	**25**	19
Other expenses	**13**	12	**5**	5
Claims handling cost recognised in Gross benefits and claims	**(70)**	(70)	**(5)**	(6)
	623	584	**204**	185

Included within rent, rates and other facilities expense are operating lease rentals of £5m (2014 £6m)

14 Auditors' remuneration

	2015 £'000	2014 £'000
Audit of Society	**560**	500
Fees payable to the Society's auditors and its associates for other services		
– Audit of subsidiaries	**493**	414
– Audit-related assurance services	**933**	272
– Tax advisory services	**25**	41
– Services relating to corporate finance transactions not covered above	**–**	86
– Other non-audit services not covered above	**722**	132
	2,733	1,445

15 Mutual bonus

The Board declared a mutual bonus of £27m (2014 £24m) in respect of the year ended 31 December 2015

Notes to the Financial Statements continued

Year ended 31 December 2015

Financial assets and liabilities

This section presents information relating to the financial assets and liabilities (excluding insurance contract-related assets and liabilities which are disclosed in Note 23) held by the Society and Group These financial assets and liabilities are held at either fair value or amortised cost as defined by the Group's accounting policies

16 Financial assets – Fair value through income

Accounting for financial assets and liabilities at fair value through income

Financial assets at fair value through income has two sub categories

- Financial assets held for trading, and
- Those designated at fair value through income at inception

The Group has no financial assets held for trading, all investments classified as fair value are designated as fair value through income at inception Such assets are measured at market prices, or prices consistent with market ratings should no price be available Day one gains are recognised only where valuations use data from observable markets Any unrealised or realised gains or losses are taken to the Statement of Comprehensive Income, as fair value gains or losses, or realised gains or losses respectively, as they occur

Financial assets at fair value through income include listed and unlisted investments, units in authorised unit trusts, open ended investment companies (OEICs), loans secured on residential and commercial property and other investments

Financial liabilities at fair value through income include derivative financial instruments and non-participating investment contract liabilities, see Notes 17 and 18 respectively

The IFRS 'fair value hierarchy' levels for financial assets and liabilities required under IFRS 13 are disclosed within Note 19

Loans secured on residential property

The fair value of the loans secured on residential property (arising from the equity release mortgage business) is determined using discounted cash flows which take into account the contractual interest rolled up on the loans, maturity profiles and expected future funding costs The swap rate used as an input to the discount rate is matched to the expected term of the underlying loans

The Society provides 'No Negative Equity Guarantee' contracts to customers on equity release mortgages The contractual terms of these guarantees require the company to accept the lower of the market value of the customer's property and the value of the loan plus accrued interest at the date of redemption as full settlement of the mortgage

The guarantee is initially recognised at the fair value of the liability on the date the guarantee is given and is subsequently measured at fair value The fair value is calculated by applying stochastic scenario models, applying assumptions for interest rates, future house price inflation and its volatility, mortality rates and early loan repayment rates, to give management's best estimate of the discounted value of cash flows required to settle any future financial obligation arising at the Statement of Financial Position date

The guarantee is netted off against the fair value of loans secured on residential property shown as part of Financial assets – Fair value through income in the Statement of Financial Position The movement in the fair value of the guarantee is taken to the Statement of Comprehensive Income

Loans secured on commercial property

The fair value of the loans secured on commercial property is determined using discounted cash flows to reflect changes in underlying gilt yields and debt margins, together with any credit impairment Loans include prepayment protection

Significant accounting estimates and judgements

Fair value of financial assets

Market observable inputs are used wherever possible In the absence of an active market, estimation of fair value is achieved by using valuation techniques such as recent arm's length transactions, discounted cash flow analysis and option pricing models For discounted cash flow analysis, estimated future cash flows and discount rates are based on current market information and rates applicable to financial instruments with similar yields, credit quality and maturity characteristics This valuation will also take into account the marketability of the assets being valued

Details of the key assumptions used in the absence of an active market are contained in the fair value estimation tables, as required by IFRS 13, disclosed in Note 19

Notes to the Financial Statements continued

Year ended 31 December 2015

16 Financial assets – Fair value through income (continued)

	Group 2015 £m	Group 2014 £m	Society 2015 £m	Society 2014 £m
Financial assets – Fair value through income				
Shares, other variable yield securities and units in unit trusts				
– UK listed	**3,564**	2,937	**4,559**	4,035
– UK unlisted	**125**	111	**124**	110
– Overseas listed	**504**	590	**105**	138
– Overseas unlisted	**64**	70	**63**	70
Debt and other fixed income securities				
– UK listed	**4,246**	4,787	**2,879**	3,108
– Overseas listed	**2,210**	2,585	**1,216**	1,169
Loans secured on residential property	**593**	684	**592**	678
Loans secured on commercial property	**113**	25	**113**	25
Other	**–**	2	**–**	2
	11,419	11,791	**9,651**	9,335
Financial assets – Fair value through income				
Within one year	**4,362**	4,976	**4,564**	4,301
Over one year	**7,057**	6,815	**5,087**	5,034
	11,419	11,791	**9,651**	9,335
Assets held to cover linked liabilities included above	**1,920**	1,622	**1,920**	1,622

For details on exposure to foreign exchange currency risk see p 142

17 Derivative financial instruments

Accounting for derivative financial instruments

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 There are no designated hedging relationships within the Group that qualify for hedge accounting, all are classified as held for trading Derivatives are settled on a gross basis

Changes in the fair value of derivative instruments are recognised immediately in gains or losses on investments in the Statement of Comprehensive Income for the period Realised gains or losses are taken to the Statement of Comprehensive Income on occurrence

The Group uses derivatives to hedge the effect of changes in variable rate borrowings on its fixed rate loan portfolio, to reduce exposure to payouts under guaranteed annuity contracts and to protect against falls in the FTSE 100 As a result of entering into gilt hedge contracts for difference in 2012, a significant proportion of the general insurance asset portfolio was hedged against gilt yield movements until 30th June 2015

	2015			2014		
Group	**Contract/ notional amount £m**	**Fair value – asset £m**	**Fair value – liability £m**	Contract/ notional amount £m	Fair value – asset £m	Fair value – liability £m
Interest rate swaps	**865**	**77**	**–**	678	103	–
Gilt hedges	**–**	**–**	**–**	1,660	–	(37)
Cash flow swaps	**1,260**	**–**	**(143)**	162	7	(122)
Swaptions	**109**	**1**	**–**	121	2	–
Equity/index derivatives	**316**	**19**	**(1)**	270	19	(1)
	2,550	**97**	**(144)**	2,891	131	(160)

	2015			2014		
Society	**Contract/ notional amount £m**	**Fair value – asset £m**	**Fair value – liability £m**	Contract/ notional amount £m	Fair value – asset £m	Fair value – liability £m
Interest rate swaps	**865**	**77**	**–**	678	103	–
Cash flow swaps	**1,260**	**–**	**(143)**	162	7	(122)
Swaptions	**109**	**1**	**–**	121	2	–
Equity/index derivatives	**136**	**17**	**(1)**	176	18	(1)
	2,370	**95**	**(144)**	1,137	130	(123)

Notes to the Financial Statements continued

Year ended 31 December 2015

18 Investment contract liabilities

Accounting for investment contract liabilities

Non-participating contracts

Investment contract liabilities are recognised when contracts are entered into and premiums are charged These liabilities are initially recognised at transaction price excluding any transaction costs directly attributable to the issue of the contract

Deposits and withdrawals are recorded directly as an adjustment to the contract liability in the Statement of Financial Position, a method known as deposit accounting Fees charged and investment income received are recognised in the Statement of Comprehensive Income when earned

Fair value adjustments are measured at each reporting date and are recorded in the Statement of Comprehensive Income Fair value is calculated as the number of units allocated to the policyholder in each unit linked fund multiplied by the unit price of those funds at the Statement of Financial Position date The unit prices are determined with reference to the fund assets and liabilities, which are valued on a basis consistent with that used to measure the equivalent assets and liabilities in the Statement of Financial Position, adjusted for the effect of future tax arising from any unrealised gains or losses For a contract that can be cancelled by the policyholder, the fair value cannot be less than the surrender value

Participating contracts

Insurance and participating investment contract liabilities are valued using accounting policies consistent with those adopted prior to the transition to IFRS as allowed under IFRS 4 Insurance contracts' The accounting treatment of these contracts is described within Note 23

a) Analysis of investment contract liabilities

		Group		Society	
		2015	2014	2015	2014
	Notes	£m	£m	£m	£m
Non-participating investment contract liabilities	18b	**1,862**	1,554	**1,862**	1,554
Participating investment contract liabilities	18c	**554**	552	**554**	552
		2,416	2,106	**2,416**	2,106

b) Movement in non-participating investment contract liabilities

	Group		Society	
	2015	2014	2015	2014
	£m	£m	£m	£m
Balance at 1 January	**1,554**	1,249	**1,554**	1,249
Deposits received from policyholders	**515**	393	**515**	393
Payments made to policyholders	**(243)**	(168)	**(243)**	(168)
Change in contract liabilities included in the Statement of Comprehensive Income	**36**	80	**36**	80
Balance at 31 December	**1,862**	1,554	**1,862**	1,554

The change in contract liabilities as shown in the Statement of Comprehensive Income comprises principally the allocation of the net investment return to policyholders of investment contracts less allowances for taxes Investment contracts are not reinsured

c) Movement in participating investment contract liabilities

	Group		Society	
	2015	2014	2015	2014
	£m	£m	£m	£m
Balance at 1 January	**552**	499	**552**	499
Premiums received	**2**	2	**2**	2
Liabilities paid for death maturities, surrenders, benefits and claims	**(25)**	(23)	**(25)**	(23)
New business	**1**	–	**1**	–
Benefits and claims variation	**1**	7	**1**	7
Fees deducted	**(2)**	(2)	**(2)**	(2)
Accretion of investment income or change in unit prices	**20**	52	**20**	52
Adjustment due to changes in assumptions				
– Investment return	**–**	7	**–**	7
– Expense	**–**	(1)	**–**	(1)
Model changes	**–**	2	**–**	2
Other	**–**	4	**–**	4
Mutual bonus	**5**	5	**5**	5
Balance at 31 December	**554**	552	**554**	552

Notes to the Financial Statements continued

Year ended 31 December 2015

19 Fair value estimation

The following fair value estimation tables present the Group's and Society s assets and liabilities measured at fair value by level of the fair value measurement hierarchy at 31 December 2015

The fair value of financial instruments included in the Level 1 category is based on the value within the bid-ask spread that is most representative of fair value quoted in an active market at the year-end date A market is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency and those prices represent actual and regularly occurring market transactions on an arm's length basis

Level 2 financial instruments are not traded in an active market or their fair value is determined using valuation techniques These valuation techniques maximise the use of data from observable current market transactions (where it is available) using pricing obtained via pricing services, even where the market is not active It also includes financial assets with prices based on broker quotes

Specific valuation techniques used to value financial instruments classified as Level 3 include

- The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows based on observable yield curves
- The fair value of forward exchange contracts is determined using forward exchange rates at the Statement of Financial Position date, with the resulting value discounted back to present value
- The loans secured on residential property within the Society are purchased from a subsidiary company that is authorised to initiate these loans The purchase by the Society is at origination value plus 7% (which is expensed in the Society when paid) The fair value of the loans secured on residential property is determined using discounted cash flow projections The expected value of redemptions are 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 allowances for risk factors The full swap curve is used so each discount rate is matched to the appropriate cash flow 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 valuation is performed by a Senior Actuarial Analyst and reviewed by the Equity Release Actuary The assumptions are set by the Board upon recommendation by the Audit Committee
- Other techniques, such as discounted cash flow analysis, are used to determine fair value for the other financial instruments
- If one or more of the significant inputs is not based on observable market data, the instrument is included in Level 3

There were no changes to the valuation techniques during the year

There were no transfers between Levels 1 and 2 during the year

The Group's policy is to recognise transfers into and out of fair value hierarchy levels as of the date of the event or change in circumstances that caused the transfer

The valuation of all of the Group's investment holdings is performed by independent and qualified valuers

Any changes to fair value are recognised within net gains/ losses on investments within the Statement of Comprehensive Income with the exception of Investment contract liabilities where the movement is recognised within the Gross change in contract liabilities Details of these gains/losses are disclosed within Notes 9 and 25 respectively

Notes to the Financial Statements continued

Year ended 31 December 2015

19 Fair value estimation (continued)

Group	2015 Level 1 £m	2015 Level 2 £m	2015 Level 3 £m	2015 Total fair value £m	2014 Level 1 £m	2014 Level 2 £m	2014 Level 3 £m	2014 Total fair value £m
Financial assets								
Derivative financial instruments								
Interest rate swaps	–	–	**77**	**77**	–	–	103	103
Cash flow swaps	–	–	–	–	–	–	7	7
Swaptions	–	–	**1**	**1**	–	–	2	2
Equity/index derivatives	–	–	**19**	**19**	–	1	18	19
	–	–	**97**	**97**	–	1	130	131
Financial assets held at fair value through income								
Shares, other variable yield securities and units in unit trusts								
– UK listed	**1,242**	**2,322**	–	**3,564**	1,250	1,687	–	2,937
– UK unlisted	–	–	**125**	**125**	–	–	111	111
– Overseas listed	**500**	**4**	–	**504**	504	86	–	590
– Overseas unlisted	–	–	**64**	**64**	–	–	70	70
Debt and other fixed income securities								
– UK listed	**2,120**	**2,126**	–	**4,246**	2,119	2,668	–	4,787
– Overseas listed	**24**	**2,186**	–	**2,210**	217	2,368	–	2,585
Loans secured on residential property	–	–	**593**	**593**	–	–	684	684
Loans secured on commercial property	–	**113**	–	**113**	–	25	–	25
Other	–	–	–	–	2	–	–	2
	3,886	**6,751**	**782**	**11,419**	4,092	6,834	865	11,791
	3,886	**6,751**	**879**	**11,516**	4,092	6,835	995	11,922
Financial liabilities								
Non-participating investment contract liabilities	–	**1,862**	–	**1,862**	–	1,554	–	1,554
Derivative financial instruments								
Cash flow swaps	–	–	**143**	**143**	–	–	122	122
Gilt hedges	–	–	–	–	–	–	37	37
Equity/index derivatives	**1**	–	–	**1**	1	–	–	1
	1	–	**143**	**144**	1	–	159	160
	1	**1,862**	**143**	**2,006**	1	1,554	159	1,714

Notes to the Financial Statements continued

Year ended 31 December 2015

19 Fair value estimation (continued)

Society	2015 Level 1 £m	2015 Level 2 £m	2015 Level 3 £m	2015 Total fair value £m	2014 Level 1 £m	2014 Level 2 £m	2014 Level 3 £m	2014 Total fair value £m
Financial assets								
Derivative financial instruments								
Interest rate swaps	–	–	77	77	–	–	103	103
Cash flow swaps	–	–	–	–	–	–	7	7
Swaptions	–	–	1	1	–	–	2	2
Equity/index derivatives	–	–	17	17	–	–	18	18
	–	–	95	95	–	–	130	130
Financial assets held at fair value through income								
Shares, other variable yield securities and units in unit trusts								
– UK listed	830	3,729	–	4,559	911	3,124	–	4,035
– UK unlisted	–	–	124	124	–	–	110	110
– Overseas listed	105	–	–	105	138	–	–	138
– Overseas unlisted	–	–	63	63	–	–	70	70
Debt and other fixed income securities								
– UK listed	1,714	1,165	–	2,879	1,687	1,421	–	3,108
– Overseas listed	24	1,192	–	1,216	18	1,151	–	1,169
Loans secured on residential property	–	–	592	592	–	–	678	678
Loans secured on commercial property	–	113	–	113	–	25	–	25
Other	–	–	–	–	2	–	–	2
	2,673	6,199	779	9,651	2,756	5,721	858	9,335
	2,673	6,199	874	9,746	2,756	5,721	988	9,465
Financial liabilities								
Non-participating investment contract liabilities	–	1,862	–	1,862	–	1,554	–	1,554
Derivative financial instruments								
Cash flow swaps	–	–	143	143	–	–	122	122
Equity/index derivatives	1	–	–	1	1	–	–	1
	1	–	143	144	1	–	122	123
	1	1,862	143	2,006	1	1,554	122	1,677

Notes to the Financial Statements continued
Year ended 31 December 2015

19 Fair value estimation (continued)
The table below presents the movements in Level 3 financial instruments for the year ended 31 December 2015

Group	At 1 January 2015 £m	Total gains/ (losses) recognised through income £m	Purchases £m	Sales £m	At 31 December 2015 £m
Financial assets					
Derivative financial instruments					
Interest rate swaps	103	6	1	(33)	77
Cash flow swaps	7	(7)	-	-	-
Swaptions	2	(1)	-	-	1
Equity/index derivatives	18	(4)	5	-	19
	130	(6)	6	(33)	97
Financial assets held at fair value through income					
Shares, other variable yield securities and units in unit trusts					
- UK unlisted	111	17	-	(3)	125
- Overseas unlisted	70	(3)	2	(5)	64
Loans secured on residential property (note 1)	684	(139)	88	(40)	593
	865	(125)	90	(48)	782
	995	(131)	96	(81)	879
Financial liabilities					
Derivative financial instruments					
Cash flow swaps	122	21	-	-	143
Gilt hedges	37	(1)	-	(36)	-
	159	20	-	(36)	143

note 1 In relation to Loans secured on residential property, purchases and sales represent loans advanced and repaid respectively

