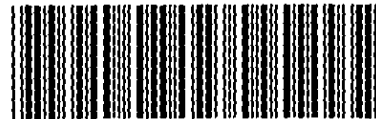




Annual Report

For the year ended 31 December 2016

THURSDAY



A06 "A64RCV49" #194
20/04/2017
COMPANIES HOUSE

Who we are

Good value, great values

We are a leading financial services provider and a mutual, employing over 6,200 people. We have 5.8 million customers, of whom 1.1 million are our members. Our customers hold a variety of products with us including insurance, investment and retirement solutions, which are available directly from us and through IFAs, brokers and our partners.

Mutuality goes back to the early days of insurance, when people paid into a fund to share the risk. The benefit then went back to the people who needed it. Today we are a very modern mutual, but the principles remain the same, and we still exist to create value for our members.

We have spent the last decade transforming LV= into the successful mutual we are today, a business with a special place in the financial services market. We have built a strong and well-respected reputation and coupled with our values and longer-term view we believe we have an important role to play in people's lives.

We are externally recognised for offering an excellent level of customer service. According to YouGov we are the UK's most recommended insurer and we are rated the number one insurer for customer satisfaction by the UK Institute of Customer Service.

We have a proven track record in increasing member value, consistently delivering strong investment returns. We have £16.9 billion of assets on our balance sheet and are rated at 'BBB+' for our financial strength by ratings agency, Standard and Poors.

We are a modern mutual and committed to the ethos on which we were founded: values of trust, ownership and joint benefit.

2016 highlights

£20m

Operating profit from trading operations, including the impact of the Ogden rate change*

£159m

Operating profit from trading operations, excluding the impact of the Ogden rate change*

£(49m)

Group loss before tax**

140%

Solvency II
Capital Coverage Ratio

£17m

Mutual bonus

14.5%

With-profits
investment performance

£113m

General insurance operating profit, excluding the impact of the Ogden rate change*

£45m

Life
operating profit

77%

Brand awareness

6.4m

Policies in-force

6,200

Employees

83%

Employee engagement

* See explanation for Ogden rate change on page 28.

** See definition for profit/(loss) before tax on page 29.

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Strategic Report

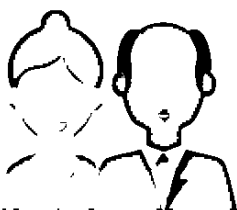
Governance

Our Accounts

Good value, great values

Our members, at the heart of what we do

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



1.1
million
members

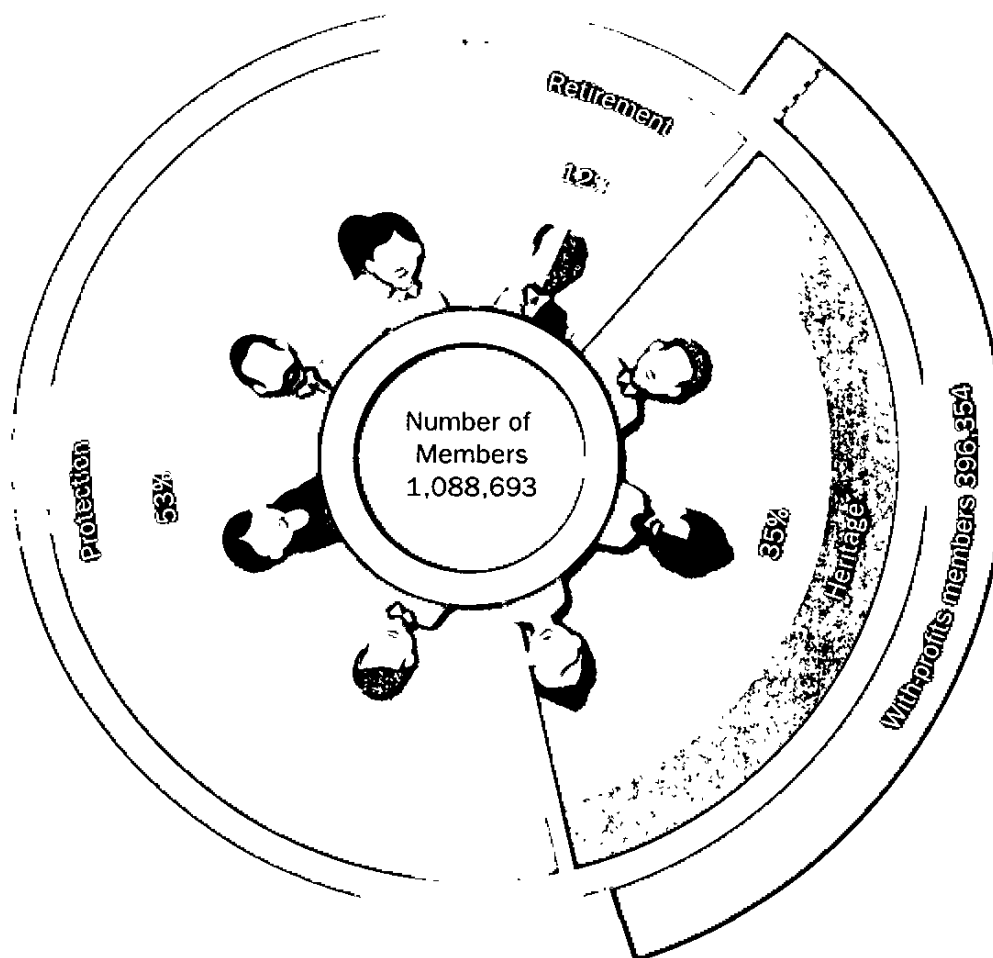
We are owned by, and run for, the benefit of our members and are therefore different from other organisations which may be owned by shareholders, employees, private equity groups or Government. We believe this difference is important in serving our customers, engaging with employees and to fulfil our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

They have voting rights and can expect to influence the key decisions in the Society.

We look after 1.1 million members holding 1.7 million qualifying products. With-profits policyholders account for around 36% of our membership.

Our members are customers who have certain longer-term financial products with us, such as life insurance, protection, investment or retirement policies.

£130m
The total mutual
bonus allocated
by LV= since 2011



With-profits fund
investment return

Returning value to our with-profits members

We have returned good value to our with-profits members in 2016 through:

- **The investment return achieved on their policies.** The main LVFS with-profits fund continued to deliver good relative performance for our with-profits members with an absolute performance during 2016 of 14.5%, which is 1.0% below the market benchmark of 15.5%. Performance has been above benchmark in four of the last five years, with the cumulative investment return over this five year period 6.2% above benchmark at 61.6%.
- **Eligible members received the LV= mutual bonus.** For 2016 this amounts to a 0.5% enhancement to the eligible policies' asset shares (£17 million in total).
- **The payouts on policies maturing during the year.** These compare well against competitors, with eleven out of twelve of our benchmarked payouts above market average and top quartile in ten out of twelve cases. Further details can be found on page 47.

Mutual bonus

The LV= mutual bonus was introduced in 2011 and rewards eligible members for their continued investment in the Society (see Business Model on page 27). The LV= board considers the financial performance of the LV= trading businesses each year along with its current and projected financial and capital 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 sole discretion of the LV= board.

Our performance in 2016 has enabled us to allocate a discretionary mutual bonus of £17 million (2015: £27 million). We have applied the mutual bonus by enhancing the asset share of relevant policies. The 0.5% enhancement to eligible policies' asset shares has been reduced (2015: 1%) to reflect our lower operating profit and reduced capital strength.

Since the launch of the mutual bonus in 2011, LV= has allocated a total mutual bonus of £130 million to eligible member policies.

With-profits policyholders' bonuses

In addition to the LV= mutual bonus, we added £149 million (2015: £113 million) of bonuses to members' with-profits policies during 2016. The increase is driven by bonuses paid to the policyholders of the recently acquired Teachers Assurance fund of £30 million.

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 all our current and future members.

Favourable payouts relative to the market

We are proud of the consistently high relative payouts our members receive on the investments they have with LV=.

The table below shows the comparative position for representative conventional with-profits (CWP) and unitised with-profits (UWP) policies invested in the main LVFS with-profits fund.

Product and term (years)			Policy Payout ¹	Annualised return on policy	Average RPI over term ²	Annualised savings rate over term ³	Upper Quartile Industry Annualised Return ⁴
OB Endowment £50 p.m. Age at entry: 30	10	UWP	£8,101	5.9%	2.7%	0.3%	4.1%
	15	UWP	£15,028	6.5%	2.9%	1.0%	5.3%
	20	CWP	£22,658	6.0%	2.7%	1.6%	5.4%
	25	CWP	£37,282	6.6%	2.7%	2.1%	6.2%
	30	CWP	£65,623	7.6%	3.3%	2.8%	–
IB Whole of Life £10 p.m. Age at entry: 55	20	CWP	£6,014	8.4%	2.7%	1.6%	–
	25	CWP	£6,602	5.8%	2.7%	2.1%	–
	30	CWP	£8,570	5.3%	3.3%	2.8%	–
Bond £10,000	10	UWP	£18,628	6.4%	2.7%	0.2%	4.8%
Pension (regular) £200 p.m. Retiring at 65	5	UWP	£15,234	9.5%	2.0%	0.2%	7.2%
	10	UWP	£37,050	8.4%	2.7%	0.3%	6.6%
	15	UWP	£66,326	7.7%	2.9%	1.0%	6.9%
	20	CWP	£99,193	6.8%	2.7%	1.6%	5.7%
Pension (single) £10,000 Retiring at 65	5	UWP	£15,749	9.5%	2.0%	0.2%	7.3%
	10	UWP	£19,513	6.9%	2.7%	0.2%	5.4%
	15	UWP	£22,885	5.7%	2.9%	1.5%	5.7%

Notes:

1. The policy payouts are based on industry prices available for with-profits policies at 1 March 2017. IB and OB policies are taxable policies where the potential tax benefits are over the periods shown.
2. The RPI figures are sourced from the Office of National Statistics.
3. Annualised savings rates are sourced from Barclays Equity Gilt Study 2017.
4. The Upper Quartile Industry Annualised Return figures are taken from the most recent past performance Money Mail segment surveys. Upper Quartile Industry Annualised Return is based on maturity dates of 1 February 2016 for Endowments, 1 November 2016 for Bonds, and 1 January 2017 for Pensions.

Good value, great values

Member support in action



Good value, great values

Good value, great values

Good value, great values

Good value, great values

Good value, great values

I am so proud to be a member of such an honourable organisation.

What it means to be a member

We can operate our business differently from privately-owned organisations, because we are not beholden to external shareholders. Instead we can focus on doing what is right to sustain and grow LV= and generate value for our members today and in the long-term.

One member, one vote

As owners of the Society, all our members are entitled to vote on key matters affecting the business. This invariably relates to the election of our board directors and the approval of our financial accounts but from time-to-time this might involve casting a vote on changes to our rules. Members cast their vote at any Annual or Special General Meeting we convene. These meetings are also a platform for members to ask questions of our board of directors.

An open dialogue with members

Although we do not answer to shareholders we are accountable to our members. The LV= Member Panel is a group of around 40 members who represent a cross-section of our membership and challenge our performance and what we do. They meet with our board, executives and senior leaders twice a year. It is a great platform for us to understand what members think and feel about how we do things.

We developed and set up the Member Panel Hub in 2016 so that the panel can stay in touch with news throughout the year and comment on developments and changes via posts and online forums.

The Corporate Governance and Nomination Committee approved the appointment of three new panellists during the year who attended their first meeting in November 2016.

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 2016 The RNLI was selected to benefit from our donation.

'Personally I think the Hub is great, and valuable. I read all the information and answers with interest and I am educated a bit more.'

Barbara Rouse, Liverpool



£1.3 million
for member benefits




Life Education
Wessex



"Where words fail, music speaks"


Lifeboats
Royal National Lifeboat Institution

Free and exclusive member benefits

As well as a mutual bonus for eligible members, members also get access to a range of additional benefits. In 2016 we invested £1.3 million to allow our members to use these benefits or save money.

Telephone support and advice

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.

A financial boost at a difficult time

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 in giving members a boost when they need it most.

Supporting local communities

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 to receive £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 is 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.

Strategic Report

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Overview

The following pages outline our performance during 2016 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 requires the preparation of a strategic report, even though we are not formally required to do this.

Key Performance Indicators

Our key performance indicators for 2016 were 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. Our operating profit KPI now reflects operating profit from trading operations, which excludes heritage to allow management to specifically monitor the performance of our active trading operations.

Additional performance indicators are reported in the individual business sections of this report.

Further targets for 2017 will be developed alongside the new strategy.

As a reward target ♥
As a reward target ♥
As a reward target ♥

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.

2016 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.

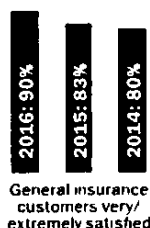
Performance

1st UK best loved
2015: 1st 2014: 2nd

UK
customer
satisfaction
index of
insurance
companies:

1st
2015: 2nd
2014: 1st

YouGov: Most recommended insurer



Commentary

In an independent survey by Research Now of 1,796 customers in the insurance industry, LV= was voted best loved by more of our customers than other brands surveyed.

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' and The Claims Excellence awards for Customer Care.

2017 Target

Our aim is to differentiate ourselves in the market against competitors based on customer and member satisfaction measured against relevant opinion surveys.

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.

2016 Target

Focus on retaining engagement scores at or above the UK high performing organisations norm of 83% as defined by Willis Towers Watson, a global HR consultancy.

Performance

83% engagement

LV= engagement 2016: 83%

UK high performing organisations norm 2016: 83%

LV= engagement 2015: 86%

UK high performing organisations norm 2015: 81%

LV= engagement 2014: 85%

UK high performing organisations norm 2014: 81%

Commentary

Despite a marginal drop since 2015, LV= has continued to demonstrate strong levels of staff engagement, matching those of high performing organisations, and exceeding those of UK financial services organisations norm by 7%.

2017 Target

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

Grow member value

Operating profit from trading operations

Explanation of measure

Operating profit from trading operations is the key performance measure for the profitability of the LV= group. This measure represents management's view of the performance of the ongoing business without distortion from temporary volatility. See page 28 for definition.

2016 Target

To deliver superior returns commensurate with the markets in which we operate. Planned operating profit from trading operations was £114 million.

Performance

2016 Post-Ogden: £20m

2016 Pre-Ogden: £159m

2015: £107m

2014: £77m

£20m
Post-Ogden

£159m
Pre-Ogden



Commentary

Operating profit from trading operations, including the £139 million impact of the Ogden rate change, was £20 million. Operating profit, excluding the Ogden rate change, was £159 million, with year-on-year improvements across both of our trading businesses. General insurance weathered continued claims inflation and achieved growth in operating profit (pre-Ogden) underpinned by improvement in motor rates and increases in direct policy numbers. Life experienced strong trading performance in retirement and favourable model and basis changes in protection.

2017 Target

To deliver return in line with the markets in which we operate.

LVFS main 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.

2016 Target

To deliver fund performance at or above benchmark levels of 15.5%.

Performance

14.5% 

LV= with-profits 2016: 14.5%

LV= with-profits 2015: 3.8%

Benchmark 2015: 2.7%

LV= with-profits 2014: 11.4%

Commentary

The return on the with-profits fund in 2016 was 14.5%, which is a significant increase on the 2015 performance of 3.8%. The with-profits fund performance is 1% below benchmark, driven by underperformance in equities, partially offset by over performance in gilts and bonds. The fund is managed on our behalf by Columbia Threadneedle Investments. See page 32 for further details.

2017 Target

To deliver fund performance at or above benchmark levels.

Solvency II Capital Coverage Ratio

Explanation of measure

To ensure the sustainability of the Society we monitor our Solvency II capital coverage ratio. See page 33 for definition.

2016 Target

To manage the Solvency II capital coverage ratio within the group's risk appetite framework of £470 million (or about 150% as at 31 December 2016).

Performance - all figures reflect Standard Formula.

140% 

2016: 140%

2015: 146%

Commentary

At the end of 2016 the group capital surplus on a Solvency II Standard Formula basis was estimated to be £367 million (2015: £383 million) and the capital coverage ratio was 140% (2015: 146%). The £16 million reduction in the capital surplus is largely due to the £100 million impact of the Ogden rate change as well as negative market movements, offset by the impact of recalculation of Transition (reflecting the changes in the group's risk profile), the implementation of the Matching Adjustment and other capital optimisation actions. The Ogden rate change is a significant factor causing the end of 2016 capital surplus to be below the group's target level of £470 million.

2017 Target

A key focus for the group in 2017 is on strengthening the group's capital position and further reducing the balance sheet exposure to volatility in risk-free interest rates and other market changes. See page 33 for more details.

Chairman's Review

Mutual organisations like LV=, with their values and longer-term view, have an important role to play in today's volatile financial world.

Mark Austen
Chairman



2016 has been a challenging year for the financial services sector. Most insurance providers have experienced ever more volatile investment markets, the transition to the Solvency II regime, uncertainty derived from the EU referendum and Brexit and very recently a major change in the calculation of personal injury compensation (called the Ogden discount rate).

Against this background your Society has had an acceptable financial year achieving an operating profit from trading operations, before the impact of the Ogden rate change, of £159 million. The operating profit has been subject to a number of exceptional items and these are explained in the Group Finance Director's Review on pages 28 to 37. The board has allocated a mutual bonus of 0.5%, amounting to £17 million, to eligible members' policies this year, which is half the previous years', reflecting the impact of Ogden and some of the other exceptional items.

The most significant event this year has been the EU referendum. While we do not believe the outcome of the referendum will have a long-term impact or a need to change our business model, the result and the debate around Brexit has led to some increasing turbulence in market conditions, in particular significant movements in longer-term interest rates, which have increased volatility in the Society's capital coverage ratio.

We have mitigated such impacts and since the Society's half year results in June the solvency capital coverage has increased to 140%. While this coverage is above the Society's solvency capital requirement, it is below the board's risk appetite. The reduction in the Ogden discount rate has put further strain on the Society's capital position and we shall continue to carry out actions to strengthen our ratio. Further information on this is included in the Group Finance Director's Review.

The transition from the previous capital regime to Solvency II has resulted in a very sizeable increase in the capital required to fund the Society. There are many technical factors at play here but the main contributors to the change are increased capital requirements to be held against longevity risk and our investments in gilts and bonds and the introduction of an explicit risk margin.

An unfortunate consequence of this tighter financial environment was our decision, in common with some other major suppliers, to withdraw certain products. In our case and because of the high capital loading we withdrew from the enhanced annuity market in late 2016. We regret the need to take this action and the consequent reduction in customer choice.

We seek to work closely with the Government and continue to play an active role both in the development of pension reforms and the proposed changes to the way that personal injury claims are handled.

In March 2016 we saw the publication of the findings from the Financial Advice Market Review. We were pleased that the final report included three of the recommendations that we had made namely: a single definition of advice, the introduction of a pension dashboard to enable retirees to view all of their pension funds in one place and an increase in the tax incentive for employers to offer financial advice in the workplace.

We fully support the Government's plans to give greater freedom to people at retirement but think that with extra choice the need for regulated financial advice becomes ever more important. With the investment we have in Wealth Wizards we are well placed to take advantage of moves to encourage the wider take-up of regulated financial advice.

We very much welcomed the reforms to ensure greater fairness in dealing with whiplash claims. We committed then to passing on the savings to motorists from these changes when they were first announced and that commitment still stands.

In this light the Government's recent decision to reduce the Ogden personal injury discount rate is ever more disappointing. People who are seriously injured should be properly compensated but the method used by the Ministry of Justice to set the new discount rate is obsolete and in need of reform. The decision to launch a consultation on this issue is therefore welcome and we shall continue to work with the Government to hopefully achieve a fair outcome for both claimants and our general customers.

There have been a number of executive changes within LV= during 2016. I believe effective succession planning is done from a position of strength and in so far as possible should be handled so as to make transitions as seamless as possible.

In April we announced that Mike Rogers would be standing down as chief executive after ten very successful years. Following a thorough search process that produced a short-list of excellent internal and external candidates the board was particularly pleased to be able to promote from within to fill the role of chief executive by appointing Richard Rowney, managing director of the life and pensions business, as the new chief executive. Richard is an exceptionally talented business leader and was the unanimous decision of the board to build on the heritage of the Society's 170 year history and take LV= to the next level. Richard took over from Mike Rogers in July 2016.

Similarly Steve Treloar was appointed as managing director of general insurance in May 2016 joining the board from Aviva as successor to John O'Roarke.

Recognising the importance of our customers and members to the long-term success of the Society we appointed Katie Wadey to the new role of customer and member director in January 2016.

It is now ten years since I joined the board and your Society has been transformed over this period. If I look back to the end of 2006, Liverpool Victoria as we were known then operated as a broad business model incorporating life, general insurance, banking, IFA and asset management operations. This broad diversification into areas where we did not have a significant market position meant there was no clear focus.

The transformation from Liverpool Victoria to LV= was based on bringing that clarity and focus that had been missing, building scale and running the Society as a sustainable, profitable business. At the end of 2006 we had two million customers and gross earned premiums of £662 million. We now have nearly six million customers and gross earned premiums of £2.8 billion.

2016 has been a year of significant change and I have no doubt that 2017 will be no less challenging. In planning for the future, we shall never lose sight of the things that make this a great organisation, the focus on our customers, our people and our members. Mutual organisations like LV=, with their values and longer-term view, have an important role to play in today's volatile financial world.

Despite the challenges faced this year I believe the group has great potential. We have a new chief executive with a clear vision of how he sees the future of the group through to 2020 and beyond and some of the thinking is set out in the Strategic Report.

As for other board changes, I was very pleased to welcome David Barral in March 2016 as a new non-executive director after a distinguished executive career in insurance. More recently in January 2017 Alan Cook joined the board as a non-executive director and as designate chair and I am pleased to introduce him below.

I felt that at the forthcoming AGM it was the right time for me to hand over the role of chairman after four years in the role and ten years on the board. It has been my privilege to serve the Society and I am immensely proud of the transformation of LV= over the last decade into the successful profitable mutual it is today with its special place in the financial services market.

Introducing Alan Cook

Alan Cook joined the board as a new non-executive director and chairman designate on 1 January 2017. It is our intention, subject to a member vote, that he takes over as chairman at the Annual General Meeting in June.



Chief Executive's Review

I firmly believe that what makes us different is our people and culture.

Rich
Chief Executive



This is my first review as chief executive having taken over from Mike Rogers in July 2016.

It has been a real privilege to work alongside Mike and I look forward to continuing to build a business that delivers the best possible outcomes for our customers, colleagues and members.

At a headline level operating profit from trading operations, before the impact of the recently announced Ogden rate change, was £159 million compared to £107 million in 2015, reflecting the strong trading performance in our general insurance and life businesses.

Including the impact of the Ogden rate change operating profit from trading businesses was £20 million and the group loss before tax was £49 million, impacted by model and basis changes in our legacy heritage business and various one-off costs, mainly associated with the introduction of the new Solvency II regulatory regime.

Throughout the course of the year we have also undertaken a range of actions to improve our capital position and our capital coverage ratio has increased to 140% from 126% at the half year, measured on a Standard Formula basis. At this level the capital coverage ratio is still not where we want it to be and we will pursue a number of options which are intended to bring the group's capital surplus within risk appetite. We expect to move to an Internal Model following PRA review and approval.

Strategy

LV= is a well-respected financial mutual and we have a strong platform to build on. We already have a strong brand, we are YouGov's most recommended insurer and have been voted the UK's most trusted insurer and most trusted life insurer by Moneywise.

But I think we can do more. I believe LV= is at its best when it is agile and entrepreneurial and I increasingly expect LV= to become the challenger brand in our industry, one that is famous for great customer service combined with clever investment in digital solutions that benefit our customers, members, IFAs and brokers alike. Our investment in Wealth Wizards is a good example of this and that business continues to perform well.

To help deliver on this ambition we have recently launched a clear and simple blueprint for the future of LV=. Our strategic priorities focus on three themes: eradicating waste and building stronger financial foundations, harnessing the power of the latest digital technologies and creating solutions for customers that leave them feeling more confident about life and more confident in LV=.

Further details on our new strategy can be found on pages 20 to 23.

General insurance

In general insurance, while we are best known for car insurance we offer a wide range of products including home, travel, pet and landlord. We also have a growing commercial insurance business providing a suite of products to protect businesses.

Conditions in the general insurance market have remained mixed in 2016. The rate recovery in motor that we saw in the second half of 2015 has continued this year however the home insurance market remains soft. With our disciplined approach to underwriting we will only grow where it makes financial sense to do so.

Before the impact of the Ogden rate change our general insurance business delivered an operating profit of £113 million for the year and a combined operating ratio of 94.1% reflecting the strong underlying trading in the general insurance business. Additional reserving due to the reduction in the Ogden rate has impacted profit by £139 million, meaning that the general insurance result incorporating this charge reduces to a £26 million operating loss.

Over the next five years we expect to see increasing disruption in the general insurance market. We expect to fully play our part in this and our focus is in two areas. The first is combining the best of technology with the excellent customer service for which LV= is well known. The second is new technology as car manufacturers move from partial automation to full automation.

Life

Over the last five years we have been growing our life and pensions business and this strategy continues in 2016. We delivered an increased operating profit of £45 million on sales of £1.9 billion, measured as the Present Value of New Business Premiums.

Our retirement solutions business has recovered from the shock-waves created by the previous Chancellor's freedom and choice reforms and we have seen good top and bottom line growth over the prior year. We have also invested heavily in developing the right tools to enable us to succeed over the long-term. These include Retirement Account, which enables IFAs to blend a wide combination of retirement income products in one simple account; Pension Compass, a range of tools designed to make defined benefit pension schemes members aware of their income options at retirement in light of the new freedoms; and Retirement Wizard, the UK's first fully regulated robo-advice solution.

In protection we have a market-leading position in individual protection and last year expanded into business protection. Our focus is now on investing in technology to make it easier to do business with us and maintaining our market share at a lower cost.

The introduction of our Fastway quote and apply system has been very well received by IFAs and we have seen an increase in new business volumes.

Across our retirement and protection businesses IFAs will remain our primary distribution channel and we are making smart investments in digital solutions to make it easier for them to do business with us.

Our heritage business reported a loss this year resulting from changes to the reserving assumptions and more details can be found in the Group Finance Director's review on page 29.

People and culture

I firmly believe that what makes us different is our people and culture.

We are proud of the high levels of employee engagement that we achieve and we regularly outperform the financial services norm in our annual survey.

To serve our customers and members well it is important that we have a diverse as well as an engaged workforce. In 2016 we signed up to the Women in Finance Charter, a joint initiative between business and HM Treasury that reflects the Government's aspiration to see gender balance at all levels across financial services firms.

LV= has a strong diversity and inclusion programme which ensures we provide inclusive products for our customers, and that our workplace is accessible and inclusive for all. We were pleased this year to be short-listed in the British Insurance Awards Diversity category and nominated for the 'Diverse Company of the Year' award at the 2016 National Diversity Awards.

We have a strong customer service ethos developed over many years, but customers buying habits and service expectations have changed. They no longer compare our service against our traditional competitors, they compare it against the likes of Amazon and John Lewis.

These companies and others set the bar that we need to aspire to. This is why we created the new role of customer and member director earlier this year, ensuring that the customers' voice is always represented around the executive table.

In summary, we are a successful mutual with a well-known brand and our composite model presents growth opportunities in both our trading businesses. We will remain disciplined in the management of the business, exercising strict controls over the allocation of capital to the right product areas.

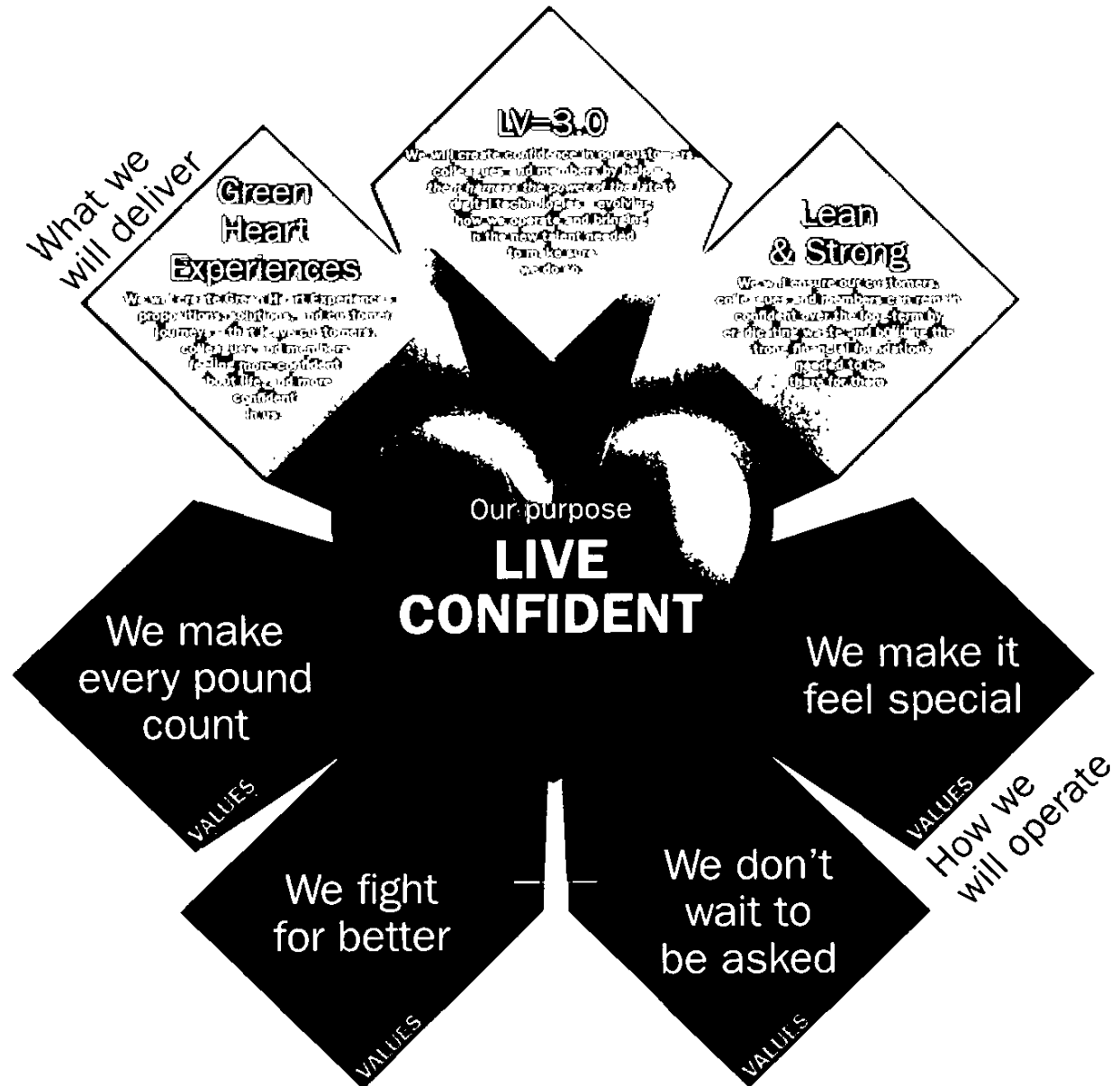
In a changing financial world, our approach remains consistent; earning the trust of our customers and members by providing good value backed up with great values.

The LV= Strategic Report on pages 13 to 71 was approved by the Board of Directors on 11 April 2017 and signed on its behalf by:



Richard Rowney
Chief Executive

Our Core Purpose, Strategy and Business Model



Introducing the blueprint for our future

The world is constantly changing and it is important that we at LV= keep up with it. In order to do this and to do it well, we need to evolve our business and how it operates. We know that the insurance industry is facing a big transformation with new business models, Fintech, investment in big data and start-ups shifting customer expectations. It is with this in mind that we have developed our new strategy. We call it our blueprint and we believe it is the best way to move forward at pace to maintain and grow our business.

What it means

We believe that everyone deserves to Live Confident, and we exist to help people to do that. For us this means:

- being proactive about preventing things going wrong, not just fixing them when they do.
- fighting for and leading the way in doing things that are in our customers' best interests.
- being transparent, well-intentioned and absolutely honest in all that we do.

To deliver on that promise there are three things we must do:

- 1 **Build a business that is sustainably Lean & Strong so we can achieve our goals over the long-term whilst continuing to grow member value.**
- 2 **Deliver Green Heart Experiences for our customers, colleagues and members designing and delivering solutions that prevent as well as fix - and inspire total trust.**
- 3 **Harness the latest technologies, evolve how we operate, and bring in the new talent needed to ensure that we lead the industry today and into the future. We have termed this LV=3.0.**

We will only succeed if everyone at LV= truly lives our values every day, so that:

- **We make it feel special**
- **We make every pound count**
- **We don't wait to be asked**
- **We fight for better**

If we do all of this our customers will be able to live bigger lives; our people will be able to fulfil their aspirations; and LV= will be able to make an important and valued difference for longer. People and LV= will be able to Live Confident.

We still believe that our sharp with a heart philosophy gives us a clear point of difference and we will continue to do things that combine the competitive performance of a PLC with the trusted behaviours of a mutual.

Strategic thrusts

Our strategic thrusts will gradually replace our strategic agenda in order to provide direction for LV= as we navigate the challenges and opportunities over the years ahead. Our three strategic thrusts outline what we will deliver and have been further broken down into priority initiatives.

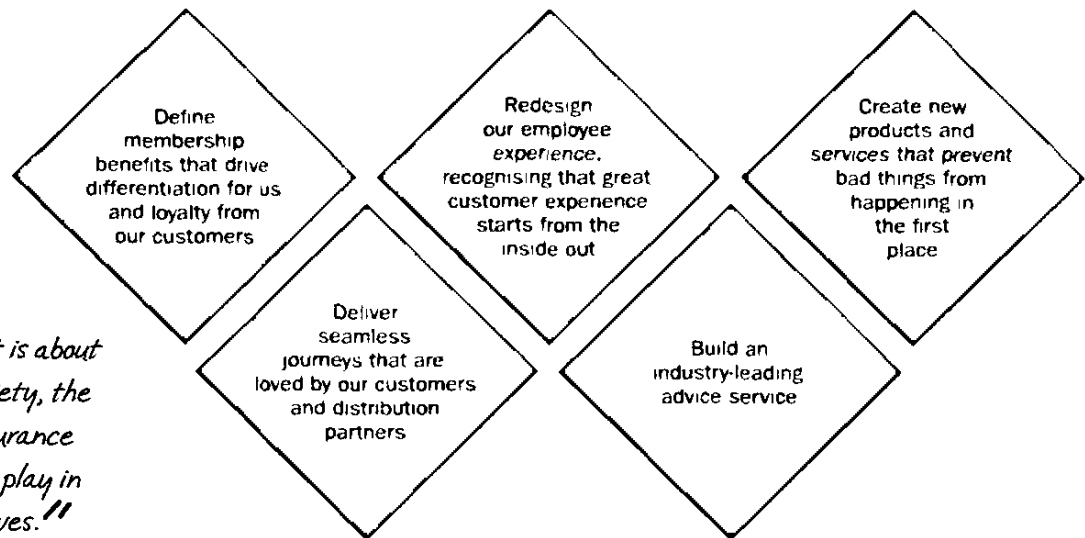
How we will measure performance

We will be measuring our future progress against these initiatives using key performance indicators (KPIs), both at a business unit and group level. At a group level, 'Green Heart Experiences' will be measured by our suite of customer satisfaction and staff engagement KPIs and 'Lean and strong' will be measured by our suite of financial strength KPIs. 'LV=3.0' is key to ensuring all this can happen in a constantly changing world.

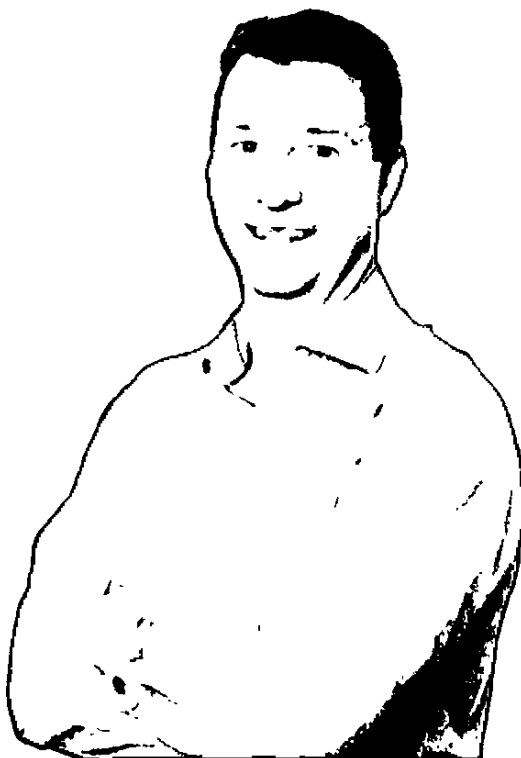
Green Heart Experiences

We will create Green Heart Experiences – that leave customers, colleagues and members feeling more confident about life, and more confident in us.

Priority Initiatives:



"Live Confident is about our role in society, the role that insurance really should play in people's lives."



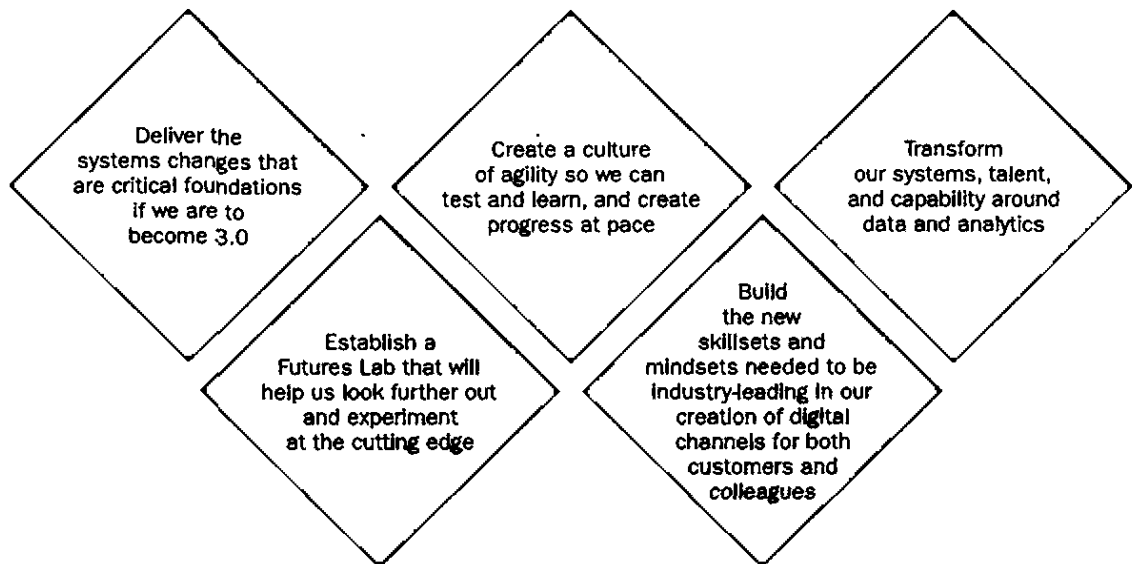
"Companies that successfully navigate the waters of disruption spot and act quickly on the opportunities to reinvent."

Richard Rowney
Chief Executive

LV= 3.0

We will create confidence in our customers, colleagues and members by helping them harness the power of the latest digital technologies – evolving how we operate and bringing in the new talent needed to make sure we do so.

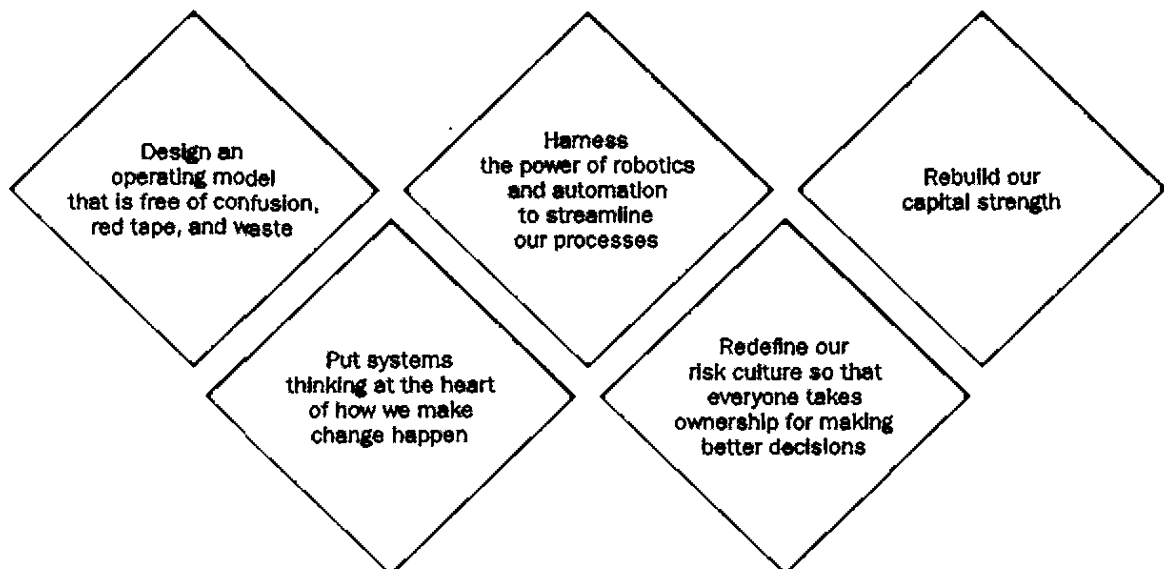
Priority initiatives:



Lean & Strong

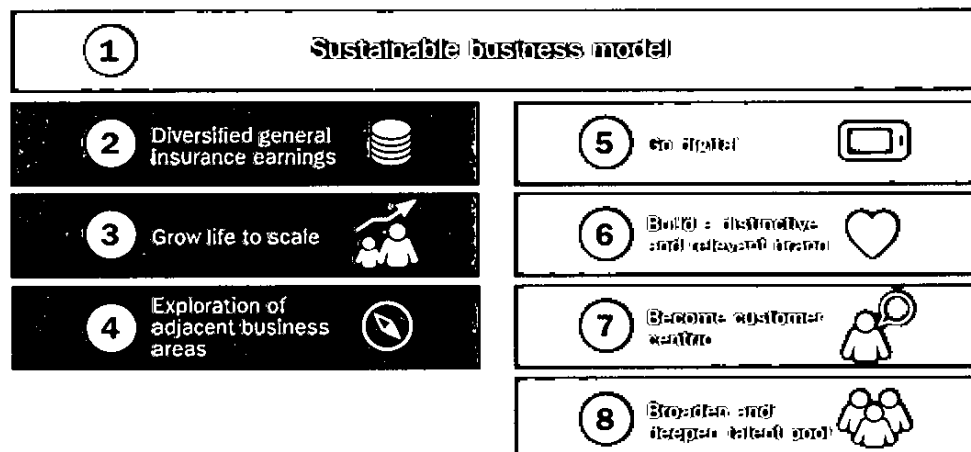
We will ensure our customers, colleagues and members can remain confident over the long-term by eradicating waste and building the strong financial foundations needed to be there for them.

Priority initiatives:



How we have performed against our strategic agenda in 2016

This is the final year we will be reviewing our performance against the strategic agenda we set out in 2014. We had selected eight areas of focus for management to ensure the sustainable growth of the Society as an aspiring and mission-driven modern mutual. Following the appointment of our new chief executive, Richard Rowney, we have chosen to refine and refocus our strategy, as outlined in the previous pages. In the short-term, there will be continuity in our key initiatives, as we transition to our new core purpose and strategic thrusts.



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 into the future. Compared to PLCs, mutuals have a narrower set of funding options and hence typically need to be more cautious in approach.

On 1 January 2016 the Solvency II EU wide capital management regime came into force. It was designed to strengthen consumer protection and sector stability by ensuring that insurance companies hold sufficient capital to cover their business risks. Currently LV= is regulated under the 'Standard Formula' basis, where a standardised methodology is applied to the calculation of required capital. During 2016 we have been working on our 'Internal Model' application for the PRA. That application was submitted in the first quarter of 2017 with a view to moving to reporting on this basis following PRA review and approval.

As part of this application process we have worked to optimise our capital position through various actions including reviewing our hedging strategies, and updating actuarial and expense modelling.

2 Diversified general insurance earnings

We have a very successful general insurance business offering a range of personal and commercial products, selling directly to consumers 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 pride in the success of our general insurance business with the recognition of risks that the volatility often experienced by the motor insurance industry presents. Over recent years therefore, we have put a deliberate management focus on diversifying into other general insurance products and growing life to scale (see opposite).

For 2016 our ambition was to increase non-motor general insurance policies as a percentage of the overall book by 1% to 37.8% of in-force policies. We successfully achieved this target, with non-motor policies growing from 36% to 38%, by implementing a variety of initiatives such as the launch of LV= Legal Services, a new home scheme with the National Union of Teachers, and new products such as Multi-bike and Park Home insurance.

3 Grow life to scale

Our life business consists of businesses that operate in the retirement and protection markets alongside our heritage business which is primarily our with-profits products. Historically our life business has been smaller than our general insurance business and as a result we have been trying to grow this business.

2016 has seen us deliver record levels of new business premium and near record operating profit in our life business. This has been driven by our focus on ensuring customers and IFAs have the information and understanding they need to make the best financial decisions, and by ensuring that any transactions are as easy and straight forward as possible. Policy application efficiency has been aided by increasing customer usage of 'Retirement View' our application tool that provides customers with real time updates on applications, and 'Fastway', our new quote and apply and underwriting rules engine designed for IFAs in our protection business. Our heritage business has also benefited from the finalisation of the Teachers Assurance acquisition this year.

In November we announced that we were withdrawing from the enhanced annuity market. The Pensions Freedoms legislation removed the requirement for retirees to buy an annuity and caused demand for this product to fall. This combined with the record-low interest rates and bond yields depressing annuity rates meant that the rates we could offer customers risked no longer providing good value.

According to YouGov, 25% of adults are attracted to buying Legal services from insurance companies.



*It's official
- we have
the best Life
Insurance
digital
experience in
the market!*



4 Exploration of adjacent business areas

LV= already benefits from a diversified product set, and is well set up to support additional business areas, where we have expertise.

In January 2016 we launched LV= Legal Services in conjunction with our partner Lyons Davidson. We continue to work on making our offering stand out in a crowded market place and have already introduced video-conference capabilities to enable face-to-face interaction with our customers.

5 Go Digital

We have invested significantly in digital capabilities and services during 2016 in order to strengthen relationships and provide better experiences for our customers, advisers, brokers, partners and employees.

Our investment in Wealth Wizards has enabled us to further strengthen our LV= Retirement Wizard digital proposition, making affordable retirement advice available to the mass market. We have expanded our distribution in 2016 by launching 'white-label' digital services through new corporate partnership agreements.

During the year we launched 'LV= Labs' a cross-functional initiative to help us develop innovative digital propositions and an internal culture of forward thinking and innovation.

We have also continued to invest in simplifying our technology set, made advances in data and analytics and through major strategic investment programmes built new digital capability to optimise services, drive back-office efficiencies through automation and improve the user experience across core digital journeys. This includes initiatives such as Fastway and Retirement View in our life business, and also a major project in our general insurance business to transform our product and distribution capability for our direct customers.

LV= has also been recognised for digital excellence winning 'Best B2B Website' for our LV= Adviser Portal and 'Most Innovative Digital Experience' for LV= Retirement Wizard at the 2016 UK Digital Experience Awards.

6 Build a distinctive and relevant brand

- * It has now been two years since we carried out our brand refresh and we continue to see the benefits with our brand remaining one of the most recognised brands in our target market. YouGov continue to rank us as the most recommended insurer as well as placing us top for best value-for-money and highest overall brand health. This alongside our Moneywise awards for Most Trusted Insurer and Most Trusted Life Insurer demonstrate the strength in the LV= brand.
- *

During 2016 we commissioned a review of the value of our brand from an independent company using an ISO accredited methodology. This review showed considerable growth in the value of our brand, and rated it AA+, indicating a very strong brand.

7 Become customer centric

Putting the customer at the heart of our business is what we have been doing successfully for years, and each year we receive numerous awards and recognition for our customer service. Rather than resting on our laurels though, we continue to promote the importance of considering the customer in everything that we do.

In 2016 we appointed a new director with specific responsibility for customers and members. Katie Wadey brings a huge amount of experience to help take LV= to the next level of customer excellence.

We have launched many initiatives in 2016 designed to give us a deeper understanding of customer needs and behaviours and have used customer research to guide our product developments, including the design of our new Home Plus product which is due to launch in 2017. During 2016 we also took great strides in developing products and communications to de-mystify the new pension freedoms, as well as the launch of a new Pop Up Pension Coach service we are trialling with LV= employees. We are committed to building ever greater engagement with our customers and believe that customer centricity in the design, development and delivery of our products and services is core to our business.

8 Broaden and deepen talent pool

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 meet or exceed the benchmark for organisations that excel at employee engagement across the UK. We continually look to strengthen this high engagement culture to retain and develop our staff, and ensure we remain an attractive employer for future recruitment.

Whilst recognising that there is still progress to be made, in 2016 we invested significant efforts in our diversity and inclusion programme. We signed up to the Women in Finance Charter signalling our commitment and aspiration to see gender balance at all levels across LV=. Our wide-scale leadership development programme continued into 2016 engaging with over 1,800 leaders and recruitment consultants on the impact of unconscious bias and benefits of inclusion. We also laid foundations for our multi-cultural programme engaging with our people on ethnicity and feeding into the creation of our LV=Equals network.



Business Model

The LV= group is owned by, and run for the benefit of our members and is therefore different from some 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 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, investments or retirement policies. They have voting rights and can expect to influence the key decisions made in the Society. Eligible members may benefit from a share of any surplus profits which the group is able to allocate.

