

Scottish Widows Limited

Annual Report and Accounts **2025**

Member of Lloyds Banking Group

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COMPANY INFORMATION**Board of Directors**

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GROUP STRATEGIC REPORT

The Directors present their Strategic Report on Scottish Widows Limited (the Company) and its subsidiary undertakings (together referred to as 'the Group') for the year ended 31 December 2025. The Company is limited by shares, and incorporated in England and Wales.

Scottish Widows was founded in 1815, and since then we have been focused on helping customers protect themselves today whilst preparing for a secure financial future. Lloyds Banking Group plc and its subsidiaries (Lloyds Banking Group) continue to invest significantly in the development of the Insurance, Pensions & Investments (IP&I) business unit which the Group is within, with the aim of becoming Britain's preferred financial partner for pensions and financial planning.

Lloyds Banking Group's purpose remains to help Britain prosper. We're creating a more sustainable and inclusive future for people and businesses, shaping finance as a force for good. The Group has a major role to play in this by:

- Supporting the financial health and wellbeing of our customers through propositions which provide immediate financial resilience such as Protection, and those such as Pensions and Investments which help prepare for the future.
- Investing our policyholder and shareholder assets in ways which enable a green recovery, generate an appropriate return and help to build an inclusive society.

Specifically, progress against strategic priorities for the IP&I business unit of Lloyds Banking Group included the following:

- Lloyds Banking Group announced the full acquisition of Schroders Personal Wealth (SPW), previously a joint venture with Schroders Group, becoming a fully owned subsidiary and now rebranding to 'Lloyds Wealth'. The full acquisition of c.60,000 clients and c.£17 billion in Assets under Administration (AuA) supports Lloyds Banking Group's ambitions for a market leading end-to-end wealth offering with financial advice offered to the wider Group's banking and workplace customer base.
- Growth in Ready-Made Investments, with c.84,000 accounts opened to date. c.40 per cent of customers under the age of 35. Launch of managed growth funds, a range of multi-asset funds at market leading ongoing fund charges, bringing institutional pricing to customers to support their long term investment goals.
- Growth of 15 per cent in open book AuA to £232 billion (31 December 2024: £201 billion) and AuA net flows of £7.9 billion, with a significant contribution from the workplace pension business. The growth was helped in part by greater collaboration and penetration across Commercial Banking clients. Excluding SPW, AuA grew 16 per cent.
- Climate-aware investments increased by £55.4 billion in 2025 driven by the launch of Scottish Widows Lifetime Investment, bringing overall investments to £81.3 billion, with the original target met at the end of 2024¹.
- Industry leading Trustpilot scores of 4.5 stars for Scottish Widows and 4.7 for Lloyds Insurance, driven by increased investment in automation, AI adoption and training, following the completion of the migration of 4 million policies to modern infrastructure.
- More than 1.75 million digitally registered Scottish Widows customers, with the core app for workplace pension customers growing by more than 75 per cent year-on-year to over 750,000 users, c.60 per cent of which are active users.
- Increased partnerships product offering with relaunch of the Group's motor insurance product through AXA and the recent launch of the Health Partnership with Vitality, helping to complement the insurance ecosystem in a low risk, low capital intensity manner.
- Captured over 14 per cent of new home insurance policy market, leveraging the Group's trusted brands and digitising customer journeys with some claims being settled in as little as five minutes².
- Increased Protection market share to 7.8 per cent (30 September 2024: 5.8 per cent) following successful launch of refreshed advisor proposition in 2024. New business IFA applications more than double those in 2024².

¹ This refers to funds that have a focus on investment in companies that are either adapting their business to reduce carbon emissions or developing solutions to address climate change. Scottish Widows Lifetime Investment has climate aware ESG-tilted indices developed in partnership with Robeco.

² Home insurance Market Share information as per internal analysis of eBenchmarkers data, Protection as per the ABI. Home Insurance Shares reflect information at 30 November 2025, Protection shares as at 30 September 2025.

Principal activities

The principal activity of the Group is the undertaking of ordinary long-term insurance and savings business and associated investment activities in the United Kingdom. The Group offers a wide range of life insurance products such as annuities, pensions, term life and investment type products through independent financial advisors, the Lloyds Banking Group network and direct sales. The Group also reinsures business with insurance entities external to the Group and Lloyds Banking Group. The Group also has freedom of services overseas through branches and subsidiaries, which administer a relatively small amount of business, principally in Germany.

GROUP STRATEGIC REPORT (continued)

Result for the Year

The result for the year ended 31 December 2025 is a Group loss after tax of £(65) million (2024 loss after tax: £(159) million). This consists of a Group profit before tax of £197 million (2024: loss before tax of £(116) million) and a taxation charge of £(262) million (2024: taxation charge of £(43) million). The result is reflective of market movements including £(222) million of market related policyholder tax within the tax charge (2024: £(137) million).

Economic Environment

The UK economy proved resilient to global challenges in 2025. Although elevated inflation and pay growth resulted in slower interest rate cuts than in the US and Eurozone, real-wages grew and households' spending growth rose. Low private sector indebtedness and high household savings provide resilience and capacity for improving growth.

Our strategy and business model position us well in both constructive and more challenging economic environments. Our transformation allied to our strong customer franchise captures opportunity by effectively meeting evolving customer needs and demands, diversifying income streams, and with greater efficiency. Refer to note 44 for further detail on shareholder asset exposures.