Notes to the Financial Statements continued

Year ended 31 December 2015

19 Fair value estimation (continued)

Group	At 1 January 2014 £m	Total gains/(losses) recognised through income £m	Purchases £m	Sales £m	At 31 December 2014 £m
Financial assets					
Derivative financial instruments					
Interest rate swaps	10	101	1	(9)	103
Gilt hedges	8	(8)	–	–	–
Cash flow swaps	–	7	–	–	7
Swaptions	12	10	–	(20)	2
Equity/index derivatives	17	1	–	–	18
	47	111	1	(29)	130
Financial assets held at fair value through income					
Shares, other variable yield securities and units in unit trusts					
– UK unlisted	113	37	13	(52)	111
– Overseas unlisted	78	(21)	23	(10)	70
Loans secured on residential property	493	99	127	(35)	684
	684	115	163	(97)	865
	731	226	164	(126)	995
Financial liabilities					
Derivative financial instruments					
Cash flow swaps	68	54	–	–	122
Interest rate swaps	11	(11)	–	–	–
Gift hedges	–	40	(3)	–	37
	79	83	(3)	–	159

Notes to the Financial Statements continued
Year ended 31 December 2015

19 Fair value estimation (continued)

Society	At 1 January 2015 £m	Total gains/(losses) recognised through income £m	Purchases £m	Sales £m	At 31 December 2015 £m
Financial assets					
Derivative financial instruments					
Interest rate swaps	103	6	1	(33)	77
Cash flow swaps	7	(7)	-	-	-
Swaptions	2	(1)	-	-	1
Equity/index derivatives	18	(1)	-	-	17
	130	(3)	1	(33)	95
Financial assets held at fair value through income					
Shares, other variable yield securities and units in unit trusts					
– UK unlisted	110	17	-	(3)	124
– Overseas unlisted	70	(3)	2	(6)	63
Loans secured on residential property (note 1)	678	(134)	88	(40)	592
	858	(120)	90	(49)	779
	988	(123)	91	(82)	874
Financial liabilities					
Derivative financial instruments					
Cash flow swaps	122	21	-	-	143
	122	21	-	-	143

note 1 In relation to Loans secured on residential property, purchases and sales represent loans advanced and repaid respectively

Notes to the Financial Statements continued
Year ended 31 December 2015

19 Fair value estimation (continued)

Society	At 1 January 2014 £m	Total gains/ (losses) recognised through income £m	Purchases £m	Sales £m	At 31 December 2014 £m
Financial assets					
Derivative financial instruments					
Interest rate swaps	10	101	1	(9)	103
Cash flow swaps	–	7	–	–	7
Swaptions	12	10	–	(20)	2
Equity/index derivatives	17	1	–	–	18
	39	119	1	(29)	130
Financial assets held at fair value through income					
Shares, other variable yield securities and units in unit trusts					
– UK unlisted	112	37	13	(52)	110
– Overseas unlisted	77	(21)	23	(9)	70
Loans secured on residential property	486	100	127	(35)	678
	675	116	163	(96)	858
	714	235	164	(125)	988
Financial liabilities					
Derivative financial instruments					
Cash flow swaps	68	54	–	–	122
Interest rate swaps	11	(11)	–	–	–
	79	43	–	–	122

Notes to the Financial Statements continued

Year ended 31 December 2015

19 Fair value estimation (continued)

Information about fair value measurements using significant unobservable inputs (Level 3)

Group **Description**	**Fair value at 31 December 2015 £m**	Fair value at 31 December 2014 £m	Valuation technique(s)	Unobservable inputs	Range of unobservable inputs (probability – weighted average)	Relationship of unobservable inputs to fair value
Financial assets						
Derivative financial instruments						
Interest rate swaps	**77**	103	Mark to-model	Interpolation and extrapolation of specific interest rate tenors	Up to 2bps	If the rate goes up, the contract value will fall
Cash flow swaps	**–**	7	Mark-to-model	Interpolation and extrapolation of specific interest rate tenors	Up to 2bps	If the rate goes up, the value of the contract will fall
Swaptions	**1**	2	Mark-to-model	Interest rate volatility	Could be several percentage points	Higher interest rate volatility results in higher contract value
Equity/index derivatives	**19**	18	Mark-to-model	Equity volatility	Could be several percentage points	Higher equity volatility results in higher contract value
	97	130				
Financial assets held at fair value through income						
Shares, other variable yield securities and units in unit trusts						
– UK unlisted	**125**	111	Adjusted net asset method	Price per unit	Could vary significantly due to the range of holdings	The higher the price per unit, the higher the fair value
				Distributions or calls since last valuation	Could vary significantly due to the range of holdings	The fair value varies on distributions/calls and period since last valuation
– Overseas unlisted	**64**	70	Adjusted net asset method	Price per unit	Could vary significantly due to the range of holdings	The higher the price per unit, the higher the fair value
				Distributions or calls since last valuation	Could vary significantly due to the range of holdings	The fair value varies on distributions/calls and period since last valuation
Loans secured on residential property	**593**	684	Discounted cash flow	Underlying interest swap curve	Market zero coupon swaps rate	To determine illiquidity premium used to discount expected cashflows
				Prepayments	3%-5%	Prepayment rate will determine the profile of expected cashflows
				Mortality and long-term care assumptions	Annuitant mortality tables are applied	Mortality and long-term care rate will determine the profile of expected cashflows
	782	865				
	879	995				

Notes to the Financial Statements continued

Year ended 31 December 2015

19 Fair value estimation (continued)

Information about fair value measurements using significant unobservable inputs (Level 3) – continued

Description	Fair value at 31 December 2015 £m	Fair value at 31 December 2014 £m	Valuation technique(s)	Unobservable inputs	Range of unobservable inputs (probability – weighted average)	Relationship of unobservable inputs to fair value
Financial liabilities						
Derivative financial instruments						
Cash flow swaps	**143**	122	Mark-to-model	Interpolation and extrapolation of specific interest rate tenors	Up to 2bps	If the rate goes up, the absolute contract value will fall resulting in a balance sheet gain
Gilt hedges	**–**	37	Mark-to-model	Gilt repo rates	The range on market gilt repo rates offered can be up to 10bps	Repo rate increases will lower the value of the contract
	143	159				

Notes to the Financial Statements continued

Year ended 31 December 2015

20 Loans and other receivables

Accounting for loans and other receivables

Loans are initially measured at fair value and then subsequently measured at amortised cost using the effective interest rate method

Receivables are recognised when due and comprise amounts due to the Society from group undertakings and other receivables They are initially recognised at fair value and then subsequently held at amortised cost

The Group assesses at each Statement of Financial Position date whether a loan or receivable, or a group of loans or receivables, is impaired For loans, the amount of any impairment loss is measured as the difference between the carrying amount and the present value of future cash flows For receivables, where there is objective evidence that the carrying value is impaired then the impairment loss will be recognised in the Statement of Comprehensive Income

Provision for impairment of loans

Provisions for impairment of loans and receivables are based on appraisals of loans and receivables both collectively and individually Provisions are made to reflect the estimated net realisable amount, taking into account potential future recoveries and the original effective interest rate Balances are written off in full when the debt is considered irrecoverable

Specific provisions have been made in respect of all identified impaired advances In calculating the required provision an appropriate factor is applied based on the present value of expected future cash flows, which is subject to periodic review to ensure its continuing applicability based on current experience, to reflect the probability that not all such loans will result in eventual loss Collective provisions have been made in respect of losses which, although not yet specifically identified, are expected from experience to arise

	Group		Society	
	2015	2014	**2015**	2014
	£m	£m	**£m**	£m
Deposits with credit institutions	**6**	–	**3**	–
Cash collateral pledged	**2**	35	**2**	–
Amounts due from group undertakings	**–**	–	**55**	73
Managing agents rental receivable	**2**	2	**2**	2
Investments receivable	**16**	16	**16**	15
Other receivables	**51**	65	**9**	11
	77	118	**87**	101
Within one year	**75**	116	**86**	100
Over one year	**2**	2	**1**	1
	77	118	**87**	101

The carrying amounts disclosed above reasonably approximate fair value at the Statement of Financial Position date

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Year ended 31 December 2015

21 Subordinated liabilities

Accounting for subordinated liabilities

Subordinated liabilities are initially measured at the fair value of the proceeds less attributable transaction costs Subsequent to initial recognition they are measured at amortised cost The transaction costs are amortised over the period to the earliest possible redemption date on an effective interest rate basis The amortisation charge is included in the Statement of Comprehensive Income within finance costs An equivalent amount is added to the carrying value of the liability such that at the redemption date the value of the liability equals the redemption value

	Group		Society	
	2015 £m	2014 £m	2015 £m	2014 £m
Subordinated notes (GBP 350m)	**347**	347	**347**	347
Subordinated notes (EUR 12m)	**9**	9	**-**	–
	356	356	**347**	347

All the subordinated liabilities are expected to be settled more than 12 months after the balance sheet date

On 22 May 2013 the Society issued £350m of Fixed Rate Reset Subordinated Notes at par The directly related costs of £4m incurred to issue the Notes have been capitalised as part of the carrying value and are being amortised using the effective interest rate basis over the period to the first call date in 2023 The effective interest rate on the £350m liability is 6 654%

The Notes have a maturity date of 22 May 2043 but the issuer has the option to redeem the Notes at the first call date of 22 May 2023 and at five yearly intervals thereafter up to the maturity date

Interest is payable on the Notes at a fixed rate of 6 5% per annum for the period until the first call date on 22 May 2023, payable annually in arrears on 22 May each year If the Notes are not redeemed on 22 May 2023, the interest rate is reset on that date and at five yearly intervals thereafter at a rate equal to the five year gilt rate quoted on the day before the reset date plus an initial margin of 463 basis points and a step up margin of 100 basis points 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 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, the Society would be prevented from declaring any distribution to members which falls within the Mutual Bonus arrangements

The Society 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

The €12m subordinated notes are issued by a subsidiary undertaking and are repayable in 2034 Interest on these Notes is payable at the 3 month euro deposit rate plus a margin of 365 basis points

Subordinated liabilities are held in the Statement of Financial Position at amortised cost The fair value at 31 December 2015 was £353m (2014 £369m) The valuation of the subordinated notes was determined by reference to the bid price obtained from the markets as at 31 December 2015 Management consider this to be representative of fair value

22 Other financial liabilities

	Group		Society	
	2015 £m	2014 £m	2015 £m	2014 £m
Cash collateral received	**96**	116	**95**	115
Amounts due to group undertakings	**–**	–	**–**	29
	96	116	**95**	144

The carrying amounts disclosed above reasonably approximate fair value at the Statement of Financial Position date

Notes to the Financial Statements continued

Year ended 31 December 2015

Insurance contract related assets and liabilities

This section presents information relating to insurance contract related assets and liabilities held by the Society and Group The assumptions used in the valuation of the insurance contract liabilities are disclosed within Note 28 with sensitivities to these assumptions disclosed separately within Note 4

23 Insurance contract liabilities

Accounting for insurance contract liabilities

Participating business

The liability is calculated in accordance with the PRA's 'realistic' liability regime In particular, provision is made for all bonus payments (declared and future, reversionary and terminal) estimated, where necessary, in a manner consistent with the relevant fund's Principles and Practices of Financial Management (PPFM) The liability includes an allowance for the time and intrinsic value of options and guarantees granted to policyholders and for possible future management actions

The realistic participating liabilities are based on the aggregate value of policy asset shares reflecting past premiums, investment return, expenses and charges applied to each policy Allowance is also made for policy-related liabilities such as guarantees, options and future bonuses calculated using a stochastic model simulating investment returns, asset mix, expense charges and bonuses

In determining the realistic value of liabilities for participating contracts, the value of future profits on non-participating business written in the with-profits part of the fund is accounted for as part of the calculation The present value of future profits on the non-participating business ('Non-participating value of the in-force business') is separately determined and its value is deducted from the sum of the liabilities for participating contracts and the Unallocated divisible surplus

The non-participating value of the in-force business is separately disclosed within Note 24

Such an amount is not recognised for business written outside participating contract funds

Non-participating business

The liability is calculated to comply with the reporting requirements under the PRA s handbook using a gross premium valuation method or a method at least as prudent as the gross premium method The Society and relevant subsidiaries have adopted the modified statutory solvency basis in the valuation of provisions for non-participating business

Liabilities for non-participating business are either included within the long-term insurance contract liabilities or the investment contract liabilities, depending upon the product classification

General insurance claims and insurance contract liabilities

Claims incurred comprise claims and related internal and external claims handling costs paid in the year and changes in the provisions for outstanding claims, including provisions for claims incurred but not reported and related claims handling costs, together with any other adjustments to claims from previous years Where applicable, deductions are made for recoveries from other parties Provision is made for the estimated cost of claims incurred but not settled, including the cost of claims incurred but not reported

The estimated cost of claims includes expenses to be incurred in settling claims and a eduction for the expected value of recoveries However, given the inevitable uncertainty in establishing claims provisions, it is likely that the final outcome will prove to be different from the original liability established Provisions are adjusted at the Statement of Financial Position date to represent a best estimate of the expected outcome Provisions are calculated allowing for reinsurance recoveries and a separate asset is recorded for the reinsurers share of the provision

Standard actuarial claims projection techniques are used to estimate outstanding claims Such methods extrapolate the development of paid and incurred claims, recoveries from third parties, average cost per claim and ultimate claim numbers for each accident year, based upon the observed development of earlier years and expected loss ratios The main assumption underlying these techniques is that past claims development experience can be used to project ultimate claims costs In the case of PPOs, the annuity type structure of the claim payments mean that these have to be projected over a longer-term period and reserved for on a discounted basis accordingly Allowance for one off occurrences or changes in legislation, policy conditions or portfolio mix, is also made in arriving at the estimated ultimate cost of claims, in order that it represents the most likely outcome, taking account of all the uncertainties involved To the extent that the ultimate cost is different from the estimate, where experience is better or worse than that assumed, the surplus or deficit will be credited or charged to the Statement of Comprehensive Income in future years

Unexpired risks

For general insurance contracts, provision is made, if required, for any anticipated claims and claims handling costs that are anticipated to exceed the unearned premiums, net of deferred acquisition costs An estimate is made for future investment income arising from the unearned premiums, and used to reduce the unexpired risk provision Unexpired risk surpluses and deficits are offset where business classes are managed together and a provision is made if an aggregate deficit arises

Significant accounting estimates and judgements

Valuation of investment and long-term insurance contract liabilities

The valuation of participating contract liabilities is based on assumptions reflecting the best estimate at the time The valuation of non-participating insurance contracts is based on prudent assumptions, a separate calculation is also performed to assess the non-participating value of in-force business which is based on best estimate assumptions allowing for a margin of risk and adverse deviation All contracts are subject to a liability adequacy test, which reflects management's best current estimate of future cash flows

Notes to the Financial Statements continued

Year ended 31 December 2015

23 Insurance contract liabilities (continued)

The assumptions used for mortality, morbidity and longevity are based on standard industry or reinsurers' tables, adjusted where appropriate to reflect the Group's own experience In particular, for impaired annuities the mortality assumptions are adjusted so as to allow for convergence to standard mortality at advanced ages These adjustments vary according to lifestyle or medical condition, gender, age and duration in-force The assumptions used for investment returns, expenses, lapse and surrender rates are based on current market yields, product characteristics, and relevant claims experience The assumptions used for discount rates are based on current market risk rates, adjusted for the Group's own risk exposure Due to the long-term nature of these obligations, the estimates are subject to significant uncertainty

The valuation assumption used for the level of policy holder benefits taken as cash has remained unchanged from 2014 However, future changes in policy holder behaviour as a result of the pension reforms which came into force in 2015 and also further reforms expected in 2017, which would enable the creation of a market for the sale of in-force annuities to third parties, may result in the actual level of take-up differing from the assumption used

In addition, the methodology used to value the liabilities for OB pension policies was adjusted during the year to reflect a change in the basis used to calculate the amount payable when the policyholder elects to take the proceeds from the policy as cash rather than as an annuity This change, which was approved by the Society's board in November 2015, had a positive impact on heritage operating profit of £69m It has also been shared with the Financial Conduct Authority (FCA) whose formal response is awaited Any possible subsequent amendments to the basis of policyholder payments arising from the FCA's response will be considered when that response is received

The calculation of the insurance contract liabilities is impacted by changes in unit costs, which are reviewed annually A full review of the methodology is planned for 2016 Pending the review, unit costs have been maintained at 2014 levels (adjusted for inflation)

The pension reforms that were effective from April 2015 have had a significant impact in the at retirement market During 2015 management specifically assessed the impact of the changes in the at-retirement market on the assumptions within the liability calculation for retirement products

Details of all the long-term insurance and investment contract liabilities valuation assumptions and the non-participating value of in-force business valuation assumptions are disclosed separately within Notes 28 and 29 respectively

Valuation of general insurance contract liabilities

The estimation of the ultimate liability arising from claims made under insurance contracts is the general insurance business most critical accounting estimate For general insurance contracts estimates are made for the expected ultimate cost of claims as at the Statement of Financial Position date and the cost of claims incurred but not yet reported to the Group It can take a significant period of time before the ultimate cost of claims can be established with certainty, and the final outcome may be better or worse than that provided While Management believes that the insurance contract liabilities carried at year end are adequate, the application of statistical techniques requires significant judgement

The estimation of these claims is based on historical experience projected forward Where possible, the Group adopts multiple techniques to provide a best estimate of the required level of provisions This assists in developing greater understanding of the trends inherent in the data being projected The Group's estimates of losses and loss expenses are reached after a review of several commonly accepted actuarial projection methodologies, as well as more bespoke methods and a number of different bases to determine these provisions These include methods based upon the following

a) the development of previously paid claims, where payments to date are extrapolated for each prior year,
b) estimates based upon a projection of claims numbers and average cost,
c) incurred claims development, where incurred claims to date for each year are extrapolated based upon observed development of earlier years, and
d) expected loss ratios