We aim to grow member value consistently over the longer-term while managing the risk involved in doing so appropriately.

Our products fall into the following categories:

- **Life:** protection and retirement products, including savings and investments, covering peoples' lives and incomes;
- **Heritage:** focuses on savings and investment products that are no longer actively marketed, the majority of these being with-profits products.

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' funds, are managed on our behalf by our strategic partners, Columbia Threadneedle Investments, BlackRock and AgFe. 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 arrangements are reviewed regularly to ensure the risk and return balance is appropriate for our members.

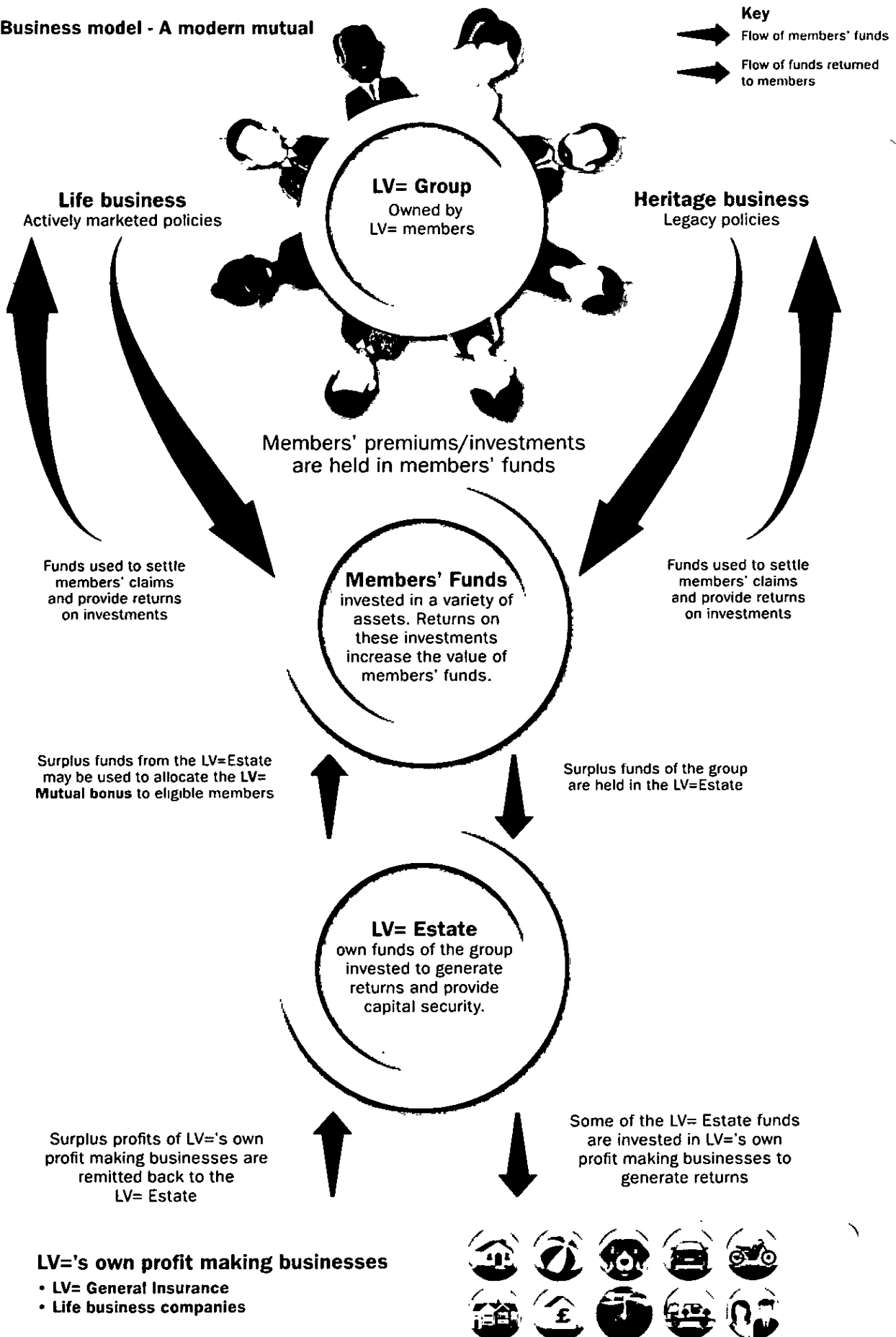
Surplus funds of the group are held in the LV= Estate. This is predominantly made up of Unallocated divisible surplus accumulated in prior years. Estate own funds are invested to generate returns and provide the LV=group with a capital buffer.

When the financial performance and financial and capital strength of the LV= group allows, surplus funds from the LV= Estate may be used to allocate the LV= Mutual bonus to eligible members.

As well as investing in the debt and equity of other companies, the LV= Estate has invested a significant proportion of its funds into LV='s own profit making businesses. The majority of this investment is in the LV= general insurance business, which sells a variety of products, including motor and home, to both personal and commercial customers, distributed directly or via brokers. Surplus profits of the LV= general insurance business are remitted back to the LV= Estate.

The LV= general insurance business provides the group with more than just remitted profits. In addition to diversification of risk, strategic advantages include the larger foot-fall of our successful general insurance business increasing brand awareness and the customer centric approach taken across the LV= businesses enhancing the opportunities for cross-selling and customer retention. Similarly the Life business companies, such as LV= Equity Release, LV= Commercial Mortgages and Wealth Wizards, provide the life business with wider strategic and capital advantages.

LV= Business model - A modern mutual



Group Finance Director's Review

The result benefited from good trading profits in both the general insurance and life businesses.

Paul Gifford
Group Finance Director



Overview

Operating profit from trading operations in 2016, including the impact of the Ogden rate change, was £20 million and £159 million excluding Ogden (2015: £107 million). The result benefited from good trading profits in both the general insurance and life businesses. At a group level the result included a £35 million operating loss in the heritage business generated by changes made to the reserving assumptions, partially reversing the £88 million operating profit in 2015. The loss before tax of £49 million (2015: £124 million profit) was primarily driven by the overall group operating loss of £15 million, plus centrally managed costs and debt interest.

Market conditions have been mixed for our trading businesses. The rate recoveries in the motor market have been partially offset by continuing claims inflation, the home insurance market remains soft and the broker market remains very challenging. In the life business we have positioned ourselves well to take advantage of the shift in the buying behaviours of retirees in the new pensions freedom environment, leading to continued growth in both sales and profits during the year. We have also seen good growth in protection volumes.

The economic environment has been particularly volatile throughout the year, and ongoing low interest rates experienced in recent years continue to raise challenges for the business. However, with the decrease in gilt yields increasing the value of debt securities and the strong equity performance, both in the UK and overseas, policyholders' funds have seen a significant uplift in value. This is demonstrated by our with-profit investment return, which increased to 14.5% in 2016.

On 27 February 2017, the Lord Chancellor announced a reduction in the Ogden discount rate from 2.5% to minus 0.75% from 20 March 2017. Subsequently, a consultation has been launched across the industry on 30 March 2017 to consider options for reform. The Ogden discount rate is used to calculate lump sum settlements of bodily injury claims, including awards for recurring costs such as loss of earnings and ongoing medical care. The group has previously held a provision in claims reserves in line with the previous actual rate of 2.5%. As a result of the announcement, the group has increased this provision for the estimated impact of moving to a minus 0.75% Ogden discount rate, for all business earned up to 31 December 2016. The overall impact of this rate change on 2016 operating profit was £139 million (£100 million capital impact under Solvency II). Reflecting this charge as a separate item in the operating profit statement recognises the magnitude of the change in policy and the potential for future revisions to the discount rate to cause further volatility in LV=’s results.

A key challenge for the business during the year was the introduction of the Solvency II regulatory regime. Increased capital requirements under this regime mean that we have to carefully manage our capital position and a key focus for the group during the year has been to improve our capital strength and to reduce the balance sheet exposure to volatility in risk-free interest rates and other market changes. The group Solvency II capital coverage ratio on a Standard Formula basis stood at 140% as at the end of 2016.

Definitions

Operating profit

Operating profit is defined as profit before tax adjusted for pensions business IFRS adjustment, short-term investment fluctuations, centrally managed costs, gain on acquisition, finance costs and amortisation or impairment of acquired intangibles.

Pensions business IFRS adjustment

The adjustment required to convert self-invested pension plan operating profit from a value-add basis to a pure IFRS (income-expenses) basis.

Results for 2016

£m	Trading operations*		Heritage Business		LVs Group	
	2016	2015	2016	2015	2016	2015
General insurance	113	72	-	-	113	72
Life	45	41	-	-	45	41
Heritage	-	-	(35)	88	(35)	88
Group	1	(6)	-	-	1	(6)
Operating profit/(loss) - pre Ogden	159	107	(35)	88	124	195
Reserve increase due to Ogden rate changes**	(139)	-	-	-	(139)	-
Operating (loss)/profit - post Ogden	20	107	(35)	88	(15)	195
Pensions business IFRS adjustment	3	(5)	-	-	3	(5)
Short-term investment fluctuations and related items***	(7)	(21)	21	11	14	(10)
Centrally managed costs	(25)	(29)	(2)	-	(27)	(29)
Gain arising on Teachers acquisition	-	-	3	-	3	-
Finance costs	(24)	(24)	-	-	(24)	(24)
Amortisation of acquired intangibles	(3)	(3)	-	-	(3)	(3)
(Loss)/profit before tax	(36)	25	(13)	99	(49)	124
Mutual bonus	-	-	-	-	(17)	(27)
Income tax expense	-	-	-	-	(35)	(6)
Pension scheme actuarial (loss)/gain net of tax	-	-	-	-	(2)	51
Transfer (from)/to the Unallocated divisible surplus	-	-	-	-	(103)	142

* Trading operations excludes heritage as a legacy business in run-off (see page 46).

** Reserve increase due to Ogden rate changes represents the increase in reserves required following the decision of the Lord Chancellor to lower the Ogden discount rate to minus 0.75% from the previous rate of 2.5%. Disclosing this charge as a separate item recognises the magnitude of the change in policy and the potential for future revisions to the discount rate to cause further volatility in LVs results.

*** Short-term investment fluctuations and related items includes the favourable impact of tax deducted from policy asset shares and the RNPFN fund totalling £42 million 2015. £nil million).

Definitions

Short-term investment fluctuations (STIF)

Unmatched movements in the value of investment assets or liabilities are reported in short-term investment fluctuations.

Centrally managed costs

These costs tend to be one-off costs and are often connected to strategic initiatives of the group.

Profit/(loss) before tax

Our measure of profit before tax is defined as profit before tax, mutual bonus allocated, and transfer to Unallocated divisible surplus. This definition allows meaningful comparisons with the profit before tax disclosed by other companies.

Operating profit for the general insurance business comprises the trading results from insurance activity (underwriting profit) and investment returns. Before the impact of the Ogden rate change, general insurance operating profit increased to £113 million (2015: £72 million). Underwriting profit increased to £70 million (2015: £44 million) reflecting the improved underlying trading performance. The 2015 result benefited from exceptional levels of favourable prior year claims run-off of £93 million (2016: £64 million). The main driver for this improved performance has been the continuing rate recovery in motor, although the impact of this has been partially eroded by ongoing claims inflation. The investment return increased to £43 million (2015: £28 million) reflecting the improved market conditions in the second half of the year.

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 assumptions, and also a margin for prudence in the life valuation assumptions (such as credit default allowance). Life operating profit has increased to £45 million (2015: £41 million). New business volumes have grown across all product segments, with the increase in contribution from this new business helping to drive the increase in operating profit. The life operating profit result is also benefiting from favourable one-off model and valuation changes in the year, mainly driven by savings from reduced unit costs in the protection business as volumes increase. During the year the business took out an annuity reinsurance treaty in order to strengthen the group capital position. This has had an adverse impact on the life result of £14 million.

The heritage business operating loss of £35 million (2015: £88 million profit) is driven by model and valuation changes relating to the OB pensions payout basis and cash take-up rate and unit costs of £22 million and claims experience variances

of £11 million; mainly generated by additional payments made to ensure policyholders are treated in line with the Principles and Practices of Financial Management (PPFM).

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

The reversal in profit before tax for the group to a loss of £49 million (2015: £124 million profit) is mainly driven by the large fluctuation in the heritage business model and valuation changes. In 2015 this resulted in a favourable impact of £91 million, whilst in 2016 there was a £22 million adverse impact. This swing was mainly caused by the methodology used to value the liabilities for OB pension policies, which was adjusted during both years 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. There has been uncertainty around this following the pensions freedom legislation which has required refinement over the last two years.

Items below operating profit, other than short-term investment fluctuations and related items were relatively neutral year-on-year. Short-term investment fluctuations of £14 million (2015: £10 million loss), is primarily made up of a loss of £28 million representing the unmatched movements in the value of investment assets and liabilities predominantly caused by the fall in yields during the year. This adverse impact was more than offset by the recovery of tax paid on investment gains deducted from policy asset shares and the RNPFN fund totalling £42 million. Also impacting profit before tax were centrally managed costs of £27 million, which include Solvency II project costs; and finance costs of £24 million, mainly interest on our subordinated debt (see note 10).

Treatment of policyholders tax
LV= pays tax on behalf of its policyholders when they make gains on their investments. The tax paid is deducted from the policyholders' asset share. Policyholder tax is reported in Income tax expense with the deduction from policyholders' asset share credited to Short-term investment fluctuations and related items.

The acquisition of the Teachers Assurance business was completed on 1 June 2016. The results of the acquired Teachers business have been incorporated into the results of the group from the date of acquisition. As well as the scale based strategic benefits generated for both LV= and Teachers members from this transaction, we have also recognised a £3 million gain on acquisition, mainly from future margins which are expected to be generated by an agreed service fee. Full acquisition disclosures are presented in note 46 of these financial statements.

The increase in the tax charge during the year to £35 million reflects the high gains made in policyholders' fixed-interest investments during the year, partially offset by the tax credit associated with the loss in the general insurance business. This tax on investment gains in the with-profits business, which gets charged to policyholders' asset shares increased to £42 million (2015: £nil million) with the recovery of the tax paid on investment gains deducted from policyholders' asset shares and the RNPFN fund reported in short-term investment fluctuations and related items, as outlined on the previous page.

The actuarial loss on the pension schemes of £2 million (2015: £51 million gain) reflects a decrease in the discount rate increasing the value of the scheme's liabilities, offset by an increase in the value of the scheme's invested assets. As at 31 December 2016 the schemes reported a combined asset, net of tax of £87 million (2015: £54 million), bolstered by employer contributions during the year of £34 million. Further details of these contribution payments are presented in note 38 of these financial statements.

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

Statutory results for 2016

Summarised Income statement

£m	2016	2015
Gross earned premiums	2,760	2,408
Premiums ceded to reinsurers	(601)	(469)
Net earned premiums	2,159	1,939
Investment income	401	401
Net gains/(losses) on investments	1,006	(282)
Gain arising on Teachers acquisition	3	-
Other income	68	57
Total income	3,637	2,115
Net benefits and claims	(1,596)	(1,391)
Net change in contract liabilities	(1,494)	47
Finance costs	(24)	(24)
Investment return allocated to external unit holders	(1)	-
Net operating and administrative expenses	(571)	(623)
Total benefits, claims and expenses	(3,686)	(1,991)
(Loss)/profit before tax, mutual bonus and UDS transfer	(49)	124

Total income has increased by £1,522 million to £3,637 million (2015: £2,115 million). This is primarily driven by the movement in net gains on investments to £1,006 million compared to net losses of £282 million in 2015. Gains on equities of £584 million reflect the overall increase in the UK and overseas markets. Gains of £385 million occurred in the value of debt securities as gilt yields decreased.

Total income has also been impacted by an increase in gross earned premiums of £352 million to £2,760 million. The majority of this increase was in the life business, with strong new business sales across all life product categories. General insurance sales also increased, with gross earned premiums up 8% by £100 million, mainly in motor insurance.

The increase in gross earned premiums was mitigated at a net earned premium level by increases in reinsurance ceded. Additional reinsurance treaties have been introduced for annuities and a 20% quota share agreement put in place in the general reinsurance business as one of several management actions during the year to manage risk and protect the Solvency II capital position.

The net increase in contract liabilities of £1,494 million is driven by a combination of policyholder's investment gains and the increase in new business.

The net operating and administrative expenses have fallen to £571 million (2015: £623 million) however gross expenses pre-commission have increased slightly to £436 million (2015: £428 million). This is analysed in the table below:

Net operating and administrative expense

£m	2016	2015
General insurance	257	256
Life	121	122
Heritage	32	27
Central items and other	23	20
Amortisation of acquired intangibles	3	3
Gross expenses pre-commission	436	428
Commission	207	195
Expenses recoverable from quota share reinsurers	(72)	–
Net operating and administrative expenses	571	623

The year-on-year increase in gross expenses pre-commission is predominantly as a result of expenses incurred by the newly acquired Teachers business in heritage and increased consultancy fees related to Solvency II in central items. Management continues to focus on underlying trading cost control.

Summarised balance sheet

£m	2016	2015
Assets		
Cash and cash equivalents	805	1,186
Financial assets – Fair value through income	13,491	11,419
Other assets	2,574	1,934
Total assets	16,870	14,539
Liabilities		
Insurance contract liabilities	11,797	9,868
Investment contract liabilities	3,237	2,416
Other liabilities	838	1,154
Unallocated divisible surplus	998	1,101
Total liabilities	16,870	14,539

Investments held at fair value through income have increased by £2,072 million, reflecting market movements and the continued growth of the business, with increasing new business sales and the acquisition of the Teachers assurance business which added approximately £750 million to the group balance sheet. These are also the main drivers behind the £1,929 million increase in insurance contract liabilities and £821 million increase in investment contract liabilities.

The increase in other assets includes the impact of new reinsurance treaties entered into during the year.

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 70% of the groups exposure to credit on these assets rated 'A' or above (2015: 72%).

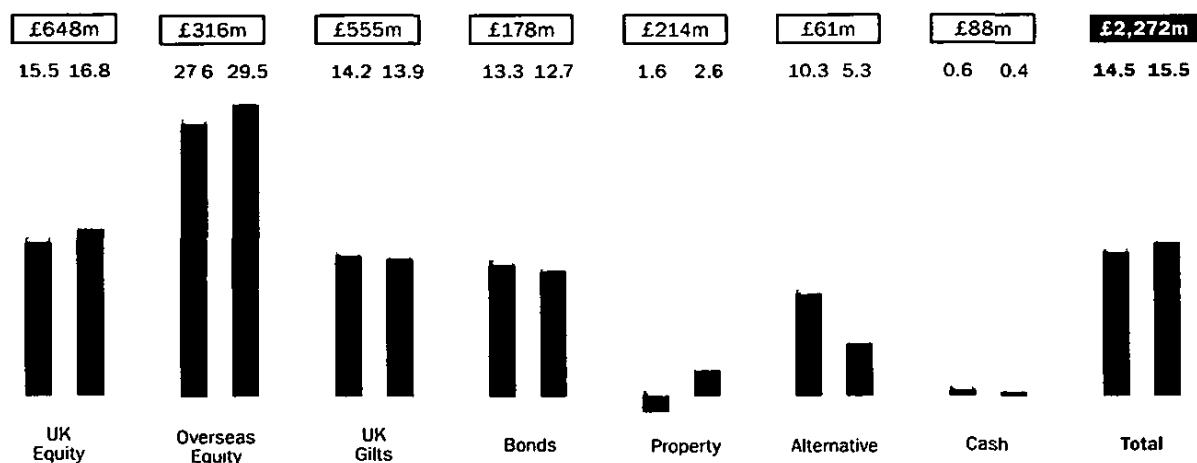
Credit risk exposure

£m	2016	2015
AAA	800	739
AA	2,728	3,304
A	1,740	1,933
BBB	1,192	1,585
Below BBB	170	59
Not rated*	888	728
	7,518	8,348

* Not rated includes balances for loans secured on residential and commercial property totalling £883 million (2015: £706 million).

Main LVFS with-profits fund performance

Assets under management ►
Main LVFS WP Fund* performance % ►
Benchmark** performance % ►



In addition to the asset classes held above, the fund also invested £112 million in Multi-asset and £100 million in UK fixed income (high yield). Because these asset classes had not been held for a full year, it is not possible to measure the annual relative performance against benchmark for 2016.



► UK Equity	29%
► Overseas Equity	14%
► UK Gilts	24%
► Bonds	8%
► Property	9%
► Alternative	3%
► Cash	4%
► Multi-asset	5%
► UK Fixed Income (High Yield)	4%



► UK Equity	9%
► Overseas Equity	3%
► UK Gilts	22%
► Bonds	56%
► Property	2%
► Alternative	0%
► Cash	7%
► Multi-asset	1%

Other group assets fund performance***

	Fund performance %	Assets under management
UK Equity	13.2%	£683m
Overseas Equity	7.7%	£250m
UK Gilts	15.8%	£1,794m
Bonds	9.0%	£4,567m
Property	-4.6%	£183m
Alternative	8.6%	£17m
Cash	0.6%	£536m
Multi-asset	8.3%	£86m
Total	10.0%	£8,116m

* This represents assets held within the conventional with-profits fund. It excludes OB pensions and assets held within the unitised with-profits fund.

** 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 main LVFS with profits-fund.

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

Definitions

With-profits

Investment performance:

Investment performance is expressed as a percentage of average funds under management within the main LVFS with-profits fund.

Capital Reporting basis

The capital coverage ratio represents the ratio of eligible own funds over the Solvency Capital Requirement.

For 2016, we are reporting our capital position on a regulatory basis under the Solvency II regime. The 31 December 2016 figures are estimated and have not been subject to an external audit opinion.

The group capital resources table shows the estimated eligible own funds, Solvency Capital Requirement (SCR) and surplus funds of the group. Figures exclude RNPfN and Teachers Ring-Fenced Funds. Calculations are based on the Standard Formula approach using the Volatility and Matching Adjustment (for eligible business) and Transition recalculated as agreed by the PRA during the year.

Investment performance

Columbia Threadneedle Investments – Our ongoing strategic partnership with investment managers Columbia Threadneedle Investments continues to prove successful with the annualised investment return for the main LVFS with-profits fund since 1 December 2011, when fund management by Columbia Threadneedle Investments commenced, 0.8% above benchmark at 10.1%.

With-profits – The main LVFS with-profits fund delivered good performance for our with-profits members with an absolute performance of 14.5% (2015: 3.8%). This is 1.0% below benchmark, mainly due to the underperformance of UK and overseas equity and commercial property within the fund. The return has increased significantly from the previous year, with strong returns in both equities and gilts and bonds, which collectively form 75% of the fund's assets.

Other group assets – Outside of the main LVFS with-profits fund and the RNPfN and Teachers ring-fenced funds, the majority of assets are invested in UK corporate bonds and UK gilts. Returns in these areas were strong in the face of decreases in yields and narrowing credit spreads.

Capital performance

At the end of 2016 the group capital surplus on a Solvency II Standard Formula basis is estimated to be £367 million (2015: £383 million) with a coverage ratio of 140% (2015: 146%).

Solvency II

Since 1 January 2016, the group has operated on a Standard Formula basis for calculating its regulatory capital position. The group has continued to work closely with the PRA throughout 2016 to prepare an application to operate on an Internal Model. In July 2016, the PRA confirmed that the group's preparations for Internal Model were sufficiently advanced to allow it to proceed to making an application for Model approval. LV= submitted an application for Internal Model approval in the first quarter of 2017. Internal Model will only be implemented following PRA review and approval.

The group secured PRA approval in April 2016 to apply the Matching Adjustment to the majority of its annuity business. The inclusion of the Matching Adjustment forms an integral part of the group's approach to Asset and Liability Management.

The group has also received PRA approval to apply Transition (also known as Transitional Measure on Technical Provisions or TMTP) and Volatility Adjustment from 1 January 2016. Transition provides firms with relief from day 1 from the financial impact on Technical Provisions of moving to the new Solvency II regime. The relief then amortises annually over 16 years. The PRA also allows firms to apply for permission to recalculate Transition, subject to certain trigger conditions, to take account of matters such as market movements or changes to a firm's risk profile. The group applied to and was granted by the PRA permission to recalculate Transition as of 29 April 2016, triggered by the move to use the Matching Adjustment, and as of 31 August 2016 due to changes in the business risk profile. There was also an industry-wide recalculation on 30 June 2016 as a result of market movements. The net effect of the recalculations in the year has been to offset the adverse impacts of changes in business risks, including interest rates, on eligible own funds by some £281 million.

The group complied with all regulatory capital requirements that it was subject to throughout the reporting period.

Group surplus capital

£m	2016	2015
Eligible own funds	1,296	1,220
Solvency Capital Requirement (SCR)	929	837
Surplus	367	383
Capital coverage ratio	140%	146%

Eligible own funds and SCR above exclude amounts attributable to the RNPfN and Teachers Ring-Fenced Funds. Including these funds would not change the capital surplus shown above.

Eligible own funds include the positive benefit of Transition of £837 million (2015: £816 million).

Transition is only re-measured when approved by the PRA, at a minimum of every two years, or if there have been material changes in the entity's risk profile. Accordingly, there may be timing differences between the measurement of technical provisions at the balance sheet date and the value of Transition.

Surplus funds at 31 December 2016 include a significant timing benefit of economic gains in the period since the last recalculation of Transition as at 31 August 2016 which have not yet been offset by a further Transition recalculation. Future Transition recalculations will reflect ongoing amortisation of the Transition balance and also reflect the potential adverse impact of other tests such as the Financial Resources Requirement test, which can result in a limit being applied to the amount of Transition benefit recognised within own funds.

Subject to any major market movements or changes in the group's risk profile, including a move to Internal Model, the next industry wide recalculation of Transition is expected to be no later than 31 December 2017.

As the Transition runs off over 16 years, the first annual step down of £52 million occurred on 1 January 2017.

During 2016 the main movements in the group Solvency II capital surplus were:

£m	2016
Surplus capital at 1 January	383
New business	(57)
Claims and expense variances	(37)
Capital initiatives	140
Business changes	(19)
Interest on subordinated debt	(23)
Impact of Ogden discount rate change	(100)
Economic variances	(182)
Transition recalculations	281
Other items	(19)
Surplus capital at 31 December	367

Surplus funds of the group have fallen by £16 million over the year. This is largely due to the impact of the Ogden discount rate change, negative market movements, resulting from low interest rates increasing capital requirements, and the impact of writing new business, largely due to enhanced annuities which was closed as a business line during 2016, offset by capital optimisation actions, including Matching Adjustment, together with the favourable benefit of Transition recalculations and assumption changes. There has been significant volatility in the drivers of economic variances in 2016, particularly in long-term interest rates. For example, the reduction of £182 million for the year for economic variances shown above is net of a gain of £138 million in the fourth quarter of the year.

The table below provides a summary by risk of the Solvency Capital Requirement on the Standard Formula basis.

Analysis of the Group Solvency Capital Requirement

£m	2016
Credit Risk	308
Equity risk and property risk	136
Interest rate risk	9
Other market risk	9
Life insurance risk	210
General insurance risk	326
Operational risk	124
Tax relief and management actions	(193)
Solvency Capital Requirement	929

The increase in SCR over the year is largely due to new business, economic conditions (the reduction in interest rates over the year) and reduction in tax relief due to the Ogden discount rate change, partially offset by the impact of the Matching Adjustment and capital optimisation activities.

Sensitivity analysis of Solvency II surplus capital

The following table shows the sensitivity of the group's Solvency II surplus and capital coverage ratio to economic assumptions. All other assumptions remain unchanged for each sensitivity, except where these are directly affected by the revised economic conditions or where a management action that is allowed for in the Solvency Capital Requirement calculation is applicable for that sensitivity. In this analysis it is assumed that there is no benefit from a recalculation of Transition. The credit and gilt spread sensitivities are relative to swaps. The sensitivities allow for the impact of the group's hedging strategy.

	Impact on Solvency II capital surplus 2016 £m	Impact on Solvency II coverage ratio 2016 %
Changes in Economic assumptions		
Equity values fall by 10%	(35)	(4)
Credit spreads increase by 50bps	84	10
Gilt spreads increase by 25bps	(51)	(5)
Fixed Interest yields fall by 25bps	(39)	(5)
Fixed Interest yields increase by 25bps	37	5

The group surplus position is affected by the sensitivities due to the following:

- A fall in equity values reduces the value of the group's defined benefit pension schemes and increases with-profits liabilities due to higher guarantees costs.
- A widening of credit spreads, relative to swaps, increases the value of the group's defined benefit pension schemes, reduces the value of liabilities using the Volatility Adjustment, offset by a reduction in corporate bond values held to support the with-profits and general insurance business lines.
- A widening of gilt spreads, relative to swaps, reduces the value of the group's defined benefit pension schemes, with the remainder of exposure across the group materially hedged using a derivative contract.
- Changes to fixed interest rate yields (both swap and gilt rates) lead to changes in the group's surplus capital position, as the Solvency II yield exposure is not fully hedged.

Capital management actions

During 2016 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:

- Implementation of the Matching Adjustment for certain annuity liabilities.
- Interest rate hedging across the group to reduce the exposure of the group Solvency II surplus capital to interest rate movements.
- Increased longevity reinsurance on our enhanced annuity business.
- Implementation of a quota share agreement to reinsure 20% of our general insurance business.
- Transfer of Teachers non-profit annuities into the matching adjustment portfolio.

In addition to the above, LVFS received PRA approval to recalculate Transition as of 29 April 2016, due to the implementation of the Matching Adjustment and as of 31 August 2016, due to changes in the risk profile of the business. Going forward a key focus for the group is on continuing to reduce exposure of the capital surplus to interest rates and other market changes.

For further information regarding how we measure, monitor and manage our capital see Note 3.

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 LV= group has a highly liquid balance sheet with £805 million of cash and cash equivalents, £6,603 million of listed shares and £5,830 million of listed debt securities, of which some £8,344 million is realisable within one year.

The table below summarises the expected timing of when the group's invested assets could be realised and the estimated timing of the payment of liabilities. The table shows that assets realisable within one year are sufficient to cover the investment and insurance contract liabilities and financial liabilities due in the next five years.

Group maturity profile of assets and liabilities

£m	Within 1 year	Over 1 year	Total
Cash and cash equivalents	805	-	805
Financial assets – fair value through income	6,602	6,889	13,491
Other assets	937	1,637	2,574
Total assets	8,344	8,526	16,870

Insurance and investment contract and financial liabilities

	Unit-linked (on demand)	Within 1 year	1-3 years	3-5 years	Over 5 years	Total
Insurance and investment contract liabilities	2,527	1,391	1,824	1,468	6,707	13,917
Financial liabilities	-	259	5	19	730	1,013
Total	2,527	1,650	1,829	1,487	7,437	14,930
Cumulative liabilities	2,527	4,177	6,006	7,493	14,930	

Definitions

Operational liquidity

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 the RNPFN and Teachers ring-fenced funds. This metric is not directly reconcilable to the group's IFRS Statement of Cash Flows.

Operational liquidity

The group generates operational liquidity (or free cash) from profitable trading in the general insurance business and from realised margins on in-force long-term insurance policies. Free cash is used to fund new business growth, central costs and the mutual bonus. 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 free 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.

The table on the following page summarises the operational liquidity generated for the Society.

The general insurance business returned funds of £7 million to the Society, down from £37 million in 2015 as the general insurance subsidiaries have retained more funds internally in order to strengthen their capital positions under Solvency II. The change in the Ogden discount rate had an adverse impact on the general insurance subsidiary of £100 million, which required a £40 million capital injection in February 2017. The remaining costs were able to be absorbed within the subsidiary as prior to the announcement the capital coverage ratio was above the targeted position.

The life outflow has been impacted by increased new business sales of pensions and protection products which have increased the level of new business cash consumption. This was offset by cash generated from sales of flexible guarantee bonds. Surplus cash of £18 million has also been received within the Estate from the Equity Release subsidiary.

The £131 million outflow for non-recurring items includes the pay-out for the general insurance long-term incentive scheme of £43 million, pension scheme contributions of £34 million, consideration paid as part of the Teachers business acquisition of £26 million and the adverse impact of one-off model and valuation changes in the heritage business of £60 million. This is offset by positive investment gains in the life and heritage business of £37 million.

Operational liquidity as at 31 December 2016 was £306 million, which was £44 million below the group's liquidity risk appetite of £350 million. The group is pursuing a number of options which are intended to bring the group within its risk appetite.

LVFS operational liquidity

£m	2016	2015
General insurance surplus cash remitted*	7	37
Life subsidiaries surplus cash remitted	18	-
Life	(21)	(10)
Group items**	(30)	(24)
Debt interest paid	(23)	(23)
Tax	(4)	(4)
Outflow before non-recurring items and mutual bonus	(53)	(24)
Non-recurring items***	(131)	34
Net (outflow)/inflow before mutual bonus	(184)	10
Mutual bonus	(17)	(27)
Net outflow	(201)	(17)
Operational liquidity held at 31 December	306	507

* Excludes the impact of the change in the Ogden discount rate, which has resulted in a £40m capital injection to the general insurance subsidiaries in 2017.

** 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 one off cash flows including the impact of moving to a Solvency II asset matching strategy

Outlook

Following the transition to the Solvency II regulatory regime we will continue to focus on reducing the balance sheet exposure to volatility in risk-free interest rates and other market changes and carry out further management actions which are intended to strengthen the capital position and bring the group's capital surplus and operational liquidity within risk appetite.

A further aspect of managing our future capital position is the group's recent application to the PRA to move onto an Internal Model. Adopting the Internal Model for regulatory capital purposes will only occur following PRA review and approval of the application.

Continued profit contributions are expected from all of our trading businesses, which continue to benefit from our strong brand and reputation for customer service. However, we expect that the impact of the Ogden rate decision may adversely affect general insurance underwriting profits and the low rate environment will impact general insurance investment returns.

Careful consideration of the impact on the group's capital position, operational liquidity and cost base, will be given to any potential future growth opportunities, as we look to ensure that the LV= business continues to grow member value in the years to come.

General Insurance Review

Our general insurance business is strongly positioned in all our markets

Steve Tindoor
Managing Director of General Insurance



I joined LV= in May 2016 knowing that it was a company with a strong reputation for excellent service and quality products. If anything, I have been even more impressed than I thought possible at the way that our great values really put our customers at the very heart of our business. I am therefore pleased with how well we have continued to give good value to our customers, and that we have delivered a good result for LV= and its members and have continued to build on our heritage.

We love being Britain's best loved insurer, so we are therefore delighted that the number of policies held by our customers grew by over 5%. We ended the year with our customers holding almost five million LV= policies, all our measures of customer satisfaction improving year-on-year and we are YouGov's most recommended insurer for the third year running! We are immensely proud to have recently been awarded the Which? Most Recommended Provider for both car and home. Having already received this status for travel in November and breakdown in August, these completed a full suite of accolades for our major product lines.

Our colleagues work tirelessly for our customers, and it is great to see all their efforts appreciated and recognised. They are the beating heart of our business, and they make it special.

Our 2016 operating profit, before the impact of the Ogden rate change, of £113 million was up 57% compared to 2015 reflecting an increase in investment return and a strong increase in the underwriting result. Underlying performance showed good progress, with gross written premiums up 7% compared to 2015. In large part this was due to our growth in policies, but also because prices have gone up across the whole market in recognition of inflation in claims costs in recent years.

While our underlying claims costs were impacted by the increased costs of putting right damage to vehicles, mainly third parties, these were largely offset by better outcomes on claims from prior years. As expected, at £64 million the releases from prior year claims reserves were not as large as those in 2015 (£93 million). Despite this, our pre-Ogden combined ratio of 94.1% is lower than 2015's 96.1%.

The reduction in the Ogden rate (as outlined in the Group Finance Director's Review on page 28) increased our 2016 claims incurred figure by £139 million, resulting in a 2016 operating loss, after the impact of the Ogden rate change, of £26 million.

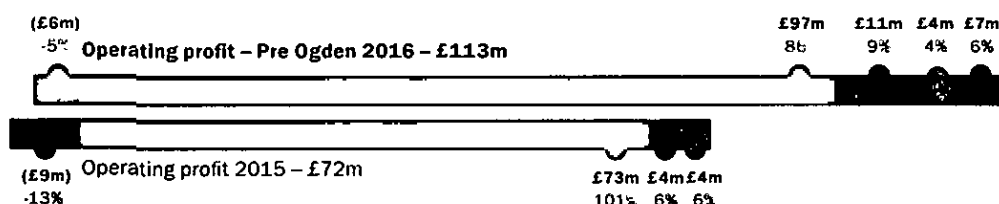
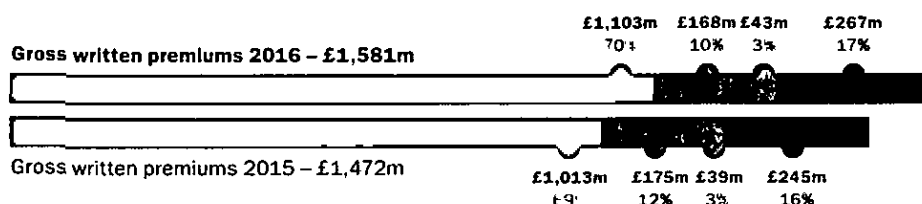
We absolutely believe that people who are seriously injured should be properly compensated but not overly compensated.

We therefore found the recent decision to reduce the discount rate to minus 0.75% extremely disappointing. It is encouraging to see the Government acknowledging the need to consult on this issue. Ultimately, we want to make sure that a fair outcome is achieved for all parties involved and we will work closely with the Government to achieve this.



Results for 2016

Personal motor ● Home ● Other ● Commercial ● Operating profit ceded to reinsurers ●



Definitions

Loss ratio:

Calculated by dividing Net benefits and claims by Net earned premiums.

Expense ratio:

Calculated by dividing segment Other Expenses net of Other income by Net earned premiums.

Combined ratio:

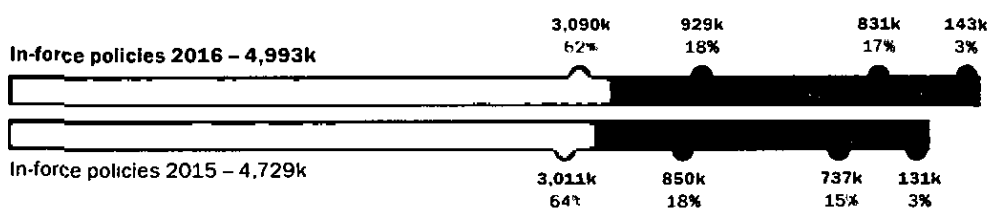
Calculated as the total of the Loss ratio plus the Expense ratio.

Investment**performance:**

Expressed as a percentage of average funds under management (FUM). FUM include segment financial assets and Cash. Adjustments are made to exclude insurance contract related debtors and to include accrued interest and other minor adjustments.

Pre-tax return on**capital:**

Calculated as segment Profit before tax divided by average net assets excluding current year dividend payments, and in 2015, the LV GIG LTIP impact on retained earnings.



£m	2016	2015
Underwriting result	70	44
Investment return	43	28
Operating profit – pre Ogden	113	72
Reserve increase due to Ogden rate changes	(139)	-
Operating (loss)/profit – post Ogden	(26)	72
Centrally managed costs	(2)	-
Amortisation of acquired intangibles	(2)	(2)
(Loss)/profit before tax	(30)	70

	2016	2015
Direct operating profit – pre Ogden	£93m	£91m
Broker operating profit/(loss) – pre Ogden	£26m	£(19)m
Operating profit ceded to reinsurers – pre Ogden	(£6m)	£nil
Loss ratio	69.7% pre Ogden 81.7% post Ogden	66.3%
Expense ratio	24.4% pre Ogden 24.1% post Ogden	29.8%
Combined ratio	94.1% pre Ogden 105.8% post Ogden	96.1%
Investment performance*	2.1%	1.3%
Direct premium income	£913m	£837m
Broker premium income	£668m	£635m
Pre-tax return on capital – pre Ogden	14.2%	9.5%
Direct in-force policies	3.6m	3.3m
Broker in-force policies	1.4m	1.4m

* Quoted gross of expenses

**Insurance
Times**
**Broker
Service
Survey 2016/17**



Direct

Our direct business grew in LV= branded car and home portfolios due to strong sales and market leading renewal retention. This growth was driven by our continuous focus on providing great value products, underpinned by great customer service. These elements featured prominently in our new 'Fix It' TV ad, which also promoted our new 'good value, great values' strapline. Overall policies increased by 9% to 3.6 million, with our car and breakdown portfolios passing their 2 million and 1 million milestones respectively. Together with strong average price growth, overall premiums grew by 9% from £837 million in 2015 to a new record high of £913 million. The current year loss ratio, before the impact of the Ogden rate change, improved from 74.2% to 71.8%.

To support sustainable profitable growth, and respond to evolving customer needs and market developments, we are investing heavily in our Pioneer Programme. This will replace our legacy policy systems and transform our car and home distribution capability. We will be able to provide a better customer experience which reflects how people want to get in touch with us, and improved proposition development and pricing. Thanks to great teamwork, management focus and commitment, we remain on track and within budget to roll-out our new propositions and capability in 2017.

Broker

2016 saw a strong turnaround in the profits of the broker division pre-Ogden from a loss of £19 million last year to a profit of £26 million this year. This was achieved through disciplined underwriting, and a forensic review of all our business lines. Our broker division policies remained at 1.4 million and grew premiums by 5% from £635 million in 2015 to £668 million. The combined ratio, before the impact of the Ogden rate change, improved to 99.3% compared to 105.5% in 2015. In commercial we have continued to focus on regional brokers and achieved 9% growth. Personal lines has concentrated on areas of the market that complement our direct division.

Unfortunately, we have not been able to make sustainable profits in the highly competitive broker home market, so following consultation we have decided to withdraw this product from April 2017. We remain fully committed to our broker personal motor and commercial business, and to our home insurance products sold directly to customers.

We have continued to deliver a strong service proposition to our brokers and have achieved Chartered Insurer status for our underwriting teams during the year which recognises the professional skills and knowledge of our people.

Looking ahead

Looking ahead our general insurance business is strongly positioned in all our markets with excellent customer service, exciting digital offerings in development and a very strong brand franchise. We have delivered a strong improvement in underwriting profits in 2016, which I am expecting to continue in 2017, subject, of course, to the usual caveats about bad weather and large losses, and the negative impact of the Ogden discount rate change on our unearned premiums. We have re-priced our motor business to take account of the higher expected claims costs going forwards. We are investing in technology to improve the customer experience and eliminate waste. The expense ratio should continue to improve as we reap a productivity dividend from this investment. Continued volatility in investment markets means we are more pessimistic about returns from our investment portfolio.

The quality and strength of the franchise means we are looking forward to the next couple of years with a clear plan and confidence we can grow and succeed in our chosen markets.

[illegible][illegible][illegible]

1. The first step in the process of the development of the new system is the identification of the requirements. This is done by the user and the system analyst. The user identifies the requirements by stating what he wants the system to do. The system analyst identifies the requirements by stating what the system must do to satisfy the user's requirements. The requirements are then analyzed and the system is designed to meet them.

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3. The third step in the process is the implementation of the system. This is done by the programmer. The programmer implements the system by writing the code that will execute the system's specifications. The code is then tested to ensure that it meets the requirements.

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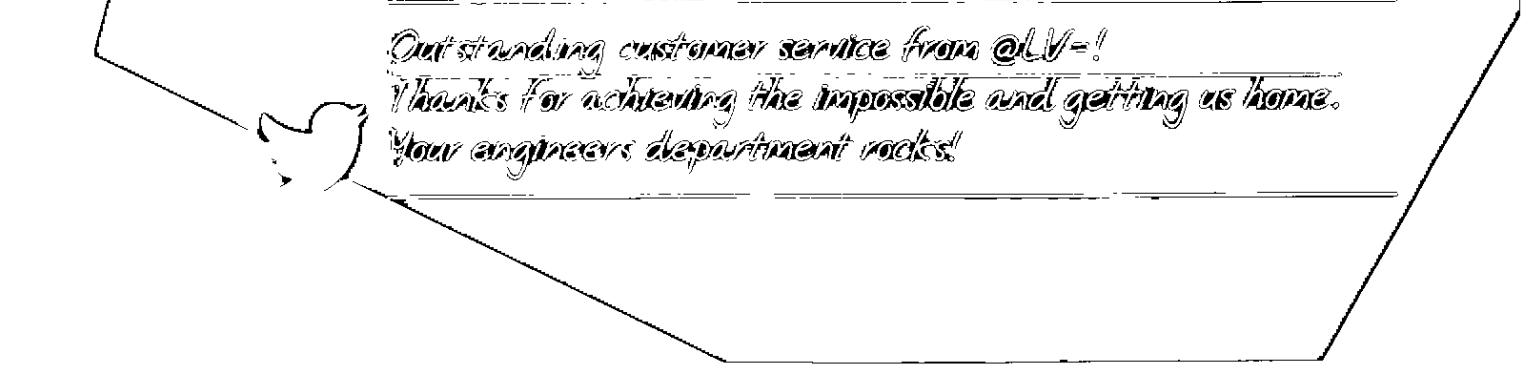
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[illegible][illegible][illegible]

*Outstanding customer service from @LV-!
Thanks for achieving the impossible and getting us home.
Your engineers department rocks!*

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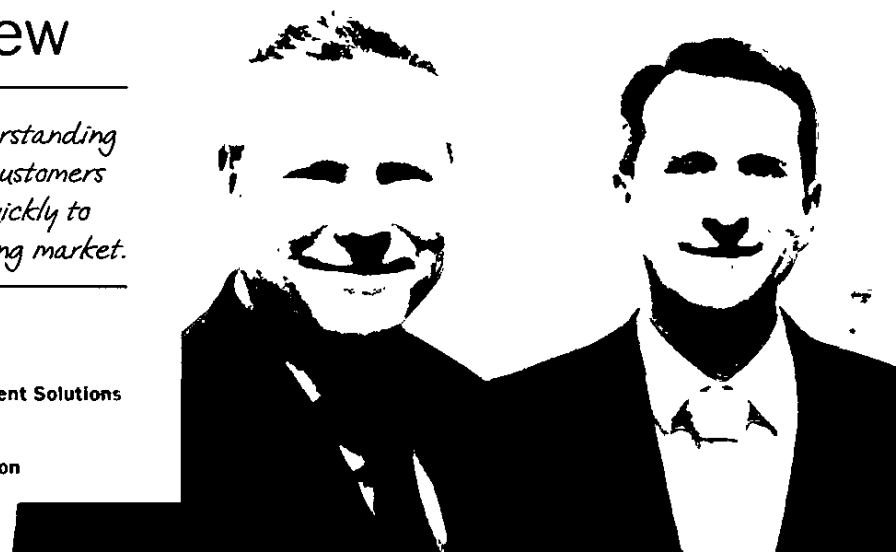


Life Review

Our agility and understanding of the needs of our customers enables us to react quickly to change in a challenging market.

John Perks
Managing Director Retirement Solutions

Myles Rix
Managing Director Protection



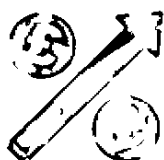
2016 Life Full Year Results

Overall the life business has delivered an operating profit of £45 million, a 10% increase on 2015 driven by the continued strength of our underlying trading businesses.

New business volumes have continued to demonstrate strong growth. In our retirement solutions business we experienced growth across every product line bar enhanced annuities where we took the decision to exit the market. In protection, new business volumes have also increased demonstrating the successful introduction of our Fastway quote and apply system which has been very well received by financial advisers.

Retirement new business contribution before investment in new propositions remains strong at £25 million, again driven by our flexible guarantee product as consumers increasingly utilise our specialist savings expertise. At a total level, life new business contribution before investment in new propositions is below 2015 levels due to our reduced participation in whole-of-life protection markets, which led to a fall in acquisition allowances.

Continued growth in volumes has increased our scale and operating efficiency. This has enabled substantial reserve releases from our in-force protection business which has contributed to the overall life operating profit.



Operating Profit
£45 million
+10% on 2015

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. This excludes investment in new propositions and under/overruns.

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. This excludes investment in new propositions and under/overruns.

[^] These metrics are not directly reconcilable to the group's IFRS results.

Results 2016

£m	2016	2015
Operating profit	45	41
Pensions business IFRS adjustment	3	(5)
Short-term investment fluctuations	32	(27)
Centrally managed costs	(2)	(2)
Amortisation of acquired intangibles	(1)	(1)
Profit before tax	77	6

New business

	Present value of new business premiums (PVNBP)		Single premiums		New regular premiums	
	2016 £m	2015 £m	2016 £m	2015 £m	2016 £m	2015 £m
Pensions*	996	986	894	893	16	14
Annuities**	338	309	338	309	-	-
Flexible Guarantee Bonds*	217	194	217	194	-	-
Equity Release	102	63	102	63	-	-
Total retirement solutions	1,653	1,552	1,551	1,459	16	14
Protection	284	272	-	-	37	35
Total life	1,937	1,824	1,551	1,459	53	49

* Pensions customers can invest part of their pension pot into the Flexible guarantee fund. These sales were previously disclosed as Flexible guarantee bond sales. As the business has come into the pension product and is then subsequently re-invested in our flexible guarantee fund it is more appropriate that these are disclosed as Pensions sales. As such, prior periods have been restated between the Pensions and Flexible guarantee bond categories by £185 million.

** PVNBP Annuities sales comprised

- Enhanced £99 million (2015: £116 million); and
- Traditional fixed term £239 million (2015: £193 million).