There are several sources of uncertainty that need to be considered in the estimate of the liability that the Group will ultimately pay for such claims In particular, motor insurance policies are exposed to claims for bodily injury and household insurance policies are exposed to claims for subsidence

Estimation of the ultimate cost of large bodily injury claims is a complex process and cannot be done using conventional actuarial techniques given they typically exhibit low frequency and high severity Significant factors that affect the bodily injuries estimation process are legislation (e g the Ogden discount rate used to value lump sum settlements) and the presence of Claims Management Companies operating within the General Insurance market Due to this uncertainty it is not possible to determine the future development of bodily injury claims with the same degree of reliability as with other types of claims Over the last decade, there has been an increasing prevalence of Periodic Payment Order ('PPO) settlements

Notes to the Financial Statements continued

Year ended 31 December 2015

23 Insurance contract liabilities continued)

These settlements have an annuity-type structure, i e they are typically paid annually over the claimant's life Courts may decide that a claim should be settled on a PPO basis, but in some cases the claimant will request such a settlement Market data analysis suggests that circa 30% of claims costing in excess of £1m are now settling on a PPO basis and therefore these claims are representing a greater proportion of the liabilities year-on-year As it is unclear whether a large claim will settle on a PPO basis or on the traditional lump sum basis, there is further uncertainty in the bodily injury projections A further complexity of PPO claims is that due to the annuity-type structure of the claim payments these have to be projected over a longer-term period and reserved for on a discounted basis accordingly Therefore, the estimation of ultimate claims cost now involves projecting mortality rates, discount rates and benefit indexation rates, which is unlike all other general insurance liabilities

Large claims impacting each relevant business class are generally assessed separately, being measured either at the face value of the loss adjusters estimates or projected separately in order to allow for the future development of large claims

Provisions are initially calculated gross of any reinsurance recoveries A separate estimate is made of the amounts that will be recoverable from reinsurers based upon the gross provisions and having due regard to collectability

a) Analysis of insurance contract liabilities and reinsurance assets

Group	Note	2015 Gross £m	2015 Reinsurance £m	2015 Net £m	2014 Gross £m	2014 Reinsurance £m	2014 Net £m
Participating insurance contract liabilities							
Long-term insurance contract liabilities	23 b	**3,972**	–	**3,972**	3,862	–	3,862
Non-participating insurance contract liabilities							
Long-term insurance contract liabilities	23 c	**3,621**	**(412)**	**3,209**	3,679	(295)	3,384
Long-term linked insurance contract liabilities	23 d	**138**	**(80)**	**58**	138	(70)	68
Long-term claims liabilities	23 e	**40**	–	**40**	41	–	41
		3,799	**(492)**	**3,307**	3,858	(365)	3,493
General insurance unearned premiums	23 f	**744**	**(12)**	**732**	688	(13)	675
General insurance claims liabilities*	23 g	**1,353**	**(386)**	**967**	1,307	(125)	1,182
		2,097	**(398)**	**1,699**	1,995	(138)	1,857
		5,896	**(890)**	**5,006**	5,853	(503)	5,350

Society	Note	2015 Gross £m	2015 Reinsurance £m	2015 Net £m	2014 Gross £m	2014 Reinsurance £m	2014 Net £m
Participating insurance contract liabilities							
Long-term insurance contract liabilities	23 b	**3,972**	–	**3,972**	3,862	–	3,862
Non-participating insurance contract liabilities							
Long-term insurance contract liabilities	23 c	**3,606**	**(412)**	**3,194**	3,661	(295)	3,366
Long-term linked insurance contract liabilities	23 d	**138**	**(80)**	**58**	138	(70)	68
Long-term claims liabilities	23 e	**40**	–	**40**	41	–	41
		3,784	**(492)**	**3,292**	3,840	(365)	3,475

* In the latter part of 2015 the Group entered into a Loss Portfolio Transfer Agreement resulting in reinsurance of 20% of its general insurance booked reserves as at 31 December 2015 This has had an impact of £242m on the reinsurers' share of claims liabilities

Notes to the Financial Statements continued

Year ended 31 December 2015

23 Insurance contract liabilities (continued)

b) Movement in long-term insurance contract liabilities – participating

	2015			2014		
Group and Society	**Gross £m**	**Reinsurance £m**	**Net £m**	Gross £m	Reinsurance £m	Net £m
Balance at 1 January	**3,862**	**–**	**3,862**	3,433	–	3,433
Premiums received	**34**	**–**	**34**	39	–	39
Liabilities paid for deaths, maturities, surrenders, benefits and claims	**(336)**	**–**	**(336)**	(325)	–	(325)
New business	**372**	**–**	**372**	157	–	157
Benefits and claims variation	**44**	**–**	**44**	48	–	48
Fees deducted	**(26)**	**–**	**(26)**	(25)	–	(25)
Accretion of investment income or change in unit prices	**96**	**–**	**96**	220	–	220
Adjustment due to changes in assumptions						
– Mortality/morbidity/longevity	**(15)**	**–**	**(15)**	–	–	–
– Investment return	**6**	**–**	**6**	330	–	330
– Expense	**(1)**	**–**	**(1)**	(5)	–	(5)
– Lapse and surrender rates	**(69)**	**–**	**(69)**	2	–	2
– Other basis changes	**–**	**–**	**–**	(18)	–	(18)
Model changes	**4**	**–**	**4**	3	–	3
Other	**(21)**	**–**	**(21)**	(16)	–	(16)
Mutual bonus	**22**	**–**	**22**	19	–	19
Balance at 31 December	**3,972**	**–**	**3,972**	3,862	–	3,862

c) Movement in long-term insurance contract liabilities – non-participating

	2015			2014		
Group	**Gross £m**	**Reinsurance £m**	**Net £m**	Gross £m	Reinsurance £m	Net £m
Balance at 1 January	**3,679**	**(295)**	**3,384**	3,052	(325)	2,727
Premiums received	**133**	**(51)**	**82**	128	(46)	82
Liabilities paid for deaths, maturities, surrenders, benefits and claims	**(378)**	**40**	**(338)**	(261)	38	(223)
New business	**311**	**(68)**	**243**	396	(45)	351
Benefits and claims variation	**(5)**	**5**	**–**	10	3	13
Fees deducted	**(15)**	**–**	**(15)**	(17)	–	(17)
Accretion of investment income or change in unit prices	**40**	**(1)**	**39**	34	(1)	33
Adjustment due to changes in assumptions						
– Mortality/morbidity/longevity	**(10)**	**(46)**	**(56)**	(39)	105	66
– Investment return	**(51)**	**17**	**(34)**	440	(57)	383
– Expense	**–**	**–**	**–**	(28)	2	(26)
– Lapse and surrender rates	**5**	**(4)**	**1**	(6)	2	(4)
– Other basis changes	**(82)**	**–**	**(82)**	(19)	1	(18)
Model changes	**(5)**	**(10)**	**(15)**	(2)	(3)	(5)
Other	**(1)**	**1**	**–**	(9)	31	22
Balance at 31 December	**3,621**	**(412)**	**3,209**	3,679	(295)	3,384

Notes to the Financial Statements continued

Year ended 31 December 2015

23 Insurance contract liabilities (continued)

c) Movement in long-term insurance contract liabilities – non-participating (continued)

Society	2015 Gross £m	2015 Reinsurance £m	2015 Net £m	2014 Gross £m	2014 Reinsurance £m	2014 Net £m
Balance at 1 January	**3,661**	**(295)**	**3,366**	3,033	(325)	2,708
Premiums received	**133**	**(51)**	**82**	128	(46)	82
Liabilities paid for deaths, maturities, surrenders, benefits and claims	**(375)**	**40**	**(335)**	(259)	38	(221)
New business	**311**	**(68)**	**243**	396	(45)	351
Benefits and claims variation	**(5)**	**5**	**–**	10	3	13
Fees deducted	**(15)**	**–**	**(15)**	(17)	–	(17)
Accretion of investment income or change in unit prices	**40**	**(1)**	**39**	34	(1)	33
Adjustment due to changes in assumptions						
– Mortality/morbidity/longevity	**(10)**	**(46)**	**(56)**	(39)	105	66
– Investment return	**(51)**	**17**	**(34)**	440	(57)	383
– Expense	**–**	**–**	**–**	(28)	2	(26)
– Lapse and surrender rates	**5**	**(4)**	**1**	(6)	2	(4)
– Other basis changes	**(82)**	**–**	**(82)**	(20)	1	(19)
Model changes	**(5)**	**(10)**	**(15)**	(2)	(3)	(5)
Other	**(1)**	**1**	**–**	(9)	31	22
Balance at 31 December	**3,606**	**(412)**	**3,194**	3,661	(295)	3,366

d) Movement in long-term linked insurance contract liabilities

Group and Society	2015 Gross £m	2015 Reinsurance £m	2015 Net £m	2014 Gross £m	2014 Reinsurance £m	2014 Net £m
Balance at 1 January	**138**	**(70)**	**68**	114	(47)	67
Premiums received	**39**	**(15)**	**24**	32	(12)	20
Liabilities paid for deaths, maturities, surrenders, benefits and claims	**(25)**	**13**	**(12)**	(28)	10	(18)
New business	**15**	**(19)**	**(4)**	3	(10)	(7)
Benefits and claims variation	**(1)**	**1**	**–**	(1)	1	–
Fees deducted	**(2)**	**–**	**(2)**	(3)	–	(3)
Accretion of investment income or change in unit prices	**1**	**–**	**1**	1	–	1
Adjustment due to changes in assumptions						
– Mortality/morbidity/longevity	**(23)**	**12**	**(11)**	(10)	27	17
– Investment return	**(5)**	**2**	**(3)**	34	(9)	25
– Expense	**–**	**–**	**–**	(6)	–	(6)
– Lapse and surrender rates	**2**	**(1)**	**1**	(1)	–	(1)
– Other basis changes	**(1)**	**–**	**(1)**	(1)	–	(1)
Model changes	**–**	**(3)**	**(3)**	(6)	(1)	(7)
Other	**–**	**–**	**–**	10	(29)	(19)
Balance at 31 December	**138**	**(80)**	**58**	138	(70)	68

Notes to the Financial Statements continued

Year ended 31 December 2015

23 Insurance contract liabilities (continued)

e) Movement in long-term claims liabilities

Group	2015 Gross £m	2015 Reinsurance £m	2015 Net £m	2014 Gross £m	2014 Reinsurance £m	2014 Net £m
Balance at 1 January	**41**	**-**	**41**	38	–	38
Claims notified	**796**	**(73)**	**723**	666	(74)	592
Claims paid during the year	**(797)**	**73**	**(724)**	(663)	74	(589)
Balance at 31 December	**40**	**–**	**40**	41	–	41

Society	2015 Gross £m	2015 Reinsurance £m	2015 Net £m	2014 Gross £m	2014 Reinsurance £m	2014 Net £m
Balance at 1 January	**41**	**–**	**41**	38	–	38
Claims notified	**793**	**(73)**	**720**	664	(74)	590
Claims paid during the year	**(794)**	**73**	**(721)**	(661)	74	(587)
Balance at 31 December	**40**	**–**	**40**	41	–	41

f) Movement in general insurance unearned premiums

Group	2015 Gross £m	2015 Reinsurance £m	2015 Net £m	2014 Gross £m	2014 Reinsurance £m	2014 Net £m
Balance at 1 January	**688**	**(13)**	**675**	712	(13)	699
Premiums written in the year	**1,476**	**(283)**	**1,193**	1,394	(36)	1,358
Premiums earned during the year	**(1,420)**	**284**	**(1,136)**	(1,418)	36	(1,382)
Balance at 31 December	**744**	**(12)**	**732**	688	(13)	675

g) Movement in general insurance claims liabilities

Group	2015 Gross £m	2015 Reinsurance £m	2015 Net £m	2014 Gross £m	2014 Reinsurance £m	2014 Net £m
Balance at 1 January	**1,307**	**(125)**	**1,182**	1,358	(130)	1,228
Movement in claims incurred in prior accident years	**(101)**	**(130)**	**(231)**	(117)	6	(111)
Claims incurred in the current accident year	**1,057**	**(135)**	**922**	1,052	(14)	1,038
Claims paid during the year	**(910)**	**4**	**(906)**	(986)	13	(973)
Balance at 31 December	**1,353**	**(386)**	**967**	1,307	(125)	1,182

Notes to the Financial Statements continued

Year ended 31 December 2015

24 Non-participating value of in-force business

Accounting for the non-participating value of in-force business

In determining the realistic value of liabilities for participating contracts as disclosed in Note 23, the value of future profits on non-participating business written in the with-profits part of the fund is accounted for as part of the calculation The present value of future profits of the non-participating business ('non-participating value of in-force business') is separately determined and its value is deducted from the sum of the liabilities for participating contracts and the Unallocated divisible surplus Such an amount is not recognised for business written outside participating contract funds

The principal assumptions are disclosed separately within Note 29

Analysis of non-participating value of in-force business

	Group		Society	
	2015 £m	2014 £m	2015 £m	2014 £m
Balance at 1 January	**338**	273	**338**	273
Premiums received	**(1)**	(1)	**(1)**	(1)
Liabilities paid for deaths, maturities, surrenders, benefits and claims	**(10)**	(9)	**(10)**	(9)
New business	**37**	40	**37**	40
Benefits and claims variation	**(3)**	(3)	**(3)**	(3)
Fees deducted	**(4)**	(4)	**(4)**	(4)
Adjustment due to changes in assumptions				
– Mortality/morbidity/longevity	**(6)**	40	**(6)**	40
– Investment return	**13**	38	**13**	38
– Expense	**–**	(9)	**–**	(9)
– Lapse and surrender rates	**–**	2	**–**	2
– Other basis changes	**–**	(14)	**–**	(14)
Model changes	**(7)**	(13)	**(7)**	(13)
Other	**(36)**	(2)	**(36)**	(2)
Balance at 31 December	**321**	338	**321**	338

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

	Group		Society	
	2015 £m	2014 £m	2015 £m	2014 £m
Gross (increase)/decrease in long-term contract liabilities				
Increase in long-term insurance contract liabilities – participating	**(110)**	(429)	**(110)**	(429)
Increase in investment contract liabilities – participating	**(2)**	(53)	**(2)**	(53)
Decrease/(increase) in long-term insurance contract liabilities – non-participating	**58**	(627)	**55**	(628)
Increase in investment contract liabilities – non-participating	**(36)**	(80)	**(36)**	(80)
Increase in long-term linked insurance contract liabilities	**–**	(24)	**–**	(24)
	(90)	(1,213)	**(93)**	(1,214)
Mutual bonus (disclosed separately on the Statement of Comprehensive Income)	**27**	24	**27**	24
	(63)	(1,189)	**(66)**	(1,190)
Increase/(decrease) in long-term contract liabilities ceded to reinsurers				
Increase/(decrease) in long-term insurance contract liabilities	**117**	(30)	**117**	(30)
Increase in long-term linked insurance contract liabilities	**10**	23	**10**	23
	127	(7)	**127**	(7)
(Decrease)/increase in non-participating value of in-force business	**(17)**	65	**(17)**	65
Net change in contract liabilities	**47**	(1,131)	**44**	(1,132)

Notes to the Financial Statements continued

Year ended 31 December 2015

26 Deferred acquisition costs

Accounting for deferred acquisition costs

For business other than long-term insurance business, the costs of acquiring new business which are incurred during the financial year, but where the benefit of such costs will be obtained in subsequent accounting periods are deferred and recognised as an asset to the extent that they are recoverable out of margins in future matching revenues

In respect of insurance contracts, acquisition costs comprise all allowable costs incurred in writing new contracts Deferred acquisition costs for insurance contracts are amortised over a period which is consistent with the assessment of the expected pattern of receipt of future revenue margins for each product type

All deferred acquisition costs are tested for recoverability at each reporting date The carrying values are adjusted to recoverable amounts and any resulting impairment losses are charged to the Statement of Comprehensive Income

Group	£m
At 1 January 2015	**97**
Acquisition costs deferred	**196**
Amortisation	**(194)**
At 31 December 2015	**99**
At 1 January 2014	98
Acquisition costs deferred	199
Amortisation	(200)
At 31 December 2014	97

Deferred acquisition costs are all due within one year for both 2014 and 2015 They relate to general insurance contracts Acquisition costs are costs of acquiring new business and include commissions, underwriting expenses and policy issue expenses There were no deferred acquisition costs held by the Society in 2015 (2014 £nil)

27 Reinsurance assets

Accounting for reinsurance assets

Contracts entered into by the Group with reinsurers under which the Group is compensated for losses on the insurance contracts issued by the Group are classified as reinsurance contracts A contract is only accounted for as a reinsurance contract where there is significant insurance risk transfer between the insured and the insurer Reinsurance assets include balances due from reinsurance companies for ceded insurance liabilities Amounts recoverable from reinsurers are estimated in a consistent manner with the outstanding claims provisions or settled claims associated with the reinsured policies and in accordance with the relevant reinsurance contract

An impairment review is performed at the Statement of Financial Position date Impairment occurs when there is evidence that the Group will not recover outstanding amounts under the contract, such losses being recorded immediately in the Statement of Comprehensive Income