New business contribution

New business contribution	New business margin			
	2016 £m	2015 £m	2016 %	2015 %
New business contribution before investment in new propositions				
Pensions*	2	6	-	1
Annuities	5	4	1	1
Flexible Guarantee Bonds**	16	9	7	5
Equity Release	2	7	2	11
Total retirement solutions	25	26	2	2
Protection	15	21	5	8
Total life before investment in new propositions	40	47	2	3
Investment in new propositions***	(9)	(17)	1	
Net new business contribution	31	30	2	2

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

** Flexible guarantee bonds includes the contribution from Flexible guarantee fund sales

*** Expense incurred developing new products.

New business internal rate of return and payback period on a Solvency I basis^{*}

	Internal rate of return		Payback period	
	2016 %	2015 %	2016 Years	2015 Years
Annuities**	25	20	4	5
Pensions	6	8	11	10
Flexible Guarantee Bonds***	30		3	
Total retirement solutions	16	12	5	7
Protection	12	14	7	6
Total life	14	13	5	7

* Metrics are calculated on a Solvency I basis to provide consistency with the new business contribution table above.

** Metrics for Annuities are calculated including an element of Equity release expenses as a proportion of the Equity release asset is used to back the Enhanced annuity liability

*** Flexible guarantee bond metrics are calculated including the contribution and value of Flexible guarantee fund sales. The impact of mutual bonus is excluded from these calculations. Metrics for 2015 are not available.



Retirement Solutions

The retirement business has continued to grow in 2016, delivering a 7% increase in new business premium income and a record level of operating profit. We have seen increased new business sales across almost every product line, with pensions nearing the £1 billion mark, fixed term annuities up 24%, our flexible guarantee bond up 12% and equity release up 62%. Overall new business contribution remains strong.

Towards the end of 2016 we took the decision to stop selling new enhanced annuity business, following the exit of a number of other providers in the market. This decision was driven by the low interest rate environment and the high capital requirements of Solvency II. We felt that whilst enhanced annuities remain the right solution for certain individuals, we could not offer them at a competitive enough rate to avoid any potentially adverse customer outcomes.

We have continued our strategic investment in our systems and processes, with greater adoption by financial advisers of both our new business front end, Retirement View, and of our Retirement Account proposition as blending gains more traction in the market. In addition we have been focused on improving efficiencies within our back-office operations, and both customers and financial advisers should feel the benefit of this over time.

In an environment where customers are embracing their freedoms of choice for saving and their income in retirement, we continue to develop a range of complementary expert advice propositions. Our goal is to ensure we can help consumers access affordable and convenient professional help, in what for most are complex decisions, to enable them to secure good outcomes tailored to their needs and preferences.

Our Retirement Advice business grew by 25%, both through direct marketing, supporting our heritage customers and in 2016 opening up new corporate solutions distribution, securing deals with a number of partners who recognise the importance of offering their customers direct access to regulated advice. With the support of Wealth Wizards, the company in which we have had a majority stake since August 2015, our ground-breaking low cost robo-advice solution (LV= Retirement Wizard) and our new Pension Compass service for customers considering the suitability of transferring some or all of their defined benefits into more flexible retirement income arrangements are gaining real appeal and firmly evidence our distinctive ability to deliver modern advice solutions for today's market.

We continue to focus on developing our market leading propositions and, with continued high levels of customer satisfaction, remain confident that we can continue to challenge the industry to ensure customers the best possible outcome for their at-retirement income.

Protection

Growth in our protection business was underpinned by sales of Critical Illness and Term Life which both achieved double digit sales growth. This includes our highest ever financial adviser performance and further growth in LV= Business Protection, our proposition for small and medium business owners. Our participation in the whole-of-life protection markets was substantially curtailed in 2016 as a result of the current extended low yield environment.

To support our goal of providing good quality propositions at a good price, we have made significant investment in transforming our protection business through the launch of Fastway, our new quote and apply system. Fastway combines the benefits of technology with the expertise of our people, providing a faster and more intuitive application journey and enables more clients to be covered quicker. This has been very well received by financial advisers and is a key driver of our increased sales volumes and cost control.

Our core ambition to deliver financial protection to more people across the UK has led to the launch of 'Protection Heartland'. This enables us to further extend our intermediated footprint by working closely with like-minded protection firms to foster innovation and collaboration.

Through our comprehensive staff training we now resolve even more customer requests straight away, and this has all been achieved whilst delivering the strong service befitting of the UK's Most Trusted Life Insurer (Moneywise 2016), and a 5 Star rating in the Life & Pensions Financial Adviser Services Awards (2011-2016).

Looking ahead

Our agility and understanding of the needs of our customers enables us to react quickly to change in a challenging market.

Across our retirement and protection businesses financial advisers will remain our primary distribution channel and we are making smart investments in digital solutions to make it easier for them to do business with us while at the same time reducing our costs.

In a changing financial world, our approach remains consistent; earning the trust of our customers and members by providing good value backed up with great values.

Good value, great values

We want our members to have access to good value, transparent products. Shopping around at retirement is vital so when the Treasury introduced a 1% cap on pension exit fees for the over 55s, we were the first provider to pledge that we would cancel exit fees altogether. This means that our members have the freedom and confidence to switch to another type of product or a different provider without incurring any penalties.

We lead the way in the Robo-Advice market with the innovative and ground-breaking online system we call Retirement Wizard. Retirement Wizard is the first online regulated advice tool in the UK that offers customers a full retirement advice report for just £199. It offers all the benefits of speaking to a financial adviser but through a fully online journey with a series of complex algorithms powering the solution, at a much lower cost.

Children's claims are always tragic. Just seven months after they had started their policy, our customers' daughter was severely injured in a road traffic accident. The claim was received some years after the policy had lapsed as the parents were unaware their daughter was covered under the policy. We decided to pay the claim and we are sure this offered some real financial assistance for the family.

An elderly customer, who later sadly died from dementia, had been in contact with us to put an end to her policy. When her family got in touch to tell us that she had passed away, and to cash-in the policy, we realised that our customer had not understood the impact of her actions. We disregarded the historical cancellation and proceeded to pay out under the policy.

We do not just pay claims. Helping our income protection customers back to work is great for their overall well-being and sense of purpose. Our rehabilitation adviser makes sure that claimants get all the support they need. This could be through helping them to access medical specialists, working through a return to work plan or support transitioning into a different role. Knowing that they are not alone often inspires customers back into the work-place and society sooner.

“ I am in my third week back on full duties after my operation. The graded return to work plan that you arranged worked perfectly. You also kept me on a level pathway. Without your support I would have been off work for twelve months, rather than seven months. ”

Mr W. Andover

Strategic Report

Governance

Our Accounts

Heritage Review

Results 2016

£m	2016	2015
Underlying operating loss	(13)	(3)
Model and valuation changes	(22)	91
Operating (loss)/profit	(35)	88
Short-term investment fluctuations and related items*	21	11
Centrally managed costs	(2)	-
Gain arising on Teachers acquisition	3	-
(Loss)/profit before tax	(13)	99

* Short-term investment fluctuations and related items contains the favourable impact of tax deducted from policy asset shares and the RNPFN fund totalling £42 million (2015: £11 million)

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 unithised and conventional business. Sales of the few open categories in 2016 were £8 million on a PVNBP basis (2015: £9 million). Total policies in-force are 651,000 of which 593,000 are with-profits and reserves are £5.3 billion.

In the first half of 2016 Teachers Assurance was brought in as a ring-fenced fund within LV=. This introduced a further 55,000 policies, adding approximately £750 million to the group Statement of Financial Position.

Heritage operating loss of £35 million (2015: £88 million operating profit) is driven by adverse model and valuation changes of £22 million (2015: £91 million favourable) and additional payments made to ensure policyholders are treated in line with the Principles and Practices of Financial Management (PPFM).

Adverse model and valuation changes of £39 million (2015: £69 million favourable) relates to the methodology used to value the liabilities for OB pension policies, which was adjusted during both years 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. There has been uncertainty around this following the pensions freedom legislation which has required refinement over the last two years. This was partially offset by £20 million of unit cost savings.

Continued cost control has ensured that costs are being managed in line with the predicted run-off of the business.

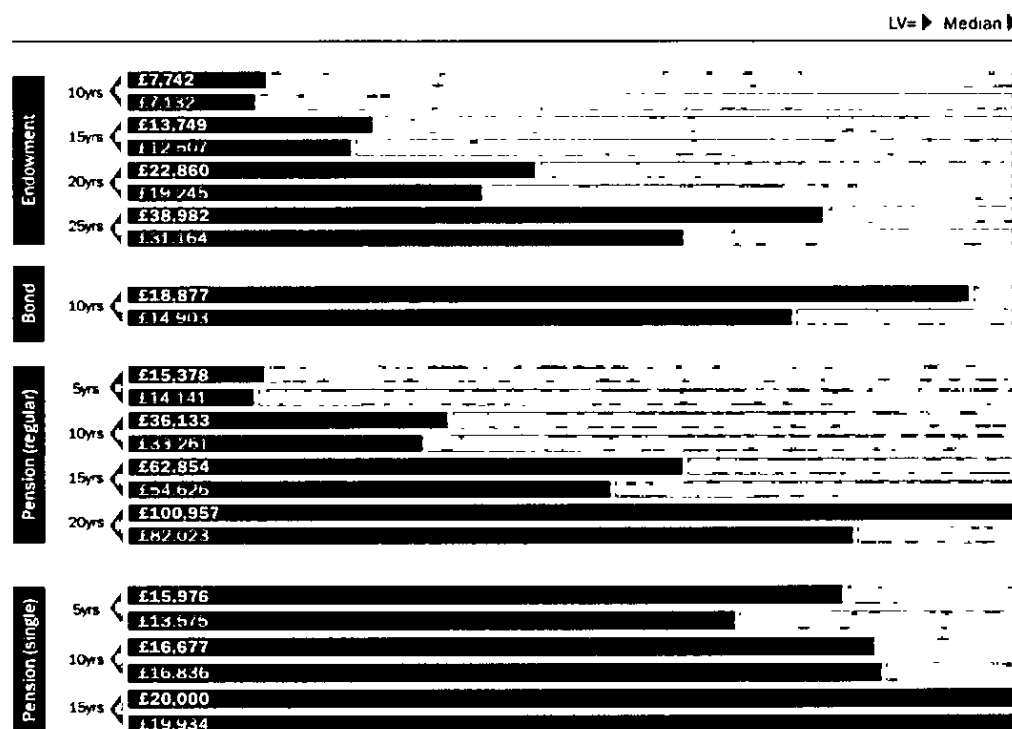
The main with-profits fund achieved an investment return of 14.5% for the year. Whilst the fund marginally underperformed against the benchmark for the year by 1.0% it is 0.8% above benchmark over the last five years.

We have completed our analysis of the Financial Conduct Authority (FCA) review into the treatment of long-standing customers, whose policies are no longer being actively marketed. This will result in some changes to our communications and operational procedures as we consider the FCA 'best practice' recommendations.

Good value, great values

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 but one of the policy selected categories and achieving top quartile pay-outs in ten of the twelve 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 2016
- With-Profits Growth Bond – An investment of £10,000 as at 1 November 2016.
- Pension (regular) – Policyholder retiring at age 65 monthly premium of £200 maturing 1 January 2016.
- Pension (single) – Policyholder retiring at age 65 an investment of £10,000, maturing 1 January 2016.

2. The industry pay-outs are taken from past performance surveys and relate to maturities and bond surrenders during 2016. The sources are

- Endowment – Money Management survey published April 2016
- With-Profits Growth Bond – Money Management survey published January 2017.
- Pension (regular) – Money Management survey published March 2016.
- Pension (single) – Money Management survey published March 2016



We achieve top
quartile payouts in
10 of 12
benchmarked categories

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:

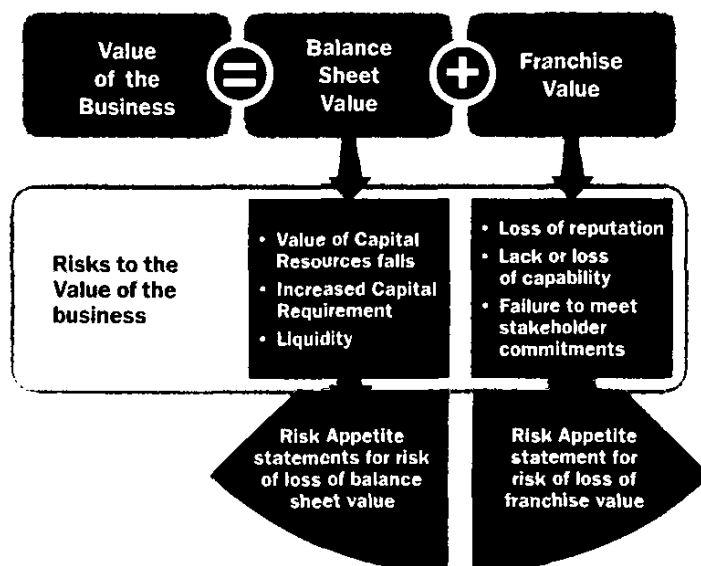
1. A risk appetite framework which sets out the type and amount of risk the group is able and willing to accept;

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:

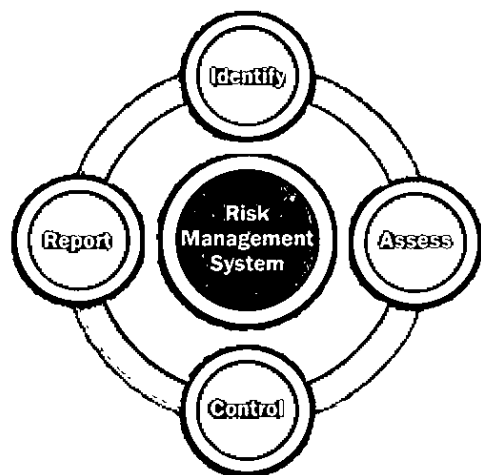
Financial Strength (Balance Sheet value)	LV= will hold a level of capital surplus that is equivalent to being assessed as an S&P 'A' rated firm.
Solvency Strength (Balance Sheet value)	LV= has no appetite to breach the regulatory Minimum Capital Requirement (MCR) and is only prepared to breach the Solvency Capital Requirement (SCR) in the event of severe risk stresses or scenarios and therefore targets holding additional capital above its SCR to protect against such events. For year end 2016 this target was £470 million.
Operational Liquidity (Balance Sheet value)	LV= will hold sufficient liquid capital resources to ensure it can meet its operational liquidity requirements in both normal and stressed circumstances. The target liquidity buffer to protect against stressed conditions is £350 million.
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, after a £100 million stress, 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:

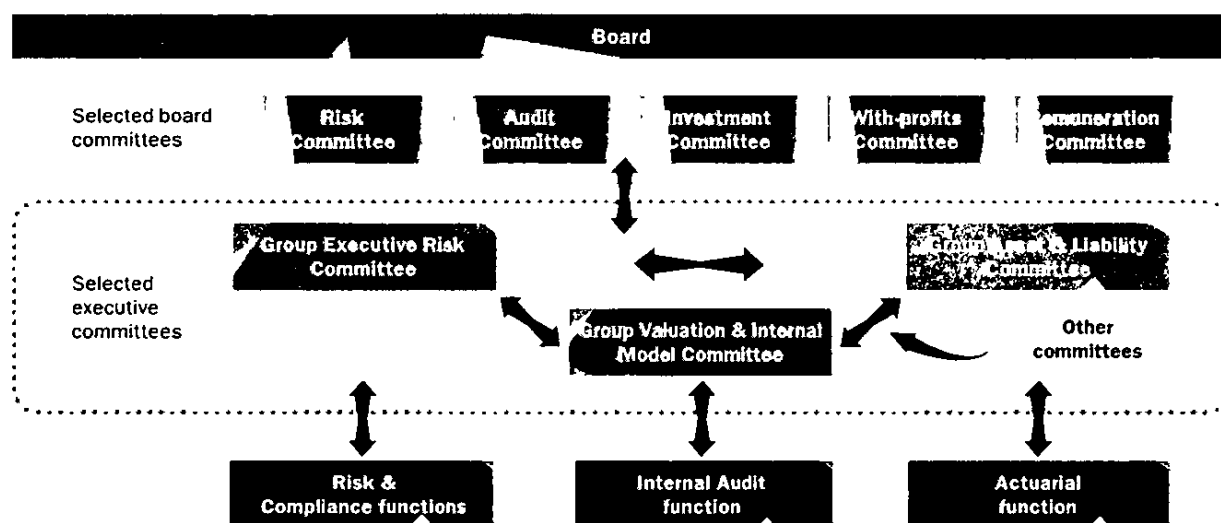


- **Identify:** Risk identification is carried out on a regular basis, including as part of the business planning process and any major business initiatives. The process draws on a combination of internal and external data and considers both normal conditions and stressed environments. Risks are recorded 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; and
 - 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 above, and clearly defined roles, responsibilities and delegated authorities.

The figure above sets out the summary governance framework that was in operation during 2016.

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, investment 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 2016, and are detailed in the tables below in four broad groupings:

- Product specific 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 Description	Risk Preference	Risk Management
<p>Life and health insurance risks arise principally from the sale of our protection and retirement products. The group also has a significant exposure to longevity risk from its in-force Heritage portfolio and the Staff Pension Scheme. The most material risks in the Group are:</p> <ul style="list-style-type: none"> • Longevity (top three risk) • Morbidity • Expense • Mortality • Persistency <p>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.</p> <p>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).</p> <p>The risk to LV= arises from the actual outcome being different to our assumptions.</p>	<p>We will take life and health insurance risks where we have the appropriate core skills in pricing, underwriting and reserving.</p> <p>We accept mortality, and morbidity risks as they diversify well (i.e. have little or no correlation) against other risks we retain.</p> <p>Longevity, persistency and expense risks are unrewarded and will generally be reduced to as low a level as is commercially sensible.</p>	<ul style="list-style-type: none"> • 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 customers' needs; • Use of reinsurance to transfer some of the longevity, mortality, and morbidity risks to other insurers; and • Documented claims management philosophies and procedures.
<p>General insurance risks arise principally from the sale of our motor, home, and commercial insurance products. The most material risks are:</p> <ul style="list-style-type: none"> • Premium • Large loss • Reserve (top three risk) • Natural catastrophe <p>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).</p> <p>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).</p> <p>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).</p> <p>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).</p> <p>In all the above instances the risk to LV= arises from the fact that the actual outcome will be different from our assumptions.</p>	<p>We will take general insurance risks where we have the appropriate core skills in pricing, underwriting, and reserving.</p> <p>We accept a level of general insurance risks as they diversify well against other risks we retain. Above appetite level, risk is transferred through reinsurance.</p>	<ul style="list-style-type: none"> • 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; and • Use of reinsurance to reduce the financial impact of a catastrophe and manage capital.

Financial Market Risks

Credit risk (top three risk) arises from investing in fixed income assets (government and corporate bonds) where there is a risk that 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.

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.

Liquidity risk arises from the possibility that 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. This may arise either because of the nature of the investments held or adverse market conditions.

Counterparty risk arises from the holding of investment assets, hedging risks associated with certain investment assets, reinsuring certain product related risks to third parties, and 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.

Risk Preference

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.

We actively accept 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. These risks are controlled or transferred through risk management actions.

Liquidity risk is avoided because we have no appetite for not meeting our commitments. Therefore sufficient liquid financial resources are retained to meet payments in both normal and stressed market conditions.

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 accepting some counterparty risk (e.g. in commercial and equity release mortgages).

We have limited appetite for other counterparty risk, but accept this risk selectively to optimise risk-adjusted returns.

Risk Management

- 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; and
- Specific asset de-risking.

- Risk appetites set to limit exposures to key market risks;
- Active asset management and hedging by the group investment management team; and
- Asset and liability matching limits to manage the impact of interest rate changes.

- 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; and
- Limitations on the level and quality of collateral that can be held in respect of hedging arrangements.

- 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; and
- Specific controls to manage exposure to asset counterparties and reinsurers.

Operational Risks

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.

Risk Preference

Operational risk is avoided by reducing it 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.

Risk Management

- 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; and
- Monitoring and reporting on the impact of our operational processes on our customers.

General Environment (Strategic and Emerging) Risks

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 and therefore cause a review of its current business model.

Risk Preference

The board operates a comprehensive risk management system to help the business control 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.

Risk Management

- 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; and
- Controls to minimise risk concentrations.

General Environment (Strategic and Emerging) Risks continued

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.
- Brexit – the decision by the UK to leave the European Union is expected to have a range of regulatory, political, and economic implications. LV= has performed a detailed assessment of the risks and continues to closely monitor developments. However, as a UK focused business with no European sites or employees the impact on LV= is not expected to be significant.
- 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 2016 is set out on page 82.

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 exceptions 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; and
- 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.

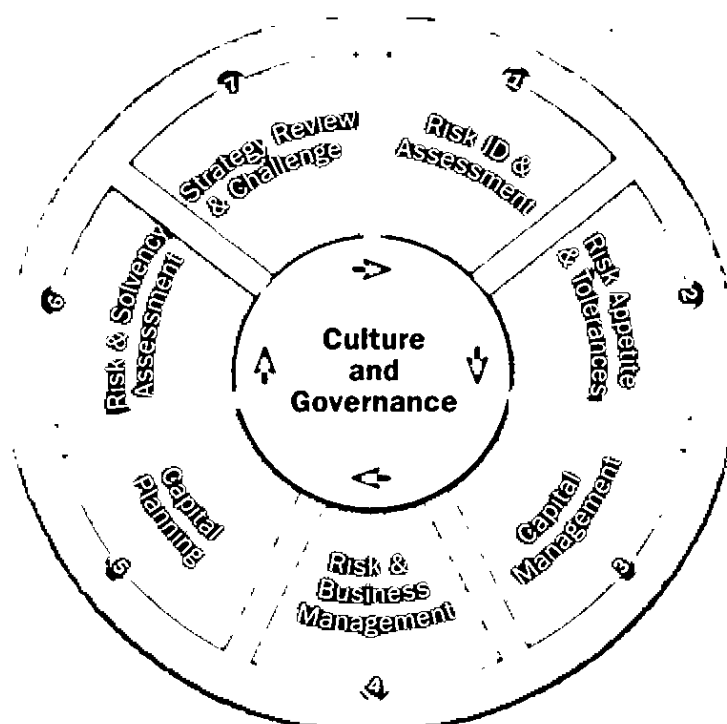
In support of this the committee receives a regular report from the chief risk officer on changes in the risk profile, the performance against risk appetite, material risk events, and the operation of the risk management framework. The Risk Committee also reviews at each meeting the principal risks of 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 90.

The main areas of focus for the Risk Committee in 2016 are set out in the table below:

	Action in year
Oversight of the principal risks of the business.	<ul style="list-style-type: none"> 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. Requesting and receiving risk based "deep drill" reports into principal risks including longevity, credit, emerging, and advice risks. Through the ORSA process regular challenge on the strategic and emerging risks that could impact the business model, including capital, liquidity, and regulatory risks.
Oversight of the operation and output of the Stress Testing and Scenario Analysis (STSA) Framework.	<ul style="list-style-type: none"> 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. Challenging the associated mitigating actions under stress and the ability of the group to recover within risk appetite in a sufficiently timely manner.
Monitoring the investment risk activities performed by the group Asset and Liability Committee (ALCO).	<ul style="list-style-type: none"> Reviewing a quarterly ALCO report from the group finance director, who chairs the group ALCO. Reviewing and challenging the risk management and hedging strategy for financial market risks in particular, including commissioning an external review of hedge effectiveness.
Oversight of, including assessment and challenge of, the risk management framework.	<ul style="list-style-type: none"> Review of the principal risks of the group. Regular reports received from the chief risk officer. Approval of risk policies. Commissioning an external review of risk effectiveness across the group and initiation of a Risk Development Programme to support the ongoing development of risk capability in LV=. Requesting and receiving a review of hedge effectiveness
Reviewing performance against risk appetite and proposing changes to risk appetite statements and limits.	<ul style="list-style-type: none"> Review of risk appetite statements and associated risk strategy principles. Challenging the appropriateness of the risk limits and tolerances, especially for capital surplus and liquidity. Regular reports received from the chief risk officer. Review of the capital management framework.
Oversight of all regulatory compliance matters.	<ul style="list-style-type: none"> Regular reports received from the head of group compliance.
Oversight of the group's conduct risk framework and dashboard.	<ul style="list-style-type: none"> 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.	<ul style="list-style-type: none"> Reviewed reports presented by the chief risk officer on the proposed ORSA process. Input and challenge to the quarterly and full year ORSA reports.
Assessing the group's recovery and resolution plans	<ul style="list-style-type: none"> Reviewing the effectiveness of the Recovery Plan and in particular its alignment with revised risk appetite limits as the group looks to transition to an Internal Model. Challenged the Resolution Plan of the group to ensure it was fully understood and embedded into the underlying business processes.
Assessment of the effectiveness of the committee.	<ul style="list-style-type: none"> 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, undertakes 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 2016 to identify and assess the principal risks both in 2016 and over the next five 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 with a particular focus on financial markets, general insurance and longevity risks 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 2016. 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 2017 resulting in a fall in equity markets, wider credit spreads and a fall in government bond yields; and
 - Researchers find an effective treatment for a prevalent cancer early in 2017. 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. Stress tests included a downturn in the motor insurance market leading to adverse combined and loss ratios in 2017, with sub-business plan trading performance in 2017-2018 which in turn reduces funds under management and therefore the level of investment income in 2017-2019. This scenario is designed to test the group's resilience to general insurance risk including reserve risk.

Assessment of the principal risks *continued*

- Reviewed and updated the risk appetite statements and risk limits for the risk dimensions set out on page 49;
- Reviewed and challenged in detail the register of financial market, insurance, operational, strategic, and emerging risks and agreed 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;
- Received a report from the chief risk officer on the impact of the proposed business plan for the period 2017 to 2021 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 2016. 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;
- Supported the development of a CRO framework to support the committee and the board in assessing the long-term sustainability of the business model. This included ensuring sufficient and appropriate actions are identified in accordance with the group's recovery and resolution plans.
- Considered an external report commissioned by the Board Risk Committee on the effectiveness of risk management across the group and provided insight on the areas of focus for 2017 and 2018 to therefore provide confidence in the risk processes applied to identify and manage the group's principal risks; and
- Received a suite of validation reports, including a top-down report that assesses whether the group's Internal Model appropriately reflects all the material risks of 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 91.

Developments in risk management

During 2017, the risk management focus of the group, and in particular the Risk Committee will include the following:

- The improvements in the effectiveness of the risk management framework and system to identify, assess, and manage the principal risks of the group, arising from the 2016 review of risk effectiveness;
- 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;
- Assuming responsibility from the Audit Committee for the board oversight and challenge of the group's risk based capital model;
- The embedding of the group's Recovery and Resolution Plans; and
- Robust oversight over the group's principal risks, including business model risk, cyber risk, emerging risk, interest rate risk, and counterparty risk.

Corporate Responsibility Report

To build a sustainable business model we need to build trust and inspire loyalty with our customers.

Katie Wadey
Customer and Member Director



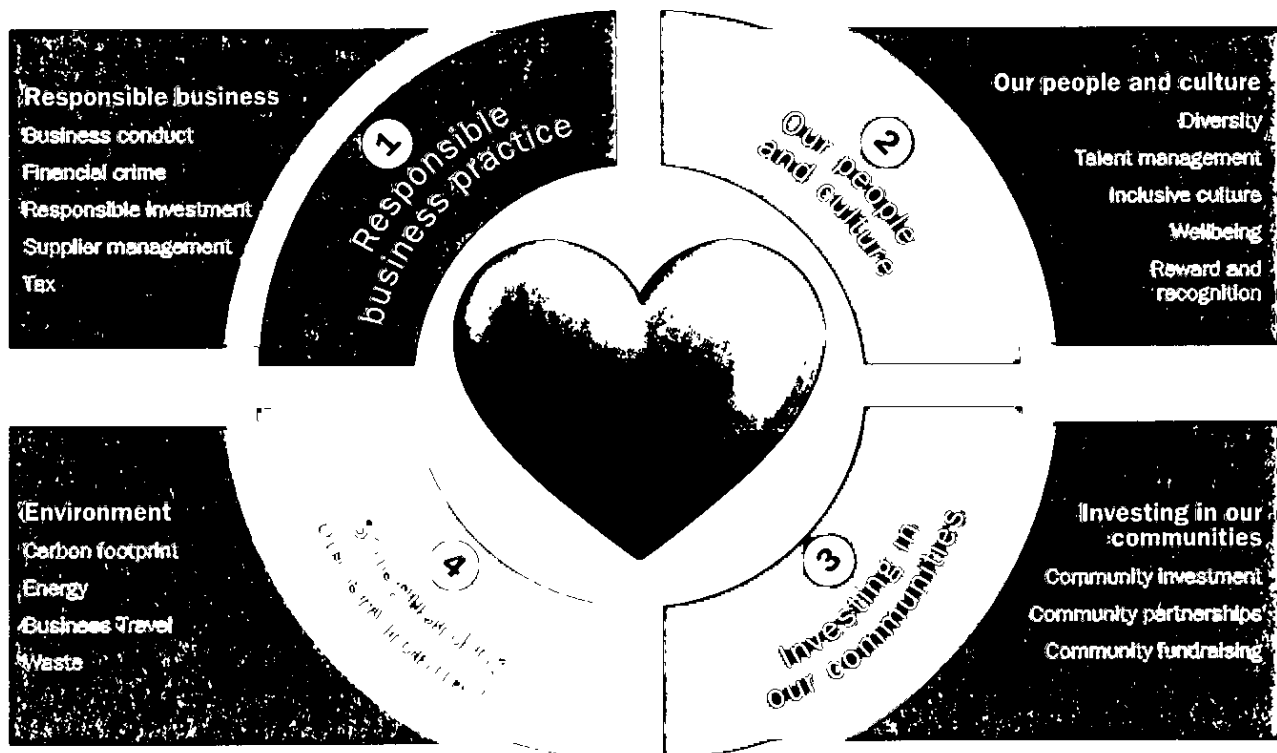
Strategic Report

Financial Report

Our Ambitions

Our approach to corporate responsibility means we put our customers at the heart of our business, look after our people, invest in our communities and care about our impact on the environment.

To help us focus on those areas where we believe we can make most impact, we have structured our approach around four key areas:





£61m
prevented in
fraudulent losses



95%
of our people say
we are a socially
responsible
company

Business ethics

To build and maintain a sustainable business model and become truly customer centric we need to build trust and inspire loyalty with our customers. This means that the way in which we deliver our business is of equal importance to the products and services that we offer.

We have fostered a culture which is based on openness, honesty, integrity and fairness, and empowers our people to go beyond what is required to meet legal and regulatory obligations.

Operating in the financial services sector brings additional challenges and we focus on educating our people through mandatory training so they are equipped to manage issues that are important to our business and customers, such as bribery and corruption, data protection and financial crime.

Customer satisfaction

Creating happy, satisfied customers makes for good business and wherever possible we will do our best to resolve any complaints as quickly as possible, directly with our customers. If they are dissatisfied with the outcome, our customers do have the ability to address their concerns with the Financial Ombudsman Service (FOS). This is a free and independent service set up by Government to deal with complaints arising from the financial services sector. FOS will conduct a full review of the complaint and make a decision on whether it should be upheld in the customer's or company's favour.

We want our customers to have the best experience possible and we focus on making sure our service and products are designed to meet their expectations and needs. By putting our customers at the heart of our business we ensure that they receive a fair outcome when a complaint is made, which is reflected by the number of appeals that were upheld by FOS in our favour in 2016.

	Complaints received	Referred to FOS	Outcome in Life's favour
	2016	2016	2016
General insurance	15,175	4%	70%
Life*	2,044	3%	82%
Heritage	384	8%	80%
Legacy business**	1,268	2%	100%

* Includes protection, retirement and life insurance, but excludes other life insurance products.
** Includes bank

There are stages in our customers' lives where they face challenges or circumstances which lead them to feel vulnerable. Be it through bereavement, ill health or a sudden loss of employment or disability, there are a variety of times when additional help and support may be needed in making financial decisions.

We have built up an approach which focuses on offering flexible products and services that can be adapted to our customers' varying needs and developing skilled employees who can deliver an expert and empathetic experience for customers in challenging circumstances.

Our 'customer equality forums' oversee our product and service offering by providing a central point for the business to escalate issues that could disadvantage someone because they are from a vulnerable group or situation. And our 'vulnerable customer champions' are skilled employees providing additional support for those facing complex financial decisions. With specialised training, including expert input from organisations like MIND, our champions provide second line support services to customers in need.

The CCTV Slam-on

Case study



When Mr Y, a cash-for-crash scammer, put in a personal injury claim for himself and his family he did not realise that his antics were being caught on camera. After his car was hit by an LV= policyholder, Mr Y was contacted and LV= accepted liability for the accident. He subsequently claimed for himself, his partner and three children because as passengers, he claimed that they were all suffering from soft tissue injuries. On investigation CCTV footage revealed that Mr Y had in fact not been in the car at the time of the incident nor had any of his family. After referral to IFED (the Insurance Fraud Enforcement Department) the case was referred to court and Mr Y received a six month suspended sentence and was ordered to pay costs. This resulted in £27,505 of costs being saved as a result of our investigation.

Bribery prosecution

Case study



On 20 September 2016 a former LV= employee was sentenced to twelve months imprisonment for accepting a bribe, as was a former employee of an accident management company for the offence of offering a bribe to our employee. Their imprisonment followed a year-long investigation by the LV= special investigations team into the suspected theft and sale of LV= third party claimant data. As a result, the rogue LV= employee was immediately dismissed for gross misconduct and we reported our suspicions to IFED supported by seven lever arch files of fully exhibited evidence. This case was IFED's first successful bribery prosecution.

Financial crime

Financial crime has many elements, with insurance fraud representing the largest priority for the business. In addition to this, theft of money or other assets for financial gain and money laundering are also types of financial crime that are a priority for us.

Working with organisations such as the Insurance Fraud Bureau (IFB), the Insurance Fraud Enforcement Department (IFED) and other regulated bodies we have established a leading counter-fraud infrastructure including specialist teams responding to policy and claims fraud. In 2016 our approach to managing financial crime helped protect LV= from potential fraudulent losses of £61 million.

Claims fraud is not a faceless crime and impacts consumers at an estimated cost to policyholders of up to £50* each per year, and the UK more than £3 billion. This type of fraud takes many forms, but it most commonly involves claims for personal injury.

Bribery and fraud

Being transparent and acting with integrity is a core principle of our approach to responsible business practice, and we do not tolerate bribery, fraud or any other financial crime. These types of crimes undermine the confidence and trust that our customers place in us and it is the responsibility of every employee to ensure they do not engage in these practices.

LV= has invested heavily in internal training and crime awareness, and our rigorous systems and controls are designed to detect and prevent this occurring. Our experienced special investigations team is responsible for the investigation of any suspicions or allegations of supplier, intermediary or employee crime.

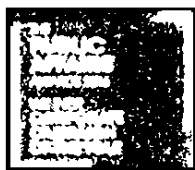
Our 'Speak up' initiative gives our employees access to make confidential, and if preferred, anonymous reports of crime and other misconduct such as bullying.

Human rights

Every individual has a right to be treated with fairness, dignity and respect, and our approach to human rights ensures that we uphold the rights and freedoms of individuals and vulnerable groups. We have developed a governance framework and human rights policy focusing on those most likely to be impacted by our business activities: our employees, people working in our supply chain and our customers.

We are committed to upholding the rights set out in the United Nations Universal Declaration of Human Rights, the International Labour Organisation Standards and the Human Rights Act 1998 among others.

Our published Modern Slavery Statement details the steps we have taken this year, to evaluate and mitigate against the risk of modern slavery and human trafficking. We have conducted a review of our supply chains to identify and assess potential risks and introduced processes to help prevent and mitigate against any such risks. At LV= we are committed to fair employment practices in relation to our own employees and have embedded these commitments within our internal employment policies.



For our media and lobbying work to help improve consumer access to financial advice at retirement

Plugging the financial advice gap

Chief Executive



Since the new pension freedoms came into effect in April 2015, we have been warning of a deepening pensions "mis-buying" crisis. We have argued that without bold policy initiatives to increase advice take-up at retirement, a significant UK advice-gap in the UK's pensions world exists and thousands of people risk sleepwalking into retirement without seeking professional financial advice.

The Government's Financial Advice Market Review (FAMR) was set up to look at what could be done to improve better access to affordable financial advice at retirement. With our new online retirement advice service, LV= Retirement Wizard, which offers regulated independent advice via simple online apps, we were well placed to collaborate on the review.

As part of our input, we conducted research among consumers to understand views towards professional advice. The results showed people were confused about the various levels and types of advice available.

Of the five clear recommendations LV= made to Government as part of the review, three were included in the final report published in March 2016. Crucially, the report recommended a clear role for online advice solutions like Retirement Wizard. The report's recommendations are due to be implemented during 2017 and we are proud of our contribution on this important issue.

Public policy engagement

As a leading financial services provider, we seek to take a key role in engaging policy-makers to inform them on important public policy issues that affect our business, particularly those that impact our customers.

As a specialist in both general insurance and life and pensions, our views on public policy are often sought and we believe in sharing our insight and experience to ensure policy developments are well-informed. We also work closely with trade associations, such as the Association of British Insurers, to shape industry-wide responses to relevant public policy issues.

Over the last year, we have been actively involved in a range of public policy areas, including improving take up of financial advice at retirement, implementation of the new pension freedoms, and the growing impact of fraudulent whiplash claims on car insurance premiums.

Responsible investment

Our customers put their trust in us to ensure that their money is managed well, so it is important that we work with investment partners that reflect our values and subscribe to the philosophy that well-run businesses who understand the need for long-term sustainability, broadly return better value to investors.

Our two key investment partners are Columbia Threadneedle Investments who manage the vast majority of our assets, and BlackRock who manage the fund for Teachers Assurance members, a mutual business that we acquired in 2016. They are both signatories to the United Nations backed Principles for Responsible Investment and are signatories to the UK Stewardship Code on Corporate Governance.

We empower our partners to make decisions on our behalf that are not solely based on financial performance. Commonly known as ESG (Environmental, Social and Governance) factors, they cover issues such as a company's approach to human rights, its environmental record and internal governance structure. These factors are important as they have the potential to create risks and opportunities that could ultimately impact the financial performance of an organisation.

Our partners operate a programme of active stewardship with the companies that they invest in. They will engage with business leaders to better understand a company's operational processes and policies and will work with the business when it sees that important issues are not being addressed, using their voting rights to influence change when necessary.

Our suppliers

LV= is a UK-based insurer and therefore our supply chain is straightforward, with the majority of our suppliers also in the UK. The largest proportion of our procurement spend falls into the category of general insurance which is related to UK based suppliers who help resolve home and motor claims for our customers whether this be repair or replacement of goods. In 2016 LV= total supplier spend was £1.75 billion.

Driving collaborative and mutually beneficial relationships is at the core of embedding a responsible approach to working with our suppliers. Our tender process ensures that we partner with reputable organisations that have the same values and principles as us. This gives us the confidence that when a customer interacts with one of our suppliers, they will receive the same high level of service that they experience when dealing directly with LV=.

If we want organisations to mirror our own values, it is important that we treat them fairly and with respect. That is why we are proud that we pay our suppliers in a timely manner which is generally within 30 days, as we understand that late payment can cause problems, especially for small or medium sized businesses.

During 2016 we took steps to implement policies and processes designed to ensure our operations align with the expectations of the UK regulators, the Financial Conduct Authority (FCA) and the Prudential Regulation Authority (PRA). This means that we now have in place a newly defined business sourcing process to help identify and provide oversight of supplier relationships that are most critical and important to us.

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:

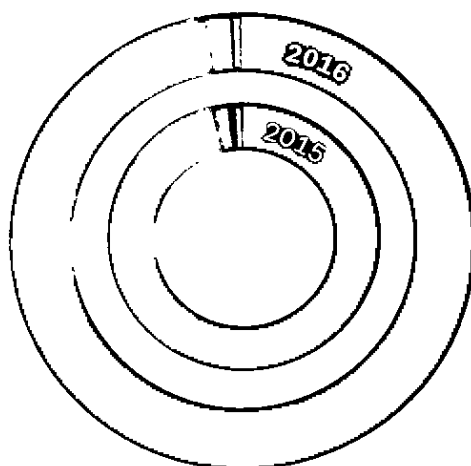
- To comply with tax laws and regulations;
- To manage our tax affairs efficiently and proactively;
- To maintain an open and transparent relationship with the tax authorities; and
- To undertake tax planning to ensure an efficient tax position, but not to undertake planning which may be perceived as 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 2016, through our operations and commercial activity, we have paid and collected taxes totalling £326 million (2015: £270 million). The increase is largely due to two changes made to the standard rate of Insurance Premium Tax; from 6% to 9.5% on 1 November 2015, and from 9.5% to 10% on 1 October 2016. The composition of the total taxes borne and collected by the group is given below:



2016	£m
▶ Insurance premium tax	147
▶ Employee payroll taxes	74
▶ Annuity payroll taxes	73
▶ Corporation tax	23
▶ VAT	6
▶ Business rates	1
▶ Stamp taxes	1
▶ Other	1

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

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.

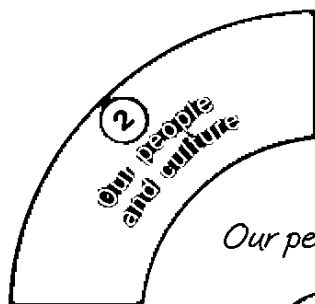
There can also be large differences between the tax charge disclosed in the income statement and tax actually paid to HMRC in the year, disclosed in the cash flow statement. This is partly due to when corporation tax is paid to HMRC, but also as a result of timing differences between the accounting treatment 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	2016	2015
Tax charge per income statement	35	6
Accounting adjustments including deferred tax	(11)	2
Tax instalments repayable next year	6	7
Tax instalments from prior years' charge (repaid)/paid in this year	(7)	16
Tax paid per cash flow statement	23	31



£326m
Total UK
Tax contribution
2015: £270m



Our people said...



90%
feel they have the
opportunity to
ask questions



95%
believe our values
are clear



92%
say we are truly
customer-orientated



Building a diverse workforce

With more than 6,000 employees across 15 sites, we believe that having a diverse, inclusive and engaged workforce is key to our future success. As the demographic of both our people and customers continues to change, a more diverse set of expectations will emerge. Fostering an inclusive and empowering culture that values diversity continues to be a strong focus, and is important to delivering great customer service – a key driver of business success.

2016 saw the launch of our new careers website which better shows, through our people, what life is like inside LV=. The site offers a personalised journey of differing career options, combined with rich social media to bring to life the day-to-day experiences of our employees. Prospective candidates get a more authentic view of our culture and values, together with a real life insight into working for LV=. The website forms part of our wider strategy to reduce the number of hires that we make through third parties, and we are proud that over 90% of people now join LV= through direct interaction.

Talent management

Our continued commitment to developing our internal pool of talented and ambitious people saw us launch our second LV= 'Inspire' programme this year. The programme provides the opportunity to gain hands-on experience in various business units across LV= through a series of rotating placements lasting between three and five months. Supported by executive sponsors who provide coaching and mentoring, the programme is designed to support delegates in identifying their key skills and interests and guide them on to the next stage of their career development.

We have also continued to support the growth of our own digital talent and launched a second intake of digital apprentices. With Bournemouth being recognised as the fastest-growing digital economy in the UK, we have partnered with Bournemouth and Poole College in being one of the first financial service companies to launch the Government backed apprenticeship scheme in digital. The scheme provides us with a great opportunity to develop the next generation of digital leaders for LV= within our local community. With the new Government Apprenticeship Levy Scheme coming into force on 1 April 2017 we will continue to build on this and look at how we use apprenticeship programmes to replace existing training, complement schemes such as 'Inspire' and retrain our workforce in areas such as compliance.

We know our people do not need to be in an office to do their best work which is why we now have 6.8% of our people who are home workers; many more work flexibly, mixing the office environment with home during the week. This not only supports our employees' wellbeing but also enables us to recruit from a broader talent population and enables a better gender balance in senior roles across LV=.

Celebrating diversity

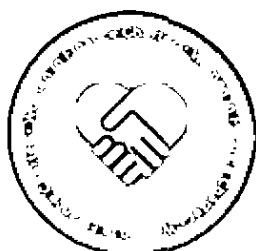
Diversity at LV= is not just about ticking a box. We are committed to creating a culture which respects and values individual differences, a place where everybody feels comfortable being themselves and one where we take personal accountability in making this happen.

Employing people with differing backgrounds and experiences helps us gain competitive advantage. It creates a broader talent pool, more creativity and innovation built on a range of perspectives, leading to better financial performance and new customer insight.

We received great external recognition in 2016 by being short-listed for 'The Diversity Award' at the British Insurance Awards. We were also finalists for 'Diverse Company of the Year' at the prestigious National Diversity Awards, receiving numerous nominations.

*"LV= has truly embraced diversity.
It is an everyday part of the culture here."*

This year our LGBTQ network celebrated Bournemouth PRIDE 'Bourne Free' - joining the parade, hosting a stall and putting the iconic PRIDE sash across the LV= heart outside our head office.



Women in Finance Charter

We want talented people to have equal opportunities to grow their careers at LV= and we believe that gender balance is vital to our success.

On 11 July 2016 we were excited to join 72 firms across the financial services sector to sign the Women in Finance Charter. A joint commitment by HM Treasury and the signatories, the Women in Finance Charter reflects the Government's aspiration to see gender balance at all levels across financial services firms and is focused on building a fairer and balanced industry in partnership with the best businesses in the sector.

As a charter signatory we pledge to continue to support gender diversity. Our executive team and board endorsed a commitment to increase the proportionality of women in senior positions. At the start of 2016 we set ourselves the target to increase the proportionality of senior women at LV= to 36.6% by the end of 2016. This was stretching target and we were pleased to end 2016 at 36.41%.

Wellbeing

We recognise that a healthy happy workforce is more engaged, motivated and productive. Our wellbeing strategy focuses on promoting greater physical and mental health, supporting our people to manage stress and build individual resilience.

We have a number of support mechanisms and great resources available to our people and dedicated to line managers, including a mental health toolkit to support our leaders manage employees with mental health conditions.

In 2016 we held a range of activities across National Work Life Balance Week from mindfulness workshops to free gym classes to inspire our people to make healthy lifestyle choices.

Our people's feedback really validates our approach to wellbeing, our 2016 Engage results show:

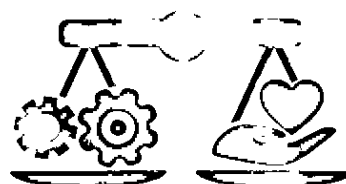


83%

of our people think that LV= cares about their wellbeing

+5%

above UK High Performing Organisations

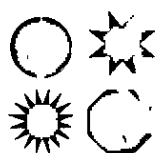


85%

of our people are able to balance their work and personal responsibilities

+5%

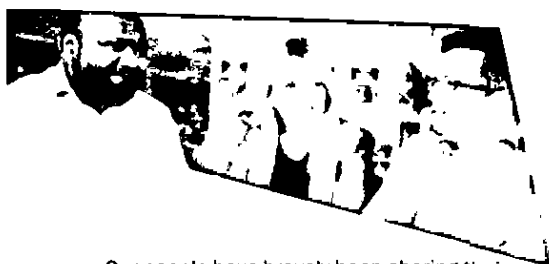
above UK High Performing Organisations



92%

say we support diversity in the workplace

Lorraine



Our people have bravely been sharing their personal stories on our intranet this year, including Lorraine who has shared her story of living with Rheumatoid Arthritis and Osteoporosis:

" At LV= I have been encouraged by my line managers to be more open with them and my colleagues and to make sure I look after myself more. I have been overwhelmed at how kind team members can be. In my current role my work-life balance is much easier to manage. I can now do a four day week, whilst having the career I have worked years for. Having this support means that when I do have an occasional difficult day or hospital appointment, I can flex my day off to help manage the load. It has also taught me that people actually do care and by having this level of flexibility, I will always go that extra mile when I can. "

Reward and recognition

We are committed to making sure our people are rewarded fairly through the regular review of our pay levels to ensure they are competitive both internally and externally with market rates. We pay all our employees at least the Living Wage rates of pay. In 2016, the average full time employee salary was £31,500 (2015: £30,800). In addition to basic pay, all our employees participate in an incentive scheme which is structured around both individual and business performance. In 2016 the average bonus was 8.6% of bonusable earnings.

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 impact contribution levels will have on their retirement plans.

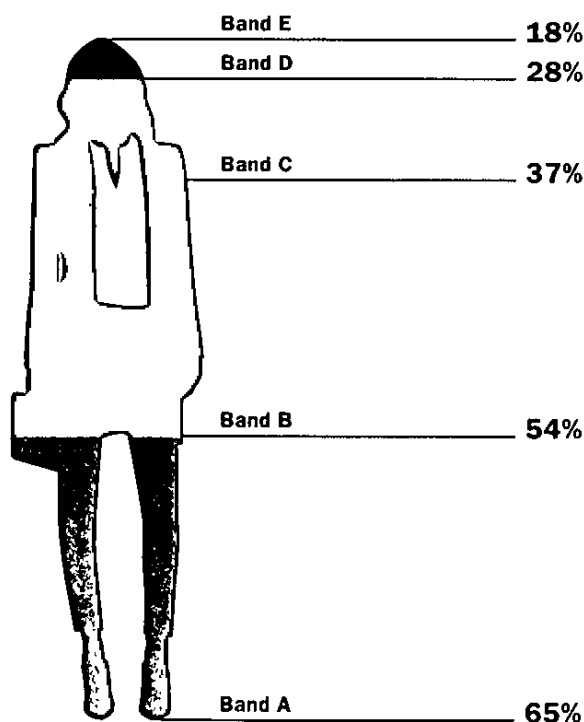
Last year we refreshed and relaunched our flexible benefits platform, enabling our people to select the benefits most suited to their individual needs and lifestyles. Following its launch, 85% of our people have used the platform, an increase of 20% compared to last year.

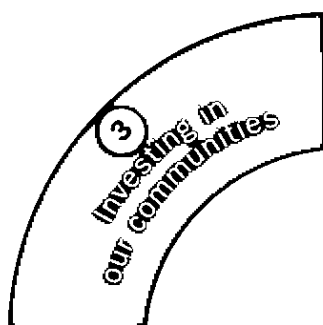
Recognition plays a significant part in our employee proposition: we offer a peer-to-peer platform, built on our values, to enable employees to recognise the contributions of others. Nearly 27,000 e-cards were sent in 2016, and over 9,000 colleague award nominations were received, reflecting our culture of sharing and celebrating success. We actively encourage our people to make suggestions to improve our customer experience and business operations through our intranet platform, with employees collaboratively looking for solutions to drive our continuous improvement.

Gender pay gap

Under new plans announced by the Government in February 2016, firms with over 250 employees will report pay differences between their male and female counterparts from 2018. These guidelines require employers to publish their gender pay gap using data from April 2017 (which is unavailable as at the publication date of this annual report and accounts).

Proportionately the split between the overall number of males and females working for LV=, as at the end of 2016, remained at 53% female/47% male, no change from 2015. From a job role perspective where a band A is most junior and band E most senior, the infographic below shows the ratio of female employees in each band:





Regional community committees distributed
£185,000
and helped over
300
charities



Our people donated
5,699
in volunteering hours, a
68%
increase on 2015



£304,330
fundraised by our people
for good causes



▶ Community investment	£531,466
▶ Community partnerships	£158,032
▶ Community fundraising	£304,330
▶ Member support (see p11)	£143,175

Our role in society goes beyond supplying services and products to our customers. We strive to make a positive impact in the communities that we serve – the places where our people and customers live and work.

Community Investment

Our programme of community investment focuses our support so that we are actively involved in donating both time and money to a variety of good causes and community projects. Our aim is to have a lasting positive impact and help create communities that thrive. In 2016 our community contributions were worth just over £531,000.

Every office has a Regional Community Committee in place to champion our commitment – made up of employee volunteers, it is these groups that make decisions about how best to lend our support. Last year they distributed £185,000 in funding and helped over 300 good causes across the UK.

Over the last 12 months we have been working with our committees to help better understand, measure, and report on the impact that we make within communities. Towards the end of last year we became a member of the London Benchmarking Group (LBG), that works with organisations to help them share best practice and collaborate on community issues. LBG are working with us to design a model which will help us more accurately capture our social impact. During 2017, we will embed the model within our network to use as a basis of reporting.

We are proud of our long standing tradition of employee volunteering. Our people love to make a difference by sharing their skills, knowledge, and time with others. Our 'Time-Off to Volunteer' scheme offers up to 2.5 days per year in matched time-off. Volunteering opportunities are a mix of company led initiatives like Age UK's 'Call in Time' scheme, individuals sharing their professional skills, and department community days, where whole teams can go out to deliver practical support to a local project or charity.

As well as being hugely beneficial to charities, volunteering is of great value to our business as it enables our people to develop personally and professionally, create dynamic and motivated teams, and leads to a happier workforce.



LV= KidZone reunited

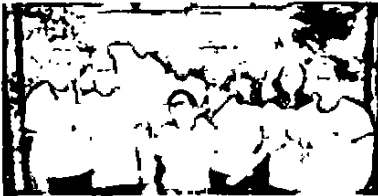
184

lost children with their families



Blooming Marvellous Leeds

Community



When local organisation 'Beeston in Bloom' contacted our Leeds office for help, our blooming marvellous people jumped into action.

Based in South Leeds, Beeston in Bloom is a voluntary group that aims to promote community pride by improving the local community environment. Tasked with improving the iconic 'Millennium Garden' in Cross Flats Park, ten LV= volunteers undertook path cleaning, hedge trimming and weeding to bring the garden back to its former glory.

As a result of the team's efforts, the garden was entered into the annual Yorkshire in Bloom competition and we are delighted that our contribution helped the garden secure a 2016 gold award.

Volunteering support is invaluable for Beeston in Bloom, and it is amazing the difference that can be made when businesses like LV= encourage their people to come out to lend a hand in the community.

Angela Gabriel

Local Councilor and Beeston in Bloom volunteer

Community partnerships

Longer term partnerships allow us to create strong relationships with charities and community groups on programmes that are of shared interest. By their nature they are longer in length and involve more than just financial support.

LV= KidZone is one of our oldest partnerships and serves to help keep children safe along Bournemouth's beaches. With over 100,000 visitors to the seaside resort every day during the summer months, we work with Bournemouth council and the RNLI to ensure that both local and visiting families have access to a scheme which promotes beach safety. The scheme ensures that lost children can be found quickly with the least amount of distress to either parent or child.

AutoRaise charity partnership

In December we announced that we had become a platinum partner with the vehicle repair industry's charity, AutoRaise. As a car insurer, we know that our customers need their vehicles to be repaired to a safe and high standard by highly skilled people. However, the industry is facing a skills shortage as fewer young people are entering the profession. AutoRaise is offering the first multi-skilled apprenticeship and is bringing together repairers, colleges, schools and suppliers to promote it as an attractive opportunity for youngsters.

AutoRaise was an obvious choice for us to support because of the work it does to promote apprenticeships within the repair industry. With our own network of LV= repairers we are in a great position to help AutoRaise attract the next generation of qualified talent and encourage garages to take on more apprentices.



This is a charity that I could relate to because it was how I started my career many years ago when I became an apprentice in vehicle repair.

Michael Golding, LV= Engineering Manager



Call in Time
29,820
minutes spent talking to
lonely older people



Platinum award
54%
of our employees registered in
our Pennies for Charity scheme

Dorset plane pull

Case study



On 29 August at Bournemouth Airport, forty willing LV= volunteers took on the challenge of attempting to pull a 35,000Kg Boeing 737 a distance of 50 meters in the quickest possible time. Inspiration turned to perspiration for our willing team when they pulled together to raise funds for the Motor Neurone Disease Association (MND). Touched by a colleague recently diagnosed with the disease, the team used brute force to raise thousands of pounds in donations for the charity.

"The Plane Pull was a fantastic event. It was great to work together with people from all over LV=. MND is an amazing charity to raise money for, especially as one of our LV= family has been directly affected by the disease. In total we have raised nearly £3,000, which is an amazing achievement and something we are all really proud of."

Emma Donaldson
LV= Direct Life Sales

Age UK 'Call in Time'

Forty of our employees have been making weekly calls over the last 12 months in support of Age UK's telephone befriending service, 'Call in Time'. With over a million older people in England chronically lonely we were keen to lend our support. And with a workforce which is recognised as delivering industry leading levels of customer satisfaction, we felt we had the right people to reach out to those most in need of personal contact.

Through Age UK, our employee volunteers are matched to an older person based on shared interests and hobbies. Once matched, our volunteer and older person have a friendly 30 minute chat at the same time each week. We are delighted that 2017 will see the continuation of our support with an increase to sixty LV= volunteers giving up their time to make calls.

"I am so proud and grateful to be a small part of something so great. Age UK brings joy to not only the older people who are being helped by the charity but also to those who volunteer."

LV= employee Croydon

"It is great speaking to somebody who is not a family member as they always seem to be busy with work and other things. I have been down lately and really look forward to Angela's calls."

Patricia, on LV= befriender Angela

Community fundraising

Coming together to help those most in need in our communities is something our people are proud to be a part of, and over the years, as a business, we have raised funds and donated thousands of pounds to good causes up and down the country.

Now in our ninth year of support, Children in Need, Sport Relief and Macmillan Coffee Morning continue to be the most popular events in our fundraising calendar. Between them, the charities received £50,000 as a result of our people's fundraising endeavours. And when we opened the doors of our Bournemouth call centre to the Children in Need telethon event, over 100 volunteers stepped forward to handle calls on their behalf.

Our payroll giving and £ for £ charity matching schemes encourage our people to go out and raise funds for causes close to their heart. As a result of their personal efforts our people raised over £260,000 and unlocked a further £76,000 in corporate matching.

A Safeguarding our environment

As a UK company operating in the financial services sector, our environmental impacts are small in comparison to many other businesses. However, as a responsible business we are committed to managing the impacts that arise as a result of our day-to-day business activities.

Our commitment focuses around the three areas where we have most influence – carbon emissions as a result of our energy consumption, employee business travel; and our overall waste management.

Carbon footprint

During 2016 we conducted an audit to help benchmark carbon emissions across our key impact areas. We will use 2016 as a baseline against which we will track our progress over the coming years.

**Carbon emissions
2016**
(tonnes CO2 equivalent
p/employee)

▶ Purchased Electricity	0.46
▶ Purchased Gas	0.05
▶ Business Travel – Land	0.25
▶ Business Travel – Air	0.05

Energy

With 15 offices across the UK it is no surprise that the single biggest contributor to our carbon footprint is our consumption of electricity and gas. Emissions are generated as a result of the energy consumed to power our offices, IT equipment and data centres. Achieving a reduction in consumption will always be a challenge as factors such as business growth and changing climate conditions will impact the amount of energy we consume. However, over the last three years we are pleased to report a positive picture emerging.

Business travel

From Huddersfield to Exeter and Cardiff to Ipswich, our LV= sites are spread far and wide. And there are always times when a meeting face-to-face with a colleague or customer is necessary. Where we can, we encourage our people to use video conferencing technology to reduce travel, or to look for more sustainable ways of getting around.

Waste

Since 2014 we have been working across our business to identify areas where we can reduce the overall waste that we produce, increase the proportion of waste that goes to be recycled and reduce the usage of valuable resources, such as paper.

We are delighted that year-on-year we have seen a positive trend emerging; the overall volume of waste has decreased, and recycling has increased.

Energy

Energy usage (tonnes CO2 equivalent p/employee)

2016: 0.51

2015: 0.63

2014: 0.76

Waste

Waste (tonnes)

2016: 1,382

2015: 1,464

2014: 1,570

Business travel

Travel (tonnes CO2 equivalent p/employee)

2016: 0.30

2015: 0.35

2014: 0.33

Recycling (as a % of overall waste)

2016: 93%

2015: 92%

2014: 91%

Corporate Governance Report

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- 90 Directors' Report
- 94 Report on Directors' Remuneration

Overview

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

Corporate Governance Statement

We comply with the Financial Reporting Council's UK Corporate Governance Code, (the 'Code')

Compliance with the Code for the year ended 31 December 2016

The board has adopted a governance structure based on the principles and provisions of the Code with the following exceptions during the reporting year:

- 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 Code and the chairman's membership of the committee is in addition to this. The 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.

The Society has chosen to early adopt the April 2016 amendments to the Code that are mandatory for reporting periods commencing on or after 17 June 2016. Details of the Society's re-tendering plans for its external auditors are outlined on page 85.

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 we truly live our values every day, delivering on 'Green Heart Experiences' for our customers, colleagues and members, harnessing the latest technologies and building a business that is sustainably lean and strong. By doing this the board help ensure that LV= will be able to make people 'Live Confident'.

Working as a collective board

During the year, the board comprised a non-executive chairman, five independent non-executive directors (following the appointment of David Barral in March 2016) and four executive

directors (until the resignation of Mike Rogers in July 2016) 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 too.

Changes to board composition

During the year under review, there have been a number changes at board level:

The board welcomed David Barral as a new non-executive director in March 2016. David has also joined the Investment, Risk and Corporate governance and Nomination Committees and his biography, detailing his relevant skills and experience, is included on page 79. David has since been appointed to the Audit Committee and has chaired the Risk Committee with effect from 1 January 2017.

Steve Treloar joined the Society in May 2016 as a board member and managing director of general insurance following the departure of John O'Roarke. Steve has over 19 years industry experience (see biography on page 78) and his in-depth knowledge of the general insurance market made him the ideal person to build on the strong platform that John O'Roarke and his team had created.

After 10 years in the role of chief executive, Mike Rogers resigned in July 2016. Richard Rowney, our former life and pensions managing director, was appointed to fill the role following a thorough search process that produced a short-list of excellent internal and external candidates. The board was pleased to promote from within to fill the role which facilitated consistency and stability across the board as the leadership role was refreshed.

Alan Cook joined the Society's board on 1 January 2017 as a non-executive director and chairman designate. Alan has extensive financial services experience across insurance, banking and investment and his full biography has been included on page 79.

At the Society's Annual General Meeting in June, Alan will put himself forward for election as chairman, when it is proposed he will succeed Mark Austen who will be stepping down after four years as chairman and ten years on the board.

Board composition

Biography

Non-executive Chairman	1
Non-executive Independent	5

Board members' biographies

Male

Female	2
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Board members' tenure

Age

3-6 years	3
Over 6 years	4

Experience

(As at 31 December 2016)

¹ As per the Code, 'smaller companies' are defined as those that are below FTSE 350 throughout the year, or immediately prior to the reporting year. The Society is designated as FTSE 350 in value, as it does not fall below the threshold for being an 'eligible company'.

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 Corporate Governance and Nomination Committee, reviews and agrees individual training and development aims with each non-executive director.

Board effectiveness

The Code recommends an externally facilitated review of board effectiveness at least every three years. In 2015, an external review of the board was undertaken by an independent expert consultant in the area of board effectiveness, Coletta Tumelty. Following this review, the board agreed a number of actions which were addressed throughout the year and built on in 2016.

During the year, the board focused on refining its collective behaviours within the boardroom with a strong emphasis on challenge and evidence.

The following 'key areas' were highlighted and the actions taken to improve on these areas are outlined in the table below. Over 60 senior managers who produce papers for discussion by the board received training during the course of the year to encourage them to produce clear and concise reports to enable effective discussion.

Key focus area	Addressed plan
Effective challenge 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 will be pro-active when reviewing papers before a meeting to ensure they have all the relevant information to allow a thorough discussion during board meetings and ensure that the minutes accurately reflect the level of challenge raised during board meetings.
Decision-making Ensure the board receives relevant information in a timely manner to allow informed debate before a decision is made.	The board will schedule sufficient time in future board meetings to allow a thorough discussion of the key points and will schedule additional meetings if required.
Strategy Build upon the strategy process by ensuring sufficient time is allocated on 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 has been held for those preparing papers and feedback on the quality of the papers is provided by the board.

The board strives to continuously develop, collectively and individually, and will continue to do so throughout 2017.

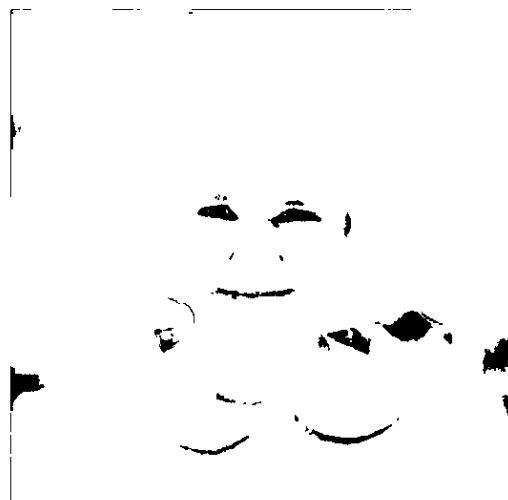
The Board

The board ensures that we truly live our values every day, delivering on 'Green Heart Experiences' for our customers, colleagues and members, harnessing the latest technologies and building a business that is sustainably lean and strong. By doing this the board help ensure that LV= will be able to make people 'Live Confident'.

We have a strong, experienced and diverse board with a good balance of skills.



L to R
Mark Austen
Richard Rowney
Philip Moore
Steve Treloar



L to R

Alan Cook

Appointed 1 January 2017

James Dean

Cath Keers

David Neave

David Barral

Caroline Burton

Strategic Report

Remuneration

Our Accounts

**Mark Austen (67) Chairman**

Date of appointment: 20 September 2006 (LVFS Board), 23 May 2013 (chairman)

Experience: 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 was previously on the board of Standard Bank plc, Temenos and Mott MacDonald.

External appointments: Non-executive director of Alpha Bank London Ltd.

Committee membership: Chairman, chair of the Corporate Governance and Nomination Committee and member of the Audit, Risk, Investment and Remuneration Committees. Mark Austen will be stepping down at the 2017 AGM and Alan Cook will be nominated to succeed him as chairman.

**Steve Treloar (48) Managing Director of General Insurance**

Date of appointment: 5 May 2016

Experience: Steve joined LV= from Aviva, where he was most recently managing director of personal lines. He led the development of the Aviva UK Digital business, and was an executive member of both the General Insurance and Life businesses. He also built the QuoteMeHappy.com business from the ground-up. He has extensive experience in the core insurance disciplines of pricing, underwriting and claims, and a keen interest in digital developments. Prior to this he has held a number of senior roles at Aviva and RBS Insurance, where he ran their Motor Insurance business, over a 20 year career.

External appointments: Chair of the Association of British Insurers Property Committee.

Committee membership: Director of various LV= General Insurance subsidiary companies.

**Richard Rowney (46) Chief Executive**

Date of appointment: 1 March 2010 (LVFS Board), 28 July 2016 (chief executive)

Experience: 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. Since joining LV= in 2007 Richard oversaw the creation of the operational support areas including the rebrand to LV= and the in-sourcing of our IT and HR functions. 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, including the acquisition of Wealth Wizards in 2015.

External appointments: Board member of the Association of British Insurers.

Committee membership: Member of the Investment and Corporate Governance and Nomination Committees and a Director of various LV= group subsidiaries.

**James Dean (59) Senior Independent Non-Executive Director**

Date of appointment: 26 July 2012

Experience: James 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.

External appointments: Non-executive director at Rathbone Brothers plc, Chairman of the Stafford Railway Building Society.

Committee membership: Chairman of the Audit Committee and member of the Risk and Corporate Governance 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.

**Philip Moore (57) Group Finance Director**

Date of appointment: 10 November 2010

Experience: 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. His particular areas of expertise include actuarial and capital management, mergers and acquisitions and risk and asset management. Philip was finance director and subsequently chief executive at Friends Provident until 2007 and chief risk officer and group finance partner at Pensions Corporation LLP between 2008 and 2010.

External appointments: Trustee and chairman of the finance committee of the Royal British Legion, chair of governors at Aylward Academy, Audit Committee chair of Towergate Insurance until 31 March 2017.

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


Caroline Burton (67) Non-Executive Director

Date of appointment: 9 September 2011

Experience: Caroline 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.

External appointments: Non-executive director of BlackRock Small Companies Investment Trust plc.

Committee membership: Chairman of the Investment Committee and member of the Audit, Remuneration and Corporate Governance and Nomination Committees. A non-executive director of two subsidiary companies of LVFS.


Cath Keers (51) Non-Executive Director

Date of appointment: 14 December 2010

Experience: Cath brings a wealth of retail industry expertise to the LV= board with 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.

External appointments: Non-executive positions at Royal Mail Group and Talk Talk Group.

Committee membership: Chairman of the Remuneration Committee and member of the With-Profits and Corporate Governance and Nomination Committees.


David Neave (57) Non-Executive Director

Date of appointment: 1 June 2013

Experience: 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 held various roles at RSA 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, and has 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.

External appointments: Non-executive director of FirstPort Insurance Services Limited and a member of Accenture’s insurance advisory board.

Committee membership: Chairman of the Risk Committee and member of the Audit, Remuneration and Corporate Governance and Nomination Committees during 2016. (Member of the Risk, Remuneration and Corporate Governance and Nomination Committees from 1 January 2017). A non-executive chairman of two subsidiary companies of LVFS.


David Barral (55) Non-Executive Director

Date of appointment: 7 March 2016

Experience: 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.

External appointments: Director of Virgin Wines and also a regular contributor to Speakers for Schools, the independent education charity.

Committee membership: Member of the Investment, Risk and Corporate Governance and Nomination Committees. (Chair of the Risk Committee and additionally member of the Audit Committee from 1 January 2017).


Alan Cook (63)

Date of appointment: 1 January 2017

Experience: Alan has extensive financial services experience across insurance, banking and investments. Up until 31 December 2016 was senior independent director of Sainsbury’s Bank and on the board of MetLife Europe. Previously Alan has served as chairman of Irish Life Group (previously part of Permanent TSB group) and the Highways Agency as well as being a non-executive director at the Department of Transport, Financial Ombudsman Service and the Office of Fair Trading. As an executive, he has also been managing director of Post Office Ltd, CEO of National Savings & Investments and chief operating officer, UK and Europe of Prudential Assurance. Alan has worked with ‘Action for ME’, the UK’s leading charity supporting sufferers of ME/CFS.

External appointments: Chairman of Permanent TSB group in Dublin, chairman of the University of Bedfordshire.

Committee membership: Alan will offer himself for election as chair of the LVFS board at the Society’s AGM in June. At which time, Alan will also become chair of the Corporate Governance and Nomination Committee and a member of the Audit, Risk, Investment and Remuneration Committees.

Out-going directors
Mike Rogers (52) Former Chief Executive

Date of appointment: 5 June 2006

Date of resignation from LVFS Board: 28 July 2016

External appointments: Non-executive director for RBS Group.

John O’Roarke (52) Former Managing Director of General Insurance

Date of appointment: 23 November 2011

Date of resignation from LVFS Board: 5 May 2016

External appointments: None

Terms of Appointment

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.

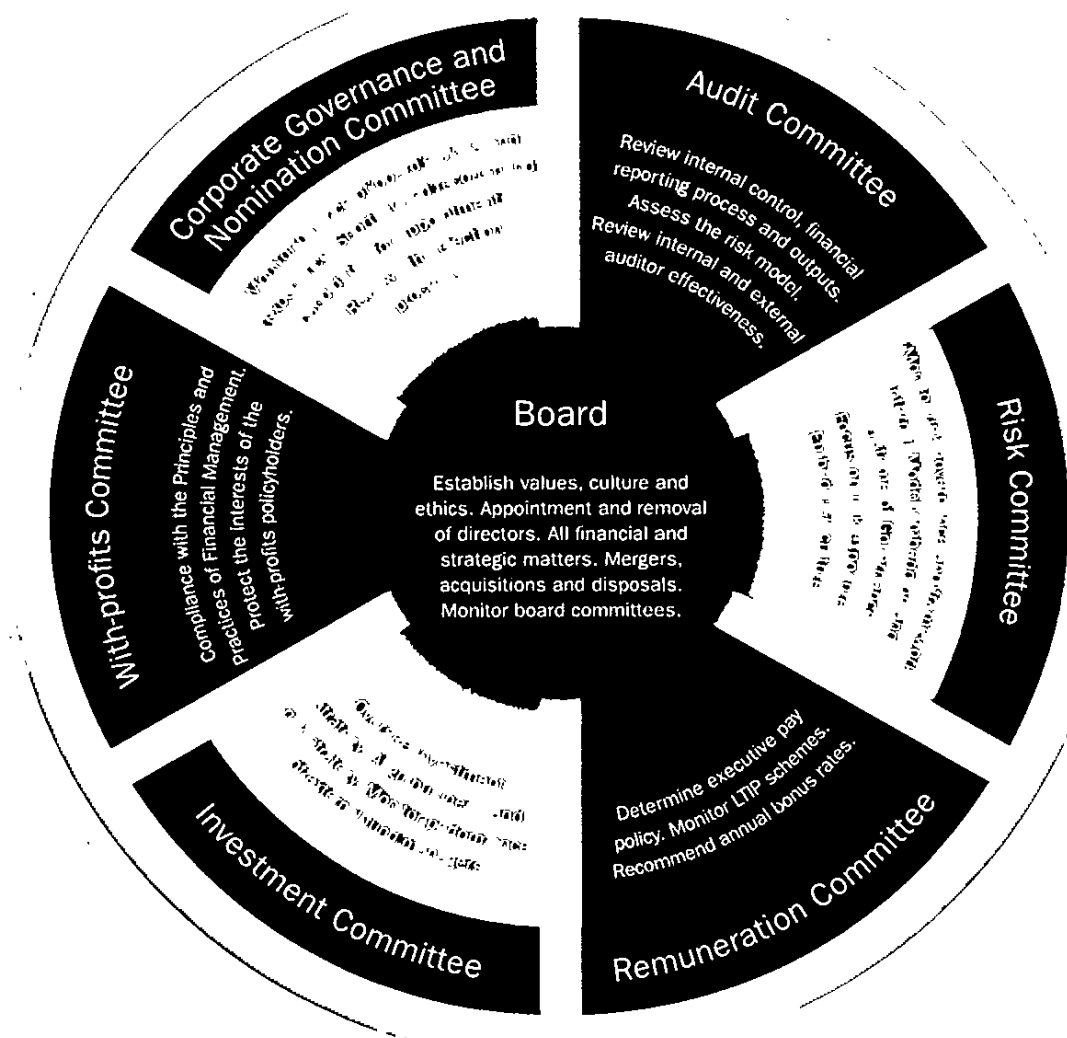
External Commitments

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 99.

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 membership and attendance in 2016

In 2016 the board met 11 times for formal board meetings, three times on an additional ad-hoc basis to discuss Solvency II requirements and twice for strategy and planning sessions.

In 2017 the board expects to meet at least ten times and to have two strategy and planning sessions.

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.

Formal meetings held: 11	Eligible to attend*	Meetings attended	% of attendance of meetings eligible to attend
Mark Austen	11	11	100%
Caroline Burton	11	11	100%
James Dean	11	11	100%
Cath Keers	11	10	91%
Philip Moore	11	11	100%
David Neave	11	11	100%
Richard Rowney	11	10	91%
David Barral [†]	9	9	100%
Steve Treloar ^{**}	7	7	100%
John O'Roarke ^{**}	4	3	75%
Mike Rogers ^{^^}	6	6	100%

* Eligible to attend includes the 11 formal meetings, three additional ad-hoc meetings to discuss Solvency II requirements and two strategy and planning sessions. The above table does not include the 11 formal meetings held on 17 March 2016.

The composition of the board varied as follows:

David Barral replaced Cath Keers on 7 March 2016.

** John O'Roarke resigned on 3 May 2016 and was replaced by Steve Treloar on 5 May 2016.

Mike Rogers stepped down on 24 July 2016.

Re-election and retirement

Under the Society's rules all directors are required to stand for re-election at least once every three years. Richard Rowney, Philip Moore and David Neave will be offering themselves for re-election at the Society's 2017 AGM.

As Mark Austen has served as chairman for four years, Mark has decided to step down following the 2017 AGM at which time Alan Cook, the chairman designate, will offer himself for election. Further details of Alan's suitability and expertise can be found within his biography on page 79.

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.

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 five 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;
- 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.

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 ten times which included approval of all quarterly financial and trading disclosures. The committee is expected to meet at least six times in 2017. Details of each member's attendance is provided below:

Scheduled meetings 10	Attended meetings	% of attendance
James Dean*	9	90%
David Neave^	9	90%
Caroline Burton	10	100%
Mark Austen	10	100%

* Chair of the Committee

^ With effect from 1 July 2017 David Neave stepped down and David Easton took over as a member of the Audit Committee

The company secretary acts as secretary to the Audit Committee. 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 (PricewaterhouseCoopers LLP (PwC)) attended all of the committee's main meetings in 2016, 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 Corporate Governance Code.

The terms of reference of the Audit Committee include all the matters required under the Corporate Governance 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 the models and governance underpinning the Internal Model application made by the group in the first quarter of 2017, including validation testing;
- Review the Solvency II regulatory returns and recommend submission to the PRA;
- 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); and
- 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.

Significant issues addressed by the Audit Committee during the year

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
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 comprises: <ul style="list-style-type: none"> • LV scheme £114m asset • Ockham scheme £20m asset • Teachers £nil m asset as at 31 December 2016. 	<p>The committee has considered the assumptions used for calculating IAS 19 'remeasurement of defined benefit schemes' and approved changes made where appropriate.</p> <p>The committee also considered whether it was appropriate to recognise the pension benefit asset for the pension schemes by reviewing the recoverability of the asset in accordance with IFRIC 14 'The Limit on a Defined Benefit Asset'.</p>	<p>The committee is satisfied that appropriate assumptions have been used in calculating the remeasurement of the pension schemes.</p> <p>The committee agrees that the pension benefit asset associated with each scheme is recoverable and that it is appropriate to recognise the asset.</p>
Teachers acquisition Application of IFRS 3 'Business Combinations'. Estimation of the gain on acquisition of £3m arising and fair value of intangibles of £10m.	<p>The committee has reviewed management's report on the assessment of the transaction as a business combination in accordance with IFRS 3.</p> <p>The committee has overseen the estimation and judgement made by management regarding the fair value of the gain and intangibles, including the Present Value of In-Force business (PVIF) arising on acquisition.</p>	<p>The committee concurs with management's conclusion that the transaction is a business combination.</p> <p>The committee is satisfied with the valuation of the gain and intangibles arising on acquisition of the Teachers business.</p>
NMPTL SIPP transfer The administrator of the LV= and Tomorrow Personal Pension Schemes has been transferred from NMPTL to LVFS in order to simplify the reporting and capital structures. As a result, administrative charges and expenses associated with SIPP business now arise within LVFS.	<p>The committee has reviewed the reports by management and external advisors regarding the change in accounting treatment of SIPP business following the transfer of the administration to LVFS. This brings the accounting for SIPP business in line with existing business written in the LVFS Statement of Financial Position.</p>	<p>The committee is satisfied that management have reached the appropriate conclusion regarding the accounting for SIPP business under the new administration structure.</p>
OB pension cash benefits The basis for the valuation of OB Pensions benefits, when taken as a cash settlement rather than an annuity, has been reassessed following feedback from the Financial Conduct Authority (FCA). This change reduced heritage operating profit by £80m.	<p>The committee reviewed the FCA's report regarding the valuation basis for OB Pensions that are cash commuted.</p> <p>Management's investigation and proposed change to the valuation basis has been assessed by the committee.</p>	<p>The committee has approved the response issued to the FCA and are satisfied that the new valuation basis is appropriate.</p>

Area of focus	Audit Committee action in year	Conclusion / outcome
<p>Changes in unit costs The calculation of the insurance contract liabilities is impacted by changes in unit costs. A review of the methodology has been performed in 2016.</p>	<p>The committee reviewed the change in unit costs, which reflected an update to methodology and the development of the business, and discussed with management the validity of this approach.</p> <p>The proposed unit costs were reviewed against the 2016 actual costs and the expected costs from the 2017-2021 business plan. These comparisons supported the approach adopted.</p>	<p>The committee are satisfied that the changes in unit cost methodology implemented by management are appropriate.</p>
<p>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.</p>	<p>The committee reviewed reports from management proposing a number of changes to the calculation of the long-term insurance contract liabilities. The committee considered industry data and has also reviewed the benchmarking provided by the external auditor.</p> <p>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. This included an update to OB pensions to reflect increases in the level of cash commutation.</p>	<p>The committee concurred with management as to the reasonableness of the revised assumptions.</p>
<p>Estimate of general insurance contract liabilities (PPOs) During 2016 there was a change in the underlying assumptions used to value claims reserves for claims which settle via periodic payment orders (PPOs) to reflect updates in the yield curve and discount rate.</p>	<p>The committee has reviewed management's findings regarding an investigation into the appropriateness of the assumptions used to value PPOs.</p> <p>The committee reviewed the changes proposed by management to update the methodology and assumptions.</p>	<p>The committee was satisfied with the changes adopted regarding the methodology for reserving for PPOs.</p>
<p>Estimate of general insurance contract liabilities (Lump sum personal injury settlements) In February 2017 the Ogden discount rate used in valuing lump sum personal injury settlements was reduced from 2.5% to minus 0.75%. Our claims reserves were updated to reflect this change.</p>	<p>The committee reviewed the new level of claims reserves proposed by management following the Ogden rate change announcement taking into account the estimated impact of the change and the uncertainty around this estimate.</p>	<p>The committee was satisfied that the increase in claims reserves put forward by management was reasonable.</p>
Solvency II		
<p>Standard Formula opening balance sheet Insurers were required to provide an initial regulatory return to the PRA on their Solvency II day 1 opening balance sheets.</p> <p>Audit chairs were also required to provide a letter to the PRA confirming their comfort over the firms' Transitional Measures for Technical Provision (TMTP).</p>	<p>The committee engaged PwC to provide a review and recommend report on elements of the 2015 year end Solvency II results.</p> <p>The committee reviewed the Solvency II opening balance sheets.</p> <p>The committee reviewed the report findings, providing challenge over the issues identified. All material issues were addressed and considered by the committee in December 2016.</p>	<p>The committee accepted the report. The Audit chair provided a letter of comfort to the PRA regarding the opening balance sheet Transition relief.</p> <p>The committee recommended to the board approval of the day 1 Solvency II opening balance sheets in May 2016.</p>
<p>Solvency II Internal Model validation As a result of LV= 's intention to move to its own Internal Model, which is subject to regulatory approval, a regular cycle of model validation has been undertaken.</p>	<p>The committee provided oversight and challenge over 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.</p>	<p>The committee concluded that model validation had confirmed that the results produced by the Internal Model appropriately reflected the risk profile of the group and that LV= met the technical standards required of Solvency II Internal Model firms.</p>

Area of focus	Audit Committee action in year	Conclusion / outcome
Solvency II		
Solvency II Internal Model application LV intends to move to use of its own Internal Model which requires LV= to make a formal application to obtain regulatory approval. The Internal Model application for the group was made in the first quarter of 2017.	The committee provided detailed review and challenge to support the LVGIG and LVFS boards. Focus for the Internal Model application was placed on covering the Internal Model policies and design, risk calibrations and results. The committee also reviewed the Internal Model validation plan.	The committee recommended to the LVFS and LVGIG boards that they should proceed to submission of the Internal Model application to the PRA.

Summary of key activities during 2016 by which the Audit Committee discharged its responsibilities:

Internal controls

- Considered the annual attestation and associated exception report regarding the effectiveness of the risk management system and controls being operated (for more details on this process see page 55); 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, estimates 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 review 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; and
- At the request of the board, the committee considered whether the 2016 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 this was the case.

Solvency II

- Oversight of LV='s successful transition onto the Solvency II regime from 1 January 2016, reporting using the Standard Formula approach to determine its regulatory capital. The group received approval to use the Volatility Adjustment and Transition from 1 January 2016; and
- Since that date the PRA has approved LV='s application to use Matching Adjustment on part of our annuity business and also further recalculations of Transition. The Audit Committee supported these applications by providing review and challenge.

Internal audit

- Reviewed on an ongoing basis the internal audit plans for 2016 and 2017 to ensure they reflected the priorities in the group's plans and were 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;
- Ensured that internal audit reports were reviewed and significant findings were appropriately acted upon by management;

- Met privately with the internal audit director;
- Approved the Audit Charter, which is available on our external website;
- Concluded that the internal audit function was performing well and was sufficiently resourced with continued access to suitable external consultancy resource where necessary;
- Oversight of an annual programme of internal quality assurance, which had been completed in order to continue to enhance the effectiveness of the function; and
- Confirmed that the internal audit director's independence had been maintained.

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 2015 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 have been the group's auditors since 2008. Legislation regarding audit firm rotation now requires that the external audit contract be put out to tender at least every ten years. In view of this, the committee has initiated the audit tender process which will conclude during the course of the coming year, with appointment subject to member approval at the 2018 AGM;
- Reviewed the policy for and monitored the use of the external auditors for any non-audit related work to ensure their 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.
- Total fees paid to or invoiced from the external auditors were £3,101,000 which includes £1,500,000 for the statutory audit of the Society and its subsidiaries. £1,223,000 relates to audit related assurance services including the audit of Solvency II regulatory returns, and £378,000 relates to non-audit services which accounts for 12% of the total fees;
- Reviewed and approved the external auditors' proposed audit scope and approach for the current year as set out in its 2016 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 2016

Approved the Solvency II submissions and application for Transition.

Approved the application for Internal Model reporting under Solvency II.

Oversaw the acquisition of the Teachers Assurance business and approved the associated financial reporting of the transaction.

Oversaw significant transactions and changes in assumptions in the year; including the NMPTL SIPP transfer, changes in assumptions for unit costs, OB pension cash benefits and equity release methodology.

Reviewed and challenged the appropriateness of the assumptions used by management to value Periodic Payment Orders (PPOs), resulting in an update to the methodology to reflect the changes in yield curve and discount rate.

Priorities for 2017

Continued focus on the areas outlined in the significant issues table on pages 83 to 85.

Review and approval of Solvency II Internal Model 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.

Approve the decision to change the segmental reporting to reflect the change in budgeting and reporting of the retirement and protection life businesses.

Review the new insurance contracts standard, expected to be issued in 2017.

Oversight of the external audit tender process.

Remuneration Committee

The Remuneration Committee met five times during 2016 and is expected to meet six times in 2017.

The committee is made up of four non-executive directors and each member's attendance is provided below:

Scheduled meetings 5	Meetings eligible to attend	Attended Meetings	% of attendance
Cath Keers*	5	5	100%
Caroline Burton	5	5	100%
Mark Austen	5	5	100%
David Neave ^A	3	2	67%

* Chair of the Remuneration Committee
^A David Neave was appointed chair on 1 May 2016

Other attendees include the HR director, head of reward, the chief executive and the chief risk officer, who attend by invitation.

The role and principle activities of the committee

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 incentive and bonus schemes.

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 94 to 107.

The Risk Committee

The Risk Committee met four times in 2016 and is expected to meet four times in 2017. The committee is made up of four non-executive directors and each member's attendance is provided below:

Scheduled meetings 4	Attended meetings	% of attendance
David Neave*	4	100%
David Barral ^A	3	75%
James Dean	4	100%
Mark Austen	4	100%

* Chair of the committee during 2016
^A David Barral was appointed chair on 1 January 2017. David Neave remains a member of the committee

Other attendees include, but are 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 role and principle activities of the committee

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 48 to 58.

Investment Committee

The Investment Committee meets at least twice a year. It met three times in 2016 and is expected to meet four times in 2017.

The committee comprises three non-executive directors, two executive directors and the group chief risk officer. Representatives from the group's asset manager, Columbia Threadneedle Investments, the group chief investment officer and the group chief actuary are regular attendees who attend by invitation. Details of each member's attendance is provided below:

Scheduled meetings 3	Meetings eligible to attend	Attended Meetings	% of attendance
Caroline Burton*	3	3	100%
Mark Austen	3	1	33%
Philip Moore	3	3	100%
David Barral**	2	1	50%
Mike Rogers^	2	1	50%
Richard Rowney^	1	1	100%
Steve Haynes***	3	3	100%

* Chair of the committee
 ^ Richard Rowney was appointed as a member of the committee on 28 June 2016 following Mike Rogers' resignation.
 ** David Barral resigned the day after the first meeting of the committee in March 2016.
 *** Steve Haynes

The role of the committee

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.

Principal activities undertaken in 2016

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. In 2016 it held five formal meetings and four ad-hoc meetings. It is expected to meet five times in 2017. The committee comprises one non-executive director, an independent chairman, two independent members and the managing director of our retirement solutions business. The chairman has extensive and relevant industry experience and was formerly CEO of Police Mutual and holds a number of other non-executive positions. Details of each member's attendance is provided below:

Scheduled meetings 5	Meetings eligible to attend	Attended Meetings	% of attendance
Cath Keers	5	5	100%
Graham Berville*	5	5	100%
John Perks^^	5	4	80%
Steve Sargent^	5	5	100%
Ian Blanchard**	4	4	100%

* Chair of the committee
 ^ Steve Sargent was appointed as a member of the committee on 28 June 2016 following John Perks' resignation.
 ** Ian Blanchard joined the committee following the acquisition of the business of Teachers Provident Society Limited in June 2016 and the transfer of the Teachers' with-profits business to a ring-fenced fund for the benefit of those policyholders. Ian has extensive knowledge of the Teachers business having previously held the position of finance director of Teachers.

Changes to the composition of the committee

Ian Blanchard joined the committee following the acquisition of the business of Teachers Provident Society Limited in June 2016 and the transfer of the Teachers' with-profits business to a ring-fenced fund for the benefit of those policyholders. Ian has extensive knowledge of the Teachers business having previously held the position of finance director of Teachers.

The role of the committee

The committee's role in respect of the LV= and Teachers with-profits funds is to:

- Advise the board on its views on the interests of with-profits policyholders;
- Bring independent judgement to the assessment of compliance with the statement of Principles and Practices of Financial Management;
- Monitor how any competing or conflicting interests between different groups of policyholders are resolved; and
- Provide advice to the board on any other matters within its terms of reference.

The committee can engage external professional advisers to assist in delivering its objectives effectively. It also draws on the expertise of the with-profits actuary. Input is also provided by the life chief actuary and the group chief actuarial services director, who attend meetings by invitation.

Principal activities undertaken in 2016

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

- Revised its terms of reference following the transfer of the Teachers with-profits fund and reviewed its effectiveness against the revised terms of reference;
- Welcomed a new committee member and ensured a thorough induction plan was undertaken;
- Continued with an on-going programme of improvements to with-profit member communications;
- Considered the impact on with-profit members following the transfer of the Teachers with-profits fund and several other strategic initiatives;
- Continued to monitor the outcomes from the legacy product review programme and considered any proposed remediation and improvements;

- Commissioned an independent external effectiveness review and shared the key findings with the board; and
- Completed a review of the investment strategy for the main with-profits fund and oversaw its implementation.

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.

Corporate Governance and Nomination Committee

The Corporate Governance and Nomination Committee met six times in 2016 and is expected to meet at least twice in 2017.

During the year, the committee comprised all the independent non-executive directors, the chairman and the chief executive and each member's attendance is provided below:

Scheduled meetings ⁶	Meetings eligible to attend	Attended Meetings	% of attendance
Mark Austen*	6	6	100%
David Barral	6	6	100%
Caroline Burton	6	6	100%
James Dean	6	6	100%
Cath Keers	6	5	83%
David Neave	6	6	100%
Richard Rowney [^]	2	2	100%
Mike Rogers**	1	1	100%

* Chairman of the committee

[^] Richard Rowney was appointed as a member of the committee on 28 July 2016, following Mike Rogers' resignation.

** Mike Rogers was not eligible to attend meetings where recruitment of his successor was being discussed.

The role of the committee

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.

Extension to the committee's role and activities

In December 2016, the Nomination Committee's terms of reference were changed to give a stronger focus and ownership to corporate governance matters. To recognise this change, the committee was renamed the Corporate Governance and Nomination Committee.

The committee will continue to concentrate on the review of board composition and lead the selection and appointment of new directors. In addition to the committee's on-going duties, the board has delegated the following responsibilities to now sit within the committee's remit:

- To oversee the board's governance arrangements and make appropriate recommendations to the board;
- To comply with the UK Corporate Governance Code and ensure best practice is carried out;
- To review and approve the Corporate Governance Report for the Annual Report;
- To review the terms of reference for the board and its committees to ensure they are accurate and fit for purpose; and
- To review the directors' conflicts of interest register annually and escalate any conflicts to the board.

Involvement of external consultants

Recruitment consultants The Zygos Partnership (TZP) were instructed to help compile a short-list of candidates to interview for the role of chairman designate. At the conclusion of the recruitment process, the committee reviewed the candidates and made recommendations to the board for approval. TZP had no other connection with the Society and was used solely for the purpose of assisting with the recruitment for the board vacancies.

Further details of the board appointments made throughout the year are included on page 74.

Principal activities undertaken in 2016

During the year, the committee undertook the following activities:

- Discussed succession planning;
- Instructed external search consultants to begin the recruitment process for a chief executive and chairman designate.
- Considered the short-list candidates for the role of chairman designate, including time commitment and any conflicts of interest and made a recommendation to the board;
- Recommended to the board that the chief executive was appointed from within the organisation following consultation with external search consultants and after conducting interviews with a short-list of candidates;
- Discussed the professional development plans and non-executive director training for 2016;
- Reviewed its effectiveness against its terms of reference; and
- Evaluated the performance of the committee's meeting effectiveness.

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 Corporate Governance and Nomination Committee reviews and assesses board composition on behalf of the board and recommends the appointment of all new directors to the board.

Application of the diversity policy

In reviewing board composition, the Corporate Governance and 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 backgrounds on the board.

In identifying suitable candidates for appointment to the board, the Corporate Governance and 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 Corporate Governance and Nomination Committee will consider the balance of skills, experience, independence and knowledge on the board and the diversity of the board.

Diversity and Inclusion programme

During 2016 LV= continued to progress its diversity and inclusion programme.

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; and
- 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 multi-generational, 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.

Achievements in 2016

In 2016 we invested significant efforts in our diversity and inclusion programme:

- We signed up to the Women in Finance Charter signalling our commitment and aspiration to see gender balance at all levels across financial services firms as well as at LV=;
- Our wide-scale leadership development programme continued into 2016, engaging with over 1,800 leaders and recruitment consultants, to highlight the impact of unconscious bias and benefits of inclusion; and
- foundations were laid for our multi-cultural programme, working alongside global diversity and inclusion consultants Brook Graham, engaging with our people on ethnicity feeding into the creation of our LV=Equals network.

The board has a strong interest in the development and progression of women at all levels of the group and during the year continued to grow its women's network 'PACE' (which stands for Potential, Ambition, Connections and Empowerment), 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 as the enabling voice for minority groups, 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.

External partners

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: We are the City, City Women's Network, Stonewall and the Business Disability Forum.

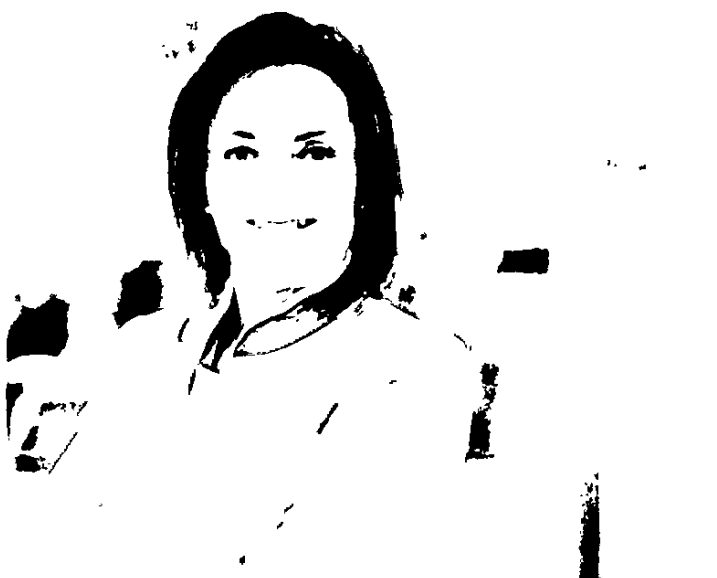
The chairman is a member of the 30% Club which is committed to bringing more women to boards. This is a group largely comprising chairmen of major firms committed to achieving gender balance at all levels of organisations.

The Society has not set a specific target but, during the recruitment process for a new chief executive and chairman designate, requested a diverse short-list and long lead-times to ensure women had the opportunity to apply and could be considered for the role. During 2016, women made up 22% of the full board and, of the non-executive directors, the Society had 33% female representation.

Directors' Report

LV= aims to maintain our position as one of the UK's best loved insurers by delivering excellent customer service, excellent customer protection and excellent value for money.

Paul J. Sewell
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), pensions, annuities, online retirement advice, 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 2016, the key objectives and priorities were aligned to our strategic agenda as outlined on pages 24 and 25.

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 78 to 79.

In February 2016 John O'Roarke's minority shareholding in Liverpool Victoria General Insurance Group (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) was repurchased by the Society under an 'earn-out' agreement. Further details are given in note 50 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.

Basis of accounting

These financial statements 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 financial statements are described on page 93.

Going concern and viability statement

In accordance with the provisions 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 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 and in particular the forecast regulatory solvency position. Sensitivity analysis is included within this forecast (for further detail on this analysis see page 35);
- 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; and
- 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 2016 see pages 51 to 54).

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.

Viability statement

The board is 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 assessment should consider whether the board have a reasonable expectation that the Society and the group will be able to continue in operation over a specified period and meet their liabilities as they fall due.

The review has been conducted over a period of three years and is based on the internal group plan, which was approved by the board in February 2017. The statement takes account of events since the approval of the plan such as the recent change to the Ogden discount rate (see page 28).

The plan covers the five year period from 2017 to 2021, but the board has used a review period of three years for the purposes of the viability statement. Although 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 beyond the three year horizon, the reliability of those forecasts is less precise and is subject to potential business and regulatory changes.

The plan covers, inter-alia, the group's strategic business outlook, profitability, liquidity, regulatory solvency position and other key financial performance indicators over the period. The agreed plan is the basis for setting detailed targets for both the group and business areas.

The plan has been reviewed and challenged by the board. In addition the board and risk function have carried out a robust assessment of the key risks which could threaten the group's business model, future performance, solvency or liquidity. The plan is subject to stress and scenario testing to assess the outcomes under a number of both regulatory and internal conditions as well as sensitivity analyses to key risks (for further detail on key risks and stress and scenario testing carried out as part of the Own Risk and Solvency Assessment (ORSA) process see page 57). The review paid particular consideration to the impact of both economic stresses such as a sudden reduction in long-term interest rates or equity values and large insurance claim stresses such as a general insurance weather event which could result in a significant reduction in the group capital surplus. The review also considered mitigating actions available to the group should an extreme stress scenario occur.

The board continues to pay particular attention to the group's solvency position which it views as a key metric for assessing the sustainability of the Society and group. As at 31 December 2016 the group's capital surplus on a Standard Formula basis was £367 million, leading to a capital coverage ratio of 140% which, although above the group's solvency capital requirement, is below the board's capital risk appetite (see Capital Performance on pages 33 to 35). The group has applied to the Prudential Regulatory Authority for approval of its Internal Model. Application of the Internal Model for regulatory capital purposes will only occur following PRA review and approval of the application. The board's assessment for the purposes of this viability statement has considered both Standard Formula and Internal Model based capital projections.