Significant accounting estimates and judgements

Classification of the Group's contracts with reinsurers as reinsurance contracts

A contract is required to transfer significant insurance risk in order to be classified as a reinsurance contract Management reviews all terms and conditions of each such contract, and if necessary obtains the opinion of an independent expert at the negotiation stage in order to be able to make this judgement

Notes to the Financial Statements continued
Year ended 31 December 2015

27 Reinsurance assets (continued)

		Group		Society	
		2015	2014	2015	2014
	Note	£m	£m	£m	£m
Reinsurers' share of provision for unearned premiums	23 a	**12**	13	**-**	-
Reinsurers' share of long-term insurance contract liabilities	23 a	**412**	295	**412**	295
Reinsurers' share of long-term linked insurance contract liabilities	23 a	**80**	70	**80**	70
Reinsurers' share of claims liabilities	23 a	**386**	125	**-**	-
		890	503	**492**	365
Within one year		**111**	42	**(3)**	(6)
Over one year		**779**	461	**495**	371
		890	503	**492**	365

In the latter part of 2015 the Group entered into a Loss Portfolio Transfer Agreement resulting in reinsurance of 20% of its general insurance booked reserves as at 31 December 2015 This has had an impact of £242m on the reinsurers' share of claims liabilities

The carrying amounts disclosed above reasonably approximate fair value at the Statement of Financial Position date

28 Long-term insurance and investment contract liabilities valuation assumptions

The basis of the calculation of the long-term insurance contract liabilities is described in the accounting policies The liability is calculated separately for each life operation Material judgement is required in calculating the liability In particular there is discretion over the assumptions used For participating business, the liability is calculated in accordance with the PRA s realistic capital regime Non-participating liabilities are valued using a gross premium method

In calculating the realistic liabilities, account has also been taken of future management actions consistent with those set out in the Principles and Practices of Financial Management

The assumptions used to calculate the liability depend on the circumstances prevailing in each of the life operations The assumptions used in determining the liability are estimated to give a result within the normal range of outcomes To the extent that the ultimate cost differs to the amounts provided, for example where experience is worse than that assumed, the surplus or deficit will be credited or charged to the Statement of Comprehensive Income in future years

When valuing options and guarantees the asset model used was the Moody's Market-Consistent Asset Model This is a deflator model based on published financial economic theory that is capable of market-consistent valuations for multiple asset classes in multiple currencies For this valuation it was calibrated to market data as at 31 December 2015 representative of the nature and term of the guarantees inherent in participating insurance contracts within the participating insurance contract funds

The accounting policies for long-term insurance and investment contract liabilities are included within Notes 23 and 18 respectively Sensitivities to changes in assumptions are included within Note 4

a) Society

i) Participating insurance contracts

For participating insurance contracts, a market consistent valuation is used to calculate the liability This involves placing a value on liabilities similar to the market value of assets with similar cash flow patterns The key assumptions used in this valuation are set out below

Interest rates

The risk-free interest rates assumed are

Year	2015	2014
5	**1 37%**	1 19%
15	**2 47%**	2 26%
25	**2 83%**	2 64%
35	**2 68%**	2 61%

Notes to the Financial Statements continued
Year ended 31 December 2015

28 Long-term insurance and investment contract liabilities valuation assumptions (continued)

Other assumptions

Best estimate assumptions are set for inflation, mortality, expenses and persistency The future expense inflation assumption is modelled as RPI plus 0 5% (2014 RPI plus 0 5%), where RPI in both 2015 and 2014 is modelled stochastically

Asset mix for assets backing asset shares at the valuation date	2015	2014
Cash	**3 08%**	1 48%
Fixed interest	**38.30%**	39 97%
Equities	**47 95%**	49 47%
Property	**10.67%**	9 08%

Mortality rate tables	2015	2014
Conventional Life Business	**75% AM80 Females -3**	75% AM80 Females -3
Conventional Pensions Business	**120% AMC00/AFC00 CMI_2013_1 5%**	120% AMC00/AFC00 CMI_2013_1 5%
Conventional Industrial Branch Business	**80% up to age 80, rising linearly to 100% at age 100 ELT16**	80% up to age 80, rising linearly to 100% at age 100 ELT16
Non-Unitised Accumulating Pensions Business	**65% AM80**	65% AM80
Unitised Accumulating Life Business	**80% AM80/AF80**	80% AM80/AF80
Unitised Accumulating Pensions Business	**80% AM80**	80% AM80
Unitised Accumulating Bond Business	**80% AM80**	80% AM80
Unitised Accumulating Life ISA Business	**80% AM80 select/AF80 select**	80% AM80 select/AF80 select
Heritage Annuities in Payment	**Males 110% RMV00 CMI_2013 1 5% LT**	Males RMV00 CMI_2013 1 5% LT
	Females 110% RFV00 CMI_2013 1 5% LT	Females RFV00 CMI_2013 1 5% LT

Per policy expenses – regular premiums	2015	2014
Conventional Life Business	**£40 50**	£39 10
Conventional Pensions Business	**£44 80**	£43 20
Conventional Industrial Branch Business*	**£15 40**	£14 90
Non-Unitised Accumulating Pensions Business	**£38 40**	£37 00
Unitised Accumulating Life Business	**£45 60**	£44 00
Unitised Accumulating Pensions Business	**£44 80**	£43 20
Unitised Accumulating Bond Business	**£41 50**	£40 00
Unitised Accumulating Life ISA Business	**£53.00**	£51 10
Heritage Annuities in Payment	**£53 80**	£51 90

A percentage of these amounts is used for single premium and paid up policies

* The unit cost for IB business has been grossed-up to allow for a reduction made to the in-force data to reflect policies that are believed no longer likely to give rise to a claim

Persistency – lapses, surrenders and paid up rates

A review of persistency is carried out annually Assumptions for each product class are adjusted where necessary to reflect more recent experience as evidenced in the persistency trend analysis

Options and guarantees

There are no guaranteed annuity or financial options within the Society participating contract funds

Notes to the Financial Statements continued

Year ended 31 December 2015

28 Long-term insurance and investment contract liabilities valuation assumptions (continued)

ii) Non-participating insurance contracts

Interest rate	2015	2014
Non-profit temporary assurances (original LVFS)	**2 20%**	2 10%
Non-profit temporary assurances	**1.74%**	1 58%
Whole of life assurances	**1.74%**	1 58%
Permanent health insurance		
a) active lives	**2 18%**	1 98%
b) claims reserves	**1 83%**	1 53%
Critical illness	**2 18%**	1 98%
Other assurances	**1 74%**	1 58%
Retirement Solutions annuities in payment	**3 32%**	2 76%
Heritage annuities in payment	**2 36%**	2 18%

Mortality rate tables	2015	2014
Non-profit temporary assurances (original LVFS)	**AM80/AF80**	AM80/AF80
Non-profit temporary assurances	**TMN00/TMS00 TFN00/TFS00***	TMN00/TMS00 TFN00/TFS00*
Whole of life assurances	**AMC00/AFC00 CMI_2013 1 5% LT***	AMC00/AFC00 * **
Other assurances	**AM92/AF92**	AM92/AF92
Retirement Solutions annuities in payment	**80 75% RMV00/RFV00 CMI_2013 1 5% LT*** **	80 75% RMV00/RFV00 CMI_2013 1 5% LT***
Heritage annuities in payment	**93 5% RMV00/RFV00 CMI_2013 1 5% LT**	85% RMV00/RFV00 CMI_2013 1 5% LT

* A series of duration and age-related adjustment factors are applied to the base mortality rates These adjustments vary by product line and smoking status

** An allowance is made for future mortality improvements using uniform age-specific improvement rates derived as weighted averages of CMI_2013 1 5% LT

*** The mortality rates for enhanced annuity contracts are adjusted so as to allow for convergence to standard mortality at advanced ages These adjustments vary according to lifestyle or medical condition, gender, age and duration in-force

Morbidity rate tables	2015	2014
Permanent health insurance		
a) active lives	**CMIR12**	CMIR12
b) claims reserves	**CMIR12**	CMIR12
Critical illness	**Reinsurer rates**	Reinsurer rates

A series of adjustments are made to the standard mortality and morbidity tables to take account of actual experience and publicly available market data The adjustments for permanent health insurance vary by product line, age, smoking status, sickness duration, deferred periods and occupations

Per policy expenses – regular premiums	2015	2014
Non-profit temporary assurances	**£19 58**	£19 03
Whole of life assurances	**£15 51**	£15 07
Permanent health insurance		
a) active lives	**£29 37**	£28 49
b) claims reserves (per policy in claim)	**£662 97**	£641 63
Critical illness	**£29.04**	£28 16
Other assurances	**£43.12**	£41 58
Retirement Solutions annuities in payment	**£54.12**	£52 36
Heritage annuities in payment	**£59.18**	£57 09

Options and guarantees

There are no significant options and guarantees in the non-participating business

Notes to the Financial Statements continued

Year ended 31 December 2015

28 Long-term insurance and investment contract liabilities valuation assumptions (continued)

iii) Investment and long-term linked insurance contracts

The provision for unit linked business is equal to the value of the assets to which the contracts are linked This is classified as an investment product and the liability is included within the long-term investment contract liabilities

Within insurance contract liabilities the provisions for index-linked permanent health insurance claims, index-linked temporary assurances and index-linked annuities in payment have been calculated using the same mortality and morbidity assumptions as used for the corresponding non-linked liabilities for both 2015 and 2014

b) Liverpool Victoria Life Company Limited – Ordinary Long-Term Fund

i) Participating insurance contracts

Liverpool Victoria Life Company Limited has no participating business

ii) Non-participating insurance contracts

Interest rate	2015	2014
Non-profit temporary assurances	**1 74%**	1 58%
Other assurances	**1.43%**	1 22%

Mortality rate tables	2015	2014
Non-profit temporary assurances	**TMN00/TMS00 TFN00/TFS00**	TMN00/TMS00 TFN00/TFS00
Other assurances	**AM92/AF92**	AM92/AF92

Appropriate adjustments were made to the standard mortality tables to take account of actual experience

Per policy expenses – regular premiums	2015	2014
Non-profit temporary assurances	**£19 58**	£19 03
Other assurances	**£27 94**	£26 95

c) RNPFN fund

RNPFN denotes Royal National Pension Fund for Nurses, which is a ring-fenced fund The free assets attributable to this fund are reported as insurance contract liabilities of the Society

i) Participating business

For participating business, a market-consistent valuation is used to calculate the liability This involves placing a value on liabilities similar to the market value of assets with similar cash flow patterns The key assumptions used in this valuation are set out in the tables below

Interest rates

The interest rates for RNPFN are set using an approach consistent with that described for the Society in section a(i)

Other assumptions

Best estimate assumptions are set for inflation, mortality, expenses and persistency The future expense inflation assumption is modelled as RPI plus 0 5% (2014 RPI plus 0 5%), where RPI in both 2015 and 2014 is modelled stochastically

Asset mix for assets backing asset shares at the valuation date	2015	2014
Cash	**4.88%**	3 14%
Fixed interest	**60.43%**	61 86%
Equities	**32.30%**	32 94%
Property	**2.39%**	2 06%

Mortality rate tables	2015	2014
Conventional Life Business	**60% AM/F00 ult**	60% AM/F00 ult
Life Deferred Annuities	**50% AM/F00 ult**	50% AM/F00 ult
Pension Deferred Annuities	**50% AM/F00 ult**	50% AM/F00 ult
Unitised with-profits Business	**60% AM/F00 ult**	60% AM/F00 ult

Notes to the Financial Statements continued

Year ended 31 December 2015

28 Long-term insurance and investment contract liabilities valuation assumptions (continued)

c) RNPFN fund (continued)

Per policy expenses – regular premiums	2015	2014
Conventional Life Business	**£40 50**	£39 10
Pensions Deferred Annuities	**£44 80**	£43 20
Life Deferred Annuities	**£40 50**	£39 10
Unitised with-profits ISA	**£53 00**	£51 10
Unitised with-profits Bond	**£41 50**	£40 00

Persistency – lapses, surrenders and paid up rates

A review of persistency is carried out annually Assumptions are adjusted where necessary to reflect more recent experience as evidenced in the persistency trend analysis

Options and guarantees

The provisions held in respect of guaranteed annuity options are determined on a market consistent basis The total amount provided in respect of the future costs of the guaranteed annuity options was £83m (2014 £95m)

ii) Non-participating business

Interest rate	2015	2014
Non-profits assurances	**1 68%**	1 52%
Non-profits general deferred annuities	**1 68%**	1 52%
Annuities in Payment (Life)	**1 68%**	1 52%
Annuities in Payment (Pension)	**2 10%**	1 90%
Pension Deferred Annuities	**2 10%**	1 90%

Mortality rate tables	2015	2014
Non-profits assurances	**72 0% AM/F00 ult**	72 0% AM/F00 ult
Non-profits general deferred annuities	**42 5% AM/F00 ult**	42 5% AM/F00 ult
Annuities in Payment (Male)	**61 2% IML00 with CMI_2009 improvement model with a long-term improvement rate of 1.75%**	61 2% IML00 with CMI_2009 improvement model with a long-term improvement rate of 1 75%
Annuities in Payment (Female)	**72.3% IFL00 with CMI_2009 improvement model with a long-term improvement rate of 1 5%**	72 3% IFL00 with CMI_2009 improvement model with a long-term improvement rate of 1 5%
Pension Deferred Annuities	**42 5% AM/F00 ult**	42 5% AM/F00 ult

Appropriate adjustments were made to the standard mortality tables to take account of actual experience and publicly available market data

iii) Linked fund

There are two main classes of contract included within the linked fund, one is classified as an insurance contract and the liability is included within the long-term unit linked insurance contract liabilities, the other is classified as an investment product and the liability is included within the investment contract liabilities The provision for unit linked contracts is equal to the value of the units A non-unit liability consisting mainly of a sterling reserve calculated by carrying out cash flow projections on appropriate bases is included within the liability for insurance contracts only

Interest rate	2015	2014
Unit linked assurances	**1 68%**	1 52%

Mortality rate tables	2015	2014
Unit linked assurances	**72% AM/F00 ult**	72% AM/F00 ult

Notes to the Financial Statements continued

Year ended 31 December 2015

29 Non-participating value of in-force business valuation assumptions

a) Society

Non-participating contracts

Interest rates

The earned rate and discount rate are set by reference to the risk free yield curve applicable at the valuation date with appropriate adjustments for an illiquidity premium and margins for risk and uncertainty, with the exception of Retirement Solutions and Heritage annuities in payment where the earned rate is based on the IRR of the risk adjusted backing assets cashflows

Mortality rate tables	2015	2014
Non-profit temporary assurances (original LVFS)	**AM80/AF80**	AM80/AF80
Non-profit temporary assurances	**TMN00/TMS00 TFN00/TFS00 CMI_2013 1 5% LT***	TMN00/TMS00 TFN00/TFS00*
Whole of Life Assurances	**AMC00/AFC00 CMI_2013 1 5% LT***	AMC00/AFC00* **
Other assurances	**AM92/AF92**	AM92/AF92
Retirement Solutions annuities in payment	**95% RMV00/RFV00 CMI_2013 1 5% LT*****	95% RMV00/RFV00 CMI_2013 1 5% LT***
Heritage annuities in payment	**110% RMV00/RFV00 CMI_2013 1 5% LT**	RMV00/RFV00 CMI_2013 1 5% LT
Unit linked pensions (original LVFS)	**AM92C20/AF92C20**	AM92C20/AF92C20

* A series of duration and age-related adjustment factors are applied to the base mortality rates These adjustments vary by product line and smoking status

** An allowance is made for future mortality improvements using uniform age-specific improvement rates derived as weighted averages of CMI_2013 1 5% LT

*** The mortality rates for enhanced annuity contracts are adjusted so as to allow for convergence to standard mortality at advanced ages These adjustments vary according to lifestyle or medical condition, gender, age and duration in-force

Morbidity rate tables	2015	2014
Permanent health insurance		
a) active lives	**CMIR12**	CMIR12
b) claims reserves	**CMIR12**	CMIR12
Critical illness	**Reinsurer rates**	Reinsurer rates

A series of adjustments are made to the standard mortality and morbidity tables to take account of actual experience and publicly available market data The adjustments for permanent health insurance vary by product line, age, smoking status, sickness duration, deferred periods and occupations

Persistency and unit costs

Persistency and unit costs assumptions are based on our best estimate of future experience

A review of persistency is carried out annually Assumptions for each product class are adjusted where appropriate to reflect more recent experience as evidenced in the persistency trend analysis

b) Liverpool Victoria Life Company Limited – Ordinary Long-Term Fund

There is no non-participating value of in-force business recognised in the LVLC fund

c) RNPFN fund

There is no non-participating value of in-force business recognised in the RNPFN fund

Notes to the Financial Statements continued
Year ended 31 December 2015

Fixed assets and investments

This section gives detail on the tangible, intangible and investment assets of the Society and Group that are used to generate profit for the business

30 Property and equipment

Accounting for property and equipment
Operational property and equipment are held at cost less accumulated depreciation Cost includes the original purchase price of the asset and the costs attributable to bringing the asset to its working condition for its intended use Both property and equipment are depreciated on a straight line basis over their estimated useful lives The periods used are as follows

Freehold buildings and finance lease property	10 to 50 years
Leasehold property enhancements	10 years or lease term if shorter
Fixtures and fittings	3 to 10 years
IT equipment	3 to 6 years

Provision is made for any impairment in property and equipment

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each Statement of Financial Position date

Group	Freehold and leasehold property £m	Leasehold property enhancements £m	Fixtures, fittings and IT equipment £m	Total £m
Cost				
At 1 January 2015	20	15	17	52
Additions	21	–	5	26
Disposals	(2)	–	–	(2)
At 31 December 2015	**39**	**15**	**22**	**76**
Accumulated depreciation				
At 1 January 2015	17	7	9	33
Provided in the year	1	2	3	6
Disposals	(2)	–	–	(2)
At 31 December 2015	**16**	**9**	**12**	**37**
Net book value at 31 December 2015	**23**	**6**	**10**	**39**
Cost				
At 1 January 2014	19	14	14	47
Additions	1	1	3	5
At 31 December 2014	20	15	17	52
Accumulated depreciation				
At 1 January 2014	16	6	7	29
Provided in the year	1	1	2	4
At 31 December 2014	17	7	9	33
Net book value at 31 December 2014	3	8	8	19

Included within the Freehold and leasehold property category above are assets held under finance leases with a net book value of £20m (2014 £nil)

Notes to the Financial Statements continued

Year ended 31 December 2015

30 Property and equipment (continued)

Society	Leasehold property enhancements £m	Fixtures, fittings and IT equipment £m	Total £m
Cost			
At 1 January 2015	6	10	16
Additions	–	4	4
At 31 December 2015	**6**	**14**	**20**
Accumulated depreciation			
At 1 January 2015	3	5	8
Provided in the year	1	2	3
At 31 December 2015	**4**	**7**	**11**
Net book value at 31 December 2015	**2**	**7**	**9**
Cost			
At 1 January 2014	6	7	13
Additions	–	3	3
At 31 December 2014	6	10	16
Accumulated depreciation			
At 1 January 2014	3	4	7
Provided in the year	–	1	1
At 31 December 2014	3	5	8
Net book value at 31 December 2014	3	5	8

Notes to the Financial Statements continued

Year ended 31 December 2015

31 Intangible assets

Accounting for goodwill and other intangible assets

Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary/associate at the acquisition date and is included in intangible assets Goodwill is reviewed for impairment at the end of the first full year of acquisition Thereafter it is tested at each Statement of Financial Position date for impairment against the recoverable amount (being the higher of value in use or fair value less cost) of the relevant cash generating unit and carried in the Statement of Financial Position at cost less accumulated impairment losses Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold

Goodwill arising on acquisitions prior to 1998 has been eliminated against the Unallocated divisible surplus This goodwill would be recognised in the Statement of Comprehensive Income should there be a subsequent disposal of the business to which it relates

Other intangibles

Where an acquisition takes place that gives access to existing customers, distribution channels or the right to charge for investment or policy administration services, the present value of these is recognised as an intangible asset

The carrying value of the asset is amortised, on a straight line basis over its expected economic life, and is assessed annually for impairment

The expected economic life of other intangibles carried by the Group is determined by reference to acquired business, considering factors such as the remaining terms of agreements, the normal lives of related products and the competitive position, and lies within the range of 10 to 20 years

Present value of acquired in-force business (PVIF)

On acquisition of a portfolio of long-term insurance contracts, the net present value of the Group's interest in the expected cash flows of the in-force business is capitalised in the Statement of Financial Position as an asset and is amortised, in line with the original expected run-off of 20 years, based on the anticipated lives of the related contracts

The carrying value of the asset is assessed annually using current assumptions in order to determine whether any impairment has arisen, compared to the amortised acquired value

Any amortisation or impairment charge is recorded in the Statement of Comprehensive Income within Other operating and administrative expenses

IT Software

IAS 38 Intangible Assets requires the capitalisation of certain expenditure relating to software costs Software costs are capitalised if it is probable that the asset created will generate future economic benefits Costs incurred to establish technological feasibility or to maintain existing levels of performance are recognised as an expense

Software costs, including computer application software licences, are recognised as intangible fixed assets and amortised using the straight line method over their useful lives (three to six years) The amortisation periods used are reviewed annually

Software values are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable Where the carrying amount is not recoverable the asset is written down immediately to the estimated recoverable amount, based on value in use calculations

Significant accounting estimates and judgements

The Group determines whether goodwill and other intangible assets are impaired at least on an annual basis This requires an estimation of the recoverable amount of the cash generating unit to which the goodwill is allocated The Group has allocated the goodwill to two single cash generating units based on the key operating segments of the Group

Details of the key assumptions used in the estimation of the recoverable amounts and the carrying value at the reporting date are contained at the end of this note

Notes to the Financial Statements continued

Year ended 31 December 2015

31 Intangible assets (continued)

Group	Goodwill £m	Other intangible assets £m	PVIF £m	Software and licence costs £m	Total £m
Cost					
At 1 January 2015	233	95	63	11	402
Acquisitions	8	–	–	–	8
Additions	–	–	–	10	10
At 31 December 2015	**241**	**95**	**63**	**21**	**420**
Accumulated amortisation					
At 1 January 2015	21	82	63	–	166
Charge for the year	–	3	–	2	5
At 31 December 2015	**21**	**85**	**63**	**2**	**171**
Net book value at 31 December 2015	**220**	**10**	**–**	**19**	**249**
Cost					
At 1 January 2014	233	95	63	4	395
Additions	–	–	–	7	7
At 31 December 2014	233	95	63	11	402
Accumulated amortisation					
At 1 January 2014	21	79	63	–	163
Charge for the year	–	3	–	–	3
At 31 December 2014	21	82	63	–	166
Net book value at 31 December 2014	212	13	–	11	236

Present Value of acquired In-Force business (PVIF) was fully written off in 2013

Other intangible assets comprise the value of the future benefit derived from the customer bases of RNPFN (in the Society) which has been fully amortised, Britannia Road Rescue, Highway and the value of the Tomorrow/Retirement Solutions distribution channel, which are being amortised over periods varying between 10 and 20 years from the original acquisition date These intangible assets will be fully amortised by 2027

Amortisation of £5m (2014 £3m) is presented within Other operating and administrative expenses in the Statement of Comprehensive Income There was no impairment charge in 2015 (2014 £nil)

Goodwill has been allocated to the individual cash generating units which are based on the key segments of the Group as follows

	Group 2015 £m	Group 2014 £m
Long-term insurance business	**75**	67
General insurance business	**166**	166
	241	233

Notes to the Financial Statements continued

Year ended 31 December 2015

31 Intangible assets (continued)

Society	Other intangible assets £m	Software and licence costs £m	Total £m
Cost·			
At 1 January 2015	51	-	51
Additions	-	1	1
At 31 December 2015	**51**	**1**	**52**
Accumulated amortisation			
At 1 January 2015	51	-	51
At 31 December 2015	**51**	**-**	**51**
Net book value at 31 December 2015	**-**	**1**	**1**
Cost			
At 1 January 2014	51	-	51
At 31 December 2014	51	-	51
Accumulated amortisation			
At 1 January 2014	51	-	51
At 31 December 2014	51	-	51
Net book value at 31 December 2014	-	-	-

Impairment testing of goodwill

Goodwill is reviewed annually for impairment, or more frequently when there are indicators that impairment may have occurred, by comparing the carrying value to its recoverable amount The recoverable amount of the cash generating unit is based on value in use calculations The calculations are based upon discounting expected pre-tax cash flows at a risk-adjusted interest rate appropriate to the cash generating unit, the determination of both of which requires the exercise of judgement The estimation of pre-tax cash flows is sensitive to the periods for which forecasts are available and to assumptions regarding the long-term sustainable cash flows While forecasts are compared with actual performance and external economic data, expected cash flows reflect management's view of future performance

Key assumptions used in the annual impairment testing of intangible assets

The key assumptions used for impairment testing are set out below for both the long-term insurance business and the general insurance business The long-term insurance business incorporates both the Heritage and Life businesses

Long-term insurance business

The recoverable amount of the long-term insurance business has been determined using cash flow predictions based on financial plans approved by management covering a three year period, with a terminal growth rate of 2% applied thereafter The forecast cash flows have been discounted at a pre-tax rate of 9% Both the growth rate and the discount rate are consistent with the ranges observed in the market place Based on the above assumptions, the recoverable amount exceeded the carrying amount including goodwill by £501m

A two percentage point increase in the discount rate would reduce the recoverable amount by £125m, the discount rate would need to be increased to 79% to reduce the excess of the recoverable amount over the carrying value to zero A reduction in the forecast cash flows of 10% per annum would reduce the recoverable amount by £62m, the forecast cash flows would need to be reduced by 82% per annum to reduce the excess of the recoverable amount over the carrying value to zero

General insurance business

The recoverable amount of the general insurance business has been determined using cash flow predictions based on financial plans approved by management covering a three year period, with a terminal growth rate of 2% applied thereafter The forecast cash flows have been discounted at a pre-tax rate of 9% Both the growth rate and the discount rate are consistent with the ranges observed in the market place Based on the above assumptions, the recoverable amount exceeded the carrying amount including goodwill by £763m A two percentage point increase in the discount rate would reduce the recoverable amount by £328m, the discount rate would need to be increased to 17% to reduce the excess of the recoverable amount over the carrying value to zero

For the general insurance business the cash flows used in the financial plans are most sensitive to changes in the loss ratio A 1% increase in the loss ratio would reduce the recoverable amount by £191m, the loss ratio would need to increase by 4 1% over the longer term, to reduce the excess of the recoverable amount over the carrying value to zero Key loss ratio assumptions are based on a combination of historic and current market place trends, and management judgement

Notes to the Financial Statements continued

Year ended 31 December 2015

32 Investments in group undertakings

Accounting for investments in group undertakings
Shares in subsidiaries
The subsidiaries are held in the Society's Statement of Financial Position at cost less any provision for impairment
An assessment of the realisable value is made at the year end and, if the Directors assess that there has been a permanent fall in that value below the carrying value, a provision is made to bring the carrying value down to the assessed realisable value

Loan stock in subsidiaries
Loan stock in subsidiaries is initially measured at fair value Subsequent to initial recognition it is measured at amortised cost

Society	2015 £m	2014 £m
Shares in subsidiaries		
Cost less provisions at 1 January	**467**	466
Acquisitions	**8**	–
Additions	**6**	1
Reduction in carrying value including write-offs	**(11)**	–
	470	467
Loan stock in subsidiaries		
Cost at 1 January	**300**	300
	300	300
Shares and loan stock in subsidiaries at 31 December	**770**	767

The £8m acquisition relates to the purchase of the Wealth Wizards Group of companies by the Society in 2015 (see Note 50)

The Society has examined the carrying value of its subsidiaries and concluded that a provision for impairment of £11m (2014 £nil) was required in regard to these investments Additions primarily relate to capital injections made into existing subsidiary undertakings during the year

Further details of the Group s loan stock are given in Note 52 and the Group's investments in Notes 46 and 47

Notes to the Financial Statements continued

Year ended 31 December 2015

Other assets and liabilities

This section describes the other assets and liabilities arising from the life insurance business within the Society and the life insurance and general insurance businesses within the Group

33 Insurance receivables

	Group		Society	
	2015	2014	**2015**	2014
	£m	£m	**£m**	£m
Due from policyholders	**159**	134	**2**	1
Due from agents, brokers and intermediaries	**84**	69	**–**	–
Due from reinsurers	**18**	17	**18**	17
	261	220	**20**	18

Insurance receivables are all due within one year for both the Group and the Society

The carrying amounts disclosed above reasonably approximate fair value at the Statement of Financial Position date

34 Prepayments and accrued income

	Group		Society	
	2015	2014	**2015**	2014
	£m	£m	**£m**	£m
Accrued interest	**88**	96	**66**	64
Other prepayments and accrued income	**37**	27	**25**	14
	125	123	**91**	78

Prepayment and accrued income balances are all due within one year for both the Group and the Society

35 Insurance payables

	Group		Society	
	2015	2014	**2015**	2014
	£m	£m	**£m**	£m
Due to policyholders	**31**	27	**27**	21
Due to brokers and intermediaries	**1**	1	**1**	1
Due to reinsurers	**254**	10	**1**	1
	286	38	**29**	23

In the latter part of 2015 the Group entered into a Loss Portfolio Transfer Agreement resulting in reinsurance of 20% of its general insurance booked reserves as at 31 December 2015 This has had an impact of £242m on the amounts due to reinsurers

The carrying amounts disclosed above reasonably approximate fair value at the Statement of Financial Position date

36 Trade and other payables

Accounting for trade and other payables
Trade and other payables are recognised as they fall due They are measured initially at fair value and subsequently at amortised cost

	Group		Society	
	2015	2014	**2015**	2014
	£m	£m	**£m**	£m
Bank overdrafts	**27**	18	**16**	6
Trade payables	**17**	19	**16**	19
Amounts owed to group undertakings	**–**	–	**30**	39
Other taxes and social security costs	**36**	27	**4**	7
Other creditors	**108**	79	**72**	27
Finance lease liabilities (see note 30)	**20**	2	**–**	–
Accruals and deferred income	**110**	111	**66**	63
	318	256	**204**	161

The carrying amounts disclosed above reasonably approximate fair value at the Statement of Financial Position date

Notes to the Financial Statements continued

Year ended 31 December 2015

Taxation

This section presents information relating to the tax charge and movements in the corporation and deferred tax assets and liabilities held by the Society and Group

37 Income tax expense/(credit)

Current income tax

Current income tax liabilities and assets are measured at the amount expected to be paid to or recovered from the taxation authorities The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at the Statement of Financial Position date

Deferred income tax

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the Statement of Financial Position date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis

a) Current year tax charge	Group		Society	
	2015	2014	**2015**	2014
	£m	£m	**£m**	£m
Current tax charge				
Current year	**8**	25	**1**	11
Adjustment in respect of prior years	**(2)**	(1)	**(2)**	(1)
Total current tax	**6**	24	**(1)**	10
Deferred tax				
Temporary differences	**1**	23	**1**	23
Adjustment in respect of prior years	**(1)**	–	**(1)**	1
Total deferred tax	**–**	23	**–**	24
Total income tax expense/(credit)	**6**	47	**(1)**	34

b) Reconciliation of tax charge	Group		Society	
	2015	2014	**2015**	2014
	£m	£m	**£m**	£m
Profit/(loss) before tax, mutual bonus and UDS transfer*	**124**	37	**118**	(20)
Tax calculated at the average standard rate of corporation tax in the UK at 20 25% (2014 21 5%)	**25**	8	**24**	(4)
Permanent differences				
Income and expenses not subject to tax	**6**	2	**–**	–
Mutual profit not subject to tax	**(24)**	4	**(24)**	4
Policyholder I-E tax	**2**	34	**2**	34
Adjustment to current tax charge in respect of prior years	**(2)**	(1)	**(2)**	(1)
Adjustment to deferred tax charge in respect of prior years	**(1)**	–	**(1)**	1
Total charge	**6**	47	**(1)**	34

The standard rate of corporation tax in the UK changed from 21% to 20% with effect from 1 April 2015 Accordingly, the profits for this financial year are taxed, where applicable, at an effective rate of 20 25%

* As a Friendly Society, all net earnings are for the benefit of participating policyholders and are carried forward within the Unallocated divisible surplus (UDS), resulting in the profit for each financial year being zero Therefore the resulting Profit before tax required to be disclosed under IAS 12 will always be equal to the tax charge being £6m (2014 £47m) and £(1)m (2014 £34m) for the Group and Society respectively

In order to present a more meaningful disclosure the Profit before tax, mutual bonus and UDS transfer is disclosed in the tables above

Notes to the Financial Statements continued

Year ended 31 December 2015

38 Corporation tax asset

	Group		Society	
	2015	2014	**2015**	2014
	£m	£m	**£m**	£m
Corporation tax receivable	**10**	–	**8**	–
	10	–	**8**	–

39 Deferred tax liability

	Group Restated – see Note 1	Society Restated – see Note 1
	£m	**£m**
Balance at 1 January 2015	**(18)**	**(18)**
Amounts recorded in the Statement of Comprehensive Income	–	–
Amounts included in pension scheme re-measurements	**(23)**	**(23)**
Other movements	**(1)**	**(1)**
Balance at 31 December 2015	**(42)**	**(42)**

	Group		Society	
	2015	2014	**2015**	2014
i) Analysis of deferred taxation temporary differences	**£m**	£m	**£m**	£m
Excess of depreciation	**2**	2	–	–
Temporary differences on expenses	**11**	18	**12**	19
Temporary differences arising on consolidation	**(1)**	(1)	–	–
Temporary differences on unrealised gains	**(24)**	(30)	**(24)**	(30)
Temporary differences on re-measurement of defined benefit pension scheme	**(30)**	(7)	**(30)**	(7)
Deferred tax liability	**(42)**	(18)	**(42)**	(18)
ii) Deferred taxation asset not recognised				
Tax losses unrecognised	**4**	4	–	–
	4	4	–	–

The value of deferred tax liabilities expected to be settled after more than 12 months is £39m in the Group (2014 £18m) and £39m in the Society (2014 £18m)

The calculation of deferred tax balances at the year-end also takes into account the reduction in the UK main corporation tax rate to 20%, effective from 1 April 2015, and further reductions to 19% and 18%, both substantively enacted on 26 October 2015, that will be effective from 1 April 2017 and 1 April 2020 respectively

The valuation and recoverability of deferred tax assets relating to capital allowances in excess of depreciation, and temporary differences on expenses is dependent on the availability of future taxable profits within the Society and Group Management forecasts currently support the future recoverability of deferred tax assets recognised in the balance sheet as at 31 December 2015

40 Corporation tax liability

	Group		Society	
	2015	2014	**2015**	2014
	£m	£m	**£m**	£m
Corporation tax	–	16	–	10
	–	16	–	10

Notes to the Financial Statements continued

Year ended 31 December 2015

Employee benefits

This section details the costs and commitments associated with employing our staff