The group has carried out a series of actions in 2016 to strengthen its capital position as summarised on pages 33 to 35. Whilst the group's capital projections demonstrate that the group will continue to meet regulatory capital requirements over the assessment period, these projections continue to show capital surplus below the board's capital risk appetite during the review period and, in the event of an extreme stress scenario, would be significantly below risk appetite. Accordingly, the board intends to pursue a number of options with a view to bringing the group's capital surplus within risk appetite and increasing its resilience to such stresses over the review period.

The board has also assessed the liquidity position of the Society and the group. The group has a highly liquid balance sheet with a surplus of liquid assets over forecast liabilities due over the next 12 months of £4.167 million and over the next three years of £2.338 million (see pages 36 to 37). The board has also assessed the liquidity position over a three year period and has concluded, based on current forecasts, that group will be able to meet its liabilities as they fall due.

Based on the results of this review, and on the assumption that, in the event of a significant stress, the board would take identified mitigating actions to restore its capital position, the board has a reasonable expectation that the Society and the group will be able to continue in operation and meet their liabilities as they fall due over the three year period of their assessment.

Fixed assets

Changes in our fixed assets are shown in note 26 to the financial statements.

Margin of solvency

Throughout the year and at 31 December 2016 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 (PwC) as auditor will be proposed at the 2017 AGM.

PwC has been the group's auditor since 2008. Legislation regarding audit firm rotation now requires that the external audit contract be put out to tender at least every ten years. In view of this, an audit tender process has been initiated which will conclude during the course of the coming year, with appointment subject to member approval at the 2018 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 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 48 to 58 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 82 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 82 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, and engagement with our staff generally can be found on pages 59 to 71 of this report, headed 'Corporate Responsibility Report'. Our board diversity policy is included on page 89.

Charitable donations

A full view of our charitable donations and corporate social responsibility activities can be found on page 67. No political donations were made in 2016.

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 2016 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.

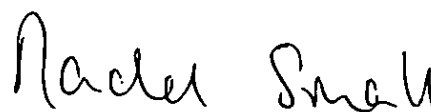
Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

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 Society and 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 Society and the group;
- The Business Reviews on pages 28 to 47 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 2016; and
- A description of the group's principal risks and details of the group's risk governance structure are provided on pages 48 to 58.

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

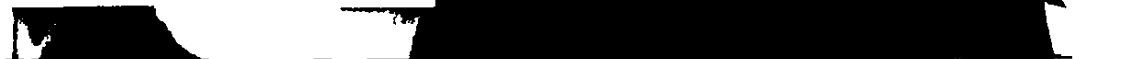


Rachel Small, Group Company Secretary
11 April 2017

Report on Directors' Remuneration

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

CATH HOURS
Chairman of the Remuneration Committee



Annual Statement

Dear Member,

In 2016, LV= has seen mixed financial results. The underlying trading performance of both our general insurance and life businesses is encouraging with increases in both sales and operating profit before the impact of the Ogden rate change. At a group level however the results have been impacted both by the Ogden rate change and losses in our heritage business. Despite this our trading businesses continue to demonstrate resilience in challenging market conditions characterised by low long-term interest rates, increased capital requirements influenced by regulatory change and on-going claims inflation.

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 Society, that our pay arrangements appropriately support our long-term business strategy and that variable incentive pay-outs 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.

Long-term growth in group profit is 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.

Variable remuneration and the link to performance

The annual bonus in 2016 was weighted 55% on financial measures (normalised group operating profit) and 45% on individual and strategic measures. Operating profit from trading operations and before the impact of the Ogden rate change in 2016 was £159 million, allowing for the Ogden rate change the operating profit was £20 million. The Remuneration Committee has reviewed the elements of the group operating profit to calculate a normalised group's operating profit of £108 million, which resulted in part 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. In light of the Society's performance and taking into account feedback from our risk review process relating to our capital position during the year compared to our targeted position, the committee has decided to exercise its discretion and reduce the bonus payable to executive directors. Whilst making this decision the committee also discussed the mutual bonus paid during the year. Following the committee exercising its discretion, the bonuses payable to executive directors ranged from 10% to 79% of individual maximum. A portion of each bonus received by Richard Rowney, Mike Rogers and Philip Moore, 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 8.6% of bonus-able earnings.

Our 2014-16 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 payment of 50% of the maximum under this element. Our annualised investment performance over the three year performance period has been solid, and has outperformed the industry benchmark by 8bps. The annualised Relative Investment Performance element of the awards given to the chief executive and group finance director has therefore generated payment of 45% of the maximum under this element. We have included more details of our LTIP performance on page 102.

Changes to board composition

During 2016 we made a planned transition in the role of chief executive with Richard Rowney succeeding Mike Rogers in July. As confirmed in 2015, John O'Roarke stepped down from the board and his position as managing director of our general insurance business in 2016 and ceased to be eligible for any bonus. We appointed Steve Treloar to replace John O'Roarke, and he started with us in May 2016. Richard Rowney's remuneration on promotion to chief executive and Steve Treloar's remuneration package upon appointment are in line with our existing remuneration policy that was approved by members in May 2015. Details of all remuneration arrangements are set out on pages 104 and 105 of the Report on Directors Remuneration.

Mark Austen our current chairman will be standing down at the Society's Annual General Meeting in June 2017. Alan Cook was appointed to the board on 1 January 2017 as an independent non-executive director of the Society and chairman designate following regulatory approval, and is nominated for election as chairman at the June 2017 AGM. David Barral also joined us in March 2016 as a non-executive director.

Remuneration in 2017

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 2017, salaries for our all-employee population will increase on average by 1.7%. In 2017

our executive directors have chosen to waive any pay increases that may have been awarded to them by the Remuneration Committee, having regard to the challenging market conditions faced in 2016.

Variable Incentives

The committee continually keeps under review our remuneration policy, remuneration levels and all incentive arrangements.

Last year the committee 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%. The committee has determined that these weightings remain appropriate for 2017. We are not proposing any other changes to the operation of our annual bonus or our LTIP for 2017. Deferral under the LTIP and annual bonus will remain in line with regulatory requirements.

Listening to members

We appreciate on-going feedback 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 2016, which were both really well attended and provided us with great feedback on our policies and how we communicate with you.

Last year, in response to your feedback, we simplified the structure of our Report on Directors' Remuneration to make it easier to read and more informative. We are continuing to look at ways to improve how we report to you, and we would welcome your feedback, particularly on areas where you think we can improve.

We have always aimed to comply with the highest standards of corporate governance and our Report on Directors' Remuneration 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 2017 AGM we will only have one remuneration resolution put to a member vote, being the advisory vote on the 2016 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

LV= financial performance in 2016

£20m

operating profit
from trading operations¹



140%

capital cover ratio



14.5%

LVFS
main with-profits
fund performance



LV= non-financial performance in 2016

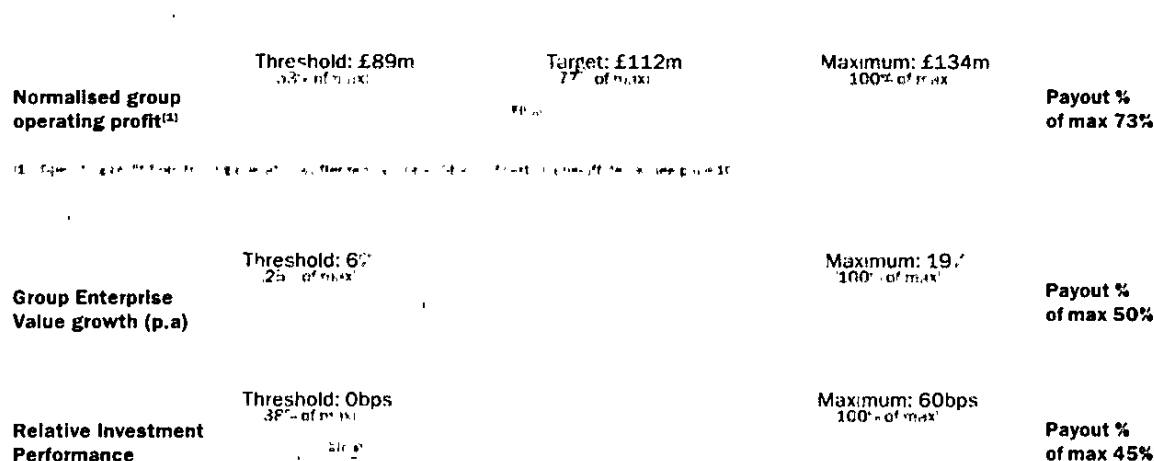
1st UK best loved



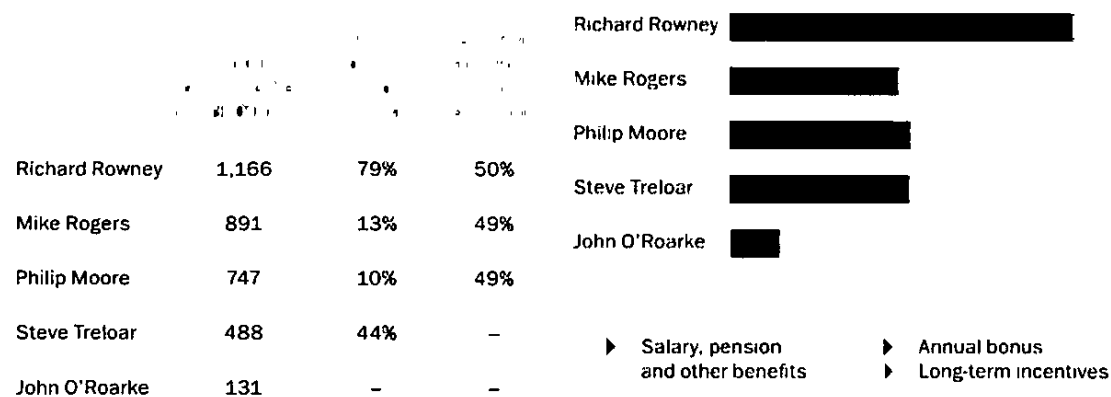
83% engagement



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 2014-2016 LTIP scheme compared with the targets set.



How much our executive directors earned in 2016 from our ongoing remuneration policy



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 2017. 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 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 2017 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 2016 the committee members were Cath Keers, who chaired the committee, Mark Austen, Caroline Burton and David Neave who was appointed to the committee in March 2016. 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.

Following their appointment in 2015 as external advisor, Deloitte LLP provided advice to the committee on remuneration levels and structures, and attended committee meetings by invitation. 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. 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 Deloitte in respect of services that materially assisted the committee during the year were £68,310. 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 and payroll tax services.

Committee activities in 2016

In 2016 the committee met five 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;
- Implementation of the Solvency II regulations which came into effect on 1 January 2016;
- Determination of recruitment and termination arrangements for joiners, promotions and leavers;
- 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 £8.45 per hour outside London and £9.75 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 2016)

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	Other remuneration	Total
Richard Rowney ⁵	2016	398	15	87	430	236	1,166	–	1,166
	2015	326	15	72	360	207	980	–	980
Mike Rogers ⁶	2016	314	10	69	63	435	891	–	891
	2015	538	17	118	700	597	1,970	–	1,970
Philip Moore ⁷	2016	375	16	52	45	259	747	–	747
	2015	368	15	51	360	306	1,100	–	1,100
Steve Treloar ⁸	2016	246	8	34	200	–	488	1,245	1,733
	2015	–	–	–	–	–	–	–	–
John O'Roarke ⁹	2016	103	5	23	–	–	131	–	131
	2015	300	15	66	235	–	616	10,126	10,742
Total	2016	1,436	54	265	738	930	3,423	1,245	4,668
	2015	1,532	62	307	1,655	1,110	4,666	10,126	14,792

1. Benefits in kind include medical and dental cover, private health insurance and fees for

2. These amounts have been taken as a credit in respect of long-term pension contributions that will be made by the directors except Steve Treloar. Amounts for Steve Treloar are payments by LV= of the defined pension plan set out in our pension policy notes.

3. This relates to the payment of the annual bonus for the year ended 31 December 2016. Further details of this payment are set out on pages 100 and 101. An element of these full year amounts will be subject to deferral.

4. This relates to the vesting of the 2014-2016 LTIP awards based on the performance to 31 December 2016. Two-thirds of the figures shown are deferred to be paid in equal tranches in April 2018 and April 2019.

5. Richard Rowney was managing director of life and pensions from 28 July 2016 when he was appointed as chief executive officer.

6. Mike Rogers resigned from the board on 28 July 2016. The remuneration for his period as a director is included in the single figure table above. In addition Mike Rogers received his normal salary and benefits whilst he assisted with transition up to 31 December 2016 and a Payment of Letter of Notice for the 12 months to 31 December 2017. Mike Rogers remains entitled to participate in the 2015-2017 and 2016-2018 LTIP schemes on a pro-rata basis to 31 December 2016. These amounts are included within payments for contractual commitments on leaving office on page 103. Mike Rogers also received fees relating to an external non-executive directorship totalling £44k.

7. Philip Moore also received fees relating to external non-executive directorships totalling £15k.

8. Steve Treloar was appointed to the board on 5 May 2016 as managing director of the general insurance division and this remuneration is included from that date. He renewed buy-outs and these are included under Other Remuneration details of which are set out on page 104.

9. John O'Roarke resigned from the board on 5 May 2016. The remuneration for his period as a director is included in the single figure table above. In addition John O'Roarke received his normal salary and benefits whilst he assisted with transition up to 31 December 2015. This amount is included within payments for contractual commitments on leaving office on page 103. As previously disclosed John O'Roarke received £10,126k in respect of the general insurance division Long Term Incentive Scheme that crystallised in 2015. This amount was settled in full in February 2016.

Summary table of non-executive directors' remuneration – Audited

£'000		Base fee	Other fees ¹	Total fees
Mark Austen Chairman	2016	184	–	184
	2015	181	–	181
Cath Keers Chair of Remuneration Committee, member of With-profits Committee	2016	53	17	70
	2015	52	17	69
Caroline Burton Chair of Investment Committee, member of Audit and Remuneration Committees, Non-executive director of LV= subsidiaries	2016	53	20	73
	2015	52	17	69
James Dean Senior independent director, chair of Audit Committee, member of Risk Committee	2016	53	24	77
	2015	52	18	70
David Neave Chair of Risk Committee, member of Audit and Remuneration Committees Non-executive chairman of LV= subsidiaries	2016	53	26	79
	2015	52	18	70
David Barrat ² Member of Remuneration and Investment Committees	2016	43	8	51
	2015	–	–	–
Total	2016	439	95	534
	2015	389	70	459

1. Other fees relate to committee chair and membership fees.

2. David Barrat was appointed to the board on 7 March 2016.

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 minimum level of profits.

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.

	Payout (% of maximum)	Total actual bonus (£'000s)	Total actual bonus (% of salary)	Payable in respect of 2016 (% of salary)	Deferred (% of salary)
Richard Rowney ¹	79%	430	107%	92%	15%
Mike Rogers ²	13%	110 ³	20%	12%	8%
Philip Moore	10%	45	12%	7%	5%
Steve Treloar	44%	200	53%	53%	–

¹ % of maximum payout for Richard Rowney is based on his 2016 bonus which was £430,000. His 2015 bonus was £120,000 (120% of salary) and he was an executive from 24 July 2010 until 24 July 2016 when he was promoted to non-executive. His 2016 bonus was £110,000 (110% of salary) and he was an executive from 24 July 2010 until 24 July 2016 when he was promoted to non-executive.

² Mike Rogers was treated as a good leaver prior to his departure on 24 July 2016. See further details on page 11.

³ An 'units' unit represents the full annual amount of £10. Mike Rogers was paid the amount shown in the Summary table of executive directors' remuneration on page 11. This represents the portion of a bonus up to 24 July 2016.

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 (2014 – 2016 scheme) – Audited

The group LTIP scheme which started on 1 January 2014 is based on performance to 31 December 2016. For the 2014-2016 scheme, the pay-out is based on both the growth in Enterprise Value (75% of award for Mike Rogers and Philip Moore, and 100% for Richard Rowney since he was managing director of life and pensions when this award was made) and the Relative Investment Performance (25% of award for Mike Rogers and Philip Moore). The performance condition and actual performance for the award vested is as follows:

Mike Rogers and Philip Moore

	Weighting	Threshold: 6%	Maximum: 19%	Vesting
Group Enterprise Value growth (p.a.)	75%	10%		100%
Relative Investment Performance (p.a. relative to benchmark)	25%	8bps	Maximum: 60bps	Vesting 90%
Total vesting percentage (Mike Rogers and Philip Moore)				97.5% (Maximum: 200%)

Richard Rowney

	Weighting	Threshold: 6%	Maximum: 19%	Vesting
Group Enterprise Value growth (p.a.)	100%	10%		100%
Total vesting percentage (Richard Rowney)				100% (Maximum: 200%)

The vested awards are subject to a claw-back provision.

Group LTIP awards made in the year (2016 – 2018 scheme) – Audited

	Type of award	Face value of award	Basis of award (£'000)	% of face value of award that would vest at threshold performance		% of face value of award that would vest at maximum performance	Vesting determined by performance over
				Growth in group adjusted average pre-tax profit	Relative Investment Performance		
Richard Rowney	Cash	75% of salary	246	50%	75%	200%	3 years to 31 December 2018
Mike Rogers	Cash	100% of salary	541	50%	75%	200%	
Philip Moore	Cash	75% of salary	277	50%	75%	200%	
Steve Treloar	Cash	75% of salary	285	50%	n/a	200%	

Group LTIP – Performance of vested schemes

LTIP Scheme	Enterprise Value growth ¹					Relative Investment Performance				
	Threshold	Award at threshold (% of base award)	Maximum	Maximum award %	Cumulative performance ²	Threshold	Award at threshold (% of base award)	Maximum	Maximum award %	Cumulative performance ⁴
2014-2016 scheme	6%	50%	19%	200%	10%	0 bps	75%	≥60 bps	200%	8bps

For scheme participants measured on investment performance 25% of their award is based on Relative Investment Performance for all scheme years.

1. Award based on Enterprise Value growth of LTIP participants.

2. Award based on investment performance measured against the performance of the market.

3. Award based on Enterprise Value growth of LTIP participants measured against the performance of the market.

4. Award based on investment performance measured against the performance of the market.

Group LTIP summary of awards and amounts vested during 2016 – Audited

£'000	Award	Unvested awards at 1 January 2016 ¹	Awards made in the year	Additional/ (reduced) value on vesting of 2014-2016 scheme	To be paid in respect of 2014-2016 scheme	Of which deferred	Unvested awards at 31 December 2016 ²
Richard Rowney	2014-2016	236	–	–	236	157	–
	2015-2017	240	–	–	–	–	240
	2016-2018	–	246	–	–	–	246
Mike Rogers	2014-2016	520	–	(13)	507 ³	338	–
	2015-2017	530	–	–	–	–	530
	2016-2018	–	541	–	–	–	541
Philip Moore	2014-2016	266	–	(7)	259	173	–
	2015-2017	271	–	–	–	–	271
	2016-2018	–	277	–	–	–	277
Steve Treloar	2016-2018	–	285	–	–	–	285

1. Unvested awards are shown at the base award level. Unvested awards at 1 January 2016 are in respect of awards granted in 2014 and 2015.

2. Unvested awards at 31 December 2016 are in respect of awards granted in 2015 and 2016.

3. Amounts included represent the full entitlement to Mike Rogers whereas the amount shown in the Summary table of executive directors remuneration on page 90 represents the portion of this entitlement to 28 July 2016.

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. Steve Treloar joined the DC section of our pension scheme from the date of his appointment on 5 May 2016. All other executive directors received cash payments in lieu of pension contributions.

Additional information on 2016 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. The table below reflects the transition from Mike Rogers to Richard Rowney as chief executive during 2016. Change in remuneration for the chief executive is calculated as the amounts reported in the Summary table of executive directors' remuneration for Richard Rowney and Mike Rogers for the relevant months of performing the role of chief executive in 2016 compared with the amounts reported for Mike Rogers in 2015. Richard Rowney was newly appointed to chief executive and therefore his remuneration was deliberately set to reflect this.

% change in remuneration			
	Salary	Taxable benefits	Bonus
Chief executive	(3.7)%	0.0%	(45)%
% change based on a static population excluding the chief executive	1.7%	4.2%	(31)%

Ratio of chief executive pay to average employee FTE salary 17:1, (2015 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 (excluding staff costs)		
	2016 £m	2015 £m	% change
Staff costs	263	270	(3)%
Mutual bonus	17	27	(37)%

Chief executive's remuneration over eight financial years

The total remuneration figures for the chief executive during each of the last eight 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. For 2016, total remuneration reflects the amounts received by Richard Rowney and Mike Rogers for the periods each director performed the role of chief executive.

The annual bonus pay-out and LTIP vesting level as a percentage of the maximum opportunity are also shown for each of these years.

	2008/9	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Total remuneration (£'000)	997	1,247	2,177	2,622	2,364	1,666	1,970	891	610
Bonus % of maximum awarded %	77%	86%	95%	100%	74%	80%	86%	13%	79%
LTIP % of maximum vesting %	0%	0%	100%	100%	90%	25%	59%	49%	50%

1 Mike Rogers was appointed from the 1st June to 25th July 2016

2 Richard Rowney was appointed from the 26th July to 31st December 2016 when he was appointed as chief executive

Payments upon recruitment and promotion of directors

Richard Rowney was promoted to the position of chief executive in July 2016. Richard Rowney's on-going remuneration package as chief executive was set in line with our existing remuneration policy, as approved by members at the 2015 AGM. Richard was appointed on a salary of £490,000 being set below market levels, with the intention that this would be increased as Richard grew into the role of chief executive and based on his performance. Richard Rowney's bonus maximum and LTIP award level were set in line with our remuneration policy at 150% of salary and 100% of salary (with awards capped at two times the original award) respectively. As Richard was an internal hire, there were no buy-outs associated with his promotion.

Steve Treloar was appointed as the managing director of general insurance to replace John O'Roarke in May 2016. Upon appointment, Steve's salary was set at £380,000. Steve's bonus maximum and LTIP award level were set in line with our remuneration policy at 120% of salary on a pro-rata basis since joining and 75% of salary (with awards capped at two times the original award) respectively. Steve also participated in a number of incentive arrangements at his previous employer which the committee agreed to buy-out as part of his offer to join the Society. Deloitte as our advisors reviewed the buy-out details. A sum of £187,333 was in respect of an annual bonus due to be forfeited, £480,803 was in respect of deferred annual bonus share awards that were due to be forfeited, and £577,064 was in respect of performance shares that were due to be forfeited. For the annual bonus and performance shares, performance was taken into account when determining their value at the time of the buy-out. The awards are not subject to further performance conditions and will pay-out at the same time as the original awards would have done. Buy-out awards are subject to clawback provisions.

The table below represents the phasing of these payments.

Payment Date	Annual bonus	Deferred annual bonus shares	Deferred LTIP shares	Total
May 2016	£187,333	£172,534	£222,229	£582,096
March 2017	-	£131,281	£265,663	£396,944
March 2018	-	£84,265	£89,172	£173,437
March 2019	-	£92,723	-	£92,723
Total	£187,333	£480,803	£577,064	£1,245,200

Payments to past directors

No payments were made to past executive directors during the year ended 31 December 2016.

Payments for contractual commitments on leaving office¹

Mike Rogers stepped down from the board on 28 July 2016 and remained employed by the Society until 31 December 2016. Mike continued to receive salary, benefits and pension in respect of the period up to and including 31 December 2016 in the usual way (to a total value of £294k). Thereafter, Mike received payments in line with his contractual entitlements in lieu of remuneration that included a payment in lieu of notice (PILON) which was made up of salary, car allowance, and cash in lieu of pension for 12 months, as follows:

Element	Amount
Base Pay	£551,400
Car Allowance	£10,200
Cash in lieu of pension (22% of base)	£121,308
Total	£682,908

These sums were subject to the usual deductions for tax and national insurance.

As Mike Rogers was employed by the Society until 31 December 2016 he was eligible to be considered for a bonus relating to the whole 2016 performance year. His performance was assessed by the chairman in the usual way with payment agreed by the Remuneration Committee in early 2017. The 2016 bonus details in relation to the full year are set out on pages 100 and 101, with the bonus paid for the period when Mike was a director (1 January to 28 July 2016) being £63k and the bonus paid for the period when Mike was employed by the Society (from 29 July to 31 December 2016) but was not on the board being £47k. Payment due was made at the same time as the general employee population, in March 2017, and was subject to deferral.

Under our remuneration policy, Mike Rogers was required to defer at least 40% of his variable remuneration (or 60% if the amount of variable remuneration received in the year is greater than £500,000). Subject to the amount of bonus awarded in March 2017 in respect of the 2016 performance year, the relevant proportion of his bonus was deferred and will be paid in 1/3rd instalments over a further three years (with payments due in March 2018, 2019 and 2020). Sums in deferral will be adjusted based on the performance of the LV01 fund prior to payment. Mike Rogers was not eligible to participate in the 2017 annual bonus scheme.

Mike Rogers retained eligibility to participate in the long-term incentive schemes to which he had already been invited to participate. All awards were pro-rated until his final date in employment, 31 December 2016. Any payments shall be subject to the applicable scheme multiplier, i.e. final performance of the scheme, and will be made according to the original schedule. The schemes, eligibility and payment schedules are as follows:

Scheme	Award pro-rating	1st payment due (1/3 of final outturn)	Subsequent payments (2 x 1/3 Instalments)
2014-16	Full eligibility	Apr-17	April 2018, April 2019
2015-17	2/3 eligibility	Apr-18	April 2019, April 2020
2016-18	1/3 eligibility	Apr-19	April 2020, April 2021

The 2014-16 LTIP had a performance period ending on 31 December 2016, with details of the performance and vesting level under this scheme set out on pages 101 and 102. The value of the award that related to the period when Mike was a director (1 January 2014 to 28 July 2016) was £435k and the LTIP paid for the period when Mike was employed by the Society (from 29 July to 31 December 2016) but was not on the board was £72k. All amounts are subject to deferral in line with the remuneration policy.

Mike Rogers will not be invited to participate in the LTIP scheme for 2017-19.

All termination payments have been made within the existing remuneration policy and have been pro-rated for time, remain subject to performance and will be subject to the same time horizons.

John O'Roarke stepped down from the board on 5 May 2016 and remained employed by the Society until 31 December 2016, a period for which he was available for any handover requirements. John continued to receive salary, benefits and pension in respect of the period up to and including 31 December 2016 in the usual way (to a total value of £252k). John was not eligible to receive a bonus for the 2016 year and did not participate in any LTIP schemes.

Directors' loans

As at 31 December 2016 there were no loans outstanding to directors.

1. These amounts are set against the remuneration policy covering the period from 1 January 2016 to 31 December 2016, and are subject to the usual deductions for tax and national insurance.

Results of members' votes on remuneration resolutions at 2016 AGM

At the Society's AGM in May 2016 the members approved the 2015 Remuneration Report; the remuneration policy was approved at the AGM in May 2015.

2015 Directors' Remuneration Report

94% 6%

Directors' Remuneration Policy

94% 6%

► In favour
► Against

	2015 Directors' Remuneration Report	Policy on Directors' Remuneration
Votes cast in favour	41,773	43,766
Votes cast against	2,487	2,826
Abstentions	1,948	2,732
Spoilt papers	12	3
Total votes cast	46,220	49,327

Remuneration decisions taken in respect of the coming year (year ending 31 December 2017)

Executive director base salary

In 2017 our executive directors have chosen to waive any pay increases that may have been awarded to them by the Remuneration Committee, having regard to the challenging market conditions faced in 2016. Current base salary levels and those which will apply from 1 April 2017 are as follows:

	2017	2016	Percentage
Richard Rowney ¹	£490,000	£490,000	0%
Philip Moore	£376,800	£376,800	0%
Steve Treloar ²	£380,000	£380,000	0%

¹ Richard Rowney's salary included in the table above reflects his agreed salary from the date of his appointment as chief executive.

² Steve Treloar left in May 2016.

Mark Fennell and John O'Rourke resigned from the board during 2016 and are therefore not included in the table above.

Performance targets to be applied for the annual bonus and group LTIP (2017-2019 Scheme) in 2017

For 2017, the annual bonus will continue to be based on a balanced scorecard of group financial and non-financial objectives. The changes made for the 2016 performance year, which were confirmed in the 2015 Directors Remuneration Report, will be applied for 2017. As such the financial objective weighting is 55%, with the non-financial measures accounting for the remaining 45%. In 2016 we increased the weighting on our strategic non-financial measure to 15%, to reflect our focus on long-term member interests, and 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 2017 scorecard are shown below:

Target	Measure	Weighting
Financial	Normalised group operating profit, subject to achieving capital and cash hurdles	55%
Strategy and change	Progress made towards delivery of five-year strategic objectives	15%
Customer and member	Brand and customer satisfaction metrics, subject to discretion if member bonus not in line with policy	10%
Risk and compliance	Customer outcomes in respect of conduct and operational risk controls and operating within the group's risk appetite metrics	10%
People	High employee engagement versus high performing organisations and diversity and inclusion metrics.	10%

The LTIP awards to be granted in 2017 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 other executive directors
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 2016
Chairman	£185,500
Non-executive director base fee	£53,000
Additional fees:	
Senior independent director	£6,500
Investment Committee chair	£8,700
Other committees chair (including of subsidiary boards)	£13,000
Committee membership (various)	£3,650-£5,500
Member of LV= subsidiaries boards	£5,500

Fees effective from 1 June 2017 will be approved in May 2017.

The directors approved the Directors' Report on Remuneration on 11 April 2017.



Cath Keers
Chairman of the Remuneration Committee

Glossary

A to Z

ABI: Association of British Insurers.

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.

BEL: Best Estimate Liability – The expected cost of future policyholder claims and expenses for existing business. This is net of expected future income from these policies such as premiums and charges. Calculations are on a best estimate basis, and are discounted using a regulatory risk free discount rate.

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.

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 (IB): 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 existing 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 (OB): 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.

RM: Risk Margin – The opportunity cost of holding regulatory capital for existing business. Calculations assume that a strategy of minimising investment risk is followed.

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.

SCR: Solvency Capital Requirement – The actual regulatory capital held, allowing for current investment strategy and risk profile. The capital held is based on our ability to survive a 1 in 200 year stress event, allowing for the benefits of diversification.

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.

Transition: Transitional Measures on Technical Provision (TMTP).

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.

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.

LV= Use of non-GAAP* measures

Non-GAAP measure	Why we use a non-GAAP measure
Profit before tax	Because LV= is a mutual, any remaining profit is transferred to the Unallocated divisible surplus, leaving a final balance for profit each year of £nil. This would mean that if we applied the strict GAAP definition our profit before tax would simply be equal and opposite to our tax charge. We believe that this would be a confusing and meaningless figure for users of our Annual Report and we therefore 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.
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. This measure provides useful information regarding the financial performance of the group as it represents management's view of the performance of the ongoing business without distortion from temporary volatility. 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.
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.
STIF: Short term investment fluctuations	Short-term investment fluctuations are presented outside of Operating Profit in order to exclude the impact of temporary volatility.
Centrally managed costs	LV= reports some of its costs below operating profit because they 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.
Investment performance %	Provides a measure of the performance of the investment strategy. The performance of the with-profits fund drives the returns to our members. Within general insurance, this measure allows management to monitor the investment performance and make changes to the strategy as necessary.
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.
General insurance	
Loss ratio	The loss ratio is the ratio of incurred losses to Net earned premiums. The loss ratio enables management to monitor general insurance product performance by comparing the level of earned premiums with incurred claims.
Expense ratio	The expense ratio is the ratio of the expenses associated with acquiring, underwriting and servicing contracts to Net earned premiums. The expense ratio provides a measure of cost efficiency of the general insurance business.
Combined ratio	The combined ratio is the ratio of incurred losses and expenses to Net earned premiums. The combined ratio provides a barometer for underwriting profit.
Pre-tax return on capital	Pre-tax return on capital provides a measure of profitability and how efficiently capital is employed by the general insurance business to generate profits that will be remitted to the Society.
Life	
PVNB: Present value of new business premiums	PVNB provides a measure of the value of new business written in the year that is more useful than IFRS new business premiums as it includes the present value of the regular premiums we expect to receive over the term of contracts sold in the year.
Non-GAAP New business premiums	New business premiums are adjusted to reflect actual product sales achieved in the year. This includes sales of Self-invested personal pension products which are excluded from IFRS sales as these are accounted for as an investment contract liability. Where customers take a tax free lump sum at the inception of an annuity contract, this value is deducted from the value of annuity sales; within IFRS this is shown gross within Net benefits and claims.
New business contribution	The contribution to operating profit as a result of new business written on a PVNB basis provides a measure of profit generated by management actions during the year, rather than from in-force business.
Investment in new propositions	Investment in new propositions is the project costs invested in developing new products. These costs are excluded from New business contribution as they do not relate to the overall profitability of policies written during the year.
New business Internal rate of return	The Internal rate of return provides a measure of the return expected to be generated on capital invested to write new business during the year.
New business Payback period	Payback period allows management to understand the period of capital investment associated with new business written during the year.

*GAAP: Generally Accepted Accounting Principles. The above measures are not calculated in accordance with IFRS or UK GAAP.

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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 2016 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 2016;
- 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 IFRSs as adopted by the European Union, and applicable law.

Our audit approach

Overall materiality	Overall Group materiality: £30 million which represents 3% of the Group's Unallocated Divisible Surplus ('UDS').
Audit scope	<ul style="list-style-type: none"> • The Group consists of 26 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 and renewal 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 and accuracy 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 loss before tax, mutual bonus and transfer to the UDS.
Areas of focus	<ul style="list-style-type: none"> • The valuation of long-term insurance contract liabilities (£9.4bn (2015: £7.8bn)). • The valuation of general insurance contract liabilities (£1.6bn (2015: £1.4bn)). • The accounting and related disclosures of the acquisition of Teachers Provident Society Limited ("Teachers"). • The valuation of difficult to value investments included in financial assets held at fair value through income.

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 on page 114. 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
<p>The valuation of long-term insurance contract liabilities (£9.4bn (2015: £7.8bn))</p> <p><i>Refer to notes 19 and 24 for further information</i></p> <p>The Group financial statements include liabilities for the estimated cost of settling benefits and claims associated with life products.</p> <p>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.</p> <p>In particular, we focussed on:</p> <ul style="list-style-type: none"> • 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. The Society performed a review of the methodology in 2016 which reflected an update to methodology and the development of the 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). 	<p>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:</p> <ul style="list-style-type: none"> • 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. <p>Additional testing on the specific assumptions is set out below.</p> <p>Testing on specific assumptions</p> <p>Expense allocations</p> <p>We tested the revised 2016 methodology by performing the following procedures:</p> <ul style="list-style-type: none"> • 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 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 years' experience and consideration of factors which could increase costs in the future. • 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. • We tested whether expenses had been appropriately allocated to per policy data. <p>Expense inflation</p> <p>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, which is closed to new business and in run-off, was justified, based on level of growth expected in the respective businesses.</p> <p>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.</p> <p>Longevity assumptions</p> <p>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.</p> <p>Management use industry data to model longevity for the Society's enhanced annuity contracts and continue to use the CMI 2013 projection model. Our market benchmarking survey indicates that this is an outlier, as other benchmarking respondents are using more recent projections. The Society is in the process of assessing the impact of the recently issued CMI 2016 projection model on its liabilities, and expect to update longevity assumptions once this assessment is concluded.</p> <p><i>Based on the work performed we found that the assumptions used were supported by the evidence we obtained.</i></p>

Our Accounts

The valuation of general insurance claims liabilities (£1.6bn (2015: £1.4bn))

Refer to note 19 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.
- On 27 February 2017 the Ministry of Justice announced a reduction in the discount rate to be applied in calculating personal injury damage awards ("Ogden rate") from 2.5% to minus 0.75%. The directors calculated the impact of the change by identifying those open personal injury claims with a future loss element and computing the required adjustment for a sample of the largest of these claims. The impact was then extrapolated across the remaining open personal injury claims with future loss at the year-end. This resulted in an increase in bodily injury reserves held at 31 December 2016 of £139 million (net) as set out in note 4. Given the significant impact of the change and timing of the announcement this was a particular area of focus for our audit.

Our Accounts

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 tested the completeness, consistency and accuracy of claims data.

We performed independent testing over 55% of claims liabilities and methodology and assumptions reviews over a further 17%. Furthermore we performed key indicator checks to identify any anomalies over the remaining balance.

Specific areas of testing

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 2016, 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 2016. 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.

For the Ogden rate change we understood and tested how the group estimated the impact of the change on their booked reserves by:

- Testing a sample of individual open personal injury claims to test whether the impact of the discount rate change had been applied correctly;
- Evaluating the method used by the group to identify all affected personal injury claims and quantify the impact across all such open claims at the year-end.

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
<p>The accounting and related disclosures of the acquisition of Teachers Provident Society Limited ("Teachers")</p> <p>Refer to note 46 for further information</p> <p>On 1 June 2016 the Society acquired the entire long-term business and all the assets (£0.8bn) and liabilities (£0.8bn) of Teachers and its subsidiary undertakings by way of a transfer of engagements undertaken in accordance with Section 86 of, and Schedule 15 to, the Friendly Societies Act 1992. We focussed on this acquisition as it is material to the Group and Society financial statements and there is significant complexity and a degree of judgement in determining the fair value of the assets and liabilities acquired.</p> <p>In addition, the Society recorded a bargain purchase gain of £3m and accounting standards emphasise that bargain purchase gains need to be considered sceptically.</p>	<p>We agreed the cash consideration of £26m paid on 1 June 2016 to bank statements and verified that no non-cash consideration was agreed.</p> <p>We tested the fair values determined at the transfer date for identifiable assets (including intangible assets), liabilities and contingent liabilities acquired by performing the following procedures:</p> <ul style="list-style-type: none"> • Obtained external confirmations for all financial assets and tested the value of securities by comparing prices to external market information, covering 100% of the balance at the acquisition date. • Reviewed the data, models and assumptions used to calculate the fair value of the relevant assets and liabilities. • Evaluated whether the identified assets, liabilities and contingent liabilities met the recognition criteria set out in IFRS3 (Business Combinations) and whether they were appropriately measured. <p>While testing the calculation of the bargain purchase gain of £3m arising from the acquisition, we reassessed the business combination accounting, including the identification and measurement of the identifiable assets (including intangible assets), liabilities and contingent liabilities and concluded it was appropriate to recognise the gain.</p> <p>We reviewed the transfer agreement to assess whether material contractual terms (including assets and liabilities transferred) were reflected within the acquisition accounting.</p> <p><i>Based on the work performed, we determined that the accounting for the Teachers acquisition, including recognition of the bargain purchase gain arising from the acquisition was appropriate.</i></p>
<p>The valuation of difficult to value investments included in financial assets held at fair value through income</p> <p>Refer to notes 13 and 14 for further information</p> <p>The Group financial statements include loans secured on residential property (equity release mortgages) with a fair value of £0.7bn (2015: £0.6bn) 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.</p>	<p>For loans secured on residential property we assessed the methodology and assumptions used by management in the calculation of the year end values.</p> <p>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.</p> <p>In order to update our understanding of the model we re-performed the fair value calculations for a single loan.</p> <p>We compared the assumptions used against appropriate benchmarks and investigated any significant differences.</p> <p><i>Based on the work undertaken, we determined that the methods and assumptions used to value loans secured on residential property were appropriate.</i></p>
<p>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.</p> <p>The Group also uses derivative financial instruments to manage market risk; the market values of these at the year-end comprised assets of £0.2bn (2015: £0.1bn) and liabilities of £0.3bn (2015: £0.1bn). We focus on this area because certain contracts require the use of bespoke valuation models.</p>	<p>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.</p> <p><i>Based on the work undertaken, we did not identify any material differences between the valuation we calculated and that determined by management's models.</i></p>

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 consists of a consolidation of 26 active statutory entities; but the Group primarily operates through the 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 loss 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	£30 million (2015: £33 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 £2.5 million and £30 million.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £1.5 million (2015: £1.7 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 90, 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 chosen to voluntarily report how they have applied the UK Corporate Governance Code – An annotated version for Mutual Insurers ("the Code") as if the company were a premium listed company. 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 and compliance with applicable requirements

Friendly Societies Act 1992 opinions

In our opinion:

- the Directors' Report has been prepared in accordance with 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:

- | | |
|--|----------------------------------|
| <ul style="list-style-type: none"> information in the Annual Report is: <ul style="list-style-type: none"> 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. |
| <ul style="list-style-type: none"> the statement given by the directors on page 93, 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. |
| <ul style="list-style-type: none"> the section of the Annual Report on pages 82 to 86, 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:

- | | |
|---|--|
| <ul style="list-style-type: none"> the directors' confirmation on page 92 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. |
| <ul style="list-style-type: none"> 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. |
| <ul style="list-style-type: none"> the directors' explanation on page 91 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.

Other voluntary reporting

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 Guidance and Transparency Rules sourcebook of 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 the 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 93, 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. With respect to the Directors' Report, we consider whether those reports include the disclosures required by applicable legal requirements.

Andrew G Hill (Senior Statutory Auditor)

for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
11 April 2017

Statement of Comprehensive Income

Year ended 31 December 2016

	Notes	Group		Society	
		2016	2015	2016	2015
		£m	Restated - see Note 1 £m	£m	Restated - see Note 1 £m
Gross earned premiums	5	2,760	2,408	1,228	987
Premiums ceded to reinsurers	5	(601)	(469)	(261)	(184)
Net earned premiums	5	2,159	1,939	967	803
Investment income	6	401	401	406	372
Net gains/(losses) on investments	7	1,006	(282)	1,013	(247)
Gain arising on Teachers acquisition	46	3	-	3	-
Other income	8	68	57	12	8
Total income		3,637	2,115	2,401	936
Gross benefits and claims	9	(2,136)	(1,814)	(859)	(793)
Claims ceded to reinsurers	9	540	423	237	158
Net benefits and claims	9	(1,596)	(1,391)	(622)	(635)
Gross change in long-term contract liabilities, excluding mutual bonus	21	(1,591)	(63)	(1,591)	(66)
Change in long-term contract liabilities ceded to reinsurers	21	94	127	94	127
Change in non-participating value of in-force business	21	3	(17)	3	(17)
Net change in contract liabilities, excluding mutual bonus	21	(1,494)	47	(1,494)	44
Gross operating and administrative expenses	11	(643)	(623)	(215)	(204)
Expenses recoverable from reinsurers	11	72	-	-	-
Net operating and administrative expenses	11	(571)	(623)	(215)	(204)
Finance costs	10	(24)	(24)	(23)	(23)
Investment return allocated to external unit holders		(1)	-	-	-
Total other expenses		(596)	(647)	(238)	(227)
Total benefits, claims and expenses, excluding mutual bonus		(3,686)	(1,991)	(2,354)	(818)
(Loss)/profit before tax, mutual bonus and UDS transfer		(49)	124	47	118
Mutual bonus		(17)	(27)	(17)	(27)
Income tax (expense)/credit	33	(35)	(6)	(45)	1
Transfer from/(to) the Unallocated divisible surplus	47	101	(91)	15	(92)
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	38	(2)	51	(2)	51
Transfer from/(to) the Unallocated divisible surplus	47	2	(51)	2	(51)
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.

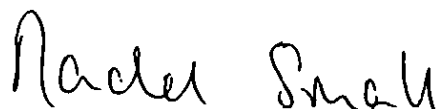
The Group and the Society have not presented a Statement of Changes in Equity as there are no equity holders in either the Group or Society.

Statement of Financial Position

As at 31 December 2016

	Notes	Group		Society	
		2016 £m	2015 £m	2016 £m	2015 £m
Assets					
Pension benefit asset	38	134	87	134	87
Intangible assets	27	291	249	11	1
Investments in group undertakings	28	–	–	802	770
Property and equipment	26	43	39	9	9
Investment properties		5	–	5	–
Deferred acquisition costs	22	102	99	–	–
Reinsurance assets	23	1,090	890	601	492
Prepayments and accrued income	30	140	125	99	91
Loans and other receivables	16	291	77	155	87
Insurance receivables	29	293	261	16	20
Corporation tax asset	34	6	10	–	8
Financial assets at fair value through income	13	13,491	11,419	11,842	9,651
Derivative financial instruments	14	179	97	179	95
Cash and cash equivalents (excluding bank overdrafts)		805	1,186	469	449
Total assets		16,870	14,539	14,322	11,760
Liabilities					
Unallocated divisible surplus	47	998	1,101	1,019	1,036
Participating insurance contract liabilities	19	4,999	3,972	4,999	3,972
Participating investment contract liabilities	15	690	554	690	554
Non-participating value of in-force business	20	(324)	(321)	(324)	(321)
		6,363	5,306	6,384	5,241
Non-participating insurance contract liabilities	19	6,798	5,896	4,426	3,784
Non-participating investment contract liabilities	15	2,547	1,862	2,547	1,862
		9,345	7,758	6,973	5,646
Net asset value attributable to external unit holders		28	220	–	–
Pension benefit obligation	38	–	3	–	3
Deferred tax liability	35	70	42	73	42
Provisions	39	12	10	11	9
Subordinated liabilities	17	357	356	347	347
Derivative financial instruments	14	259	144	236	144
Other financial liabilities	18	116	96	116	95
Corporation tax liability	36	–	–	6	–
Insurance payables	31	51	286	21	29
Trade and other payables	32	269	318	155	204
Total liabilities		16,870	14,539	14,322	11,760

The financial statements on pages 120 to 212 were approved by the Board of Directors on 11 April 2017 and signed on its behalf by:



R.S. Small
Company Secretary

Statement of Cash Flows

Year ended 31 December 2016

	Notes	Group		Society	
		2016 £m	2015 £m	2016 £m	2015 £m
Cash and cash equivalents at 1 January		1,159	772	433	381
Cash flows arising from:					
Operating activities					
Cash (used in)/generated from operating activities before movements in investments held at fair value through income	51	(194)	319	153	270
Net increase in investments held at fair value through income		(521)	(285)	(471)	(528)
Cash (used in)/generated from operating activities		(715)	34	(318)	(258)
Dividend income received		107	96	95	86
Interest and other income received		313	339	235	235
Utilisation of provisions		(2)	(3)	(2)	(2)
Finance cost paid		(1)	(1)	-	-
Income tax paid		(23)	(31)	(17)	(16)
Net cash flows (used in)/generated from operating activities		(321)	434	(7)	45
Investing activities					
Increase in investment in group undertakings		-	-	(35)	(14)
Cash (paid) on acquisitions, net of cash acquired	46	12	(8)	-	-
Cash held on transfer of Teachers Assurance Fund to the Society		-	-	34	-
Dividend income received from group undertakings	6	-	-	44	22
Interest income received from group undertakings	6	-	-	24	27
Purchase of property, equipment and intangibles	26, 27	(44)	(16)	(10)	(5)
Net cash flows (used in)/generated from investing activities		(32)	(24)	57	30
Financing activities					
Interest paid on subordinated debt	10	(23)	(23)	(23)	(23)
Net cash flows used in financing activities		(23)	(23)	(23)	(23)
Net (decrease)/increase in cash and cash equivalents		(376)	387	27	52
Cash and cash equivalents at 31 December		783	1,159	460	433
Cash and cash equivalents comprise:					
Bank balances		189	202	144	96
Short-term bank deposits		616	984	325	353
Cash and cash equivalents per the Statement of Financial Position		805	1,186	469	449
Non-offsettable bank overdrafts (see note 32)		(22)	(27)	(9)	(16)
Cash and cash equivalents per the Statement of Cash Flows		783	1,159	460	433

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 2016

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. These policies have been consistently applied to all years presented, unless otherwise stated.

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 on page 125.

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.

Within the financial statements the Group uses the term Profit before tax to refer to Profit before tax, mutual bonus and UDS transfer as disclosed on the Statement of Comprehensive Income. This is to provide a more representative Profit before tax figure as described in the LV= use of Non-GAAP measures disclosed on page 109.

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

Gross up of annuity reinsurance treaty

Within the Society and Group the premiums and claims ceded to reinsurers within the Statement of Comprehensive Income have been reclassified by £85m to reflect the current year reporting presentation. The reclassification has no impact on the Statement of Financial Position and the Statement of Cash Flows.

	Note	Reported Dr/(Cr)	Adjustment Dr/(Cr)	Restated Dr/(Cr)
Statement of Comprehensive Income (Society)				
Premiums ceded to reinsurers	5	£99m	£85m	£184m
Claims ceded to reinsurers	9	£(73)m	£(85)m	£(158)m
Statement of Comprehensive Income (Group)				
Premiums ceded to reinsurers	5	£384m	£85m	£469m
Claims ceded to reinsurers	9	£(338)m	£(85)m	£(423)m

Notes to the Financial Statements continued

Year ended 31 December 2016

1. Significant accounting policies (continued)

1.2 Significant accounting estimates and judgements

The preparation of financial statements in accordance with IFRS requires the use of estimates. Where such estimates are complex they often involve a significant level of management judgement in applying those estimates. These significant accounting estimates are disclosed within the financial statements separately from those judgements that management have made in applying accounting policies.

The following areas involve significant judgement by management on policy application:

Area	Significant accounting judgements	Note
Insurance and participating investment contract liabilities	Changes in methodology	19
Reinsurance assets	Transfer of insurance risk	23
Pension benefit asset/(obligation)	Right to a refund from the pension scheme's assets	38
Consolidation	Assessment of whether LV= controls underlying entities	44

The following areas include significant estimates and assumptions, including the exercise of management judgement:

Area	Significant accounting estimates	Note
Fair value financial assets	Estimate of fair value where there is no or limited market data	13
Insurance and participating investment contract liabilities	Assumptions and adjustments used in determining insurance contract liabilities; Assessment of future options and guarantees; Estimate of ultimate cost of claims	19
Intangibles	Estimation of recoverable amount of each Cash Generating Unit	27
Pension benefit asset/(obligation)	Assumptions used to measure the pension benefit obligation	38

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. 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 investments in specialised investment vehicles (such as OEICs) 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. Where the Group does not control such vehicles they are carried at fair value through profit or loss within financial assets in the consolidated Statement of Financial Position.