41 Employee benefits expense

Accounting for staff costs under IAS 19
The Society and Group apply IAS 19 Employee benefits in accounting for staff costs

Short-term employee benefits
Salaries, accrued bonuses and social security costs are recognised over the period in which the employees provide the services to which the payments relate

	Group		Society	
	2015 £m	2014 £m	**2015 £m**	2014 £m
Wages and salaries	**229**	207	**229**	207
Social security costs	**20**	20	**20**	20
Pension costs	**21**	21	**21**	21
	270	248	**270**	248

Wages and salaries include charges for ongoing in flight long-term incentive plans (LTIPs) for Life, General Insurance and Group employees of £1 8m in 2015 (2014 £1 7m) The Group LTIP plan terms are described in the Annual Report on Remuneration on page 103

For the 2013-15 scheme the Life and General Insurance businesses and Group have met the threshold targets for growth in Enterprise Value and, Relative Investment Performance and £3 7m will be paid to eligible employees in April 2016

The number of employees during the year, including executive directors, calculated on a monthly average basis, was as follows

	Group		Society	
	2015 Number	2014 Number	**2015 Number**	2014 Number
Member and customer contact	**3,979**	3,952	**3,979**	3,952
Administration	**2,051**	1,937	**2,051**	1,937
	6,030	5,889	**6,030**	5,889

42 Pension benefit asset/(obligation)

Accounting for pension benefits under IAS 19
For defined benefit schemes, the net surplus or deficit is calculated annually with the assets measured at the fair value at the Statement of Financial Position date and the liabilities discounted at the rate of return available on high quality corporate bonds The net surplus, to the extent recoverable, or deficit is recognised as a pension benefit asset or liability in the Statement of Financial Position

The pension cost for the schemes is analysed between current service cost, past service cost, net interest on the net defined benefit liability and any gain or loss on settlement Current service cost is the actuarially calculated present value of the benefits earned by the active employees in each period Past service costs, relating to employee service in prior periods arising in the current period as a result of the introduction of, or improvement to, retirement benefits, are recognised in Other operating and administrative expenses on a straight-line basis over the period in which the increases in benefits vest or are earned

All movements other than re-measurements in respect of the pension benefit obligation are recognised in Other operating and administrative expenses in the Statement of Comprehensive Income Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are recognised as re-measurements in the Statement of Comprehensive Income in the period in which they arise

For defined contribution plans, the Group pays contributions to an independently administered pension fund The Group has no further payment obligations once the contributions have been paid The contributions are recognised as an employee benefit expense when they are due

Significant accounting estimates and judgements
The valuations of the pension benefit obligations for the Group's two defined benefit schemes require actuarial assumptions about discount rates, inflation, future salary increases, longevity and future pension increases Due to the long-term nature of these obligations, the estimates are subject to significant uncertainty

Details of the principal assumptions used for each of the defined benefit schemes are disclosed within the valuations of the individual schemes disclosed in sections (ii) and (iii)

Notes to the Financial Statements continued

Year ended 31 December 2015

42 Pension benefit asset/(obligation) (continued)

Defined benefit pension schemes

The Group operates two defined benefit pension schemes, the LV= Employee Pension Scheme ('LV Scheme') and the Ockham Pension Scheme (acquired as part of an earlier acquisition) The Society is the principal employer for both of these schemes Further details of the LV and Ockham schemes are disclosed separately within sections (ii) and (iii) of this note respectively

Defined contribution pension schemes

All employees are eligible to join the defined contribution scheme Employees contribute a minimum of 3% of salary The employee contribution is double matched by the Society up to a maximum employer contribution of 14% The assets of this scheme are held separately from those of the Group in an independently administered fund The Group's contribution under this scheme during the year amounted to £19m (2014 £19m)

i) Summary of defined benefit schemes

Pension benefit asset/(obligation)	**2015**			2014		
	LV Scheme £m	**Ockham £m**	**Total £m**	LV Scheme £m	Ockham £m	Total £m
Asset	**87**	**–**	**87**	21	–	21
Obligation	**–**	**(3)**	**(3)**	–	(11)	(11)
	87	**(3)**	**84**	21	(11)	10

Re-measurements	**2015**			2014 Restated – see Note 1		
	LV Scheme £m	**Ockham £m**	**Total £m**	LV Scheme £m	Ockham £m	Total £m
Re-measurements	**66**	**8**	**74**	33	(7)	26
Income tax expense	**(23)**	**–**	**(23)**	(7)	–	(7)
Amount charged to Total Comprehensive Income	**43**	**8**	**51**	26	(7)	19
Cumulative re-measurements recognised in the Statement of Comprehensive Income	**115**	**(4)**	**111**	72	(12)	60

ii) LV Scheme

a) Information about the scheme

The LV scheme is a final salary pension scheme, which provides benefits to members in the form of a guaranteed level of pension payable for life The level of benefits depends upon the member's length of service and their final salary

The scheme assets are held in a separate trustee-administered fund to meet long-term pension liabilities to past and present employees

The liabilities of the scheme are measured by discounting the best estimate of future cash flows to be paid out by the scheme using the projected unit method, which is an accrued benefits valuation method

The scheme has a Corporate Trustee required to act in the best interests of the scheme's beneficiaries The Trustee may be removed at the discretion of the Society, in its capacity as principal employer, provided that the board of any new trustee company comprises three directors representing the members, including one director who must be a pensioner and up to a further five directors selected by the Society

The LV scheme is recognising a pension benefit asset of £87m as at 31 December 2015 (2014 £21m) Recognising this asset under the current criteria of IFRIC 14, 'The limit on a defined benefit asset, minimum funding requirement and their interaction' is allowable because the terms of the pension scheme trust deed state that the Society has an unconditional right to any assets of the scheme which ultimately remain following the scheme's termination There are currently proposals being discussed to amend IFRIC 14 Under these new proposals the Society would still be able to recognise an asset on the scheme because the pension scheme trust deed does not allow for the unilateral termination and wind-up of the scheme by the trustees Also under the terms of the pension scheme trust deed, assuming the gradual settlement of the scheme liabilities over time until all members have left the scheme, the Society would have an unconditional right to any of the assets of the scheme which remain, net of tax and expenses As at 31 December 2015, these new proposals had not been adopted

The scheme is closed to new entrants and was closed to future accrual for existing members on 30 June 2013, at which time they were eligible to join the defined contribution pension scheme

b) Net Statement of Financial Position	**2015 £m**	2014 £m
Present value of defined benefit obligation	**(1,080)**	(1,234)
Fair value of plan assets	**1,167**	1,255
Pension benefit asset at the end of the year	**87**	21

Notes to the Financial Statements continued

Year ended 31 December 2015

42 Pension benefit asset/(obligation) (continued)

ii) LV Scheme (continued)

c) The movement in the net defined benefit asset over the year is as follows	Present value of obligation £m	Fair value of plan assets £m	Total £m
At 1 January 2015	**(1,234)**	**1,255**	**21**
Pension costs			
Current service cost	**(2)**	**–**	**(2)**
Interest (expense)/income	**(41)**	**41**	**–**
	(43)	**41**	**(2)**
Re-measurements			
– Return on plan assets, excluding amounts included in interest (expense)/income	**–**	**(83)**	**(83)**
– Gain from changes in demographic assumptions	**13**	**–**	**13**
– Gain from changes in financial assumptions	**101**	**–**	**101**
– Experience gains	**35**	**–**	**35**
	149	**(83)**	**66**
Other movements			
– Contributions by employer	**–**	**2**	**2**
– Benefits paid	**48**	**(48)**	**–**
	48	**(46)**	**2**
At 31 December 2015	**(1,080)**	**1,167**	**87**

At 1 January 2014	(1,061)	1,049	(12)
Pension costs			
Current service cost	(2)	–	(2)
Interest (expense)/income	(48)	48	–
	(50)	48	(2)
Re-measurements			
– Return on plan assets, excluding amounts included in interest (expense)/income	–	202	202
– Loss from changes in financial assumptions	(170)	–	(170)
– Experience gains	1	–	1
	(169)	202	33
Other movements			
– Contributions by employer	–	2	2
– Benefits paid	44	(44)	–
– Administrative expenses paid	2	(2)	–
	46	(44)	2
At 31 December 2014	(1,234)	1,255	21

Notes to the Financial Statements continued

Year ended 31 December 2015

42 Pension benefit asset/(obligation) (continued)

ii) LV Scheme (continued)

d) Principal assumptions used		2015	2014
Discount rate		**3 95%**	3 30%
RPI inflation		**3 10%**	3 30%
CPI inflation		**2 10%**	2 30%
Pension increases for in-payment benefits			
– RPI price inflation capped at 5% pa, floor of 3% pa		**3 45%**	3 40%
– RPI price inflation capped at 5% pa		**3 10%**	3 30%
– RPI price inflation capped at 2 5% pa		**2 40%**	2 50%
– CPI price inflation capped at 3 0% pa		**2 10%**	2 30%
Rate of (non-guaranteed minimum pension) increases in deferment		**2 10%**	2 30%
Cash commutation	Active at the time of scheme closure	**10 0%**	10 0%
	Deferred at the time of scheme closure	**20 0%**	20 0%
Scheme member valuation date		**31 March 2015**	31 March 2012

The discount rate and inflation rate assumptions for 2015 and 2014 have been set with reference to yield curves The single rates disclosed above represent the weighted average equivalent rate based on the yield curve used

Mortality for members is assumed to follow the tables below as at 31 December	2015	2014
Pre-retirement mortality Deferred pensioners		
– Males	**LV specific tables from Club Vita**	1NMA x 0 95 table
– Females	**LV specific tables from Club Vita**	1NFA x 0 98 table
Post-retirement mortality Non-pensioners		
– Males	**LV specific tables from Club Vita**	LV specific tables from Club Vita
– Females (former employees)	**LV specific tables from Club Vita**	LV specific tables from Club Vita
– Females (dependants)	**LV specific tables from Club Vita**	LV specific tables from Club Vita
Post-retirement mortality current pensioners and dependants		
– Males	**LV specific tables from Club Vita**	LV specific tables from Club Vita
– Females (former employees)	**LV specific tables from Club Vita**	LV specific tables from Club Vita
– Females (dependants)	**LV specific tables from Club Vita**	LV specific tables from Club Vita

In all cases, as at 31 December 2015 and 31 December 2014, CMI Core 2011 projections with a long-term trend of 1 25% have been applied

e) Sensitivity analysis Impact on defined benefit obligation of making changes to key assumptions

	Change in assumption	Impact on defined benefit obligation
Discount rate	**Decrease by 0 5%**	**Increase by £102m (9%)**
RPI rate	**Decrease by 0 5%**	**Decrease by £53m (5%)**
Life expectancy	**Increase by 1 year**	**Increase by £33m (3%)**

The sensitivity analysis has been calculated by valuing the defined benefit obligation using the amended assumptions shown in the table above and keeping the remaining assumptions the same as disclosed in the principal assumptions table for the scheme, except in the case of the inflation sensitivity where other assumptions that depend on assumed inflation have also been amended correspondingly

Notes to the Financial Statements continued

Year ended 31 December 2015

42 Pension benefit asset/(obligation) (continued)

ii) LV Scheme (continued)

f) Plan asset information

The following table shows a breakdown of the plan assets

	2015				2014			
	Quoted £m	Unquoted £m	Total £m	%	Quoted £m	Unquoted £m	Total £m	%
Equities and unit trusts	**82**	**11**	**93**	**8**	151	12	163	13
Debt securities	**1,050**	**–**	**1,050**	**90**	927	–	927	74
Cash and cash equivalents	**68**	**–**	**68**	**6**	45	–	45	4
Real estate/property	**–**	**38**	**38**	**3**	–	39	39	3
Derivatives	**(38)**	**(65)**	**(103)**	**(9)**	–	63	63	5
Other	**1**	**20**	**21**	**2**	–	18	18	1
Total	**1,163**	**4**	**1,167**	**100**	1,123	132	1,255	100

The investment objectives of the scheme remain the maximisation of income and capital growth consistent with the principles of prudent management Investment managers have been appointed by the trustee to exercise all or any of the trustee's powers and discretion in relation to investment of the Scheme's assets The principal objectives are stated below

- To maintain a portfolio of assets of appropriate liquidity and diversification to generate income and capital growth to enable the scheme to meet the cost of current and future benefits as set out in the Trust Deed and Rules,
- To limit the risk of the assets failing to meet the liabilities over the long-term and in relation to the scheme specific funding measure introduced by the Pensions Act 2004 in the shorter-term, and
- To control the long-term costs of the scheme by maximising the return on the assets whilst having regard to the objectives stated above

Following the triennial scheme valuation that took place as at 31 March 2015, the Society as principal employer is currently in discussions with the trustees as to the on-going funding requirements of the scheme following the valuation results The Society continues to make payments of £158,720 per month towards the regular expenses of administering the defined benefit section of the Scheme The next formal valuation of the scheme is due no later than 31 March 2018

g) Pension scheme risks

Through its defined benefit pension schemes the Group is exposed to a number of risks, the most significant of which are detailed below

Asset volatility The plan liabilities are calculated using a discount rate set with reference to corporate bond yields, if plan assets underperform this yield, this will create a deficit The plan assets are predominantly held in debt securities which match the liabilities with a small holding of equities that are expected to outperform corporate bonds in the long-term

Changes in bond yields A decrease in corporate bond yields will increase plan liabilities, although this will be offset by an increase in the value of the scheme's bond holdings

Inflation risk The majority of the scheme's benefit obligations are linked to inflation, therefore an increase in inflation will lead to an increase in liabilities In most cases, caps on the level of inflationary increases and derivatives are in place to protect the scheme against significant rises in inflation

Life expectancy The scheme's obligations are to provide benefits for the life of the member, so any increases in life expectancy will result in an increase in the scheme's liabilities In 2012 the trustees of the LV Scheme entered into a longevity swap which mitigated the majority of this risk for the LV scheme

h) Expected maturity analysis of undiscounted pension benefits	Less than a year £m	Between 1 2 years £m	Between 2 5 years £m	Over 5 years £m	Total £m
At 31 December 2015	**44**	**39**	**124**	**2,300**	**2,507**

The weighted average duration of the gross defined benefit obligation is 18 years

The expected contributions to the scheme for the year ending 31 December 2016 are £2m

Notes to the Financial Statements continued

Year ended 31 December 2015

42 Pension benefit asset/(obligation) (continued)

iii) Ockham Scheme

a) Information about the scheme

The Ockham scheme is a final salary pension scheme, which provides benefits to members in the form of a guaranteed level of pension payable for life The level of benefits depends upon the members' length of service and their final salary The scheme is closed to new entrants

The scheme assets are held in separate trustee-administered funds to meet long-term pension liabilities to past employees

The liabilities of the scheme are measured by discounting the best estimate of future cash flows to be paid out by the scheme using the projected unit method, which is an accrued benefits valuation method

The scheme has a Board of Trustees who are required to act in the best interests of the scheme's beneficiaries Two of the trustees are nominated by the members under the rules notified to the members of the scheme, to serve for a period of three years In accordance with the trust deed, the Society, as principal employer, has the power to appoint and remove the other trustees of the scheme The member-nominated trustees may be removed before the end of their three year term only by the agreement of all the remaining trustees

b) Net Statement of Financial Position	2015 £m	2014 £m
Present value of defined benefit obligation	**(122)**	(138)
Fair value of plan assets	**119**	127
Pension benefit obligation at the end of the year	**(3)**	(11)

c) The movement in the net defined benefit obligation over the year is as follows	Present value of obligation £m	Fair value of plan assets £m	Total £m
At 1 January 2015	**(138)**	**127**	**(11)**
Pension costs			
Interest (expense)/income	**(4)**	**4**	**–**
	(4)	**4**	**–**
Re-measurements			
– Return on plan assets, excluding amounts included in interest (expense)/income	**–**	**(8)**	**(8)**
– Gain from changes in financial assumptions	**11**	**–**	**11**
– Experience gains	**5**	**–**	**5**
	16	**(8)**	**8**
Other movements			
– Benefits paid	**4**	**(4)**	**–**
	4	**(4)**	**–**
At 31 December 2015	**(122)**	**119**	**(3)**
At 1 January 2014	(120)	116	(4)
Pension costs			
Interest (expense)/income	(5)	5	–
	(5)	5	–
Re-measurements			
– Return on plan assets, excluding amounts included in interest (expense)/income	–	10	10
– Loss from changes in financial assumptions	(17)	–	(17)
	(17)	10	(7)
Other movements			
– Benefits paid	4	(4)	–
	4	(4)	–
At 31 December 2014	(138)	127	(11)

Notes to the Financial Statements continued

Year ended 31 December 2015

42 Pension benefit asset/(obligation) (continued)

iii) Ockham Scheme (continued)

d) Principal assumptions used	**2015**	2014
Discount rate	**3 9%**	3 1%
RPI inflation	**3 1%**	3 2%
CPI inflation	**2 1%**	2 3%
Rate of increase in pensions in payment		
– linked to inflation	**3 1%**	3 2%
– fixed rate	**in line with scheme rules**	in line with scheme rules
Rate of (non-guaranteed minimum pension) increases in deferment	**2 1%**	2 3%
Cash commutation – Deferreds	**20 0%**	20 0%

The discount rate and inflation rate assumptions for 2015 and 2014 have been set with reference to yield curves The single rates disclosed above represent the weighted average equivalent rate based on the yield curve used

Mortality rate assumptions are based on the same mortality tables as disclosed within the LV Scheme

e) Sensitivity analysis Impact on defined benefit obligation of making changes to key assumptions