Details of the Society's subsidiaries are given in Note 42.

Notes to the Financial Statements continued

Year ended 31 December 2016

1. Significant accounting policies (continued)

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.

Product classification

Business unit	Product classification			
	Insurance (Participating)	Insurance (Non-participating)	Investment (Participating)	Investment (Non-participating)
GI	n/a	All GI products Significant insurance risk is transferred from the policyholder to LV= whereby LV= will compensate the policyholder for any loss arising from an insured event (such as motor collisions, property damage). The customer does not participate in any options or guarantees and there is no fund to share in a surplus.	n/a	n/a
Life	FGB FGB funds include a significant death benefit. Policyholders are entitled to a share of the surplus of the with-profits fund.	All Protection Significant insurance risk (primarily morbidity, mortality/longevity) is transferred from the policyholder to LV= whereby the policyholder is compensated from any loss arising from an insurance event (such as critical illness or death). The customer does not participate in any options or guarantees and there is no fund to share in a surplus.	n/a	Unit-linked pensions including SIPP No significant insurance risk is transferred to LV=; the customer decides on their investment and is exposed to the associated financial risk with no additional participation benefits.
		Other Retirement non-profit funds, (Fixed term/enhanced annuity) Significant insurance risk is transferred (mortality/longevity) from the policyholder to LV=. Policyholders are not entitled to a share of the surplus of the funds.		

Notes to the Financial Statements continued

Year ended 31 December 2016

1. Significant accounting policies (continued)

Business unit	Product classification			
	Life insurance (Participating)	Life insurance (Non-participating)	Investment (Participating)	Investment (Non-participating)
Heritage	<p>RNPFN and LVFS WP pensions policies, TA Fund life policies</p> <p>These policies transfer significant insurance risk (mortality/longevity) from the policyholder to LV.</p> <p>Policyholders are entitled to a share of the surplus of the with-profits fund.</p>	<p>RNPFN non-profit fund and LVFS Heritage conventional non-profit life and pensions/annuities in payment</p> <p>These policies transfer significant insurance risk (mortality/longevity) from the policyholder to LV.</p> <p>Policyholders are not entitled to a share of the surplus of the long term fund.</p>	<p>Teachers Assurance Fund and LVFS WP Investments</p> <p>These investment products provide the policyholder with market returns. The value paid out to the policyholder is not significantly impacted by whether pay-out is on surrender, maturity or death, therefore this is not an insurance contract. The investments entitle the policyholder to a share of the surplus of the with-profits fund.</p>	<p>LVFS Heritage Linked life and pensions and RNPFN Linked life</p> <p>These products are investment contracts and do not transfer significant insurance risk from the policyholder to LV.</p> <p>Policyholders are not entitled to a share of the surplus of the long term fund.</p>

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 as shown below. The classification is impacted by the nature of the instrument and the purpose for which the investments were acquired:

Category	Financial instrument	Basis of classification	Subsequent Measurement	Recognition of change in fair value
Designated fair value through profit and loss (FVTPL) on initial recognition	Debt securities, Equity securities		Fair value using prices at the end of the period.	Income Statement – Net investment gains/ (losses).
	Loans secured on residential and commercial property	Where the investment return is managed on the basis of the total return on investment.	Fair value on a discounted cash flow basis, taking into account no negative equity guarantees where relevant.	
	Non-participating investment contract liabilities	Designated as fair value in order to avoid a measurement inconsistency with the associated unit-linked financial assets.	Amount equal to the fair value of the associated unit-linked financial assets.	n/a
Fair value through profit and loss (FVTPL) Held for trading	Derivative assets/ (liabilities)	Derivatives are classified as held for trading as required by IAS 39.	Carried at fair value. Asset/(liability) classification dependant on whether fair value is positive or negative.	Income Statement – Net investment gains/ (losses).

Notes to the Financial Statements continued

Year ended 31 December 2016

1. Significant accounting policies (continued)

Category	Financial Instrument	Basis of classification	Subsequent Measurement	Recognition of change in fair value
Loans and receivables	Loans, reinsurance deposits, other deposits and financial assets arising from non-investment activities	Financial assets with fixed or determinable payments not quoted in an active market.	Amortised cost using the effective interest method.	Income Statement – Net investment gains/ (losses) when realised or impaired.
Cash and cash equivalents	Cash and cash equivalents	Consist of cash and highly liquid investments that are readily convertible into a known amount of cash.	Carrying amounts at amortised cost.	n/a
Other financial liabilities	Subordinated debt	Financial liabilities with fixed or determinable payments and maturity date.	Amortised cost using the effective interest method.	n/a

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.

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.

Notes to the Financial Statements continued

Year ended 31 December 2016

1. Significant accounting policies (continued)

(i) Mutual bonus

The Mutual bonus declared by the Society is presented on the Statement of Comprehensive Income below Profit before tax and not within the Gross change in long-term contract liabilities. This is to provide a more representative Profit before tax figure as described in the LV= use of Non-GAAP measures disclosed on page 109. The impact on Gross changes in long-term contract liabilities is disclosed separately within Note 21.

1.4 Changes and future developments in accounting policies

(i) New and amended standards adopted by the Group

Although no new standards have come into effect, amendments to IFRSs have been adopted by the EU for accounting periods beginning on or after 1 January 2016. These amendments have been adopted by the Group but do not have a material impact on the 2016 financial statements.

IAS 1, 'Presentation of financial statements', has been amended as part of the Disclosure Initiative. The amendments focus on materiality and aggregation, primary statement presentation requirements, structure of notes and disclosure of accounting policies.

IFRS 7, 'Financial instruments: Disclosures', has been amended to clarify what constitutes 'Continuing involvement' in a financial asset. Where an entity has 'Continuing involvement' in a financial asset that has been transferred, the entity is required to make disclosures under the existing IFRS 7 disclosure requirements.

(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 2017, 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 IFRS 4 'Insurance contracts': Applying IFRS 9 'Financial Instruments' with IFRS 4 'Insurance Contracts', effective from 1 January 2018. This amendment has been issued to address concerns arising from the different effective dates of IFRS 9 and the forthcoming insurance contracts standard. The amendment provides two approaches that can be applied by eligible insurers; the overlay approach and the temporary exemption from IFRS 9. The Group and the Society are eligible insurers and intend to take the temporary exemption from IFRS 9 due to the uncertainty regarding accounting for insurance contracts and the impact of this upon the classification of financial assets.

IFRS 9, 'Financial instruments', addresses the classification, measurement and recognition of financial assets and financial liabilities. 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 other comprehensive income (FVOCI) and fair value through profit and loss (FVTPL). 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 FVTPL with the irrevocable option at inception to present changes in fair value in other comprehensive income without recycling. There is 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, or at the latest 1 January 2021 where application of the standard is deferred in accordance with the above Amendment to IFRS 4 'Insurance contracts'. The Group will assess the impact on the accounting for both financial instruments in accordance with IFRS 9 and insurance contracts following the publication of the forthcoming Insurance Contracts standard IFRS 17.

IFRS 16 'Leases' sets out the principles for the recognition, measurement, presentation and disclosure of leases. It replaces IAS 17 'Leases' and is effective from 1 January 2019. Information disclosed by lessees and lessors will enable users of financial statements to assess the effect that leases have on the financial position, financial performance and cash flows of the entity. The standard has been reviewed and it is expected that leases currently classified as operating leases will require recognition on the Statement of Financial Position at the present value of minimum lease payments. Assets and liabilities will be increased by a material amount; however the net impact on the Statement of Financial Position and Statement of Comprehensive Income is expected to be immaterial.

IFRS 15 'Revenue from contracts with customers' provides a principles-based approach for revenue recognition that is underpinned by the achievement of performance obligations. It replaces IAS 18 'Revenue' and is effective from 1 January 2018. The Group is currently assessing the impact of this new standard; the standard does not apply to business classified as insurance contracts, the impact is therefore expected to be immaterial as it is confined primarily to fee and commission and other income.

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 2016

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 and impairment of acquired intangibles;
- gains arising on business acquisitions;
- accounting differences between the basis upon which the results of the pensions business are managed and the accounting requirements of IFRS; and
- 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.

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), the Teachers Assurance ring-fenced fund and 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 the Society 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.

Notes to the Financial Statements continued

Year ended 31 December 2016

2. Segmental information (continued)

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

	General insurance £m	Life £m	Heritage £m	Central items and other £m	Total £m
2016					
Operating profit/(loss) pre Ogden	113	45	(35)	1	124
Reserve increase due to Ogden	(139)	–	–	–	(139)
Total operating (loss)/profit before tax	(26)	45	(35)	1	(15)
Pensions business IFRS adjustment	–	3	–	–	3
Short-term investment fluctuations and related items*	–	32	21	(39)	14
Centrally managed costs	(2)	(2)	(2)	(21)	(27)
Gain arising on Teachers acquisition	–	–	3	–	3
Finance costs	–	–	–	(24)	(24)
Amortisation of acquired intangibles	(2)	(1)	–	–	(3)
(Loss)/profit before tax, mutual bonus and UDS transfer	(30)	77	(13)	(83)	(49)
2015					
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

* Short-term investment fluctuations and related items contains a loss of £28m representing the unmatched movements in the value of investment assets and liabilities, predominantly caused by the fall in yields during the year. This is more than offset by the favourable impact of tax deducted from policy asset shares and the RNPFN fund totalling £42m (2015: £nil).

Notes to the Financial Statements continued

Year ended 31 December 2016

2. Segmental information (continued)

b) Segment revenue and expenses

All revenues disclosed in the tables below are external.

Year ended 31 December 2016	General insurance £m	Life £m	Heritage £m	Central Items and other £m	Total £m
Gross earned premiums	1,530	1,170	60	–	2,760
Premiums ceded to reinsurers	(340)	(230)	(31)	–	(601)
Net earned premiums	1,190	940	29	–	2,159
Investment and other income	84	751	676	(33)	1,478
Total segmental income	1,274	1,691	705	(33)	3,637
Gross benefits and claims	(1,275)	(514)	(347)	–	(2,136)
Claims ceded to reinsurers	303	210	27	–	540
Net benefit and claims	(972)	(304)	(320)	–	(1,596)
Net change in contract liabilities	–	(1,129)	(359)	(6)	(1,494)
Other expenses	(332)	(181)	(39)	(44)	(596)
Total segmental expenses	(1,304)	(1,614)	(718)	(50)	(3,686)
(Loss)/profit before tax, mutual bonus and UDS transfer*	(30)	77	(13)	(83)	(49)

Year ended 31 December 2015	General insurance £m	Life Restated – see Note 1 £m	Heritage £m	Central Items and other £m	Total Restated – see Note 1 £m
Gross earned premiums	1,420	935	53	–	2,408
Premiums ceded to reinsurers	(284)	(162)	(23)	–	(469)
Net earned premiums	1,136	773	30	–	1,939
Investment and other income	67	(11)	108	12	176
Total segmental income	1,203	762	138	12	2,115
Gross benefits and claims	(1,018)	(499)	(297)	–	(1,814)
Claims ceded to reinsurers	265	136	22	–	423
Net benefit and claims	(753)	(363)	(275)	–	(1,391)
Net change in contract liabilities	–	(218)	266	(1)	47
Other expenses	(380)	(175)	(30)	(62)	(647)
Total segmental expenses	(1,133)	(756)	(39)	(63)	(1,991)
Profit/(loss) before tax, mutual bonus and UDS transfer*	70	6	99	(51)	124

Gross written premiums for investment contracts which are deposit accounted for and not included above are £425m (2015: £515m).

* 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 £35m (2015: £6m) and £45m (2015: £1m) 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 2016

2. Segmental information (continued)

c) Segment assets and liabilities

	General Insurance £m	Life £m	Heritage £m	Central Items and other £m	Total £m
As at 31 December 2016					
Assets					
Property and equipment	8	-	4	31	43
Investment properties	-	-	5	-	5
Financial assets	2,078	6,892	4,956	328	14,254
Reinsurance assets	489	572	29	-	1,090
Other assets	387	118	51	117	673
Cash and cash equivalents	310	102	255	138	805
Total assets	3,272	7,684	5,300	614	16,870
Liabilities					
Insurance and investment contract liabilities	(2,353)	(7,037)	(5,320)	-	(14,710)
Subordinated liabilities	(10)	-	-	(347)	(357)
Other liabilities	(219)	(220)	(170)	(196)	(805)
Total liabilities excluding UDS	(2,582)	(7,257)	(5,490)	(543)	(15,872)
Net Assets	690	427	(190)	71	998
Consolidation adjustments	(575)	(466)	310	731	-
Unallocated divisible surplus (UDS)	115	(39)	120	802	998

	General Insurance £m	Life £m	Heritage £m	Central Items and other £m	Total £m
As at 31 December 2015					
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

Within the Central items and other segment, there is a balance of £61.8m (2015: £752m) 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 £324m (2015: £321m) 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.

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 2016

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

Capital is managed on both economic and regulatory bases to ensure the Group has sufficient funds to meet its business objectives, the promises made to members and policyholders and regulatory requirements.

The Group's key capital management objectives are:

- (i) To ensure the Group's financial strength and to support the risks it takes on as part of its business;
- (ii) To give confidence to policyholders and other stakeholders who have relationships with the Group;
- (iii) To comply with capital requirements imposed by its UK regulator, the PRA, in association with the European Insurance and Occupational Pensions Authority (EIOPA) and the new Solvency II legislation from 1 January 2016; and
- (iv) To ensure the Group's strategy can be implemented and is sustainable.

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 complied with all regulatory capital requirements that it was subject to throughout the reporting period.

Capital Management

Capital is monitored and managed at a Group and entity level.

The Group manages capital resources under Solvency II at the level of Eligible own funds. Excluding RNPfN and Teachers ring-fenced funds, Eligible own funds were £1,296m for the Group (2015: £1,220m) and £1,284m for the Society (2015: £1,236m). Including RNPfN and Teachers ring-fenced funds, Eligible own funds were £1,411m for the Group (2015: £1,301m) and £1,400m for the Society (2015: £1,294m). The inclusion of the ring-fenced funds does not change the Group capital surplus.

The Group seeks to deploy capital where it believes the risk is properly rewarded. Asset and liability matching is extensively used and risks are hedged where the Group believes it would otherwise receive insufficient return for the risk taken or to reduce volatility.

Risk appetite

The Group has embedded its approach to risk management through its risk appetite. The risk appetite for capital management is that sufficient solvency capital is held to ensure that the Group can continue to trade following a severe adverse movement in markets. As at 31 December 2016, the target capital risk appetite was £470m or circa 150% of the capital requirement. See further details on risk management on pages 48 to 58.

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.

Methodology

Eligible own funds comprise the excess of the value of assets over the liabilities, as valued on a Solvency II basis. Subordinated debt issued by the group is considered to be part of Eligible own funds, rather than a liability, as it is subordinate to policyholder claims.

Assets are valued at IFRS fair value with adjustments to remove intangibles and deferred acquisition costs, and to value reassurers' share of technical provisions consistent with the Solvency II regulations.

Liabilities are valued on a best estimate market consistent basis, with the application of a Matching Adjustment, for valuing qualifying annuity liabilities, and a Volatility Adjustment for other qualifying business. Transition (also known as Transitional Measure on Technical Provisions or TMTP) is recognised on the balance sheet and has been calculated on a basis approved by the PRA which seeks to capture the differences between the total Financial Resources Requirement under the previous Solvency I regime and the new Solvency II regime.

The liabilities include the Risk Margin which represents an allowance for the cost of capital for a purchasing insurer taking on the portfolio of liabilities and residual risks that are deemed to be not hedgeable under Solvency II, following the 1-in-200 stress event. This is calculated using a cost of capital of 6% as prescribed by EIOPA.

The Solvency Capital Requirement (SCR) is the amount of capital required to cover the 1-in-200 worst projected future outcome in the year following the valuation, allowing for realistic management and policyholder actions and the impact of the stress on the tax position of the Group. This allows for diversification between the different businesses within the Group and between the risks to which they are exposed.

All non-insurance regulated businesses are included using their current regulatory surplus.

Allowance is made within the Solvency II balance sheet for the Group's defined benefit pension scheme using results on an IFRS basis.

Notes to the Financial Statements continued

Year ended 31 December 2016

3. Capital management (continued)

Assumptions

The calculation of the Solvency II balance sheet and associated capital requirements requires a number of assumptions, including:

- (i) assumptions required to derive the present value of best estimate liability cash flows. Non-market assumptions are broadly the same as those used to derive the Group's IFRS disclosures. Future investment returns and discount rates are those defined by EIOPA, which means that the risk free rates used to discount liabilities are market swap rates, with a 17 basis point deduction to allow for credit risk. For annuity business that is eligible, the liability discount rate includes a Matching Adjustment. For other business that is eligible, the liability discount rate includes a Volatility Adjustment;
- (ii) assumptions regarding management actions. The only management actions allowed for are those that have been approved by the Board and are in place at the balance sheet date.

Use of and limitations of sensitivity analysis

Sensitivity analysis is used to determine the effect of a change in a key assumption while other assumptions remain unchanged. In reality, there is a correlation between the assumptions and other factors. It should also be noted that these sensitivities are non-linear, and larger or smaller impacts should not be interpolated or extrapolated from these results.

The sensitivity analysis does not take into consideration that the Group's assets and liabilities are actively managed. Additionally, the Solvency II position of the Group may vary at the time that any actual market movement occurs. For example, the Group's financial risk management strategy aims to manage the exposure to market fluctuations:

As investment markets move past various trigger levels, management actions could include selling investments, changing investment portfolio allocation, adjusting bonuses credited to policyholders, and taking other protective action.

Other limitations of sensitivity analysis include the use of hypothetical market movements to demonstrate potential

risk that only represent the Group's view of possible near-term market changes that cannot be predicted with any certainty, and the assumption that all interest rates move in an identical fashion.

Stress and scenario testing

Due to the limitations of sensitivity analysis in isolation, the Group undertakes a series of stress and scenario tests to ensure the robustness of its 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 the Group considers a number of single stresses (e.g. a significant fall in equities) but more importantly because investment markets are highly correlated consideration is given to how they will move together in stressed conditions. The Group uses the outcomes of the stress and scenario testing to develop the management actions that would be undertaken if capital or other performance measures move outside of the defined risk appetite.

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.

Reconciliation of Group IFRS UDS to Solvency II Eligible own funds

The table below gives a reconciliation of Group IFRS Unallocated divisible surplus to the Group's Eligible own funds on a Solvency II basis.

The Group Solvency II results are not due to be submitted to the PRA until after the release of the Annual Report. As a result, the Group Solvency II results disclosed below are based on the best estimate of the results at the Annual Report signing date and may differ to the results published as part of the annual Solvency Financial Condition Report.

	2016 £m	2015 £m
IFRS Unallocated divisible surplus	998	1,101
Remove DAC, goodwill and other intangible assets and liabilities	(393)	(340)
Add subordinated debt treated as available capital	385	370
Insurance contract valuation differences	505	233
Deferred tax adjustments	24	15
Other	(19)	(9)
Less net eligible own funds relating to ring-fenced funds	(204)	(150)
Eligible own funds (excluding ring-fenced funds)	1,296	1,220
RNPFN – eligible own funds	139	126
Restriction of own funds in respect of RNPFN	(42)	(45)
Teachers – eligible own funds	65	–
Restriction of own funds in respect of Teachers	(47)	–
Ockham pension scheme – eligible own funds	–	24
Restriction of own funds in respect of Ockham pension scheme	–	(24)
Group Eligible own funds as submitted to the PRA	1,411	1,301

Notes to the Financial Statements continued

Year ended 31 December 2016

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 risks through its governance and risk management framework is set out on pages 48 to 58.

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 (persistence 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.

Insurance concentration risk

The Group is not exposed to significant concentrations of insurance risk. 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 minimises the level of insurance concentration through the use of portfolio analysis and reinsurance.

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 activities primarily involve the provision of Protection, Annuity and Pensions. These products are long term in nature and provide key benefits to the policyholder and their dependants.

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 19 and 24 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 estimate they may give rise to potential life insurance risk 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.

Protection product liabilities are exposed to mortality and morbidity risks whereby higher mortality rates and adverse morbidity will lead to increases in contract liabilities. Annuity product liabilities are exposed to longevity risk whereby contract liabilities will increase with life expectancy.

Notes to the Financial Statements continued

Year ended 31 December 2016

4. Risk management and control (continued)

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. Persistency risk arises from the actual experience being different to the assumptions. The level of persistency influences the ability to recover initial costs of sale from the premiums and charges that relate to the product. The Group is exposed to persistency risk whereby the profitability is adversely impacted by reductions in the length of time that policies remain in force.

For certain Heritage products the level of persistency influences the estimated cost of 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.

Persistency risk is managed in the Group through the assessment of the risk associated with different products against the assumptions used when pricing and subsequently

valuing the insurance obligations. The actual lapse experience segmented into appropriate product groups is regularly monitored to assess whether the pricing and valuation assumptions remain appropriate and that the level of risk being assumed by the Group remains within its risk appetite.

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 concentration

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. The Society's exposure to life insurance risk is consistent with that of the Group.

Group	2016			2015		
	Gross £m	Reinsurance £m	Net £m	Gross £m	Reinsurance £m	Net £m
Whole life	2,794	16	2,810	2,140	(8)	2,132
Endowment	526	-	526	295	-	295
Term Assurance	243	(250)	(7)	204	(202)	2
Immediate and deferred annuity contracts	4,682	(111)	4,571	4,112	(91)	4,021
UWP pensions and protected retirement plans	1,339	-	1,339	1,126	-	1,126
Critical illness	73	(65)	8	99	(75)	24
Income protection	161	(189)	(28)	103	(115)	(12)
ISA	101	-	101	78	-	78
Other	160	(2)	158	123	(1)	122
	10,079	(601)	9,478	8,280	(492)	7,788
Long-term claims liabilities	46	-	46	40	-	40
Unit linked	2,553	-	2,553	1,867	-	1,867
	12,678	(601)	12,077	10,187	(492)	9,695

Notes to the Financial Statements continued

Year ended 31 December 2016

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. The Society's exposure to life insurance is materially consistent with that of the Group.

	Impact on Profit before tax, mutual bonus and UOS transfer	Impact on the Unallocated divisible surplus	Impact on gross long-term insurance and investment contract liabilities
	£m	£m	£m
Sensitivity analysis for the change in assumptions used in 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	(41)	(41)	130
Increase in morbidity rates by 10%	(25)	(25)	126
Increase in persistency by 25%	(7)	(7)	118
Increase in expenses by 10%	(50)	(50)	53

The impact of an adverse or favourable movement in the assumptions is largely symmetric. The persistency sensitivity is performed as stresses to the persistency assumptions proportionally 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.

General Insurance concentration

The table below sets out the Group's concentration of general insurance contract liabilities by type of contract:

	2016			2015		
	Gross	Reinsurance	Net	Gross	Reinsurance	Net
	£m	£m	£m	£m	£m	£m
Motor	1,284	(402)	882	1,067	(326)	741
Commercial	209	(49)	160	206	(44)	162
Household	61	(21)	40	72	(14)	58
Other	9	–	9	8	(2)	6
	1,563	(472)	1,091	1,353	(386)	967

Reinsurance

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 (2015: £5m per claim).

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.

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.

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. 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.

Notes to the Financial Statements continued

Year ended 31 December 2016

4. Risk management and control (continued)

Claims development

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 estimation of the ultimate cost of large bodily injury claims follows a more complex stochastic process given that these claims typically exhibit low frequency and high severity and hence the outcome is highly uncertain. Significant factors that affect the large injury claims estimation process are legislation (e.g. the Ogden discount rate used to value lump sum settlements), judicial decisions and the long delay to settlement. Over the last decade, there has been an increasing prevalence of Periodic Payment Order ('PPO') settlements given

that the Ogden discount rate was set at 2.5% p.a. and at a time when real yields were very low. These settlements have an annuity-type structure, i.e. they are typically paid annually over the claimant's life with mortality, inflation and investment returns being the key risks. Courts may decide that a claim should be settled on a PPO basis, but in some cases the claimant will request a PPO settlement. Due to all these factors, the future development of bodily injury claims have a high degree of uncertainty compared to non-injury claims.

On 27 February 2017, the Lord Chancellor announced a change in the Ogden discount rate from 2.5% p.a. to minus 0.75% p.a. This change impacted the valuation of the cost of care element of large injury claims, and required insurance companies to hold more money in reserves in order to match the inflation risk in the long term. The impact of this Ogden change has led to an increase in bodily injury reserves of £139m for the Group and has significantly impacted other insurers in the market. The change in the Ogden discount rate is expected to make the lump sum settlement more attractive to claimants than a PPO settlement, without reducing the cost of a PPO claim. Overall PPO claims reserves should reduce due to lower propensity but these claims would be replaced by more expensive lump sum settlements.

The table below provides a sensitivity analysis of the potential impact of a change in the discount rate used to value PPOs and a change in the Ogden discount rate, with all other assumptions left unchanged.

	Increase/(decrease) in Profit before tax, mutual bonus and UDS transfer		Increase/(decrease) in Unallocated divisible surplus	
	2016 £m	2015 £m	2016 £m	2015 £m
PPOs				
Impact of a 1% increase in the discount rate used to value PPOs	8	19	6	15
Impact of a 1% reduction in the discount rate used to value PPOs	(11)	(29)	(9)	(23)
Ogden discount rate				
Impact of an increase in the Ogden discount rate of 1% p.a.	58	n/a	46	n/a
Impact of a decrease in the Ogden discount rate of 1% p.a.	(79)	n/a	(63)	n/a

- 1) The sensitivities relating to an increase or decrease in the Ogden discount rate illustrate a movement in the value from the current level of minus 0.75% p.a.
- 2) The selection of these sensitivities should not be interpreted as a prediction.

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.

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.

Notes to the Financial Statements continued

Year ended 31 December 2016

4. Risk management and control (continued)

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 14 on how these are used).

The investment management agreement between the Group and Columbia Threadneedle Investments specifies the limits for holdings in certain asset categories and currencies. 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, currency 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.

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. Sensitivities to key market risks are shown on page 141.

(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.

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. Decreases in the market price of equities will negatively impact the profits and capital of the Group. 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.

Property price risk

The Group is subject to property price risk due to 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 13 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.

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 in credit spreads, over and above risk-free yields, causes bond values to decrease. There is a partial offset where the value of certain insurance liabilities fall in value but the overall impact on IFRS profits is negative. Conversely a narrowing of credit spreads results in a positive impact on IFRS profits.

(II) Interest rate risk

Interest rate risk is the risk that the group is exposed to lower returns or loss as a direct or indirect result of fluctuations in the value of, or income from, specific assets and liabilities arising from changes in underlying interest rates.

Interest rate risk arises primarily from the Group's investments in long-term debt and fixed income securities and their movement relative to the value placed on the insurance liabilities. A number of products sold by the Group have features that influence the Group's exposure to interest rate risk. These features include guaranteed surrender values, guaranteed 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.

Notes to the Financial Statements continued

Year ended 31 December 2016

4. Risk management and control (continued)

The Group manages interest rate risk by investing in fixed income securities which closely match the interest rate sensitivity of our liabilities, where such investments are available. The Group also makes use of derivatives in addition to physically held assets to manage the interest rate exposure resulting from the liabilities. The Group manages its exposure on both an IFRS basis and a regulatory capital basis under Solvency II, and currently focuses on regulatory capital. These derivatives are principally interest rate swaps and swaptions.

Exposure to interest rate risk is monitored using several techniques, including scenario testing, stress testing and asset liability duration control.

(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 table below summarises the Group's exposure, after hedging, to foreign currency exchange risk in sterling. The Society's exposure to foreign currency risk in 2016 amounted to £18m Euros and £124m US dollars (2015: £20m Euros and £131m US dollars).

	2016					2015				
	Euro £m	US Dollar £m	Yen £m	Other £m	Total £m	Euro £m	US Dollar £m	Yen £m	Other £m	Total £m
Derivatives	(77)	(1)	–	(27)	(105)	(74)	(97)	–	(18)	(189)
Equity securities	200	123	48	108	479	164	221	54	88	527
Debt securities	–	–	–	–	–	26	73	–	–	99
Cash and cash equivalents	13	8	–	–	21	9	2	–	–	11
	136	130	48	81	395	125	199	54	70	448

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 £14m (2015: £13m) and £13m (2015: £20m) respectively. In determining the percentage rates to use in this sensitivity the movements in the actual market rates of Euro and US Dollars during 2016 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 £27m (2015: £31m).

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 Funds Management Group monitors the actual asset allocation and performance against benchmarks with oversight provided by Group ALCO and the Investment Committee.

Notes to the Financial Statements continued

Year ended 31 December 2016

4. Risk management and control (continued)

Eurozone exposure

The table below shows the Group's exposure by country of incorporation of the counterparty at 31 December 2016. The Society's exposure to Eurozone risk is materially consistent with that of the Group.

	2016			2015		
	Sovereign	Non-Sovereign	Total	Sovereign	Non-Sovereign	Total
	£m	£m	£m	£m	£m	£m
Italy	–	32	32	–	24	24
Spain	1	114	115	–	90	90
Other Eurozone	46	1,785	1,831	53	1,379	1,432
Total	47	1,931	1,978	53	1,493	1,546

The Group's combined exposure to Greece, Cyprus and Portugal is £7m (2015: £nil). Non-sovereign exposure includes £109m (2015: £84m) of subordinated debt.

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. The 2015 sensitivities for gross liabilities have been restated to allow for the change in full RNPFN policyholder liability and to include the credit exposure to quasi and foreign government, and government-guaranteed investments. The Society's exposure to market risk sensitivities is materially consistent with that of the Group.

	2016			2015		
	Impact on Profit before tax, mutual bonus and UDS transfer	Impact on the Unallocated divisible surplus	Impact on gross long-term insurance and investment contract liabilities	Impact on Profit before tax, mutual bonus and UDS transfer	Impact on the Unallocated divisible surplus	Impact on gross long-term insurance and investment contract liabilities
	£m	£m	£m	£m	£m	£m
Sensitivity analysis to movements in key market sectors						
Equity values fall by 20%	(50)	(39)	(813)	(27)	(21)	(630)
Property values fall by 12.5%	(16)	(15)	(24)	(16)	(15)	(25)
Credit spreads increase by 100bps	(148)	(143)	(171)	(91)	(89)	(126)
Fixed interest yields fall by 50bps	90	90	548	1	2	419
Fixed interest yields increase by 100bps	(159)	(159)	(912)	–	(2)	(704)

In determining the percentage rates to use in the sensitivity analysis reference has been made to those used for internal reporting within the Group. Where sensitivities have not been produced in both directions, the impact of the sensitivity in the other direction is materially consistent with the sensitivity provided.

For fixed interest yield sensitivities, there has been a significant amount of Solvency II related hedging in order to protect the Society's regulatory capital coverage ratio. The execution of these Solvency II related hedges has led to increased interest rate exposure to the IFRS results.

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.

Notes to the Financial Statements continued

Year ended 31 December 2016

4. Risk management and control (continued)

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 2016.

Level 1 – quoted prices

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. An instrument 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 – observable inputs

Level 2 financial instruments are not traded in an active market and 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 2 include:

- Derivatives are valued by discounted cash flow techniques, using observable yield curves and models such as Black Scholes using implied market forward rates and volatilities.
- Units in listed investment funds are valued using quoted prices from external pricing services.
- Debt securities are valued using quoted prices from external pricing services.
- Loans secured on commercial property are valued using discounted cash flows to reflect changes in underlying gilt yields and debt margins.
- Non-participating investment contract liabilities are valued on a basis consistent with the underlying assets in the investment fund.

Level 3 – significant unobservable inputs

If one or more of the significant inputs is not based on observable market data, the instrument is included in Level 3.

Specific valuation techniques used to value financial instruments and other financial investments held at fair value classified as Level 3 include:

- The Group acquired an investment property as part of the Teachers Assurance business combination. This property is valued at 31 December 2016 in accordance with the RICS Appraisal and Valuation Standards by professional, third party, independent chartered surveyors Eddisons Commercial Ltd. The valuation is on an income approach basis and requires the use of unobservable inputs for rental income and yield assumptions which take into account comparable properties.

- Private equity holdings are valued on a net asset value basis using unobservable external unit prices factoring in distributions or calls since the latest valuations. The private equity valuations are reviewed on a monthly basis by group treasury to ensure ongoing validity and accuracy.
- 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 spread 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 Asset Actuary. The assumptions are set by the Board upon recommendation by the Audit Committee.

Whilst there were no changes to the valuation techniques during the year, the classification of assets within the fair value hierarchy has been reassessed. During 2016, the Group transferred Level 3 derivative financial instruments into Level 2 since significant inputs, including yield curves and implied volatilities, are observable for the majority of the derivative contract. The movements in such derivative financial instruments are explained below:

- Interest rate swaps: The £77m asset outstanding as at 1 January 2016 was transferred into Level 2 for the Society and Group.
- Equity/index derivatives: The £17m and £19m assets outstanding as at 1 January 2016 were transferred into Level 2 for the Society and Group respectively.
- Cash flow swaps: The £143m liability outstanding as at 1 January 2016 was transferred into Level 2 for the Society and Group.

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 at 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 7 and 21 respectively.

Notes to the Financial Statements continued

Year ended 31 December 2016

4. Risk management and control (continued)

Group	2016				2015			
	Level 1 £m	Level 2 £m	Level 3 £m	Total fair value £m	Level 1 £m	Level 2 £m	Level 3 £m	Total fair value £m
Financial assets								
Derivative financial instruments								
Interest rate swaps	-	160	-	160	-	-	77	77
Swaptions	-	6	1	7	-	-	1	1
Equity/index derivatives	-	12	-	12	-	-	19	19
	-	178	1	179	-	-	97	97
Financial assets held at fair value through Income								
Shares, other variable yield securities and units in unit trusts								
- UK listed	1,746	4,390	-	6,136	1,242	2,322	-	3,564
- UK unlisted	-	-	120	120	-	-	125	125
- Overseas listed	464	3	-	467	500	4	-	504
- Overseas unlisted	-	-	55	55	-	-	64	64
Debt and other fixed income securities								
- UK listed	1,657	1,927	-	3,584	2,120	2,126	-	4,246
- Overseas listed	98	2,148	-	2,246	24	2,186	-	2,210
Loans secured on residential property	-	-	685	685	-	-	593	593
Loans secured on commercial property	-	198	-	198	-	113	-	113
	3,965	8,666	860	13,491	3,886	6,751	782	11,419
	3,965	8,844	861	13,670	3,886	6,751	879	11,516
Financial liabilities								
Non-participating investment contract liabilities	-	2,547	-	2,547	-	1,862	-	1,862
Derivative financial instruments								
Cash flow swaps	-	173	-	173	-	-	143	143
Interest rate swaps	-	29	-	29	-	-	-	-
Gilt spread lock	-	37	-	37	-	-	-	-
Equity/index derivatives	1	19	-	20	1	-	-	1
	1	258	-	259	1	-	143	144
	1	2,805	-	2,806	1	1,862	143	2,006

Notes to the Financial Statements continued

Year ended 31 December 2016

4. Risk management and control (continued)

Society	2016				2015			
	Level 1 £m	Level 2 £m	Level 3 £m	Total fair value £m	Level 1 £m	Level 2 £m	Level 3 £m	Total fair value £m
Financial assets								
Derivative financial instruments								
Interest rate swaps	-	160	-	160	-	-	77	77
Swaptions	-	6	1	7	-	-	1	1
Equity/index derivatives	-	12	-	12	-	-	17	17
	-	178	1	179	-	-	95	95
Financial assets held at fair value through income								
Shares, other variable yield securities and units in unit trusts								
- UK listed	1,187	4,810	-	5,997	830	3,729	-	4,559
- UK unlisted	-	-	120	120	-	-	124	124
- Overseas listed	101	1	-	102	105	-	-	105
- Overseas unlisted	-	-	54	54	-	-	63	63
Debt and other fixed income securities								
- UK listed	1,643	1,520	-	3,163	1,714	1,165	-	2,879
- Overseas listed	98	1,426	-	1,524	24	1,192	-	1,216
Loans secured on residential property	-	-	684	684	-	-	592	592
Loans secured on commercial property	-	198	-	198	-	113	-	113
	3,029	7,955	858	11,842	2,673	6,199	779	9,651
	3,029	8,133	859	12,021	2,673	6,199	874	9,746
Financial liabilities								
Non-participating investment contract liabilities	-	2,547	-	2,547	-	1,862	-	1,862
Derivative financial instruments								
Cash flow swaps	-	173	-	173	-	-	143	143
Interest rate swaps	-	25	-	25	-	-	-	-
Gilt spread lock	-	37	-	37	-	-	-	-
Equity/index derivatives	1	-	-	1	1	-	-	1
	1	235	-	236	1	-	143	144
	1	2,782	-	2,783	1	1,862	143	2,006

Notes to the Financial Statements continued

Year ended 31 December 2016

4. Risk management and control (continued)

The table below presents the movements in Level 3 financial instruments for the year ended 31 December 2016.

Group	At 1 January 2016 £m	Total gains/ (losses) recognised through income £m	Purchases £m	Sales £m	At 31 December 2016 £m	Unrealised gains/ (losses) recognised through income in 2016 £m
Financial assets						
Derivative financial instruments						
Swaptions	1	-	-	-	1	-
	1	-	-	-	1	-
Financial assets held at fair value through income						
Shares, other variable yield securities and units in unit trusts						
- UK unlisted	125	(5)	4	(4)	120	(4)
- Overseas unlisted	64	5	-	(14)	55	3
Loans secured on residential property*	593	75	61	(44)	685	75
	782	75	65	(62)	860	74
	783	75	65	(62)	861	74

* In relation to Loans secured on residential property, purchases represent loans advanced plus accrued interest and sales represent loans repaid

Group	At 1 January 2015 £m	Total gains/ (losses) recognised through income £m	Purchases £m	Sales £m	At 31 December 2015 £m	Unrealised gains/ (losses) recognised through income in 2015 £m
Financial assets						
Derivative financial instruments						
Swaptions	2	(1)	-	-	1	(1)
	2	(1)	-	-	1	(1)
Financial assets held at fair value through income						
Shares, other variable yield securities and units in unit trusts						
- UK unlisted	111	17	-	(3)	125	14
- Overseas unlisted	70	(3)	2	(5)	64	(4)
Loans secured on residential property	684	(139)	88	(40)	593	(139)
	865	(125)	90	(48)	782	(129)
	867	(126)	90	(48)	783	(130)

Notes to the Financial Statements continued

Year ended 31 December 2016

4. Risk management and control (continued)

Society	At 1 January 2016 £m	Total gains/ (losses) recognised through income £m	Purchases £m	Sales £m	At 31 December 2016 £m	Unrealised gains/ (losses) recognised through income in 2016 £m
Financial assets						
Derivative financial instruments						
Swaptions	1	-	-	-	1	-
	1	-	-	-	1	-
Financial assets held at fair value through income						
Shares, other variable yield securities and units in unit trusts						
- UK unlisted	124	(4)	4	(4)	120	(4)
- Overseas unlisted	63	5	-	(14)	54	3
Loans secured on residential property*	592	75	61	(44)	684	75
	779	76	65	(62)	858	74
	780	76	65	(62)	859	74

* In relation to Loans secured on residential property, purchases represent loans advanced plus accrued interest and sales represent loans repaid.

Society	At 1 January 2015 £m	Total gains/ (losses) recognised through income £m	Purchases £m	Sales £m	At 31 December 2015 £m	Unrealised gains/ (losses) recognised through income in 2015 £m
Financial assets						
Derivative financial instruments						
Swaptions	2	(1)	-	-	1	(1)
	2	(1)	-	-	1	(1)
Financial assets held at fair value through income						
Shares, other variable yield securities and units in unit trusts						
- UK unlisted	110	17	-	(3)	124	14
- Overseas unlisted	70	(3)	2	(6)	63	(4)
Loans secured on residential property	678	(134)	88	(40)	592	(134)
	858	(120)	90	(49)	779	(124)
	860	(121)	90	(49)	780	(125)

Notes to the Financial Statements continued

Year ended 31 December 2016

4. Risk management and control (continued)

Information about fair value measurements using significant unobservable inputs (Level 3)

Included below are the significant unobservable inputs that impact the valuation of material level 3 assets and liabilities.

Group	Fair value at 31 December 2016	Fair value at 31 December 2015	Valuation technique(s)	Unobservable inputs	Range of unobservable inputs (probability-weighted average)	Relationship of unobservable inputs to fair value
Description	£m	£m				
Financial assets						
Derivative financial Instruments						
Swaptions	1	1	Mark-to-model	Interest rate volatility	Could be several percentage points	Higher interest rate volatility results in higher contract value.
	1	1				

Financial assets held at fair value through income

Shares, other variable yield securities and units in unit trusts

– UK unlisted	120	125	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	55	64	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	685	593	Discounted cash flow	Spread	Varies based on cohorts of loans	The spread (together with the underlying risk free yield curve) forms the discount rate used to value the cashflows
				Prepayments	3.5%-7%	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
	860	782				
	861	783				

Notes to the Financial Statements continued

Year ended 31 December 2016

4. Risk management and control (continued)

Sensitivity to changes in unobservable inputs (Level 3)

The only financial instrument which is significantly impacted by reasonably possible changes in unobservable inputs is the loans secured on residential property. The loans secured on residential property are sensitive to changes in discount rate spread, which includes the profit and liquidity premium as well as the No Negative Equity Guarantee risk allowance. The impact of reasonably possible alternative assumptions is shown in the table below:

Description	Unobservable Input	2016			2015		
		Reasonably possible alternative assumptions			Reasonably possible alternative assumptions		
		Current fair value	Increase in fair value	Decrease in fair value	Current fair value	Increase in fair value	Decrease in fair value
		£m	£m	£m	£m	£m	£m
Loans secured on residential property	Discount rates	685	38	(35)	593	34	(31)

Notes to the Financial Statements continued

Year ended 31 December 2016

4. Risk management and control (continued)

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:

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 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 order to minimise its exposure to credit risk the Group invests primarily in higher graded assets, rated BBB and above.

In addition, the Group uses derivatives to transfer elements of financial markets risk exposures. Where possible, significant counterparty exposures from over-the-counter derivatives are mitigated by the use of collateral. 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. 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 151.

Loans secured on residential and commercial property

The retirement business provides residential and commercial mortgage lending and is exposed to credit risk arising from mortgage loans provided. This risk is managed by using the property as security against the loan, assessment of the risk and maintaining a low loan to value ratio. The Group has appointed AgFe as its mandated originator and asset manager for commercial mortgages, using their considerable expertise to source and underwrite loan prospects. Note 13 provides further disclosure and provisions for 'No Negative Equity Guarantees' on residential mortgages.

Reinsurance counterparties

Reinsurance agreements are entered into 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.

Reinsurance concentration risk

Reinsurance concentration risk is minimised through contracting with a diverse range of reinsurance counterparties with credit ratings within our risk appetite. Reinsurance concentration risk is managed through reviewing the credit rating of reinsurance counterparties.

Insurance receivables

Insurance sales expose the Group to credit risk from policyholders and intermediaries for outstanding premiums. The creditworthiness of the intermediaries is assessed and credit limits are used to manage any potential concentration risk associated with individual counterparties.

The creditworthiness of policyholders who take out premium finance on general insurance products is assessed at the time of sale and outstanding premiums are monitored and collected via a dedicated budget accounts function.

No further credit risk provision is required in excess of the normal provision for doubtful receivables.

Credit exposures also arise within general insurance, where claims expense recoveries are due from other insurers' policyholders who are at fault for any repairs expense suffered by the Group's policyholders. 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.

Notes to the Financial Statements continued

Year ended 31 December 2016

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.

	Neither past due nor impaired						Total	Past due but not impaired	Past due and impaired	Total
	AAA	AA	A	BBB	Below BBB	Not rated				
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Credit risk exposure 2016										
Debt and other fixed income securities	800	2,455	1,330	1,075	170	-	5,830	n/a	n/a	5,830
Loans secured on residential and commercial property	-	-	-	-	-	883	883	n/a	n/a	883
Derivative assets	-	-	-	-	-	179	179	n/a	n/a	179
Loans and other receivables	-	-	203	-	-	87	290	1	-	291
Reinsurance assets	-	1,003	86	-	-	1	1,090	-	-	1,090
Insurance receivables	10	1	17	-	-	260	288	5	-	293
Cash and cash equivalents	-	273	410	117	-	5	805	n/a	n/a	805
	810	3,732	2,046	1,192	170	1,415	9,365	6	-	9,371

	Neither past due nor impaired						Total	Past due but not impaired	Past due and impaired	Total
	AAA	AA	A	BBB	Below BBB	Not rated				
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Credit risk exposure 2015										
Debt and other fixed income securities	739	2,856	1,379	1,401	59	22	6,456	n/a	n/a	6,456
Loans secured on residential and commercial property	-	-	-	-	-	706	706	n/a	n/a	706
Derivative assets	-	-	-	-	-	97	97	n/a	n/a	97
Loans and other receivables	-	-	6	-	-	70	76	1	-	77
Reinsurance assets	-	790	91	-	-	9	890	-	-	890
Insurance receivables	-	16	2	-	-	235	253	7	1	261
Cash and cash equivalents	-	448	554	184	-	-	1,186	n/a	n/a	1,186
	739	4,110	2,032	1,585	59	1,139	9,664	8	1	9,673

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.

Notes to the Financial Statements continued

Year ended 31 December 2016

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 of the Group are subject to offsetting, enforceable master netting arrangements and similar agreements. The Society's exposure to credit risk associated with offsetting is materially consistent with that of the Group.

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 related amounts which do not meet the criteria.

	Amounts recognised in the Statement of Financial Position			Related amounts not set off in the Statement of Financial Position		
	Gross amounts £m	Amounts offset £m	Net amounts £m	Financial Instruments* £m	Collateral pledged/(received) £m	Net amount £m
As at 31 December 2016						
Financial assets						
Derivative financial assets	179	–	179	(46)	(116)	17
	179	–	179	(46)	(116)	17
Financial liabilities						
Derivative financial liabilities	(259)	–	(259)	46	201	(12)
Bank overdrafts	(61)	39	(22)	–	–	(22)
	(320)	39	(281)	46	201	(34)

* Collateral requirements arising from derivatives between the Society and Goldman Sachs are managed on a net basis.

	Amounts recognised in the Statement of Financial Position			Related amounts not set off in the Statement of Financial Position		
	Gross amounts £m	Amounts offset £m	Net amounts £m	Financial Instruments £m	Collateral pledged/(received) £m	Net amount £m
As at 31 December 2015						
Financial assets						
Derivative financial assets	97	–	97	–	(94)	3
	97	–	97	–	(94)	3
Financial liabilities						
Derivative financial liabilities	(144)	–	(144)	–	144	–
Bank overdrafts	(56)	29	(27)	–	–	(27)
	(200)	29	(171)	–	144	(27)

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 £116m (2015: £96m). No collateral received from the counterparty has been sold or repledged (2015: £nil).

Total collateral pledged by the Group is £215m (2015: £146m) and is split between corporate bonds pledged in relation to cash flow swaps £173m (2015: £144m), cash collateral paid of £40m (2015: £2m) and future margin of cash of £2m (2015: £nil).

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.

Notes to the Financial Statements continued

Year ended 31 December 2016

4. Risk management and control (continued)

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, or in a form that can be converted to cash in a timely fashion at close to fair market value.

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 which must be met from liquid assets at short notice.

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 level 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.

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, including demands for collateral, 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.

Notes to the Financial Statements continued

Year ended 31 December 2016

4. Risk management and control (continued)

The table below summarises the maturity profile of the assets of the Group and Society on the expected recovery timing.

	Group			Society		
	Within 1 year	Over 1 year	Total	Within 1 year	Over 1 year	Total
	£m	£m	£m	£m	£m	£m
Maturity profile of assets 2016						
Pension benefit asset	-	134	134	-	134	134
Intangible assets	-	291	291	-	11	11
Investments in group undertakings	-	-	-	-	802	802
Property and equipment	-	43	43	-	9	9
Investment properties	-	5	5	-	5	5
Deferred acquisition costs	102	-	102	-	-	-
Reinsurance assets	100	990	1,090	(16)	617	601
Prepayments and accrued income	140	-	140	99	-	99
Loans and other receivables	290	1	291	154	1	155
Insurance receivables	293	-	293	16	-	16
Corporation tax asset	6	-	6	-	-	-
Financial assets at fair value through income	6,602	6,889	13,491	6,001	5,841	11,842
Derivative financial instruments	6	173	179	6	173	179
Cash and cash equivalents	805	-	805	469	-	469
	8,344	8,526	16,870	6,729	7,593	14,322

	Group			Society		
	Within 1 year	Over 1 year	Total	Within 1 year	Over 1 year	Total
	£m	£m	£m	£m	£m	£m
Maturity profile of assets 2015						
Pension benefit asset	-	87	87	-	87	87
Intangible assets	-	249	249	-	1	1
Investments in group undertakings	-	-	-	-	770	770
Property and equipment	-	39	39	-	9	9
Deferred acquisition costs	99	-	99	-	-	-
Reinsurance assets	111	779	890	(3)	495	492
Prepayments and accrued income	125	-	125	91	-	91
Loans and other receivables	75	2	77	86	1	87
Insurance receivables	261	-	261	20	-	20
Corporation tax asset	10	-	10	8	-	8
Financial assets at fair value through income	4,362	7,057	11,419	4,564	5,087	9,651
Derivative financial instruments	2	95	97	-	95	95
Cash and cash equivalents	1,186	-	1,186	449	-	449
	6,231	8,308	14,539	5,215	6,545	11,760

Notes to the Financial Statements continued

Year ended 31 December 2016

4. Risk management and control (continued)

The table below summarises the maturity profile of insurance contracts and financial liabilities of the Group and Society.