	Change in assumption	Impact on defined benefit obligation
Discount rate	**Decrease by 0 5%**	**Increase by £10m (8%)**
RPI rate	**Decrease by 0 5%**	**Decrease by £5m (4%)**
Life expectancy	**Increase by 1 year**	**Increase by £5m (4%)**

The sensitivity analysis has been calculated by valuing the defined benefit obligation using the amended assumptions shown in the table above and keeping the remaining assumptions the same as disclosed in the principal assumptions table for the scheme, except in the case of the inflation sensitivity where other assumptions that depend on assumed inflation have also been amended correspondingly

f) Plan asset information

Plan assets are comprised as follows

	2015				2014			
	Quoted £m	**Unquoted £m**	**Total £m**	**%**	Quoted £m	Unquoted £m	Total £m	%
Equities and unit trusts	**36**	**–**	**36**	**30**	35	–	35	27
Debt securities	**81**	**–**	**81**	**68**	69	–	69	54
Derivative swaps	**–**	**(1)**	**(1)**	**(1)**	–	21	21	17
Cash and cash equivalents	**3**	**–**	**3**	**3**	2	–	2	2
Total	**120**	**(1)**	**119**	**100**	106	21	127	100

The overall investment objective of the Ockham pension scheme is to obtain a rate of return, net of investment management charges, that is 2 5% p a in excess of the return available on securities that broadly match the term and nature of the scheme's future benefit payments within a risk budget that the trustees consider to be appropriate This involves the use of derivatives (a swap overlay) to reduce the risks of the assets not matching the nature and term of the scheme's future benefit obligations

Following the triennial scheme valuation that took place as at 31 March 2015, the Society as principal employer is currently in discussions with the trustees as to the on-going funding requirements of the scheme following the valuation results The Society continues to pay the expenses for administering the scheme The next formal valuation of the scheme is due no later than 31 March 2018

g) Pension scheme risks

Details of the pension scheme risks that the Group is exposed to are disclosed within the LV Scheme

h) Expected maturity analysis of undiscounted pension benefits	Less than a year £m	Between 1 2 years £m	Between 2 5 years £m	Over 5 years £m	Total £m
At 31 December 2015	**5**	**5**	**15**	**223**	**248**

The weighted average duration of the defined benefit obligation is 16 years

No contributions are expected to be made to the Ockham pension scheme for the year ending 31 December 2016

Notes to the Financial Statements continued

Year ended 31 December 2015

Provisions, contingent liabilities and commitments

This section describes the provisions, contingent liabilities and commitments of the Society and Group arising from the ongoing life and general insurance businesses and the exit from the banking and asset management businesses in prior years

43 Provisions

Accounting for provisions

General

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is more likely than not that an outflow of resources will be required to settle the obligation and the amount has been reliably estimated Where the Group expects some or all of a provision to be reimbursed it is recognised as a separate asset when the reimbursement is certain

Provisions are measured at the present value of the expenditure required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation

The expense relating to provisions is presented in the Statement of Comprehensive Income

Onerous contracts

A provision is made for onerous contracts in which the unavoidable costs of meeting the obligation exceed the expected future economic benefits

Movement during the year on provisions

	Group			Society		
	PPI provision £m	Other provisions £m	Total £m	PPI provision £m	Other provisions £m	Total £m
Balance at 1 January 2015	5	9	14	5	5	10
Provided during the year	2	1	3	2	1	3
Released during the year	–	(4)	(4)	–	(2)	(2)
Utilised during the year	(2)	(1)	(3)	(2)	–	(2)
Balance at 31 December 2015	5	5	10	5	4	9

Other provisions relate to

	Group		Society	
	2015 £m	2014 £m	2015 £m	2014 £m
Onerous contracts on property leases	3	1	3	1
Compensation payable on customer complaints	1	2	–	1
Other	1	6	1	3
	5	9	4	5

The payment protection insurance (PPI) provision is held to cover future payments in respect of claims relating to PPI policies potentially mis-sold to customers Following a review of outstanding PPI claims carried out during the year, the level of provision was increased by £2m The current level of provision held is expected to be sufficient to cover the costs of expected future redress and administration At 31 December 2015, following payments made during the year of £2m, the provision was £5m Given the assumptions made it is expected that up to £2m of payments will be set against this provision during 2016, with the remainder of the provision utilised within three years

There are a large number of inter dependent assumptions underpinning the PPI provision When considering the key assumptions separately, the most significant driver of the provision is complaint flow If the level of complaints were 10% higher (lower) than the estimated level, assuming no change in other assumptions, then the provision would have increased (decreased) by approximately £1m

The Group will re-evaluate the assumptions underlying its analysis at each reporting date as more information becomes available

Notes to the Financial Statements continued

Year ended 31 December 2015

44 Contingent liabilities

Accounting for contingent liabilities

Contingent liabilities are disclosed if there is a possible future obligation as a result of a past event, or if there is a present obligation as a result of a past event but either a payment is not probable or the amount cannot be reasonably estimated

The Society has granted a contingent loan facility to the RNPFN fund, a closed fund within the Society, up to a maximum of £100m (the value applying for 2015 was £66m), to be used in the event of a shortfall in the capital resources of that fund The RNPFN fund is required to manage its capital in a manner so as not to require use of this facility and, if it is used, to repay it to the Society as soon as possible While undrawn a charge for the facility is made at 1% per annum

The Society has also granted a capital facility of £20m to the board of Liverpool Victoria General Insurance Group Limited (LVGIG) to be used in the event of a shortfall in the capital solvency of LVGIG's regulated subsidiaries This would take the form of a permanent capital contribution and repayment would therefore be dependent on the future solvency position of LVGIG The risk appetite adopted by the LVGIG board requires the directors to manage its affairs within its agreed capital budget, with this facility only to be considered as a short-term emergency facility in the event of sudden and severe investment shocks or an insurance catastrophe event

A contingent liability of £24m exists in respect of a fixed charge over certain assets of the Group which have been charged to the Ockham Pension Trustee Limited as part of its deficit funding arrangements agreed with the Society, as the sponsoring employer As at 31 December 2015 this fixed charge was transferred from assets held by Liverpool Victoria Insurance Company Limited to assets held directly by the Society The charge will only crystallise in the event of the insolvency of the Society or proceedings being started by their creditors No claims under this liability have been made and no insolvency proceedings have commenced against either the Society or any Group company during the course of 2015

45 Commitments

Accounting for assets held under leases

Where assets are financed by leasing arrangements and the risks and rewards are substantially transferred to the Group, such finance leases are treated as if the assets had been purchased outright and the corresponding liability to the lessor is included as an obligation in trade and other payables The liability is based on the present value of minimum lease payments at the inception of the lease Any rentals in excess of this are charged to the Statement of Comprehensive Income as they arise Depreciation on leased assets is charged to the Statement of Comprehensive Income on a straight line basis over the lower of the term of the lease or its estimated useful life The capital element on finance leases is shown in the property and equipment note

Lease payments are treated as consisting of capital and interest elements and the interest is charged to the Statement of Comprehensive Income

All other leases are operating leases and the costs in respect of operating leases are charged on a straight line basis over the lease term The value of any lease incentive received to take on an operating lease (for example, rent free periods) is recognised as deferred income and is released over the life of the lease

a) Capital commitments	Group		Society	
	2015	2014	**2015**	2014
	£m	£m	**£m**	£m
Authorised and contracted commitments payable after 31 December not provided for in respect of				
– other financial investments	**12**	16	**12**	16
– property and equipment	**10**	9	**10**	9
	22	25	**22**	25

Notes to the Financial Statements continued

Year ended 31 December 2015

45 Commitments (continued)

b) Operating lease commitments

The Group leases various properties under non-cancellable operating lease agreements The leases have varying terms, escalation clauses and renewal rights The future aggregate minimum lease payments net of income under non-cancellable operating leases are as follows

	Group		Society	
	2015	2014	**2015**	2014
	£m	£m	**£m**	£m
Within one year	**6**	6	**5**	5
Between one and five years	**11**	14	**9**	11
Over five years	**–**	1	**–**	1
	17	21	**14**	17

The Group has entered into commercial subleases for some of its properties that are unoccupied These leases have varying terms and escalation clauses Where these subleases are insufficient to cover the Group's operating lease agreements an onerous contract provision for unused premises is set up The future aggregate minimum sublease payments expected to be received under operating subleases are

	Group		Society	
	2015	2014	**2015**	2014
	£m	£m	**£m**	£m
Within one year	**1**	1	**1**	1
Between one and five years	**–**	1	**–**	1
	1	2	**1**	2

c) Finance lease commitments

At the beginning of the year, the finance lease related to a property with a lease term of 99 years During the year this lease was terminated and a new lease was put in place with a lease term of 25 years Interest rates are fixed at the contract rate All leases are on a fixed repayment basis and no arrangements have been entered into for contingent payments The Group's obligations under finance leases are secured by the lessors' charges over the leased assets

	Group	
	2015	2014
	£m	£m
Gross finance lease liabilities – minimum lease payments		
Within one year	**1**	–
Between one and five years	**5**	1
Over five years	**24**	16
	30	17
Future finance charges on finance leases	**(10)**	(15)
Present value of financial lease liabilities	**20**	2

	Group	
	2015	2014
	£m	£m
Gross future rentals committed in excess of finance lease minimum lease payment		
Within one year	**–**	1
Between one and five years	**–**	3
Over five years	**–**	45
	–	49
Minimum lease payments	**30**	17
Gross commitment under finance leases	**30**	66

	Group	
	2015	2014
	£m	£m
The present value of finance lease liabilities is as follows		
Within one year	**1**	–
Between one and five years	**2**	–
Over five years	**17**	2
	20	2

Notes to the Financial Statements continued
Year ended 31 December 2015

45 Commitments (continued)
c) Finance lease commitments (continued)

	Group	
	2015	2014
	£m	£m
Contingent rentals incurred in the period are as follows		
Relating to finance leases	–	1
	–	1

d) Other financial commitments
The Group has entered into several long-term contracts following service outsourcing These contracts will end no later than 2021 The present value of the remaining commitment is estimated at £64m (2014 £78m) for the Group and the Society These amounts have not been provided for in the financial statements

In December 2014, the Group announced its agreement to take over the majority of the business interests of Teachers Provident Society Limited, which trades as Teachers Assurance The formal transfer will take place in the first half of 2016, subject to regulatory approval

Notes to the Financial Statements continued
Year ended 31 December 2015

Scope of consolidation

This section presents information on the Group's investments in subsidiaries, joint ventures, associates and structured entities Detail is also given of the Unallocated divisible surplus of the Society and Group

46 Subsidiary undertakings
All subsidiary undertakings are included in the consolidation 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 England and Wales All holdings are in relation to ordinary shares

The registered office is County Gates, Bournemouth BH1 2NF

Name	Principal activity	Percentage held by Group	Percentage held by non controlling interests
Subsidiaries			
Frizzell Financial Services Limited (Note 1)	Property management	100%	0%
Highway Insurance Company Limited*	General insurance	100%	0%
Highway Insurance Group Ltd* (Note 1)	General insurance holding company	100%	0%
Liverpool Victoria Financial Advice Services Limited (Note 1)	Financial advice services	100%	0%
Liverpool Victoria General Insurance Group Limited*	General insurance holding company	99%	1%
Liverpool Victoria Insurance Company Limited*	General insurance	100%	0%
Liverpool Victoria Life Company Limited	Life insurance	100%	0%
Liverpool Victoria Portfolio Managers Limited (Note 1)	Investment management	100%	0%
LV Protection Limited	Insurance	100%	0%
LV Capital PLC (Note 1)	Holding company	100%	0%
LV Equity Release Limited (Note 1)	Origination of equity release lifetime mortgages	100%	0%
LV Insurance Management Limited * (Note 1)	Management services	100%	0%
LV Life Services Limited (Note 1)	Management services	100%	0%
LV Assistance Services Limited* (Note 1)	Road Rescue - Pay on use	100%	0%
LV Repair Services Limited* (Note 1)	Repair services	100%	0%
LV Commercial Mortgages Limited (Note 1)	Commercial mortgages	100%	0%
NM Pensions Trustees Limited (Note 1)	Self-invested personal pension (SIPP) administrator	100%	0%
Ayresbrook Limited (Note 1)	Holding company	100%	0%
Wealth Wizards Limited (Note 1)	IT Software	70%	30%
Opal Benefits Limited* (Note 1)	Financial intermediary	100%	0%
Opal IFA Limited* (Note 1)	Dormant	100%	0%
Wealth Wizards Advisers Limited* (Note 1)	Financial intermediary	100%	0%
Liverpool Victoria Banking Services Limited (Note 2)	Dormant	100%	0%
Liverpool Victoria Asset Management Limited (Note 2)	Dormant	100%	0%
Highway Group Services Limited* (Note 2)	Dormant	100%	0%
Highway Corporate Capital Limited* (Note 2)	Dormant	100%	0%
Ockham Corporate Limited* (Note 2)	Dormant	100%	0%
NLC Name No 1 Limited* (Note 2)	Dormant	100%	0%
NLC Name No 2 Limited* (Note 2)	Dormant	100%	0%
NLC Name No 3 Limited* (Note 2)	Dormant	100%	0%
NLC Name No 4 Limited* (Note 2)	Dormant	100%	0%
NLC Name No 5 Limited* (Note 2)	Dormant	100%	0%
NLC Name No 7 Limited* (Note 2)	Dormant	100%	0%
The LV= Pension Trustee Limited (Note 2)	Dormant trustee company	Note 3	
The LV= General Trustee Limited (Note 2)	Dormant trustee company	Note 3	
Ockham Pension Trustee Limited	Dormant trustee company	Note 3	
Liverpool Victoria Trustees Limited (Note 2)	Dormant trustee company	Note 3	

* Owned by a subsidiary undertaking of the Society

Note 1 – The financial statements of these subsidiary undertakings have not been audited for the year ended 31 December 2015 These subsidiary undertakings are exempt from the requirements of the Companies Act 2006 relating to the audit of individual financial statements by virtue of Section 479A of the Companies Act 2006
Note 2 – The financial statements of these dormant companies have not been audited for the year ended 31 December 2015 These companies were entitled to exemption from audit under section 480 of the Companies Act 2006 relating to dormant companies
Note 3 – These companies are limited by Guarantee and have no issued share capital

Notes to the Financial Statements continued
Year ended 31 December 2015

46 Subsidiary undertakings (continued)
All the principal subsidiaries have the same year end as the Society and all have been included in the consolidation

Non-controlling interest
The non-controlling interest in respect of Liverpool Victoria General Insurance Group Limited and Wealth Wizards Limited is not material

Significant restrictions
There are no significant restrictions in place regarding any of the subsidiaries above

47 Associates and joint ventures
The associates and joint ventures of the Society at 31 December 2014 are shown below They are incorporated and domiciled in England and Wales

Name	Class of shares	Year end	Principal activity	Percentage held
Joint ventures				
Great Victoria Partnership	*	31/03/2015	Investment property	50 0%

* The percentage held represents the share of the partnership capital and partner loans held by the Society as at 31 December 2015

The Group holds 50% of the voting rights of its joint arrangement The Group has joint control over this arrangement as, under the contractual agreement, unanimous consent is required from all parties to the agreement for all relevant activities The Group's joint arrangement is structured as a partnership and provides the Group and the other parties to the agreement with rights to the net assets of the partnership Therefore, this arrangement is classified as a joint venture

Commitments and contingent liabilities in respect of joint ventures
There are no commitments or contingent liabilities relating to the Group's interest in the joint venture

Summarised financial information for joint ventures
In accordance with the provisions of IFRS 12 which states that an entity may present the summarised financial information on the basis of the joint venture's or associate's financial statements if
- the entity measures its interest in the joint venture or associate at fair value in accordance with IAS 28, and
- the joint venture or associate does not prepare IFRS financial statements and preparation on that basis would be impracticable or cause undue cost

The summarised financial information set out below is presented on the basis of the Great Victoria Partnership's financial statements which are prepared under United Kingdom Generally Accepted Accounting Practice for the year ended 31 March 2015 Within the Group accounts this holding is accounted for as an investment at fair value in accordance with the exemptions permitted under IAS28 applicable to investment-linked insurance funds

Notes to the Financial Statements continued

Year ended 31 December 2015

47 Associates and joint ventures (continued)

Summarised Statement of Financial Position	31 March 2015 £m	31 March 2014 £m
Current		
Cash and cash equivalents	**4**	3
Other current assets (excluding cash)	**14**	14
Total current assets	**18**	17
Financial liabilities (excluding trade payables)	**(1)**	(1)
Other current liabilities (including trade payables)	**(4)**	(4)
Total current liabilities	**(5)**	(5)
Non-current		
Investment properties	**268**	244
Financial liabilities	**(79)**	(79)
Total non-current liabilities	**(79)**	(79)
Net assets	**202**	177
Partners' capital	**49**	49
Revaluation reserve	**149**	124
Partners' current accounts	**4**	4
Total partners' funds	**202**	177

Summarised Statement of Comprehensive Income	31 March 2015 £m	31 March 2014 £m
Net rental income	**11**	11
Property and refurbishment costs	**–**	(1)
Operating profit	**11**	10
Interest expense	**(3)**	(3)
Profit on ordinary activities before partners' interest	**8**	7
Distributions paid	**(8)**	(6)
Profit for the financial year	**–**	1

Notes to the Financial Statements continued

Year ended 31 December 2015

48 Consolidated structured entities Open ended investment companies

A structured entity is an entity that has been designed such that voting or similar rights are not the dominant factor in deciding who controls the entity, such as when voting rights relate to administrative tasks only, and the relevant activities are directed by means of contractual arrangements