As permitted by IFRS 4, the maturity profiles for insurance and participating investment contracts are presented based on the estimated timing of the amounts recognised in the Statement of Financial Position.

The remaining financial liabilities are presented based on the undiscounted contractual obligations and as such will not tie into the balances disclosed within the Statement of Financial Position. Non-participating investment contract liabilities, accounted for in accordance with IAS 39, can be called upon immediately by the policyholder and are therefore presented as 'on demand'.

Group	Unit-linked (on demand)	Within 1 year	1-3 years	3-5 years	Over 5 years	Total
Maturity profile of financial, insurance and investment contract liabilities 2016	£m	£m	£m	£m	£m	£m
Participating insurance contract liabilities	–	481	817	723	2,978	4,999
Participating investment contract liabilities	–	42	59	75	514	690
Non-participating value of in-force business	(26)	(19)	(33)	(27)	(219)	(324)
Non-participating insurance contract liabilities	6	237	431	470	3,298	4,442
General insurance claims liabilities	–	650	550	227	136	1,563
Non-participating investment contract liabilities	2,547	–	–	–	–	2,547
Total insurance and investment contract liabilities	2,527	1,391	1,824	1,468	6,707	13,917
Financial liabilities						
– Derivative financial instruments	–	8	3	17	231	259
– Subordinated liabilities	–	–	–	–	360	360
– Other financial liabilities	–	–	–	–	116	116
Insurance payables	–	51	–	–	–	51
Trade and other payables	–	200	2	2	23	227
	2,527	1,650	1,829	1,487	7,437	14,930

Group	Unit-linked (on demand)	Within 1 year	1-3 years	3-5 years	Over 5 years	Total
Maturity profile of financial, insurance and investment contract liabilities 2015	£m	£m	£m	£m	£m	£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	(12)	(21)	(38)	(31)	(219)	(321)
Non-participating insurance contract liabilities	5	224	370	410	2,790	3,799
General insurance claims liabilities	–	598	506	135	114	1,353
Non-participating investment contract liabilities	1,862	–	–	–	–	1,862
Total insurance and investment contract liabilities	1,855	1,199	1,479	1,109	5,577	11,219
Financial liabilities						
– Derivative financial instruments	–	(10)	(11)	15	150	144
– Subordinated liabilities	–	–	–	–	360	360
– Other financial liabilities	–	2	–	–	94	96
Insurance payables	–	286	–	–	–	286
Trade and other payables	–	262	2	3	24	291
	1,855	1,739	1,470	1,127	6,205	12,396

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.

Notes to the Financial Statements continued

Year ended 31 December 2016

4. Risk management and control (continued)

Society	Unit-linked (on demand)	Within 1 year	1-3 years	3-5 years	Over 5 years	Total
Maturity profile of financial, insurance and investment contract liabilities 2016	£m	£m	£m	£m	£m	£m
Participating insurance contract liabilities	-	481	817	723	2,978	4,999
Participating investment contract liabilities	-	42	59	75	514	690
Non-participating value of in-force business	(26)	(19)	(33)	(27)	(219)	(324)
Non-participating insurance contract liabilities	6	235	429	469	3,287	4,426
Non-participating investment contract liabilities	2,547	-	-	-	-	2,547
Total insurance and investment contract liabilities	2,527	739	1,272	1,240	6,560	12,338
Financial liabilities						
- Derivative financial instruments	-	(11)	3	17	227	236
- Subordinated liabilities	-	-	-	-	350	350
- Other financial liabilities	-	-	-	-	116	116
Insurance payables	-	21	-	-	-	21
Trade and other payables	-	143	-	-	-	143
	2,527	892	1,275	1,257	7,253	13,204

Society	Unit-linked (on demand)	Within 1 year	1-3 years	3-5 years	Over 5 years	Total
Maturity profile of financial, insurance and investment contract liabilities 2015	£m	£m	£m	£m	£m	£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	(12)	(21)	(38)	(31)	(219)	(321)
Non-participating insurance contract liabilities	5	224	367	408	2,780	3,784
Non-participating investment contract liabilities	1,862	-	-	-	-	1,862
Total insurance and investment contract liabilities	1,855	601	970	972	5,453	9,851
Financial liabilities						
- Derivative financial instruments	-	(10)	(11)	15	150	144
- Subordinated liabilities	-	-	-	-	350	350
- Other financial liabilities	-	1	-	-	94	95
Insurance payables	-	29	-	-	-	29
Trade and other payables	-	200	-	-	-	200
	1,855	821	959	987	6,047	10,669

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.

For more detail on the strategic and emerging risks the Group is facing see page 53 within the separate Risk management section on pages 48 to 58.

Notes to the Financial Statements continued

Year ended 31 December 2016

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

Written premiums include new business premiums plus ongoing regular premiums received for in-force policies. Furthermore an estimate is included for premiums due from intermediaries. Net earned premiums are arrived at following deductions for premiums payable to reinsurers and in general insurance, unearned premium is deferred.

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.

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	
	2016 £m	2015 Restated - see Note 1 £m	2016 £m	2015 Restated - see Note 1 £m
Gross earned premiums				
Long-term insurance and participating investment contracts				
Single premium				
New business				
Investments and savings	561	379	561	379
Pensions and annuities	423	381	423	381
Regular premium				
New business				
Investments and savings	-	1	-	1
Life and health protection	37	35	37	35
Existing in-force business				
Investments and savings	31	26	31	26
Pensions and annuities	10	11	10	11
Life and health protection	166	155	166	154
General Insurance contracts				
Motor	1,067	977	-	-
Commercial	268	245	-	-
Household	161	168	-	-
Other	83	86	-	-
Change in unearned premiums provision	(47)	(56)	-	-
Gross earned premiums	2,760	2,408	1,228	987
Premiums ceded to reinsurers				
Long-term insurance premiums	(261)	(185)	(261)	(184)
General insurance business	(345)	(283)	-	-
Change in unearned premiums provision	5	(1)	-	-
Net earned premiums	2,159	1,939	967	803
Gross written premiums for non-participating investment contracts which are deposit accounted for and not included above (refer to Note 15)	425	515	425	515

Notes to the Financial Statements continued

Year ended 31 December 2016

5. Net earned premiums (continued)

All contracts are written in the UK.

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.

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 had an impact of £242m on premiums ceded to reinsurers during 2015. From 1 January 2016 the Group has been part of a Quota Share agreement resulting in reinsurance of 20% of its general insurance gross earned premiums. This had an impact of £297m on premiums ceded to reinsurers during 2016.

6. Investment income

Accounting for Investment Income

Investment income includes dividends, interest from debt and other fixed income securities, interest on loans secured on residential and commercial property and interest on loans and receivables. Dividends are included on an ex-dividend basis. Interest receivable from investments at fair value is accounted for on an accruals basis. Interest receivable on loans and receivables is calculated on an effective interest rate basis.

	Group		Society	
	2016 £m	2015 £m	2016 £m	2015 £m
Income from investments at fair value through income:				
– Interest income	274	292	223	226
– Dividend income	107	96	95	86
Interest on loans and receivables	–	1	–	–
Interest on loans secured on residential property	19	11	19	10
Interest on loans secured on commercial property	1	1	1	1
Interest income from group undertakings	–	–	24	27
Dividend income from group undertakings	–	–	44	22
	401	401	406	372

7. Net gains/(losses) on investments

Accounting for net gains/(losses) 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. A reversal is made of previously recognised gains or losses in respect of disposals made during the year.

	Group		Society	
	2016 £m	2015 £m	2016 £m	2015 £m
Investments at fair value through income:				
– Debt securities	385	(185)	396	(141)
– Equity securities	584	68	558	64
– Derivatives at fair value through income	(40)	(27)	(15)	(24)
– Loans and mortgages	77	(138)	77	(135)
Investments in group undertakings	–	–	(3)	(11)
	1,006	(282)	1,013	(247)

Included within net gains/(losses) on investments are realised gains of £239m (2015: £265m) for the Group and realised gains of £270m (2015: £309m) for the Society.

Notes to the Financial Statements continued

Year ended 31 December 2016

8. Other income

	Group		Society	
	2016 £m	2015 £m	2016 £m	2015 £m
Interest income	30	26	-	-
Unit linked income	1	2	1	2
Fee and commission income	21	18	9	5
Other income	16	11	2	1
	68	57	12	8

9. Net benefits and claims

Accounting for net benefits and claims

Net benefits and claims include amounts paid and also the change in provision for claims. Included within these are the related internal and external claims handling costs and also deductions for the expected value of recoveries. Reinsurance recoveries are accounted for in the same period as the related claim.

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.

General insurance contracts

Claims incurred comprise claims paid in the year and changes in the provisions for outstanding claims, including provisions for claims incurred but not reported together with any other adjustments to claims from previous years.

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.

	2016			2015		
	Gross £m	Reinsurance £m	Net £m	Gross £m	Reinsurance Restated – see Note 1 £m	Net Restated – see Note 1 £m
Group						
Long-term insurance and participating investment contracts						
Benefits and claims paid	858	(237)	621	797	(158)	639
Change in the provision for claims	3	-	3	(1)	-	(1)
General insurance contracts						
Claims paid	1,067	(217)	850	972	(4)	968
Change in the provision for claims	208	(86)	122	46	(261)	(215)
	2,136	(540)	1,596	1,814	(423)	1,391
Net benefits and claims for non-participating investment contracts which are deposit accounted for and not included above (refer to Note 15)	282	-	282	243	-	243
	2016			2015		
	Gross £m	Reinsurance £m	Net £m	Gross £m	Reinsurance Restated – See Note 1 £m	Net Restated – See Note 1 £m
Society						
Long-term insurance and participating investment contracts						
Benefits and claims paid	857	(237)	620	794	(158)	636
Change in the provision for claims	2	-	2	(1)	-	(1)
	859	(237)	622	793	(158)	635
Net benefits and claims for non-participating investment contracts which are deposit accounted for and not included above (refer to Note 15)	282	-	282	243	-	243

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 had an impact of £242m on the movement in reinsurers' share of claims liabilities during 2015. From 1 January 2016 the Group has been part of a Quota Share agreement whereby the reinsurer is liable for 20% of general insurance claims. This had an impact of £227m on claims ceded to reinsurers during 2016.

Notes to the Financial Statements continued

Year ended 31 December 2016

10. Finance costs

	Group		Society	
	2016 £m	2015 £m	2016 £m	2015 £m
Interest payable on subordinated liabilities (see Note 17)	23	23	23	23
Other interest expense	1	1	-	-
	24	24	23	23

11. 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. Reinsurance recoveries are accounted for in the same period as the related expense.

	Group		Society	
	2016 £m	2015 £m	2016 £m	2015 £m
Commission paid on acquisition of business	207	195	57	51
Movement in deferred acquisition costs	(3)	(2)	-	-
Amortisation and impairment of intangible assets	6	5	-	-
Depreciation on property and equipment	6	6	3	3
Investment management expenses and charges	21	22	22	23
Auditors' remuneration	3	3	2	2
Employee benefits expense (see Note 37)	263	270	259	270
Internal staff costs capitalised as attributable costs of IT assets	(15)	(6)	-	-
Management charge allocated to group undertakings	-	-	(227)	(243)
Rent, rates and other facilities expense	19	19	12	17
Marketing and advertising	33	35	9	13
Other staff costs	35	31	4	8
IT costs	43	39	36	35
Fees	79	63	33	25
Other expenses	18	13	10	5
Claims handling cost recognised in Gross benefits and claims	(72)	(70)	(5)	(5)
Gross operating and administrative expenses	643	623	215	204
Expenses recoverable from reinsurers*	(72)	-	-	-
Net operating and administrative expenses	571	623	215	204

* Expenses recoverable from reinsurers represent 20% of the costs of the general insurance business which are borne by reinsurers as part of the new Quota Share agreement in 2016.

Included within rent, rates and other facilities expense are operating lease rentals of £5m (2015: £5m).

12. Auditors' remuneration

	2016 £'000	2015 £'000
Audit of Society	848	560
Fees payable to the Society's auditors and its associates for other services:		
- Audit of subsidiaries	652	493
- Audit-related assurance services	1,223	933
- Tax advisory services	52	25
- Other non-audit services not covered above	326	722
	3,101	2,733

In addition to the amounts disclosed above, expenses relating to audit work of £150,000 (2015: £164,000) were paid to the auditors in respect of the year ended 31 December 2016.

Notes to the Financial Statements continued

Year ended 31 December 2016

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 19) 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.

13. Financial assets – Fair value through income

Accounting for financial assets and financial 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.

Derivatives are classified at fair value through income as they are held for trading (see note 14). Financial assets designated at fair value through income at inception are part of a group of financial assets that are managed and their performance evaluated and reported to the board on a fair value basis in accordance with the Group's documented investment strategy. These 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 14 and 15 respectively.

The IFRS 'fair value hierarchy' levels for financial assets and liabilities required under IFRS 13 are disclosed within Note 4.

Loans secured on residential property

The fair value of the loans secured on residential property (arising from the equity release mortgage business) is determined by discounting the expected cash flows which take into account the contractual interest rolled up on the loans, and expected repayment profiles based on assumed mortality and early loan repayment rates. The discount rate is based on the swap yield curved increased by a spread and an allowance for risks associated with the 'No Negative Equity Guarantee'.

The loans incorporate a 'No Negative Equity Guarantee' to customers. 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 fair value of the guarantee is determined using a stochastic model.

The fair value of the loans is determined using assumptions for interest rates, future house price inflation and its volatility, mortality rates, long term care rates and early loan repayment rates, to give management's best estimate view of the discounted value of cash flows required to settle any future financial obligation arising at the Statement of Financial Position date.

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).

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. Where the value is not expected to be recovered through ongoing loan payments, the fair value represents the recoverable value of the property in the market post transaction costs.

Significant accounting estimates

Fair value of financial assets

Market observable inputs are used wherever possible. Judgement is applied to determine whether a market is active; this is based upon the facts and circumstances of the relevant market. 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 4.

Notes to the Financial Statements continued

Year ended 31 December 2016

13. Financial assets – Fair value through income (continued)

	Group		Society	
	2016 £m	2015 £m	2016 £m	2015 £m
Financial assets – Fair value through income				
Shares, other variable yield securities and units in unit trusts				
– UK listed	6,136	3,564	5,997	4,559
– UK unlisted	120	125	120	124
– Overseas listed	467	504	102	105
– Overseas unlisted	55	64	54	63
Debt and other fixed income securities				
– UK listed	3,584	4,246	3,163	2,879
– Overseas listed	2,246	2,210	1,524	1,216
Loans secured on residential property	685	593	684	592
Loans secured on commercial property	198	113	198	113
	13,491	11,419	11,842	9,651
Assets held to cover linked liabilities included above	2,612	1,920	2,612	1,920

For details on exposure to foreign exchange currency risk see page 140.

14. 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 primarily to reduce its exposure to interest rate risk and to protect against falls in the FTSE 100. The Group has increased its use of fixed income derivatives over 2016 to manage the interest rate exposure of the Solvency II surplus capital position.

Group	2016			2015		
	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	1,507	160	(29)	865	77	–
Gilt spread lock	1,120	–	(37)	–	–	–
Cash flow swaps	1,117	–	(173)	1,260	–	(143)
Swaptions	1,402	7	–	109	1	–
Forward exchange contracts	1	–	–	–	–	–
Equity/index derivatives	515	12	(20)	316	19	(1)
	5,662	179	(259)	2,550	97	(144)

Society	2016			2015		
	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	1,369	160	(25)	865	77	–
Gilt spread lock	1,120	–	(37)	–	–	–
Cash flow swaps	1,117	–	(173)	1,260	–	(143)
Swaptions	1,402	7	–	109	1	–
Forward exchange contracts	1	–	–	–	–	–
Equity/index derivatives	118	12	(1)	136	17	(1)
	5,127	179	(236)	2,370	95	(144)

Notes to the Financial Statements continued

Year ended 31 December 2016

15. 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. Designation at inception is at fair value in order to avoid a measurement inconsistency with the associated financial assets.

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 19.

a) Analysis of investment contract liabilities

	Notes	Group		Society	
		2016 £m	2015 £m	2016 £m	2015 £m
Non-participating investment contract liabilities	15b	2,547	1,862	2,547	1,862
Participating investment contract liabilities	15c	690	554	690	554
		3,237	2,416	3,237	2,416

b) Movement in non-participating investment contract liabilities

	Group		Society	
	2016 £m	2015 £m	2016 £m	2015 £m
Balance at 1 January	1,862	1,554	1,862	1,554
Acquired through business combinations	239	-	239	-
Deposits received from policyholders	425	515	425	515
Payments made to policyholders	(282)	(243)	(282)	(243)
Change in contract liabilities included in the Statement of Comprehensive Income	303	36	303	36
Balance at 31 December	2,547	1,862	2,547	1,862

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.

Notes to the Financial Statements continued

Year ended 31 December 2016

15. Investment contract liabilities

c) Movement in participating investment contract liabilities

	Group		Society	
	2016 £m	2015 £m	2016 £m	2015 £m
Balance at 1 January	554	552	554	552
Acquired through business combinations	120	–	120	–
Premiums received	6	2	6	2
Liabilities paid for deaths, maturities, surrenders, benefits and claims	(27)	(25)	(27)	(25)
New business	1	1	1	1
Benefits and claims variation	4	1	4	1
Fees deducted	(3)	(2)	(3)	(2)
Accretion of investment income or change in unit prices	76	20	76	20
Adjustment due to changes in assumptions:				
– Investment return	8	–	8	–
– Expense	(3)	–	(3)	–
Model changes	1	–	1	–
Other	(50)	–	(50)	–
Mutual bonus	3	5	3	5
Balance at 31 December	690	554	690	554

16. 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. Amounts included for reverse repurchase agreements represent the consideration paid to the borrower and are accounted for as a loan at amortised cost.

The Group assesses at each Statement of Financial Position date whether there is any indication that 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.

	Group		Society	
	2016 £m	2015 £m	2016 £m	2015 £m
Reverse repurchase agreements	200	–	–	–
Deposits with credit institutions	3	6	–	3
Cash collateral pledged	42	2	18	2
Amounts due from group undertakings	–	–	103	55
Managing agents rental receivable	1	2	1	2
Investments receivable	18	16	16	16
Other receivables	27	51	17	9
	291	77	155	87

Details of impairments on financial assets held at amortised cost are included within the credit counterparty risk section (c) of Note 4. 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 2016

17. 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 expected 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	
	2016 £m	2015 £m	2016 £m	2015 £m
Subordinated notes (GBP 350m)	347	347	347	347
Subordinated notes (EUR 12m)	10	9	-	-
	357	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 2016 was £351m (2015: £353m). The valuation of the subordinated notes was determined by reference to the bid price obtained from the markets as at 31 December 2016. Management consider this to be representative of fair value.

18. Other financial liabilities

	Group		Society	
	2016 £m	2015 £m	2016 £m	2015 £m
Cash collateral received	116	96	116	95
	116	96	116	95

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 2016

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 24 with sensitivities to these assumptions disclosed separately within Note 4.

19. Insurance contract liabilities

19.1 Accounting for insurance contract liabilities

Insurance contract liabilities are recognised for insurance contracts in existence at the end of the reporting period. Such liabilities are only derecognised when the obligation specified in the contract is discharged, cancelled or expires.

IFRS 4 Insurance Contracts permits the continued application, for income statement presentation and liability measurement purposes, of accounting policies that were being used at the date of transition to IFRS, except where a change is deemed to make the financial statements more relevant to the economic decision-making needs of users and no less reliable, or more reliable, and no less relevant to those needs. As such, the Group accounting for insurance contracts and participating investment contracts is in accordance with the Statement of Recommended Practice issued by the Association of British Insurers in December 2005, amended in December 2006 and subsequently withdrawn in December 2015. The Group continues to apply this Statement of Recommended Practice.

a) Long-term insurance contract liabilities and participating investment contract liabilities

(i) Participating business

Participating business includes both participating insurance and participating investment contract liabilities. The liabilities are calculated in accordance with the PRAs previous 'realistic' liability regime, which was the regime in place at the date of transition to IFRS. 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 liabilities include 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 20.

Such an amount is not recognised for business written outside participating contract funds.

(ii) 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. This was the regime in place on adoption of IFRS. 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.

b) 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 deduction 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.

Notes to the Financial Statements continued

Year ended 31 December 2016

19. Insurance contract liabilities (continued)

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.

19.2 Significant accounting estimates and judgements

The valuation of insurance contract liabilities requires management judgement in applying the appropriate accounting treatment and the use of estimates. Where the use of estimates involves management judgement, these are explained separately to judgements involving the application of accounting policies.

a) Long-term insurance contract liabilities and participating investment contract liabilities

(i) Significant accounting estimates

Estimate	Judgement applied to estimate
<p>Assumptions and adjustments applied in the valuation of insurance liabilities</p> <p>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. All contracts are subject to liability adequacy tests, which reflects management's best current estimate of future cash flows.</p> <p>The assumptions used for mortality, morbidity and longevity are based on standard industry or reinsurers' tables. 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. Due to the long-term nature of these obligations, the estimates are subject to significant uncertainty.</p>	<p>The assumptions used for mortality, morbidity and longevity are 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.</p> <p>The assumptions used for discount rates are adjusted for the Group's own risk exposure. Non-participating value of in-force business valuation makes allowance for a margin of risk and adverse deviation.</p>
<p>Assessment of future options and guarantees</p> <p>The value of options and guarantees on with-profits business is valued within the market-consistent discounted cash flow valuation, the most material of which are Minimum benefit guarantees on LVFS WP business and Guaranteed annuity options on RNPFN.</p> <p>Due to the asymmetric nature of these liabilities, stochastic valuation techniques are required. A market consistent economic scenario generator is used with a wide range of future economic conditions to capture the asymmetry, and a discounted cash flow model is used to derive a value of the liability at the valuation date. These techniques are widely used in the life insurance industry to value liabilities with embedded options and guarantees.</p> <p>The valuation models make appropriate allowance for both management and policyholder actions, where appropriate, including appropriate demographic assumptions on option or guarantee dates.</p>	

(ii) Significant accounting judgements

Changes in methodology

The methodology used to value the liabilities for OB pension policies was adjusted in 2015 to reflect a change in the inputs used to calculate the amount payable when the policyholder elects to take the proceeds from the policy as cash rather than as an annuity, with a positive impact on Heritage operating profit. The calculation has been reassessed following feedback from the Financial Conduct Authority (FCA). This change has reduced Heritage operating profit and increased liabilities in 2016 by £80m.

The calculation of the insurance contract liabilities is impacted by changes in unit costs. A full review of the methodology has been carried out in 2016 and the revised expense assumptions have been adopted. A further review of OB pensions cash commutation rates has taken place to reflect increases in the level of cash commutation. 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 24 and 25 respectively.

Notes to the Financial Statements continued

Year ended 31 December 2016

19. Insurance contract liabilities (continued)

b) General insurance claims and insurance contract liabilities

(i) Significant accounting estimates

Estimate

Estimate of ultimate cost of claims

The estimation of the ultimate liability arising from claims made under insurance contracts is the most critical accounting estimate for the general insurance business. 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. 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), judicial decisions, the long delay to settlement 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 given that the Ogden discount rate was set at 2.5% and at a time when real yields were very low. These settlements have an annuity-type structure, i.e. they are typically paid annually over the claimant's life with mortality, inflation and investment returns being the key risks. Courts may decide that a claim should be settled on a PPO basis, but in some cases the claimant will request a PPO settlement. 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.

On 27 February 2017, the Lord Chancellor announced a change in the Ogden discount rate from 2.5% p.a. to minus 0.75% p.a. This change impacted the valuation of the cost of care element of large bodily injury claims, and required insurance companies to increase reserves in order to match the inflation risk over the long-term for claims which settle on a lump sum basis rather than as PPOs. The impact of this Ogden rate change has led to an increase in bodily injury reserves of £139m for the Group. The change in the Ogden discount rate is expected to make the lump sum settlement more attractive to claimants than a PPO settlement. Overall PPO claims reserves should reduce due to lower propensity but these claims would be replaced by more expensive lump sum settlements.

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.

Judgement applied to estimate

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:

- the development of previously paid claims, where payments to date are extrapolated for each prior year;
- estimates based upon a projection of claims numbers and average cost;
- incurred claims development, where incurred claims to date for each year are extrapolated based upon observed development of earlier years; and
- expected loss ratios.

Notes to the Financial Statements continued

Year ended 31 December 2016

19. Insurance contract liabilities (continued)

a) Analysis of insurance contract liabilities and reinsurance assets

Group	Note	2016			2015		
		Gross £m	Reinsurance £m	Net £m	Gross £m	Reinsurance £m	Net £m
Participating insurance contract liabilities							
Long-term insurance contract liabilities	19 b	4,999	-	4,999	3,972	-	3,972
Non-participating insurance contract liabilities							
Long-term insurance contract liabilities	19 c	4,204	(474)	3,730	3,621	(412)	3,209
Long-term linked insurance contract liabilities	19 d	192	(127)	65	138	(80)	58
Long-term claims liabilities	19 e	46	-	46	40	-	40
		4,442	(601)	3,841	3,799	(492)	3,307
General insurance unearned premiums	19 f	793	(17)	776	744	(12)	732
General insurance claims liabilities	19 g	1,563	(472)	1,091	1,353	(386)	967
		2,356	(489)	1,867	2,097	(398)	1,699
		6,798	(1,090)	5,708	5,896	(890)	5,006

Society	Note	2016			2015		
		Gross £m	Reinsurance £m	Net £m	Gross £m	Reinsurance £m	Net £m
Participating insurance contract liabilities							
Long-term insurance contract liabilities	19 b	4,999	-	4,999	3,972	-	3,972
Non-participating insurance contract liabilities							
Long-term insurance contract liabilities	19 c	4,189	(474)	3,715	3,606	(412)	3,194
Long-term linked insurance contract liabilities	19 d	192	(127)	65	138	(80)	58
Long-term claims liabilities	19 e	45	-	45	40	-	40
		4,426	(601)	3,825	3,784	(492)	3,292

b) Movement in long-term insurance contract liabilities – participating

Group and Society	2016			2015		
	Gross £m	Reinsurance £m	Net £m	Gross £m	Reinsurance £m	Net £m
Balance at 1 January	3,972	-	3,972	3,862	-	3,862
Acquired through business combinations	222	-	222	-	-	-
Premiums received	33	-	33	34	-	34
Liabilities paid for deaths, maturities, surrenders, benefits and claims	(368)	-	(368)	(336)	-	(336)
New business	554	-	554	372	-	372
Benefits and claims variation	32	-	32	44	-	44
Fees deducted	(22)	-	(22)	(26)	-	(26)
Accretion of investment income or change in unit prices	317	-	317	96	-	96
Adjustment due to changes in assumptions:						
- Mortality/morbidity/longevity	(2)	-	(2)	(15)	-	(15)
- Investment return	217	-	217	6	-	6
- Expense	(11)	-	(11)	(1)	-	(1)
- Lapse and surrender rates	(6)	-	(6)	(69)	-	(69)
- Other basis changes	44	-	44	-	-	-
Model changes	-	-	-	4	-	4
Other	26	-	26	(21)	-	(21)
TA Fund special bonus	(23)	-	(23)	-	-	-
Mutual bonus	14	-	14	22	-	22
Balance at 31 December	4,999	-	4,999	3,972	-	3,972

Notes to the Financial Statements continued

Year ended 31 December 2016

19. Insurance contract liabilities (continued)

c) Movement in long-term insurance contract liabilities – non-participating

Group	2016			2015		
	Gross £m	Reinsurance £m	Net £m	Gross £m	Reinsurance £m	Net £m
Balance at 1 January	3,621	(412)	3,209	3,679	(295)	3,384
Acquired through business combinations	166	(15)	151	–	–	–
Premiums received	150	(57)	93	133	(51)	82
Liabilities paid for deaths, maturities, surrenders, benefits and claims	(356)	45	(311)	(378)	40	(338)
New business	356	(87)	269	311	(68)	243
Benefits and claims variation	13	(3)	10	(5)	5	–
Fees deducted	(16)	–	(16)	(15)	–	(15)
Accretion of investment income or change in unit prices	49	–	49	40	(1)	39
Adjustment due to changes in assumptions:						
– Mortality/morbidity/longevity	(114)	136	22	(10)	(46)	(56)
– Investment return	383	(67)	316	(51)	17	(34)
– Expense	(24)	–	(24)	–	–	–
– Lapse and surrender rates	9	(6)	3	5	(4)	1
– Other basis changes	2	(1)	1	(82)	–	(82)
Model changes	(58)	(7)	(65)	(5)	(10)	(15)
Other	23	–	23	(1)	1	–
Balance at 31 December	4,204	(474)	3,730	3,621	(412)	3,209

Society	2016			2015		
	Gross £m	Reinsurance £m	Net £m	Gross £m	Reinsurance £m	Net £m
Balance at 1 January	3,606	(412)	3,194	3,661	(295)	3,366
Acquired through business combinations	166	(15)	151	–	–	–
Premiums received	150	(57)	93	133	(51)	82
Liabilities paid for deaths, maturities, surrenders, benefits and claims	(355)	45	(310)	(375)	40	(335)
New business	356	(87)	269	311	(68)	243
Benefits and claims variation	13	(3)	10	(5)	5	–
Fees deducted	(16)	–	(16)	(15)	–	(15)
Accretion of investment income or change in unit prices	49	–	49	40	(1)	39
Adjustment due to changes in assumptions:						
– Mortality/morbidity/longevity	(114)	136	22	(10)	(46)	(56)
– Investment return	382	(67)	315	(51)	17	(34)
– Expense	(24)	–	(24)	–	–	–
– Lapse and surrender rates	9	(6)	3	5	(4)	1
– Other basis changes	2	(1)	1	(82)	–	(82)
Model changes	(58)	(7)	(65)	(5)	(10)	(15)
Other	23	–	23	(1)	1	–
Balance at 31 December	4,189	(474)	3,715	3,606	(412)	3,194

Notes to the Financial Statements continued

Year ended 31 December 2016

19. Insurance contract liabilities (continued)

d) Movement in long-term linked insurance contract liabilities

Group and Society	2016			2015		
	Gross £m	Reinsurance £m	Net £m	Gross £m	Reinsurance £m	Net £m
Balance at 1 January	138	(80)	58	138	(70)	68
Premiums received	36	(14)	22	39	(15)	24
Liabilities paid for deaths, maturities, surrenders, benefits and claims	(31)	12	(19)	(25)	13	(12)
New business	13	(20)	(7)	15	(19)	(4)
Benefits and claims variation	2	(2)	-	(1)	1	-
Fees deducted	(2)	-	(2)	(2)	-	(2)
Accretion of investment income or change in unit prices	2	-	2	1	-	1
Adjustment due to changes in assumptions:						
- Mortality/morbidity/longevity	-	(4)	(4)	(23)	12	(11)
- Investment return	34	(14)	20	(5)	2	(3)
- Expense	(6)	-	(6)	-	-	-
- Lapse and surrender rates	2	(2)	-	2	(1)	1
- Other basis changes	-	-	-	(1)	-	(1)
Model changes	3	(3)	-	-	(3)	(3)
Other	1	-	1	-	-	-
Balance at 31 December	192	(127)	65	138	(80)	58

e) Movement in long-term claims liabilities

Group	2016			2015		
	Gross £m	Reinsurance £m	Net £m	Gross £m	Reinsurance Restated – see Note 1 £m	Net Restated – see Note 1 £m
Balance at 1 January	40	-	40	41	-	41
Acquired through business contributions	3	-	3	-	-	-
Claims notified	861	(237)	624	796	(158)	638
Claims paid during the year	(858)	237	(621)	(797)	158	(639)
Balance at 31 December	46	-	46	40	-	40

Society	2016			2015		
	Gross £m	Reinsurance £m	Net £m	Gross £m	Reinsurance Restated – see Note 1 £m	Net Restated – see Note 1 £m
Balance at 1 January	40	-	40	41	-	41
Acquired through business contributions	3	-	3	-	-	-
Claims notified	859	(237)	622	793	(158)	635
Claims paid during the year	(857)	237	(620)	(794)	158	(636)
Balance at 31 December	45	-	45	40	-	40

f) Movement in general insurance unearned premiums

Group	2016			2015		
	Gross £m	Reinsurance £m	Net £m	Gross £m	Reinsurance £m	Net £m
Balance at 1 January	744	(12)	732	688	(13)	675
Acquired through business contributions	2	-	2	-	-	-
Premiums written in the year	1,579	(345)	1,234	1,476	(283)	1,193
Premiums earned during the year	(1,532)	340	(1,192)	(1,420)	284	(1,136)
Balance at 31 December	793	(17)	776	744	(12)	732

g) Movement in general insurance claims liabilities

Group	2016			2015		
	Gross £m	Reinsurance £m	Net £m	Gross £m	Reinsurance £m	Net £m
Balance at 1 January	1,353	(386)	967	1,307	(125)	1,182
Acquired through business contributions	2	-	2	-	-	-
Movement in claims incurred in prior accident years	31	(134)	(103)	(101)	(130)	(231)
Claims incurred in the current accident year	1,186	(169)	1,017	1,057	(135)	922
Claims paid during the year	(1,014)	217	(797)	(910)	4	(906)
Unexpired risk provision	5	-	5	-	-	-
Balance at 31 December	1,563	(472)	1,091	1,353	(386)	967

Notes to the Financial Statements continued

Year ended 31 December 2016

19. Insurance contract liabilities (continued)

h) Analysis of general insurance claims development

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	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	Total
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Initial estimate of gross provision	560	540	607	773	909	1,089	1,077	1,051	1,049	1,148	
One year later	513	540	589	825	915	1,042	1,015	1,000	1,100		
Two years later	489	500	589	841	902	1,018	999	982			
Three years later	486	490	588	835	895	992	986				
Four years later	488	491	603	825	892	981					
Five years later	492	487	599	829	876						
Six years later	495	481	598	830							
Seven years later	495	480	577								
Eight years later	497	455									
Nine years later	493										
Current estimate of cumulative claims	493	455	577	830	876	981	986	982	1,100	1,148	8,428
Cumulative payments to date	(474)	(451)	(571)	(775)	(845)	(913)	(822)	(767)	(759)	(553)	(6,930)
Liability recognised in the Statement of Financial Position for 2007 to 2016 accident years	19	4	6	55	31	68	164	215	341	595	1,498
Liability recognised in the Statement of Financial Position in respect of prior accident years											42
Claims handling provision											18
Unexpired risk provision											5
Gross general insurance claims liabilities as at 31 December 2016											1,563

Analysis of claims development – net of reinsurance	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	Total
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Initial estimate of gross provision	506	507	584	764	899	1,063	1,057	1,039	916	1,002	
One year later	463	483	578	805	899	1,024	995	934	1,008		
Two years later	440	464	565	821	893	1,003	943	923			
Three years later	441	457	562	808	888	964	937				
Four years later	430	458	577	798	874	955					
Five years later	431	454	570	797	863						
Six years later	431	452	566	791							
Seven years later	431	450	560								
Eight years later	429	451									
Nine years later	469										
Current estimate of cumulative claims	469	451	560	791	863	955	937	923	1,008	1,002	7,959
Cumulative payments to date	(467)	(449)	(557)	(770)	(844)	(913)	(821)	(767)	(759)	(553)	(6,900)
Liability recognised in the Statement of Financial Position for 2007 to 2016 accident years	2	2	3	21	19	42	116	156	249	449	1,059
Liability recognised in the Statement of Financial Position in respect of prior accident years											10
Claims handling provision											17
Unexpired risk provision											5
Net general insurance claims liabilities as at 31 December 2016											1,091

Notes to the Financial Statements continued

Year ended 31 December 2016

20. 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 19, 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 25.

Analysis of non-participating value of in-force business

	Group		Society	
	2016 £m	2015 £m	2016 £m	2015 £m
Balance at 1 January	321	338	321	338
Premiums received	(1)	(1)	(1)	(1)
Liabilities paid for deaths, maturities, surrenders, benefits and claims	(12)	(10)	(12)	(10)
New business	39	37	39	37
Benefits and claims variation	–	(3)	–	(3)
Fees deducted	(3)	(4)	(3)	(4)
Accretion of investment income or change in unit prices	1	–	1	–
Adjustment due to changes in assumptions:				
– Mortality/morbidity/longevity	8	(6)	8	(6)
– Investment return	18	13	18	13
– Expense	(2)	–	(2)	–
Model changes	(43)	(7)	(43)	(7)
Other	(2)	(36)	(2)	(36)
Balance at 31 December	324	321	324	321

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

	Group		Society	
	2016 £m	2015 £m	2016 £m	2015 £m
Gross increase in long-term contract liabilities				
Increase in long-term insurance contract liabilities – participating	(813)	(110)	(813)	(110)
Increase in investment contract liabilities – participating	(21)	(2)	(21)	(2)
(Increase)/decrease in long-term insurance contract liabilities – non-participating	(417)	58	(417)	55
Increase in investment contract liabilities – non-participating	(303)	(36)	(303)	(36)
Increase in long-term linked insurance contract liabilities	(54)	–	(54)	–
	(1,608)	(90)	(1,608)	(93)
Mutual bonus (disclosed separately on the Statement of Comprehensive Income)	17	27	17	27
	(1,591)	(63)	(1,591)	(66)
Increase in long-term contract liabilities ceded to reinsurers				
Increase in long-term insurance contract liabilities	47	117	47	117
Increase in long-term linked insurance contract liabilities	47	10	47	10
	94	127	94	127
Increase/(decrease) in non-participating value of in-force business	3	(17)	3	(17)
Net change in contract liabilities	(1,494)	47	(1,494)	44

Notes to the Financial Statements continued

Year ended 31 December 2016

22. Deferred acquisition costs

Accounting for deferred acquisition costs

The proportion of the costs of acquiring new general insurance business which relate to unearned premiums are deferred and recognised as an asset to the extent that they are recoverable out of margins in future matching revenues.

Acquisition costs comprise all allowable costs incurred in writing new contracts. Deferred acquisition costs 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 2016	99
Acquisition costs deferred	202
Amortisation	(199)
At 31 December 2016	102
At 1 January 2015	97
Acquisition costs deferred	196
Amortisation	(194)
At 31 December 2015	99

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 2016 (2015: £nil)

23. 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 judgements

Classification of the Group's contracts with reinsurers as reinsurance contracts

Management have applied judgement in determining whether contracts entered into with reinsurers transfer significant insurance risk and can therefore be accounted for as reinsurance contracts. In making this judgement management review all terms and conditions of each contract and obtain the opinion of an independent expert where necessary.

In order for significant insurance risk to be transferred the following conditions must both be met:

- It is reasonably possible that the reinsurer may realise a significant loss from the contract; and
- There is a reasonable possibility of a significant range of outcomes from the contract.

In 2015 LV= entered into a loss portfolio transfer agreement to reinsure 20% of the Group's general insurance reserves as at 31 December 2015 and in 2016 LV= entered into a quota share agreement to reinsure 20% of the Group's general insurance underwriting profits from 1 January 2016 for a period of 3 years. Management judged that significant insurance risk has been transferred in both these contracts following a review of the terms and conditions of the contracts.

Notes to the Financial Statements continued

Year ended 31 December 2016

23. Reinsurance assets (continued)

	Note	Group		Society	
		2016 £m	2015 £m	2016 £m	2015 £m
Reinsurers' share of provision for unearned premiums	19 a	17	12	-	-
Reinsurers' share of long-term insurance contract liabilities	19 a	474	412	474	412
Reinsurers' share of long-term linked insurance contract liabilities	19 a	127	80	127	80
Reinsurers' share of claims liabilities	19 a	472	386	-	-
		1,090	890	601	492

The carrying amounts disclosed above reasonably approximate fair value at the Statement of Financial Position date.

24. 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 2016 representative of the nature and term of the guarantees inherent in participating insurance contracts within the participating insurance contract funds.

The CMI published their 2016 mortality projections model in March 2017 and a review of this model and the appropriateness of its use has commenced. The new model shows continuing reductions in longevity which, when applied, may reduce liabilities. The Group is continuing to assess the impact of the new model and any changes will be reflected in the Financial Statements for the year ended 31 December 2017, although these are not expected to be material.

The accounting policies for long-term insurance and investment contract liabilities are included within Notes 19 and 15 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	2016	2015
5	0.55%	1.37%
15	1.75%	2.47%
25	1.98%	2.83%
35	1.80%	2.68%

Notes to the Financial Statements continued

Year ended 31 December 2016

24. 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% (2015: RPI plus 0.5%), where RPI in both 2016 and 2015 is modelled stochastically.

Benchmark asset mix for assets backing asset shares	2016				2015			
	Cash	Fixed Interest	Equities	Property	Cash	Fixed interest	Equities	Property
Flexible Guarantee Funds Cautious	2%	68%	20%	10%	2%	68%	20%	10%
Flexible Guarantee Funds Balanced	2%	48%	35%	15%	2%	48%	35%	15%
Flexible Guarantee Funds Managed	2%	33%	50%	15%	2%	33%	50%	15%
All in One Bond Cautious Fund	0%	80%	10%	10%	0%	80%	10%	10%
All in One Bond Balanced Fund	0%	30%	35%	35%	0%	30%	35%	35%
All in One Bond Managed Fund	0%	5%	85%	10%	0%	5%	85%	10%
Other With-Profit	3%	39%	49%	9%	3%	42%	46%	9%

Mortality rate tables	2016		2015	
	Conventional Life Business		Conventional Pensions Business	
	75% AM80 Females -3		75% AM80 Females -3	
	130% AMC00/AF800		120% AMC00/AF800 CMI_2013_1.5%	
	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: 110% RMV00 CMI_2013 1.5% LT	
	Females: 110% RFV00 CMI_2013 1.5% LT		Females: 110% RFV00 CMI_2013 1.5% LT	

Per policy expenses – regular premiums	2016	2015
	£43.30	£40.50
Conventional Life Business	£43.30	£40.50
Conventional Pensions Business	£33.85	£44.80
Conventional Industrial Branch Business*	£15.12	£15.40
Non-Unitised Accumulating Pensions Business	£33.85	£38.40
Unitised Accumulating Life Business	£43.30	£45.60
Unitised Accumulating Pensions Business	£33.85	£44.80
Unitised Accumulating Bond Business	£43.30	£41.50
Unitised Accumulating Life ISA Business	£43.30	£53.00
Heritage Annuities in Payment	£43.30	£53.80

* 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 2016

24. Long-term insurance and investment contract liabilities valuation assumptions (continued)

(ii) Non-participating insurance contracts

Interest rate	2016	2015
Non-profit temporary assurances*	1.65%	2.30%
Whole of life assurances*	1.65%	2.30%
Permanent health insurance:		
a) active lives	1.65%	2.30%
b) claims reserves	0.95%	1.95%
Critical illness	1.65%	2.30%
Other assurances*	1.65%	2.30%
Retirement Solutions annuities in payment	2.68%	3.45%
Heritage annuities in payment	1.79%	2.48%

* These interest rates will be netted down at 20% tax for life contracts.

Investment expenses	2016	2015
Non-profit temporary assurances*	0.12%	0.12%
Whole of life assurances*	0.12%	0.12%
Permanent health insurance:		
a) active lives	0.12%	0.12%
b) claims reserves	0.12%	0.12%
Critical illness	0.12%	0.12%
Other assurances*	0.12%	0.12%
Retirement Solutions annuities in payment	0.14%	0.13%
Heritage annuities in payment	0.12%	0.12%

* These expenses will be netted down at 20% tax for life contracts.

Mortality rate tables	2016	2015
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 (50+)	AMC00/AFC00 CMI_2013 1.5% LT*	AMC00/AFC00 CMI_2013 1.5% LT*
Whole of life assurances (Lifetime+)	TMN00/TMS00 TFN00/TFS00 CMI_2013*	AMC00/AFC00 CMI_2013 1.5% LT*
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	93.5% 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.

** 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	2016	2015
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.

Notes to the Financial Statements continued

Year ended 31 December 2016

24. Long-term insurance and investment contract liabilities valuation assumptions (continued)

Per policy expenses – regular premiums	2016	2015
Non-profit temporary assurances	£16.29	£19.58
Whole of life assurances	£16.29	£15.51
Permanent health insurance:		
a) active lives	£22.02	£29.37
b) claims reserves (per policy in claim)	£677.46	£662.97
Critical illness	£16.29	£29.04
Other assurances	£47.63	£43.12
Retirement Solutions annuities in payment (life annuity)	£59.76	£54.12
Retirement Solutions annuities in payment (fixed term)	£65.13	£54.12
Heritage annuities in payment	£43.30	£59.18

Options and guarantees

There are no significant options and guarantees in the non-participating business.

(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 2016 and 2015.

b) Society (original Teachers)

(i) Participating insurance contracts

As part of the Teachers acquisition in 2016, the Society purchased the non-participating business from Teachers Assurance, the Teachers Assurance participating business remains within the ring-fenced TA Fund (see section e).

(ii) Non-participating insurance contracts

Interest rate	2016	2015
Non-profit temporary assurances*	1.65%	n/a
Whole of life assurances*	1.65%	n/a
Teachers annuities in payment	2.68%	n/a

* These interest rates will be netted down at 20% tax for life contracts.

Investment expenses	2016	2015
Non-profit temporary assurances*	0.12%	n/a
Whole of life assurances*	0.12%	n/a
Teachers annuities in payment	0.14%	n/a

* These expenses will be netted down at 20% tax for life contracts.

Mortality rate tables	2016	2015
Non-profit temporary assurances	66% AM92/96% AF92	n/a
Whole of life assurances	66% AM92/96% AF92	n/a
Teachers annuities in payment	68% PMA08/PFA08 CMI_2015 2% LT + 0.5% to the Improvement rate for all ages	n/a

Per policy expenses	2016	2015
Non-profit temporary assurances	£29.77	n/a
Whole of life assurances	£29.77	n/a
Teachers annuities in payment	£29.77	n/a

Notes to the Financial Statements continued

Year ended 31 December 2016

24. Long-term insurance and investment contract liabilities valuation assumptions (continued)

Options and guarantees

There are no options and guarantees in the non-participating business.

(iii) Linked fund

The contracts within the linked fund are classified as investment products and the liability is included within the investment contract liabilities. The provision for unit linked contracts is equal to the value of the units plus a non-unit liability consisting of a sterling reserve calculated by carrying out cash flow projections on appropriate bases.

Interest rate	2016	2015
Unit linked*	1.65%	n/a

* This interest will be netted down at 20% tax for life contracts.

Investment expenses	2016	2015
Unit linked*	0.12%	n/a

* This interest will be netted down at 20% tax for life contracts.

Mortality rate tables	2016	2015
Unit linked Life	60% AM92/96% AF92	n/a
Unit linked Pensions	60% AM92/96% AF92	n/a

Per policy expenses	2016	2015
Unit linked Life	£29.77	n/a
Unit linked Pensions	£29.77	n/a

c) 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	2016	2015
Non-profit temporary assurances*	1.22%	1.74%
Other assurances*	0.92%	1.43%

* These interest rates will be netted down at 20% tax for life contracts.

Investment expenses	2016	2015
Non-profit temporary assurances*	0.12%	0.12%
Other assurances*	0.11%	0.11%

* These expenses will be netted down at 20% tax for life contracts.

Mortality rate tables	2016	2015
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	2016	2015
Non-profit temporary assurances	£16.29	£19.58
Other assurances	£28.86	£27.94

Notes to the Financial Statements continued

Year ended 31 December 2016

24. Long-term insurance and investment contract liabilities valuation assumptions (continued)

d) 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% (2015: RPI plus 0.5%), where RPI in both 2016 and 2015 is modelled stochastically.

Benchmark asset mix for assets backing asset shares

	2016	2015
Cash	4%	4%
Fixed interest	65%	65%
UK Equities	31%	31%
Property	0%	0%

Mortality rate tables

	2016	2015
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

Per policy expenses – regular premiums

	2016	2015
Conventional Life Business	£43.30	£40.50
Pensions Deferred Annuities	£33.85	£44.80
Life Deferred Annuities	£43.30	£40.50
Unitised with-profits ISA	£43.30	£53.00
Unitised with-profits Bond	£43.30	£41.50

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 £90m (2015: £83m).

(ii) Non-participating business

Interest rate	2016	2015
Non-profits assurances*	1.54%	2.23%
Non-profits general deferred annuities*	1.54%	2.23%
Annuities in Payment (Life)*	1.54%	2.23%
Annuities in Payment (Pension)	1.54%	2.23%
Pension Deferred Annuities	1.54%	2.23%

* These interest rates will be netted down at 20% tax for life contracts.

Notes to the Financial Statements *continued*

Year ended 31 December 2016

24. Long-term insurance and investment contract liabilities valuation assumptions (continued)

Investment expenses	2016	2015
Non-profits assurances*	0.13%	0.13%
Non-profits general deferred annuities*	0.13%	0.13%
Annuities in Payment (Life)*	0.13%	0.13%
Annuities in Payment (Pension)	0.13%	0.13%
Pension Deferred Annuities	0.13%	0.13%

* These expenses will be netted down at 20% tax for life contracts.

Mortality rate tables	2016	2015
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	2016	2015
Unit linked assurances*	1.54%	2.23%

* This interest rate will be netted down at 20% tax for life contracts.

Investment expenses	2016	2015
Unit linked assurances*	0.13%	0.13%

* These expenses will be netted down at 20% tax for life contracts.

Mortality rate tables	2016	2015
Unit linked assurances	72% AM/F00 ult	72% AM/F00 ult

Notes to the Financial Statements continued

Year ended 31 December 2016

24. Long-term insurance and investment contract liabilities valuation assumptions (continued)

e) TA fund

The TA fund denotes the Teachers Assurance Fund, which is a ring-fenced fund. The free assets attributable to this fund are reported as insurance and investment contract liabilities of the Society.