The Open Ended Investment Companies (OEICs) have been identified as structured entities The shares held by the Group in the OEICs do have voting rights attached, however the Group does not have presence on the board of the OEICs The Authorised Corporate Director (ACD) is Threadneedle Investment Services Limited The Group's interest in the OEICs is bound by the OEIC prospectus and contractual arrangements

Significant accounting estimates and judgements

The OEICs have been consolidated into the Group financial statements as it has been determined that the Group has control, being the power to direct the relevant activities which expose the Group to variable returns from the OEICs The Group decides on the investment across the portfolio of funds within each OEIC and is exposed to variable returns from the associated relevant activities of the OEIC which are directed in accordance with contractual arrangements

The Open Ended Investment Companies (OEICs) of the Society and Group at 31 December 2015 are shown below

All OEICs are incorporated and domiciled in England and Wales and are included within the Group consolidation

Name	Principal activity	Year end	Percentage of units held*	Percentage of units held by non controlling interest
Threadneedle Investment Funds II ICVC	Open Ended Investment Company	31/12/2015	93%	7%
which consists of				
Threadneedle European ex-UK Growth Fund			98%	2%
Threadneedle Japan Growth Fund			100%	0%
Threadneedle Pacific ex-Japan Growth Fund			100%	0%
Threadneedle UK Equity Income Fund			92%	8%
Threadneedle US Equity Income Fund			86%	14%
Threadneedle UK Growth Fund			81%	19%
Threadneedle Investment Funds III ICVC	Open Ended Investment Company	31/12/2015	89%	11%
which consists of				
Threadneedle UK Corporate Bond Fund			93%	7%
Threadneedle UK Fixed Interest Fund			98%	2%
Threadneedle UK Index Linked Fund			97%	3%
Threadneedle UK Short-Term Money Market Fund			99%	1%
Threadneedle UK Medium and Long-Dated Corporate Bond Fund			99%	1%
Threadneedle UK Short-Dated Corporate Bond			66%	34%

* excludes units held by the LV= Employee Pension Scheme

The Group is not required to provide financial support to the OEICs nor has it any intention of providing financial support

In April 2015 all the funds within the Threadneedle Investment Funds IV ICVC vehicle and the Threadneedle Balanced Managed Fund were merged into comparable funds offered by Seven Investment Management The Group does not have a controlling interest in these Seven Investment Management funds so from April 2015 they have no longer been consolidated within the LV Group results

Non-controlling Interest

The total Group non-controlling interest for the year is £220m (2014 £622m), of which £43m (2014 £30m) is for Threadneedle Investment Funds II ICVC, £177m (2014 £482m) is for Threadneedle Investment Funds III ICVC and £nil (2014 £110m) is for Threadneedle Investment Funds IV ICVC See page 209 for additional disclosures regarding material non-controlling interests

Significant restrictions

There are no significant restrictions in place regarding any of the OEICs above

Notes to the Financial Statements continued

Year ended 31 December 2015

48 Consolidated structured entities Open ended investment companies (continued)

Summarised financial information on subsidiaries with material non-controlling interests

Set out below is the summarised financial information for each subsidiary that has a non-controlling interest that is material to the Group which includes Threadneedle Investment Funds II ICVC, Threadneedle Investment Funds III ICVC and Threadneedle Investment Funds IV ICVC (which was wound up in 2015)

Summarised financial information is presented in order to enable users to understand the interest that non-controlling interests have in the Group's activities and cash flows The relevant financial information presented for the OEICs is a Statement of Financial Position and the line item within the Statement of Comprehensive Income that is impacted by the performance of the OEICs in the year An analysis of the Cash and cash equivalents balance is presented, cash flow movements in the year primarily arise from investing activities

Summarised Statement of Financial Position	2015 £m	2014 £m
Assets		
Financial assets at Fair value through income	**2,027**	2,436
Loans and other receivables	**30**	47
Cash and cash equivalents	**45**	64
Total assets	**2,102**	2,547
Liabilities		
Trade and other payables	**(24)**	(45)
Total liabilities	**(24)**	(45)
Net assets	**2,078**	2,502

Cash and cash equivalents comprise	2015 £m	2014 £m
Bank balances	**26**	34
Short-term bank deposits	**19**	30
Cash and cash equivalents	**45**	64

Summarised Statement of Comprehensive Income	2015 £m	2014 £m
Net gains on investments	**3**	144

Movements on net assets comprises Net gains on investments of £3m (2014 £144m), plus reserve movements which relate to funds repaid/received for the cancellation/issue of units

Notes to the Financial Statements continued

Year ended 31 December 2015

49 Investments in unconsolidated structured entities

The Group has interests in structured entities which are not consolidated as the definition of control has not been met based on the proportion of the investment of the structured entity held by the Group As at 31 December 2015 the Group's interest in unconsolidated structured entities was £2,431m (2014 £1,678m) which are classified as investments held at fair value through profit or loss

Investment	2015 £m	2014 £m
Residential Mortgage-Backed Securities (RMBS)	–	79
Open Ended Investment Companies	**1,709**	1,130
Unit trusts	**229**	167
Investment trusts	–	1
Liquidity funds	**493**	301
Total	**2,431**	1,678

Included within the above are £1,651m (2014 £1,068m) of investments held to cover linked liabilities, other than these, the Group's exposure to financial loss from the interest in the unconsolidated structured entities is limited to the investment amount shown above The Group is not required to provide financial support to the entities, nor does it sponsor the entities

50 Business combinations

Wealth Wizards Group

In July 2015 the Society acquired a 70% controlling interest in the Wealth Wizards Group of companies for a cash consideration of £8m The fair value of the net liabilities acquired were less than £1m resulting in goodwill on acquisition of £8m being recognised in the 2015 financial statements (refer to Note 31) The income and profit after tax of the acquired business for the period from acquisition until 31 December 2015 is not material to the Group

51 Unallocated divisible surplus

Accounting for the Unallocated divisible surplus

The Unallocated divisible surplus represents the excess of assets over and above the long-term insurance contract liabilities and other liabilities It represents amounts that have yet to be formally declared as bonuses for the participating contract policyholders together with the free assets of the Society and Group Any profit or loss for the year arising through the Statement of Comprehensive Income (for the Society and for the Group) is transferred to or from the Unallocated divisible surplus

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 contract benefits are based and within which the Group may exercise its discretion as to the quantum and timing of their payment to contract holders

	Group		Society	
	2015 £m	2014 Restated – see Note 1 £m	2015 £m	2014 Restated – see Note 1 £m
Balance at 1 January	**959**	974	**893**	952
Transfer included within profit for the year	**91**	(34)	**92**	(78)
Transfer included within other comprehensive income	**51**	19	**51**	19
Balance at 31 December	**1,101**	959	**1,036**	893

Notes to the Financial Statements continued

Year ended 31 December 2015

Other disclosures

This section details other disclosure matters, comprising related party transactions, directors' emoluments, with-profits actuary details and other relevant Society information

52 Related party transactions

a) Key management compensation

Key management personnel of the Group comprise all executive and non-executive directors and senior management
The summary of the compensation of key management personnel for the year is as follows

	Group	
	2015 £'000	2014 £ 000
Short-term employment benefits	**8,415**	7,704
Other long term benefits	**41,138**	562
Post-employment benefits	**126**	143
Total compensation of key management personnel	**49,679**	8,409

Included within Other long-term benefits in 2015 are the benefits arising from the general insurance share scheme (refer to section d below)

The aggregate premiums payable for the year by the Group Executive and Non-Executive Directors in respect of the Group's products was £62,124 (2014 £133,244)

b) The following transactions have taken place between the Society and other group companies

	2015 £m	2014 £m
Management charge by the Society (see note 13)	**243**	217
Movement in deferred margin (included in other financial liabilities)	**29**	(10)
Beneficial interest of subsidiary in loans sold to the Society	**67**	111
Investment expense charge to the Society	**(5)**	(8)
Interest income from group undertakings	**27**	27
Dividend income from group undertakings	**22**	3

Balances outstanding between the Society and other Group companies

	2015 £m	2014 £m
Payable by the Society	**(30)**	(68)
Receivable by the Society	**55**	73
Loans owed to the Society	**300**	300

Notes to the Financial Statements continued

Year ended 31 December 2015

52 Related party transactions (continued)

c) Loans to related parties

Loans owed to the Society represent two subordinated loan notes totalling £300m (2014 £300m) to LV Capital PLC issued in December 2012 These loans are disclosed within loan stock in Note 32

The terms of the loans to LV Capital PLC are

(i) A £130m unsecured subordinated loan note originally repayable in 2015 with an interest rate of LIBOR plus 8 5% A deed of variation to this loan note was signed in November 2015 agreeing to defer redemption to 2025 The interest rate was amended to LIBOR plus 6 5%, to reflect current market rates, and

(ii) A £170m unsecured senior loan note repayable in 2047 with an interest rate of 9%

LV Capital may, subject to one month's notice and obtaining written agreement of the Society, repay all or part of these loans

d) Share schemes

During 2013, certain key management personnel within the general insurance business subscribed for 4 5 million £1 'B' ordinary shares in Liverpool Victoria General Insurance Group Limited (LVGIG), a subsidiary undertaking of the Society This arrangement has been accounted for as a cash-settled share-based payment transaction under IFRS 2 John O'Roarke, a director of the Society, invested £1m as part of this arrangement

Pursuant to the Articles of Association of LVGIG, the Society was required to purchase these shares in 2016 for a price equal to par plus rolled-up interest plus a percentage of the increase in the total shareholder return (being the equity increase in the market valuation of the general insurance business plus ordinary dividends paid) from 1 January 2013 to 31 December 2015, as set out below

a) 0% if the growth rate is less than 9%,
b) 5% if the growth rate is 9%,
c) Between 5% and 15% on a straight line basis to the extent the growth rate is between 9% and 19%, or
d) 15% if the growth rate is greater than 19%

The annualised market value increase over the scheme period was agreed at 15 7%

The purchase of the shares was contingent on the key management personnel remaining with the Group until 31 December 2015 Any leavers prior to this date would have their shares purchased for a lesser amount pursuant to the contract One of the members of the scheme left the Group during 2015 and has had their share repurchase price adjusted accordingly

The table below shows the amount of shares included in this share scheme arrangement, the fair value of the goods and services that the Group received as a part of this arrangement and the final valuation of the shares

Shares subscribed for £'000	Less leavers shares repurchased in 2015 £'000	Fair Value of goods and services £'000	Final share valuation £'000
4,500	(1,000)	39,442	42,942

The fair value of the goods and services received by the Group was £39 4m resulting in a £19 4m charge to Staff costs within the 2015 financial statements (2014 £10m, 2013 £10m) As at 31 December 2015 the liability to the key management personnel of £42 9m was included within Trade and other payables Mr O Roarke, a director of the Society, had a £11 1m interest in this liability This liability was settled in full at the fair valuation amount in February 2016

e) Other related party disclosure

As disclosed in Note 44, the Society has granted a contingent loan facility to the RNPFN fund, a closed fund within the Group, which is disclosed in contingent liabilities

53 With-Profits Actuary

The following information has been provided in accordance with section 77 of the Friendly Societies Act 1992

a) The With-Profits Actuary of the Society throughout 2015 was Mr A Walton, who is employed by Liverpool Victoria Friendly Society Limited

b) The total emoluments of Mr Walton during the year were £219,490 including car allowance, medical benefits and pension contributions Mr Walton is a participant in the Society's long-term incentive plan and held one insurance policy issued by a subsidiary of the Society

c) Mr Walton did not receive, nor will receive, any other pecuniary benefit

d) Mr Walton was appointed With-Profits Actuary on 10 October 2014, his total emoluments in 2014, on a pro rata basis were £44,047 Prior to 10 October 2014, the With-Profits Actuary was Mr N J Dumbreck, a Principal with the London office of Milliman LLP, an external consultancy firm The Society paid fees of £267,429 inclusive of VAT and expenses, to Milliman LLP in respect of Mr Dumbreck's professional services as With-Profits Actuary during 2014 It also paid fees of £19,416 inclusive of VAT and expenses, to Milliman LLP in respect of other services provided by Milliman LLP during 2014 Mr Dumbreck held two insurance policies issued on standard terms by one of the Society's subsidiaries He had no other pecuniary interest in any transactions with the Society at any time during 2014

Notes to the Financial Statements continued

Year ended 31 December 2015

54 Directors' emoluments

a) Emoluments of individual directors, including emoluments of the Chairman and highest paid director were as follows for the Society

	Remuneration from ongoing policy £'000								Total remuneration £'000		
	2015							2014	2015		2014
	Salary and fees	Bonus	Deferred Bonus	LTIP 2013 15	Pension related benefits*	Other benefits	Total	Total	General Insurance share scheme	Total	Total
M J Rogers	**538**	**496**	**204**	**597**	**118**	**17**	**1,970**	1,666	-	**1,970**	1,666
PW Moore	**368**	**255**	**105**	**306**	**51**	**15**	**1,100**	885	-	**1,100**	885
R A Rowney	**326**	**242**	**118**	**207**	**72**	**15**	**980**	600	-	**980**	600
J B O'Roarke	**300**	**235**	-	-	**66**	**15**	**616**	672	**10,126**	**10,742**	672
M E Austen	**181**	-	-	-	-	-	**181**	177	-	**181**	177
J Dean	**70**	-	-	-	-	-	**70**	68	-	**70**	68
D Neave	**70**	-	-	-	-	-	**70**	68	-	**70**	68
C Keers	**69**	-	-	-	-	-	**69**	67	-	**69**	67
C Burton	**69**	-	-	-	-	-	**69**	64	-	**69**	64
J Edwards**	**53**	-	-	-	-	-	**53**	73	-	**53**	73
Total	**2,044**	**1,228**	**427**	**1,110**	**307**	**62**	**5,178**	4,340	**10,126**	**15,304**	4,340

* Pension related benefits include payments made to the Group's defined contribution pension scheme and payments in lieu of pension contributions

** Resigned 24 September 2015

J B O'Roarke does not participate in the Group LTIP scheme but has entered into a separate share scheme arrangement which is disclosed further within the related party transaction Note 52 and the Directors' Remuneration Report

Other benefits include car allowances, medical, relocation, life assurance and other benefits in kind or their equivalent monetary value

b) Pension arrangements

The LV= Employee Pension Scheme is administered at Group level and incorporates both defined benefit and defined contribution sections

The defined benefit section was closed to future accrual in 2013 at which point existing members were eligible to join the defined contribution section

The Society has made no contributions to personal pension arrangements during 2015 (2014 £nil)
There were £nil of contributions to the defined contribution section in 2015 (2014 £23,940)

R A Rowney and J B O'Roarke are deferred members of the defined benefit section

Deferred pension at end of year	2015 £ 000	2014 £ 000
R A Rowney	**31**	31
J B O'Roarke	**34**	34

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55 Cash generated from operating activities

	Group		Society	
	2015	2014	2015	2014
	£m	£m	£m	£m
Profit/(loss) before tax, mutual bonus and UDS transfer	**124**	37	**118**	(20)
Investment income	**(401)**	(377)	**(372)**	(324)
Other interest income	**(26)**	(24)	**-**	-
Net losses/(gains) on investments	**282**	(832)	**236**	(822)
Finance costs	**24**	24	**23**	24
Net (increase)/decrease in derivatives	**(9)**	26	**32**	27
Non-cash items				
Expenses deferred during the year	**(2)**	1	**-**	-
Amortisation of intangible assets	**5**	3	**-**	-
Depreciation on property and equipment	**6**	4	**3**	1
(Decrease)/increase in provisions and pension obligation	**(1)**	4	**1**	2
Impairment write-offs in subsidiaries	**-**	-	**11**	-
Mutual bonus	**(27)**	(24)	**(27)**	(24)
Changes in working capital				
Decrease/(increase) in loans and receivables	**41**	(41)	**14**	35
(Increase)/decrease in reinsurance assets	**(387)**	12	**(127)**	7
(Increase)/decrease in insurance receivables	**(41)**	3	**(2)**	(7)
(Increase)/decrease in other prepayments and accrued income	**(10)**	1	**(11)**	(5)
Increase in participating insurance contract liabilities	**110**	429	**110**	429
Increase/(decrease) in non-participating insurance contract liabilities	**43**	579	**(56)**	655
Decrease/(increase) in non-participating value of in force business	**17**	(65)	**17**	(65)
Increase in participating investment contract liabilities	**2**	53	**2**	53
Increase in non-participating investment contract liabilities	**308**	305	**308**	305
Increase in subordinated liabilities	**-**	-	**-**	1
(Decrease)/increase in other financial liabilities	**(20)**	70	**(49)**	88
Increase in insurance payables	**248**	-	**6**	-
Increase/(decrease) in trade and other payables	**33**	30	**33**	(9)
Cash generated from operating activities	**319**	218	**270**	351

56 Valuation

The latest published report on the valuation of Assets and Liabilities of the Society (the Annual PRA Insurance Return) was made at 31 December 2015 and is available on request from the Group Company Secretary, County Gates, Bournemouth, BH1 2NF and LV com

57 Society information

Liverpool Victoria Friendly Society Limited is a UK-incorporated and domiciled Friendly Society registered under the Friendly Societies Act 1992

LV= and Liverpool Victoria are trademarks of Liverpool Victoria Friendly Society Limited LV= and LV= Liverpool Victoria are trading styles of the Liverpool Victoria group of companies Liverpool Victoria is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and Prudential Regulation Authority, and is a member of the ABI, AFM and ILAG

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