(i) Participating contracts

For participating 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	2016	2015
5	0.55%	n/a
15	1.75%	n/a
25	1.98%	n/a
35	1.78%	n/a

Other assumptions

Best estimate assumptions are set for inflation, mortality, expenses and persistency. The future expense inflation assumption is modelled as RPI, where RPI in both 2016 and 2015 is modelled stochastically.

Benchmark asset mix for assets backing asset shares at the valuation date:

	2016	2015
Cash	5%	n/a
Fixed interest	35%	n/a
Equities	53%	n/a
Property	7%	n/a

Mortality rate tables

	2016	2015
Conventional Life Business	55% AM92 / 80% AF92	n/a
Unitised Accumulating Life Business	60% AM92 / 45% AF92	n/a
Unitised Accumulating Bond Business	50% AM92 / 80% AF92	n/a
Unitised Accumulating Life ISA Business	50% AM92 / 80% AF92	n/a

Per policy expenses

	2016	2015
Conventional Life Business	£37.19	n/a
Unitised Accumulating Life Business*	£37.19	n/a
Unitised Accumulating Bond Business	£31.61	n/a
Unitised Accumulating Life ISA Business	£31.61	n/a

* A lower percentage of these amounts is used for Series 3 policies.

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 contracts participating in the TA Fund.

Notes to the Financial Statements continued

Year ended 31 December 2016

25. 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 annuities in payment where the earned rate is based on the IRR of the risk adjusted backing assets cashflows.

Mortality rate tables

	2016	2015
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 CMI_2013 1.5% LT*
Whole of Life Assurances (50+)	AMC00/AFC00 CMI_2013 1.5% LT*	AMC00/AFC00 CMI_2013 1.5% LT*
Whole of Life Assurances (Lifetime+)	TMN00/TMS00 TFN00/TFS00 CMI_2013*	AMC00/AFC00 CMI_2013 1.5% LT*
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	110% RMV00/RFV00 CMI_2013 1.5% LT
Unit linked pensions (original LVFS)	80% 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.

** 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

	2016	2015
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.

d) Teachers fund

There is no non-participating value of in-force business recognised in the TA fund.

Notes to the Financial Statements continued

Year ended 31 December 2016

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.

26. 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 to their estimated residual values 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
Land is not depreciated.	

Assets are written down to their recoverable amount where this is less than the carrying value.

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 2016	39	15	22	76
Acquired through business combinations	4	–	–	4
Additions	–	–	6	6
At 31 December 2016	43	15	28	86
Accumulated depreciation:				
At 1 January 2016	16	9	12	37
Provided in the year	1	2	3	6
At 31 December 2016	17	11	15	43
Net book value at 31 December 2016	26	4	13	43
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

Included within the Freehold and leasehold property category above are assets held under finance leases with a net book value of £20m (2015: £20m).

Notes to the Financial Statements continued

Year ended 31 December 2016

27. Intangible assets

Accounting for goodwill and intangible assets

Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the identifiable net assets of the acquired subsidiary 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 costs of disposal) of the relevant cash generating unit and carried at cost less accumulated impairment losses.

Goodwill arising on acquisitions prior to 1998 has been eliminated against the Unallocated divisible surplus. Goodwill on acquisitions prior to 1 January 2006 (the date of transition to IFRS) is carried at its original cost less cumulative amortisation on that date, less any impairment subsequently incurred.

Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Present value of acquired in-force business (PVIF)

On acquisition of a portfolio of long-term insurance and investment contracts, the net present value of the Group's interest in the expected post-tax cash flows of the in-force business is capitalised as an intangible asset.

The carrying value of the asset is amortised, in line with the original expected run-off over a period of 10 years, based on the anticipated lives of the majority of the related contracts. Amortisation is stated net of any unwind of the discount rate. 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.

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 fair 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. 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. The carrying value of the asset is assessed annually for indications of impairment.

IT Software

Costs directly attributable to the development of Software for internal use are capitalised as intangible assets 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 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.

Any amortisation or impairment charges for all intangibles are recorded in the Statement of Comprehensive Income within Other operating and administrative expenses.

Significant accounting estimate

Impairment assessment of goodwill

The Group determines whether goodwill is 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 2016

27. Intangible assets (continued)

Group	Goodwill £m	Other intangible assets £m	PVIF £m	Software and licence costs £m	Total £m
Cost:					
At 1 January 2016	241	95	63	21	420
Acquired through business combinations	–	7	3	–	10
Additions	–	–	–	38	38
Amounts written off	–	(51)	(63)	–	(114)
At 31 December 2016	241	51	3	59	354
Accumulated amortisation:					
At 1 January 2016	21	85	63	2	171
Charge for the year	–	3	–	3	6
Amounts written off	–	(51)	(63)	–	(114)
At 31 December 2016	21	37	–	5	63
Net book value at 31 December 2016	220	14	3	54	291
Cost:					
At 1 January 2015	233	95	63	11	402
Acquired through business combinations	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

The present value of acquired in-force business (PVIF) includes £3m acquired as part of the Teachers acquisition on 1 June 2016, all previously acquired PVIF has been fully written off.

Other intangible assets comprise the value of the future benefit derived from the customer bases of RNPFN in the Society (£51m which is fully amortised and written off), the Teachers business, 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 £6m (2015: £5m) is presented within Other operating and administrative expenses in the Statement of Comprehensive Income. There was no impairment charge in 2016 (2015: £nil).

Goodwill has been allocated to the individual cash generating units which are based on the key segments of the Group as follows:

	Group	
	2016 £m	2015 £m
Long-term insurance business	75	75
General insurance business	166	166
	241	241

Notes to the Financial Statements continued

Year ended 31 December 2016

27. Intangible assets (continued)

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.

The recoverable amount of the long-term insurance business and of the general insurance business have each been determined using discounted cash flow predictions based on financial plans approved by management covering a five year period, with a terminal growth rate applied thereafter. Both the growth rates and the discount rates used are consistent with the ranges observed in the market place.

For the general insurance business the cash flows used in the financial plans are most sensitive to changes in the loss ratio, therefore sensitivities have been performed based on this measure. Key loss ratio assumptions are based on a combination of historic and current market place trends, and management judgement.

	Long-term insurance	General insurance
Assumptions		
Terminal growth rate	2%	2%
Pre-tax discount rate	9%	9%
Recoverable amount in excess of carrying value	£462m	£1,238m
Sensitivities		
Impact on recoverable amount of a 2% increase in pre-tax discount rate	£129m	£494m
Pre-tax discount rate required to eliminate headroom	37%	18%
Impact on recoverable amount of an annual reduction in forecast cashflows		
– 10% cashflow reduction	£64m	£213m
– 1% loss ratio increase	n/a	£192m
Reduction required in annual forecast cashflows to eliminate headroom		
– cashflow reduction	73%	58%
– Sustained increase in loss ratio	n/a	6.5%

Notes to the Financial Statements continued

Year ended 31 December 2016

28. 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	2016	2015
	£m	£m
Shares in subsidiaries		
Cost less provisions at 1 January	470	467
Acquired through business combinations	26	8
Additions	3	6
Reduction in carrying value	(3)	(11)
	496	470
Loan stock in subsidiaries		
Cost at 1 January	300	300
Additions	6	-
	306	300
Shares and loan stock in subsidiaries at 31 December	802	770

The £26m acquisition relates to the transfer in of the Teachers Provident Society Limited and its subsidiary companies on 1 June 2016 (see Note 46). The £8m acquisition in 2015 relates to the purchase of the Wealth Wizards Group of companies by the Society.

The Society has examined the carrying value of its subsidiaries and concluded that a provision for impairment of £3m (2015: £11m) was required in regard to these investments.

Further details of the Group's loan stock are given in Note 48 and the Group's investments in Notes 42 and 43.

Notes to the Financial Statements continued

Year ended 31 December 2016

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.

29. Insurance receivables

	Group		Society	
	2016 £m	2015 £m	2016 £m	2015 £m
Due from policyholders	178	159	5	2
Due from agents, brokers and intermediaries	87	84	–	–
Due from reinsurers	28	18	11	18
	293	261	16	20

The carrying amounts disclosed above reasonably approximate fair value at the Statement of Financial Position date.

30. Prepayments and accrued income

	Group		Society	
	2016 £m	2015 £m	2016 £m	2015 £m
Accrued interest	99	88	74	66
Other prepayments and accrued income	41	37	25	25
	140	125	99	91

31. Insurance payables

	Group		Society	
	2016 £m	2015 £m	2016 £m	2015 £m
Due to policyholders	19	31	18	27
Due to brokers and intermediaries	1	1	1	1
Due to reinsurers	31	254	2	1
	51	286	21	29

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 on the amounts due to reinsurers which was settled in full during 2016.

The carrying amounts disclosed above reasonably approximate fair value at the Statement of Financial Position date.

32. 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. Premiums received for contracts with an inception date after the end of the period are held as deferred revenue.

	Group		Society	
	2016 £m	2015 £m	2016 £m	2015 £m
Bank overdrafts	22	27	9	16
Trade payables	27	17	27	16
Amounts owed to group undertakings	–	–	11	30
Other taxes and social security costs	51	36	12	4
Other creditors	36	108	28	72
Finance lease liabilities (see note 26)	20	20	–	–
Accruals and deferred income	113	110	68	66
	269	318	155	204

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 2016

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.

33. Income tax expense/(credit)

Income tax expense

Income tax expense recorded in the Statement of Comprehensive Income represents the current year corporation tax charge. As a mutual, the corporation tax charge for the Society relates to policyholder tax payable on the net investment return levied on certain types of business. Whereas for Group subsidiaries corporation tax is charged on trading profits arising in the year.

The current year tax charge excludes the deferred tax movement included within the re-measurement of the defined benefit pension scheme in Other Comprehensive Income.

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	
	2016 £m	2015 £m	2016 £m	2015 £m
Current tax charge:				
Current year	24	8	30	1
Adjustment in respect of prior years	1	(2)	1	(2)
Total current tax	25	6	31	(1)
Deferred tax				
Temporary differences	14	1	14	1
Tax losses	(4)	–	–	–
Adjustment in respect of prior years	–	(1)	–	(1)
Total deferred tax	10	–	14	–
Total income tax expense/(credit)	35	6	45	(1)

b) Reconciliation of tax charge

	Group		Society	
	2016 £m	2015 £m	2016 £m	2015 £m
(Loss)/profit before tax, mutual bonus and UDS transfer*	(49)	124	47	118
Tax calculated at the average standard rate of corporation tax in the UK at 20% (2015: 20.25%)	(10)	25	9	24
Permanent differences				
Income and expenses not subject to tax	6	6	–	–
Mutual profit not subject to tax	(9)	(24)	(9)	(24)
Unprovided deferred tax movement	3	–	–	–
Policyholder I-E tax	44	2	44	2
Adjustment to current tax charge in respect of prior years	1	(2)	1	(2)
Adjustment to deferred tax charge in respect of prior years	–	(1)	–	(1)
Total charge/(credit)	35	6	45	(1)

* 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 (Loss)/profit before tax required to be disclosed under IAS 12 will always be equal to the tax charge being £35m (2015: £6m) and £45m (2015: £(1)m) 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 2016

34. Corporation tax asset

	Group		Society	
	2016 £m	2015 £m	2016 £m	2015 £m
Corporation tax receivable	6	10	-	8
	6	10	-	8

35. Deferred tax liability

	Group £m	Society £m
Balance at 1 January 2016	(42)	(42)
Acquired through business combinations	(2)	(1)
Amounts recorded in the Statement of Comprehensive Income	(10)	(14)
Amounts recorded in pension scheme re-measurements within Other Comprehensive Income	(16)	(16)
Balance at 31 December 2016	(70)	(73)

	Group		Society	
	2016 £m	2015 £m	2016 £m	2015 £m
(I) Analysis of deferred taxation temporary differences				
Excess of depreciation	1	2	-	-
Temporary differences on expenses	8	11	9	12
Temporary differences arising on consolidation	(1)	(1)	-	-
Temporary differences on unrealised gains	(35)	(24)	(35)	(24)
Temporary differences on re-measurement of defined benefit pension scheme	(47)	(30)	(47)	(30)
Tax losses	4	-	-	-
Deferred tax liability	(70)	(42)	(73)	(42)
(II) Deferred taxation asset not recognised				
Tax losses unrecognised	12	4	-	-
	12	4	-	-

The value of deferred tax liabilities expected to be settled after more than 12 months is £67m in the Group (2015: £39m) and £69m in the Society (2015: £39m).

The calculation of deferred tax balances at the year end takes into account the reduction in the UK main corporation tax rate to 19%, substantively enacted on 26th October 2015 and effective from 1 April 2017, and a further reduction to 17%, substantively enacted on 6th September 2016 and effective from 1 April 2020.

The valuation and recoverability of deferred tax assets relating to capital allowances in excess of depreciation, temporary differences on expenses and taxable losses carried forward 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 2016.

36. Corporation tax liability

	Group		Society	
	2016 £m	2015 £m	2016 £m	2015 £m
Corporation tax	-	-	6	-
	-	-	6	-

Notes to the Financial Statements continued

Year ended 31 December 2016

Employee benefits

This section details the costs and commitments associated with employing our staff.

37. 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	
	2016 £m	2015 £m	2016 £m	2015 £m
Wages and salaries	225	229	221	229
Social security costs	21	20	21	20
Pension costs	17	21	17	21
	263	270	259	270

Wages and salaries include charges for ongoing in flight long-term incentive plans (LTIPs) for Life, General Insurance and Group employees of £5.7m in 2016 (2015: £1.8m). The Group LTIP plan terms are described in the Report on Directors' Remuneration on page 97.

For the 2014-16 scheme the Life, General Insurance businesses and Group have met the threshold targets for growth in Enterprise Value and, Relative Investment Performance and £3.9m will be paid to eligible employees in May 2017.

The number of employees during the year, including executive directors, calculated on a monthly average basis, was as follows:

	Group		Society	
	2016 Number	2015 Number	2016 Number	2015 Number
Member and customer contact	4,124	3,979	4,050	3,979
Administration	2,137	2,051	2,120	2,051
	6,261	6,030	6,170	6,030

Notes to the Financial Statements continued

Year ended 31 December 2016

38. 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. No separate liability for funding requirements is recognised as the Society has an unconditional right to any of the assets of the pension schemes which would remain following the schemes' termination.

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 Other 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

(i) Significant accounting estimate

Valuation of the defined benefit obligation

The valuations of the pension benefit obligations for the Group's three 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).

(ii) Significant accounting judgements

Recognition of defined benefit asset

Management have applied judgement in evaluating whether the net pension asset can be recognised for each of the pension schemes in accordance with both the existing IFRIC 14 and proposed amendments.

Recognising the asset under the current criteria of IFRIC 14, 'The limit on a defined benefit asset, minimum funding requirement and their interaction' is allowable for both the LV and Ockham Pension Schemes because the terms of the pension scheme trust deeds state that the Society has an unconditional right to any assets of the schemes which ultimately remain following the schemes' termination.

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 schemes because the pension scheme trust deeds do not allow for the unilateral termination and wind-up of the scheme by the trustees. Also under the terms of the pension scheme trust deeds, assuming the gradual settlement of the scheme liabilities over time until all members have left the schemes, the Society would have an unconditional right to any of the assets of the schemes which remain, net of tax and expenses. As at 31 December 2016, the IASB has not finalised these new proposals.

Defined benefit pension schemes

The Group operates three pension schemes with defined benefit sections, the LV= Employee Pension Scheme ("LV Scheme"), the Ockham Pension Scheme (acquired as part of an earlier acquisition) and the Teachers Assurance Group Pension Scheme (acquired as part of the Teachers Assurance acquisition on 1 June 2016). The Society is the principal employer for the LV Scheme and the Ockham Pension Scheme. Teachers Management Services Limited, a subsidiary of the Society, is the principal employer for the Teachers Assurance Group Pension Scheme. The LV Scheme and the Ockham Pension Scheme are both hybrid schemes with a defined benefit section and a defined contribution section.

Defined contribution pension schemes

All employees are eligible to join the defined contribution section of the LV 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 (2015: £19m).

Notes to the Financial Statements continued

Year ended 31 December 2016

38. Pension benefit asset/(obligation)

(i) Summary of defined benefit schemes

Pension benefit asset/(obligation)

	2016				2015		
	LV Scheme £m	Ockham £m	Teachers £m	Total £m	LV Scheme £m	Ockham £m	Total £m
Asset	114	20	–	134	87	–	87
Obligation	–	–	–	–	–	(3)	(3)
	114	20	–	134	87	(3)	84

Re-measurements

	2016				2015		
	LV Scheme £m	Ockham £m	Teachers £m	Total £m	LV Scheme £m	Ockham £m	Total £m
Re-measurements	15	(1)	–	14	66	8	74
Income tax expense	(9)	(7)	–	(16)	(23)	–	(23)
Amount charged to Total Comprehensive Income	6	(8)	–	(2)	43	8	51
Cumulative re-measurements recognised in the Statement of Comprehensive Income	153	(5)	–	148	138	(4)	134

Teachers Assurance Group Pension Scheme

The Teachers Assurance Group Pension 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 fair value of the plan assets was £33m and the present value of the obligations was £33m as at 31 December 2016. The scheme is closed to new entrants and was closed to future accrual for existing members on 31 December 2015. Funding contributions of £20,000 were paid during the year (2015: £20,000) from the Teachers Assurance fund, a closed fund within the Society. The next triennial valuation is due as at 30 September 2017. Due to the immaterial nature of the Teachers scheme no detailed disclosures have been made.

Further details of the LV and Ockham schemes are disclosed separately within sections (ii) and (iii) of this note respectively.

(ii) LV Scheme

a) Information about the scheme

The final salary section of the LV scheme 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 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.

Notes to the Financial Statements continued

Year ended 31 December 2016

38. Pension benefit asset/(obligation) (continued)

	2016 £m	2015 £m
b) Net Statement of Financial Position		
Present value of defined benefit obligation	(1,308)	(1,080)
Fair value of plan assets	1,422	1,167
Pension benefit asset at the end of the year	114	87

	Present value of obligation £m	Fair value of plan assets £m	Total £m
c) The movement in the net defined benefit asset over the year is as follows:			
At 1 January 2016	(1,080)	1,167	87
Pension costs:			
Current service cost	(2)	-	(2)
Interest (expense)/income	(41)	45	4
	(43)	45	2
Re-measurements:			
- Return on plan assets, excluding amounts included in interest (expense)/income	-	253	253
- Gain from changes in demographic assumptions	2	-	2
- Loss from changes in financial assumptions	(264)	-	(264)
- Experience gains	24	-	24
	(238)	253	15
Other movements:			
- Contributions by employer	-	10	10
- Benefits paid	53	(53)	-
	53	(43)	10
At 31 December 2016	(1,308)	1,422	114
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

Notes to the Financial Statements continued

Year ended 31 December 2016

38. Pension benefit asset/(obligation) (continued)

(ii) LV Scheme (continued)

d) Principal assumptions used

	2016	2015
Discount rate	2.85%	3.95%
RPI inflation	3.30%	3.10%
CPI inflation	2.30%	2.10%
Pension increases for in-payment benefits		
– RPI price inflation capped at 5% pa, floor of 3% pa	3.45%	3.45%
– RPI price inflation capped at 5% pa	3.35%	3.10%
– RPI price inflation capped at 2.5% pa	2.45%	2.40%
– CPI price inflation capped at 3.0% pa	2.30%	2.10%
Rate of (non-guaranteed minimum pension) increases in deferment	2.30%	2.10%
Cash commutation		
Active at the time of scheme closure	10%	10%
Deferred at the time of scheme closure	20%	20%
Scheme member valuation date	31 March 2015	31 March 2015

The discount rate and inflation rate assumptions for 2016 and 2015 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 LV specific Club Vita individual base tables, based on pooled experience during the period 2011 to 2013, for 2016 (2015: LV specific Club Vita tables 2011 – 2013).

The table below shows the life expectancy assumptions used in the accounting assessments based on the average future life expectancy of a scheme member who is a pensioner aged 65 (non-pensioner is assumed to be 45 now).

Future life expectancy assumptions (in years) as at 31 December	2016	2015
Pensioner (currently aged 65)		
– Male	22.9	22.8
– Female	24.7	24.7
Non-pensioner (at age 65, currently aged 45)		
– Male	24.2	24.1
– Female	26.2	26.2

In all cases, as at 31 December 2016 CMI Core 2014 projections (31 December 2015, 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 £138m (11%)
RPI rate	Decrease by 0.5%	Decrease by £78m (6%)
Life expectancy	Increase by 1 year	Increase by £44m (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 2016

38. Pension benefit asset/(obligation) (continued)

(ii) LV Scheme (continued)

f) Plan asset information

The following table shows a breakdown of the plan assets:

	2016				2015			
	Quoted £m	Unquoted £m	Total £m	%	Quoted £m	Unquoted £m	Total £m	%
Equities and unit trusts	92	9	101	7	82	11	93	8
Debt securities	1,594	-	1,594	112	1,050	-	1,050	90
Cash and cash equivalents	90	-	90	6	68	-	68	6
Real estate/property	-	5	5	-	-	38	38	3
Derivatives	9	(399)	(390)	(27)	(38)	(65)	(103)	(9)
Other	-	22	22	2	1	20	21	2
	1,785	(363)	1,422	100	1,163	4	1,167	100

In determining and reviewing the Scheme's investment strategy, the Trustee adopts a Pensions Risk Management Framework (PRMF). This framework translates the principal goal of paying member benefits into measurable funding objectives and risk constraints, agreed by the Trustee. The PRMF is reviewed and monitored by the Trustee on at least a quarterly basis. The Trustee's primary funding objective is to reach full funding on the Technical Provisions basis, with a long term target of moving towards being fully funded on a Gilts +0.25% liability valuation basis by 2033 if possible. In setting the investment strategy, the Trustee aims to:

- Target an expected return on assets close to that required to meet the funding objectives within the PRMF;
- Manage the investment risk including that arising due to mismatch between assets and liabilities and limit the total risk on the Scheme below the risk budget set in the PRMF;
- Maintain suitable liquidity of assets such that the Scheme is not forced to buy and sell investments at particular times to pay member benefits or meet potential collateral calls.

Following the triennial scheme valuation which took place as at 31 March 2015, the Society as principal employer agreed, on behalf of participating employees, to make a one-off payment of £7,500,000 followed by monthly deficit reduction contributions of £416,667 from October 2016 until 31 March 2025 to meet the statutory funding objective*. In addition to these funding contributions, the Society continues to make payments of £163,005 per month towards the regular expenses of administering the defined benefit section of the Scheme plus payments equal to the pension protection fund (PPF) levies. The next formal valuation of the Scheme is due no later than 31 March 2018.

* The statutory funding objective is that the Scheme must have 'sufficient and appropriate' assets to meet the expected costs of providing members past service benefits.

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 2016	41	40	128	2,219	2,428

The weighted average duration of the gross defined benefit obligation is 21 years.

The expected contributions to the scheme for the year ending 31 December 2017 are £7m.

Notes to the Financial Statements continued

Year ended 31 December 2016

38. Pension benefit asset/(obligation) (continued)

(III) Ockham Scheme

a) Information about the scheme

The final salary section of the Ockham scheme 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.

	2016 £m	2015 £m
b) Net Statement of Financial Position		
Present value of defined benefit obligation	(143)	(122)
Fair value of plan assets	163	119
Pension benefit asset/(obligation) at the end of the year	20	(3)

	Present value of obligation £m	Fair value of plan assets £m	Total £m
c) The movement in the net defined benefit asset/(obligation) over the year is as follows:			
At 1 January 2016	(122)	119	(3)
Pension costs:			
Interest (expense)/income	(5)	5	–
	(5)	5	–
Re-measurements:			
– Return on plan assets, excluding amounts included in interest (expense)/income	–	20	20
– Loss from changes in financial assumptions	(27)	–	(27)
– Experience gains	6	–	6
	(21)	20	(1)
Other movements:			
– Contributions by employer	–	24	24
– Benefits paid	5	(5)	–
	5	19	24
At 31 December 2016	(143)	163	20
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)

Notes to the Financial Statements continued

Year ended 31 December 2016

38. Pension benefit asset/(obligation) (continued)

(III) Ockham Scheme (continued)

d) Principal assumptions used

	2016	2015
Discount rate	2.80%	3.90%
RPI inflation	3.30%	3.10%
CPI inflation	2.30%	2.10%
Rate of increase in pensions in payment		
– RPI price inflation capped at 5% pa	3.30%	3.10%
– linked to inflation	3.30%	3.10%
– fixed rate	in line with scheme rules	in line with scheme rules
Rate of (non-guaranteed minimum pension) increases in deferment	2.30%	2.10%
Cash commutation – Deferreds	20%	20%
Scheme member valuation date	31 March 2015	31 March 2015

The discount rate and inflation rate assumptions for 2016 and 2015 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, but using Ockham specific individual base tables.

Future life expectancy assumptions (in years) as at 31 December

	2016	2015
Pensioner (currently aged 65)	23.7	23.6
– Male	24.9	24.8
– Female		
Non-pensioner (at age 65, currently aged 45)		
– Male	24.9	24.9
– Female	26.7	26.7

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 £13m (9%)
RPI rate	Decrease by 0.5%	Decrease by £7m (5%)
Life expectancy	Increase by 1 year	Increase by £6m (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.

Notes to the Financial Statements continued

Year ended 31 December 2016

38. Pension benefit asset/(obligation) (continued)

f) Plan asset information

Plan assets are comprised as follows:

	2016				2015			
	Quoted £m	Unquoted £m	Total £m	%	Quoted £m	Unquoted £m	Total £m	%
Equities and unit trusts	68	–	68	42	36	–	36	30
Debt securities	90	–	90	55	81	–	81	68
Derivative swaps	–	2	2	1	–	(1)	(1)	(1)
Cash and cash equivalents	3	–	3	2	3	–	3	3
	161	2	163	100	120	(1)	119	100

In determining and reviewing the Scheme's investment strategy, the Trustee adopts an objectives based approach. This translates the principal goal of paying member benefits into measurable funding objectives and risk constraints, agreed by the Trustee. These objectives are reviewed and monitored by the Trustee on a regular basis.

The Trustee's primary funding objective is to reach full funding on the Technical Provisions basis, with a long term target of moving towards being fully funded on a Gilts +0.50% liability valuation basis by 2034 if possible. In setting the investment strategy, the Trustee aims to:

- Target an expected return on assets close to that required to meet the funding objective;
- Manage the investment risk including that arising due to mismatch between assets and liabilities and limit the total risk on the Scheme below the risk budget;
- Maintain suitable liquidity of assets such that the Scheme is not forced to buy and sell investments at particular times to pay member benefits or meet potential collateral calls.

Following the triennial scheme valuation which took place as at 31 March 2015, the Society as principal employer agreed, on behalf of participating employees, to make a one-off payment of £24m to meet the statutory funding objective*. The contingent asset of £24m which existed over certain assets of the Group which were charged to the Ockham Pension Trustee Limited as part of its deficit funding arrangements has been cancelled.

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.

* The statutory funding objective is that the Scheme must have 'sufficient and appropriate' assets to meet the expected costs of providing members past service benefits.

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 2016	2	5	16	218	241

The weighted average duration of the defined benefit obligation is 18 years.

No contributions are expected to be made to the Ockham pension scheme for the year ending 31 December 2017.

Notes to the Financial Statements continued

Year ended 31 December 2016

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.

39. 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 £m	Society £m
Balance at 1 January 2016	10	9
Provided during the year	5	5
Released during the year	(1)	(1)
Utilised during the year	(2)	(2)
Balance at 31 December 2016	12	11

Provisions relate to:

	Group		Society	
	2016 £m	2015 £m	2016 £m	2015 £m
Payment protection insurance	6	5	6	5
Onerous contracts on property leases	2	3	2	3
Compensation payable on customer complaints	1	1	1	-
Other	3	1	2	1
	12	10	11	9

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. Given the assumptions made it is expected that up to £2m of payments will be set against this provision during 2017, with the remainder of the provision utilised within three years.

Notes to the Financial Statements continued

Year ended 31 December 2016

40. 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 2016 was £62m), 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.

The Society has granted a guarantee to the trustees of the Teachers Assurance Group Pension Scheme, to guarantee the payment of certain contributions and payments to the scheme by Teachers Management Services Limited (TMS).

TMS, a subsidiary of the Society, is the principal employer for the Scheme. Under the Instrument of Transfer executed by the Society and Teachers Provident Society Limited on 6 May 2016 (and effective from 1 June 2016) the Society has the ability to charge all liabilities relating to the scheme to the Teachers Assurance fund, a closed fund within the Society.

The Society has granted a guarantee to the landlord of one of its leased properties, to guarantee that the tenant, Frizzell Financial Services Limited, a subsidiary of the Society, shall pay the rents reserved by the lease and observe and perform the tenant covenants of the lease and that if the tenant fails to do so, the Society shall pay or observe and perform them.

The Society has provided a guarantee in relation to a mortgage purchase agreement between its subsidiary LV Equity Release Limited and Phoenix Life Limited. In the event that the subsidiary fails to pay any amount in connection with the agreement, the Society would cover the payment and any loss incurred by the counterparty as a result.

The Society has entered into a 5 year loan agreement with Wealth Wizards Limited, one of its subsidiaries, with a facility limit of £10m. Repayment is due by 2020 and £6m has been utilised by the borrower at 31 December 2016 (2015: £1m).

41. 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 the minimum lease payments at the inception of the lease. 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.

	Group		Society	
	2016	2015	2016	2015
	£m	£m	£m	£m
Capital commitments	17	22	17	22
Operating lease commitments	19	17	17	14
Finance lease commitments	20	20	–	–
Other financial commitments	57	64	51	64
	113	123	85	100

Capital commitments

Capital commitments relate to authorised and contracted commitments payable but not provided for regarding financial investment and property and equipment.

Notes to the Financial Statements continued

Year ended 31 December 2016

41. Commitments

Operating lease commitments

The Group leases various properties under non-cancellable operating lease agreements. The leases have varying terms, escalation clauses and renewal rights.

Finance lease commitments

Finance lease commitments relate to a property with a remaining lease term of 24 years. The lease is 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	2016			2015		
	Gross liability £m	Finance charge £m	Present value £m	Gross liability £m	Finance charge £m	Present value £m
Minimum lease payments						
Within one year	1	–	1	1	–	1
Between one and five years	5	(3)	2	5	(3)	2
Over five years	23	(6)	17	24	(7)	17
	29	(9)	20	30	(10)	20

Other financial commitments

The Group has entered into several long-term contracts following service outsourcing which will end no later than 2021. These contracted commitments have not been provided for in the financial statements.

Notes to the Financial Statements continued

Year ended 31 December 2016

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.

42. 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 Limited* (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* (Note 1)	General insurance holding company	100%	0%
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 2)	Dormant	100%	0%
Wealth Wizards Limited	IT software	70%	30%
Wealth Wizards Benefits Limited* (Note 1)	Financial intermediary	100%	0%
Opal IFA Limited* (Note 2)	Dormant	100%	0%
Wealth Wizards Advisers Limited* (Note 1)	Financial intermediary	100%	0%
Liverpool Victoria Banking Services Limited (Note 2)	Dormant	100%	0%
Teachers Property Limited (Note 1)	Property services	100%	0%
Teachers Financial Services Limited (Note 1)	Insurance and financial intermediary	100%	0%
Teachers Assurance Company Limited	General insurance	100%	0%
Teachers Management Services Limited (Note 1)	Management services	100%	0%
Sovereign Unit Trust Managers Limited	Portfolio manager	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 (Note 2)	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 2016. 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 2016. 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 2016

42. 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 interests in respect of Wealth Wizards Limited is not material.

Significant restrictions

There are no significant restrictions in place regarding any of the subsidiaries.

43. Associates and joint ventures

The associates and joint ventures of the Society at 31 December 2016 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	*	31/03/2016	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 2016.

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. For the year ended 31 March 2016, the Great Victoria Partnership transitioned from UK GAAP to IFRS reporting and as such the 2015 comparatives reported have been restated to an IFRS basis. 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 2016

43. Associates and joint ventures

	31 March 2016 £m	31 March 2015 £m
Summarised Statement of Financial Position		
Assets		
Non-current		
– Investment properties	294	271
Current		
– Other assets	15	15
	309	286
Liabilities		
Non-current		
– Financial liabilities	(79)	(79)
Current		
– Other liabilities	(5)	(5)
	(84)	(84)
Net assets	225	202
Partners' capital	49	49
Retained earnings	176	153
Total partners' funds	225	202

	31 March 2016 £m	31 March 2015 £m
Summarised Statement of Comprehensive Income		
Net rental income	11	10
Revaluation surplus on investment properties	23	25
Operating profit	34	35
Finance costs	(3)	(3)
Profit for the year	31	32

44. 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 judgement

Consolidation of Open Ended Investment Companies

OEICs are structured entities as the relevant activities are directed by contractual arrangements rather than by voting rights. Management have applied judgement in determining whether the Group has control over an OEIC.

Where the Group is the dominant investor in an OEIC, the portfolio of funds that the OEIC invests in is directly influenced by the types of funds that the Group chooses to invest in. The Group is exposed to variable returns arising from the investments held in an OEIC and as a result of its dominant investor position has the ability to affect the variable returns from the OEIC.

Management have therefore concluded that the Group has control over the OEICs disclosed on the following page.

Notes to the Financial Statements continued

Year ended 31 December 2016

44. Consolidated structured entities: Open ended investment companies (continued)

The Open Ended Investment Companies (OEICs) of the Society and Group at 31 December 2016 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	31/12/2016	97%	3%
which consists of:				
Threadneedle European ex-UK Growth Fund			99%	1%
Threadneedle Japan Growth Fund			100%	0%
Threadneedle Pacific ex-Japan Growth Fund			100%	0%
Threadneedle UK Equity Income Fund			98%	2%
Threadneedle UK Growth Fund			87%	13%

The Group is not required to provide financial support to the OEICs nor has it any intention of providing financial support.

During the year the Group divested its stake in the Threadneedle Investment Funds III ICVC which was reinvested in larger OEIC funds where the Group is no longer the dominant investor. These new OEIC investments have not been consolidated within the Group and have been disclosed as part of the unconsolidated structured entities within Note 45.

Non-controlling interest

The total Group non-controlling interest for the year is £28m (2015: £220m), of which £28m (2015: £43m) is for Threadneedle Investment Funds II ICVC and £nil (2015: £177m) is for Threadneedle Investment Funds III ICVC.

The summarised Statement of Financial Position on the following page gives additional disclosures on the non-controlling interests.

Significant restrictions

There are no significant restrictions in place regarding any of the OEICs above.

Summarised financial information on subsidiaries with material non-controlling interests

Set out on the following page 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 (2016 and 2015) and Threadneedle Investment Funds III ICVC (2015 only).

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.

Notes to the Financial Statements continued

Year ended 31 December 2016

44. Consolidated structured entities: Open ended investment companies (continued)

Summarised Statement of Financial Position	2016 £m	2015 £m
Assets		
Financial assets at Fair value through income	861	2,027
Loans and other receivables	3	30
Cash and cash equivalents	10	45
Total assets	874	2,102
Liabilities		
Trade and other payables	(2)	(24)
Total liabilities	(2)	(24)
Net assets	872	2,078

Cash and cash equivalents comprise	2016 £m	2015 £m
Bank balances	10	26
Short-term bank deposits	-	19
Cash and cash equivalents	10	45

Summarised Statement of Comprehensive Income	2016 £m	2015 £m
Net gains on investments	64	3

Movements on net assets comprises Net gains on investments of £64m (2015: £3m), plus reserve movements which relate to funds repaid/received for the cancellation/issue of units.

45. 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 2016 the Group's interest in unconsolidated structured entities, which are classified as investments held at fair value through profit or loss, are shown below:

Investment	2016 £m	2015 £m
Open Ended Investment Companies	4,139	1,709
Unit trusts	293	229
Liquidity funds	438	493
	4,870	2,431

Included within the above are £2,408m (2015: £1,651m) 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.

46. Business combinations

Accounting for Teachers Provident Society acquisition

Management applied judgement in reaching the conclusion that the acquisition of Teachers Provident Society (TPS) should be accounted for as a business combination. This was on the basis that there was a transfer of engagements resulting in LV= acquiring the business and TPS members transferring to LV=.

Teachers Provident Society Limited

On 1 June 2016 the Society acquired the entire long-term business and all the assets and liabilities of Teachers Provident Society Limited ('Teachers') and its' subsidiary undertakings by way of a transfer of engagements undertaken in accordance with Section 86 of, and Schedule 15 to, the Friendly Societies Act 1992. No cash consideration was payable in respect of this transfer.

Notes to the Financial Statements continued

Year ended 31 December 2016

46. Business combinations (continued)

As part of the Transfer of Engagements, a Ring Fenced Fund was established to house the transferred With-Profits business (the 'TA Fund'). Immediately afterwards, the Society purchased the non-profit business of Teachers and all of its subsidiary undertakings from the TA Fund with the exception of Sovereign Unit Trust Managers Limited. The cash consideration for this purchase, paid on completion of the transfer of engagements, was £26m. This figure is however subject to post-completion adjustment in accordance with the Instrument of Transfer.

Both the transfer of engagements and subsequent purchase of the non-profit business and subsidiary companies have been accounted for as an acquisition under IFRS 3. These transactions resulted in an excess of fair value of net assets acquired over the consideration of £3m as shown in the table below. This gain has been recognised in the Statement of Comprehensive Income as 'Gain arising on Teachers acquisition'.

	£m
Total purchase consideration	26
Less: fair value of net assets acquired	(29)
Excess of fair value of net assets acquired over consideration paid	(3)

Under the terms of the transfer the TA Fund will be maintained in accordance with an agreed charging structure for administration services until 1st June 2027. The Society is expected to be able to administer the Teachers funds for less than the agreed charging structure, thereby generating future profits for the Society's With-profits fund. The value of the discounted future profits was estimated at £2m and booked as an intangible asset. No consideration was paid for this asset resulting in the majority of the gain on acquisition.

The TA Fund is closed to new business. The Teachers non-profit business acquired by the Society is also closed to new business with the exception of existing pension policies that have the option of a Teachers annuity. On renewal Teachers general insurance customers are being invited to renew directly with the LV= general insurance business. The value of customer lists acquired was estimated at £4m and booked as an intangible asset. Consideration of £4m was paid to the teachers ring-fenced fund for this asset.

The results of the acquired Teachers business have been incorporated into the results of the Group from the date of acquisition, contributing £61m to Group total income and £9m profit to the Group loss before tax, mutual bonus and UDS transfer.

The fair values of assets acquired and liabilities assumed at the date of the acquisition were:

Assets	£m
Intangible assets	10
Property and equipment	4
Investment properties	5
Reinsurance assets	15
Prepayments and accrued income	4
Loans and other receivables	13
Insurance receivables	2
Financial assets at fair value through income	697
Cash and cash equivalents	38
Total assets	788
Liabilities	
Participating insurance contract liabilities	222
Participating investment contract liabilities	120
	342
Non-participating insurance contract liabilities	173
Non-participating investment contract liabilities	239
Corporation tax liability	2
Deferred tax liability	2
Trade and other payables	1
Total liabilities	759
Fair value of net assets acquired	29

Transaction costs of £1m were incurred in respect of the acquisition and have been included within the Statement of Comprehensive Income within 'Other operating and administrative expenses' in the year in which they were incurred.

Notes to the Financial Statements continued

Year ended 31 December 2016

47. 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	
	2016 £m	2015 £m	2016 £m	2015 £m
Balance at 1 January	1,101	959	1,036	893
Transfer included within (loss)/profit for the year	(101)	91	(15)	92
Transfer included within other comprehensive income	(2)	51	(2)	51
Balance at 31 December	998	1,101	1,019	1,036

Notes to the Financial Statements continued

Year ended 31 December 2016

Other disclosures

This section details other disclosure matters, comprising: related party transactions, directors' emoluments, with-profits actuary details and other relevant Society information.

48. 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	
	2016 £'000	2015 £'000
Short-term employment benefits	6,016	8,415
Other long-term benefits	2,999	41,138
Post-employment benefits	103	126
Termination benefits	1,348	–
Total compensation of key management personnel	10,466	49,679

Included within Other long-term benefits in 2015 were £39.4m of benefits due to key management personnel arising from the general insurance share scheme that crystallised in 2015. This amount was settled in full in February 2016.

The aggregate premiums payable for the year by the Group Executive and Non-Executive Directors in respect of the Group's products was £40,978 (2015: £39,649).

b) Transactions between the Society and other Group companies

	2016 £m	2015 £m
Management charge by the Society (see note 11)	227	243
Movement in deferred margin (included within other financial liabilities)	–	29
Beneficial interest of subsidiary in loans sold to the Society	307	178
Investment expenses charge to the Society	(5)	(5)
Interest income from group undertakings	24	27
Dividend income from group undertakings	44	22

The Society performs administration and investment management activities for the entire Group. Subsidiary companies are charged fees for these services.

• Balances outstanding between the Society and other Group companies:

	2016 £m	2015 £m
Payable by the Society	(11)	(30)
Receivable by the Society	103	55
Loans owed to the Society	306	300

c) Loans to related parties

Loans owed to the Society represent two subordinated loan notes totalling £300m (2015: £300m) to LV Capital PLC issued in December 2012. These loans are disclosed within loan stock in Note 28.

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 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.

In addition to the loans above, the Society has a five year loan agreement with Wealth Wizards Limited with a facility limit of £10m (see Note 41 for further details), at 31 December 2016 £6m of this loan had been drawn down.

d) Other related party disclosure

The Society has granted a contingent loan facility to the RNPFN fund, a closed fund within the Group, a capital facility to the board of Liverpool Victoria General Insurance Group Limited and a guarantee to the Trustees of the Teachers Assurance Group Pension Scheme. Further details of these are disclosed in Note 40. The Society is the principal employer of the LV and Ockham pension schemes and provides funding contributions as disclosed within Note 38.

Notes to the Financial Statements continued

Year ended 31 December 2016

49. With-Profits Actuary

The following information has been provided in accordance with section 77 of the Friendly Societies Act 1992.

- The With-Profits Actuary of the Society throughout 2016 was Mr A Walton, who is employed by Liverpool Victoria Friendly Society Limited.
- The total emoluments of Mr Walton during the year were £227,249 (2015: £219,490) including pension contributions, car allowance and other benefits. 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.
- Mr Walton did not receive, nor will receive, any other pecuniary benefit.

50. Directors' emoluments

- Emoluments of individual directors, including emoluments of the Chairman and highest paid director were as follows for the Society:

	Annual remuneration £'000						Total remuneration £'000		
	2016			2015			2016		2015
	Salary and fees	Bonus	Deferred Bonus	Pension related benefits	Other benefits	Total	LTIP 2014-16	Total	Total
R.A. Rowney	398	368	62	87	15	930	773	236	1,166
M.J. Rogers (resigned 28 July 2016) (1)	314	38	25	69	10	456	1,373	435	891
P.W. Moore	375	27	18	52	16	488	794	259	747
S. Treloar (appointed 5 May 2016) (2)	246	200	-	34	8	488	-	488	-
M.E. Austen	184	-	-	-	-	184	181	-	184
J.B. O'Roarke (resigned 5 May 2016) (3)	103	-	-	23	5	131	616	-	131
D. Neave	79	-	-	-	-	79	70	-	79
J. Dean	77	-	-	-	-	77	70	-	77
C. Burton	73	-	-	-	-	73	69	-	73
C. Keers	70	-	-	-	-	70	69	-	70
D. Barral (appointed 7 March 2016)	51	-	-	-	-	51	-	-	51
J. Edwards (resigned 24 September 2015)	-	-	-	-	-	-	53	-	-
	1,970	633	105	265	54	3,027	4,068	930	3,957
								15,304	

(1) Mike Rogers resigned from the board on 28th July 2016. The remuneration for his period as a director is included in the table above. In addition Mike Rogers received his normal salary and benefits whilst he assisted with transition up to 31 December 2016 and a payment in lieu of notice for the 12 months to 31 December 2017. Mike Rogers remains entitled to participate in the 2015-2017 and 2016-2018 LTIP schemes on a pro rata basis to 31 December 2016. These amounts are included as 'Payments for contractual commitments on leaving office' and are disclosed in the Report on Directors' Remuneration on page 105.

(2) Steve Treloar participated in a number of incentive arrangements at his previous employer which the Remuneration Committee agreed to buy-out as part of his offer to join the Society. The total amounts due to Mr. Treloar under this arrangement are £1,245k, further details of these are disclosed in the Report on Directors' Remuneration on page 104.

(3) John O'Roarke resigned from the board on 5th May 2016. The remuneration for his period as a director is included in the table above. In addition John O'Roarke received his normal salary and benefits whilst he assisted with transition up to 31 December 2016, this is included as 'Payments for contractual commitments on leaving office' and is disclosed in the Report on Directors' Remuneration on page 105. As previously disclosed John O'Roarke received £10,126k in respect of the general insurance division Long Term Incentive Scheme that crystallised in 2015, this amount was settled in full in February 2016.

Pension related benefits include payments made to the Group's defined contribution pension scheme and payments in lieu of pension contributions. Deferred bonus represents the amount of the 2016 performance bonus payable over the next three years.

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 2016 (2015: £nil). There were £34k of contributions to the defined contribution section in 2016 (2015: £nil).

Notes to the Financial Statements continued

Year ended 31 December 2016

50. Directors' emoluments (continued)

R.A. Rowney and J.B. O'Roarke are deferred members of the defined benefit section.

	2016 £'000	2015 £'000
Deferred pension at end of year		
R.A. Rowney	31	31
J.B. O'Roarke	34	34

51. Cash generated from operating activities

	Group		Society	
	2016 £m	2015 £m	2016 £m	2015 £m
(Loss)/profit before tax, mutual bonus and UDS transfer	(49)	124	47	118
Investment income	(401)	(401)	(406)	(372)
Other interest income	(30)	(26)	-	-
Net (gains)/losses on investments	(1,006)	282	(1,016)	236
Finance costs	24	24	23	23
Gain on Teachers Acquisition	(3)	-	(3)	-
Net (increase)/decrease in derivatives	(7)	(9)	(7)	32
Non-cash items				
(Decrease)/increase in provisions and pension obligations	(32)	(1)	(32)	1
Impairment write-offs in subsidiaries	-	-	3	11
Mutual bonus	(17)	(27)	(17)	(27)
Other	9	9	3	3
Changes in working capital				
(Increase)/decrease in loans and receivables	(201)	41	(66)	14
Increase in reinsurance assets	(185)	(387)	(94)	(127)
(Increase)/decrease in insurance receivables	(30)	(41)	4	(2)
(Increase)/decrease in other prepayments and accrued income	-	(10)	4	(11)
Increase in participating insurance contract liabilities	805	110	804	110
Increase/(decrease) in non-participating insurance contract liabilities	729	43	476	(56)
(Increase)/decrease in non-participating value of in-force business	(3)	17	(3)	17
Increase in participating investment contract liabilities	16	2	16	2
Increase in non-participating investment contract liabilities	446	308	446	308
Increase in subordinated liabilities	1	-	-	-
Increase/(decrease) in other financial liabilities	20	(20)	21	(49)
(Decrease)/increase in insurance payables	(235)	248	(8)	6
(Decrease)/increase in trade and other payables	(45)	33	(42)	33
Cash (used in)/generated from operating activities	(194)	319	153	270

52. Valuation

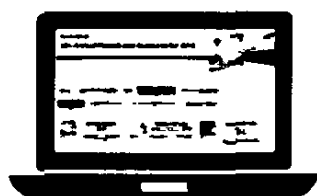
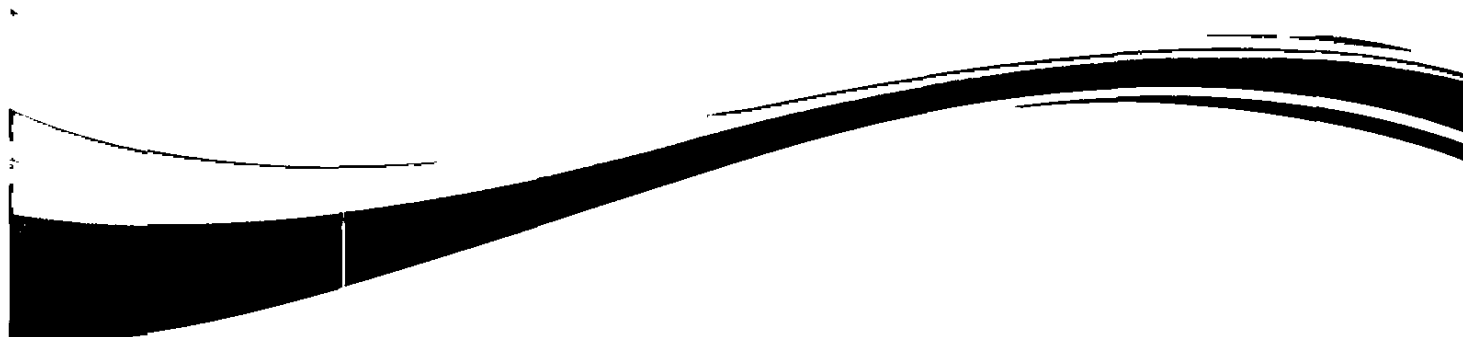
The Solvency & Financial Condition Report of the Group as at 31 December 2016 will be available on LV.com after it has been submitted to the Prudential Regulation Authority or on request from the Group Company Secretary, County Gates, Bournemouth, BH1 2NF.

53. 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 and ILAG.

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Liverpool Victoria Friendly Society Limited: County Gates, Bournemouth, BH1 2NF.

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