Climate Change

Creating a sustainable and inclusive future is core to the Lloyds Banking Group purpose of Helping Britain Prosper. Scottish Widows Limited is guided by the Lloyds Banking Group strategy which focuses on areas where we can have impact, supporting the UK's transition to net zero through lending, investments, products and services.

In 2022, Scottish Widows launched its initial climate action plan that set out a long-term strategy with actions to drive the investment portfolio towards net zero by 2050, as well as targeting by 2025, the investment of between £20 billion and £25 billion in climate-aware investment strategies. The original target was achieved at the end of 2024. At year end 2025 we have £81.3bn invested in climate aware investment strategies. This is a significant rise from what we've already achieved, driven by the launch of our new workplace proposition, Scottish Widows Lifetime Investment, which includes a higher proportion of climate aware ESG-tilted investment strategies. In 2025, Scottish Widows published an updated transition plan that outlines how climate strategy is being advanced to deliver good outcomes for customers. Scottish Widows remains committed to the ambition of achieving net zero across the investment portfolio by 2050, with the interim target of halving the carbon footprint by 2030 (relative to a 2019 baseline). The Plan shifts focus from portfolio decarbonisation towards enabling real-world emissions reduction and delivering resilient, responsible investment outcomes for customers. Further information can be found in the [Scottish Widows Transition Plan](https://www.scottishwidows.co.uk/about-us/responsibleinvestment/our-approach.html) available at <https://www.scottishwidows.co.uk/about-us/responsibleinvestment/our-approach.html>.

The Group is supportive of the Task Force on Climate-Related Financial Disclosures (TCFD) framework and related regulatory expectations. The Group has been included within the Lloyds Banking Group Sustainability Report. This report is available on the Lloyds Banking Group website at www.lloydsbankinggroup.com/sustainability.

The Company is subject to the requirements of the FCA's Environmental, Social and Governance sourcebook (the sourcebook) and must therefore publish its own entity level TCFD aligned report which complies with the sourcebook requirements. The report, which will contain metrics as at the 2025 year-end, will be published on the Scottish Widows website at www.scottishwidows.co.uk/climatereport prior to 30 June 2026. Product level reporting will also be published on the Scottish Widows website, offering climate related information on customer funds.

The Group and Company have taken advantage of the exemption from the Companies (Strategic Report) (Climate-related Financial Disclosure) Regulations 2022 reporting requirements in respect of their own Strategic Report, as the required disclosures are included in the annual report and accounts of the ultimate parent company, Lloyds Banking Group plc, available at www.lloydsbankinggroup.com/investors/financial-downloads.html.

Governance

Given the strategic importance in managing the impacts of climate change, the Group's governance structure provides clear oversight and ownership of the sustainability strategy and management of climate-related risk.

Governance for climate-related risks has been embedded into the existing governance structure, which is supported by the governance within the wider Lloyds Banking Group's sustainability strategy. The Insurance Board as a whole is responsible for sustainability within IP&I. Key boards and committees meet regularly through the calendar year. In 2024, the Responsible Business Executive Committee was disbanded, supporting the transfer of its sustainability and responsible investment responsibilities within the broader Insurance Board and IP&I executive committee governance.

The Group has a well-established and robust risk management framework used to identify, measure, monitor, manage and report the risks faced by the business. Climate risk is managed using this framework, consistent with all other risks.

GROUP STRATEGIC REPORT (continued)

Governance (continued)

Climate risk is a key area of focus for the Group, specifically the risk of experiencing losses and/or reputational damage, either from the impacts of climate change and the transition to net zero or as a result of the Group's response to tackling climate change. The impacts from climate risk largely manifest through other principal risks that the Group faces, therefore consideration of climate-related risk is integrated into some of our wider risk management processes. Principal risks and uncertainties are discussed in note 44.

Strategy

The Group's position as a large investor presents an opportunity to participate in and influence the transition to a low carbon economy for the long-term benefit of customers and society. The Group has set goals to target a 50 per cent reduction in the carbon intensity of the investment portfolio (across customer and shareholder funds) by 2030 on a path to 'net zero' by 2050. Figures for year end 2025 will be finalised and published by 30 June 2026 on the Scottish Widows website (at www.scottishwidows.co.uk/climatereport). As at the end of 2024, the SWG carbon footprint was 55.2 tCO₂/£m, down from our 2019 baseline of 116.1 tCO₂/£m, which represents a 52 per cent decrease. Whilst financed emissions continued to decline over 2024, the more significant driver of the fall in footprint was the rise in the market value of the investment portfolio in line with market performances over the year. We note that any reversal of performance trends can be expected to have an opposite impact on portfolio footprint to date. We consider the long-term trend of our carbon footprint to avoid the impact of short-term market volatility on results and decision making. The Group also backs climate solutions for real-world impact, and the use of engagement and shareholder voting power to drive companies to make the changes necessary. Further detail can be found in the Scottish Widows Transition Plan (available on our website, at <https://www.scottishwidows.co.uk/about-us/responsibleinvestment/our-approach.html>), published in October 2025. The Scottish Widows section of the Lloyds Banking Group Sustainability Report, available on the Lloyds Banking Group website at www.lloydsbankinggroup.com/investors/esg-information, outlines the progress we have made.

Climate related scenario analysis is an evolving area that is important to the business and will be used to produce outputs that aid the understanding of climate risk. The Group has developed a climate scenario analysis model to inform such insight. We regularly review our strategy using scenario analysis to assess its resilience. While climate science itself is very well developed, any analysis of the economic and financial impacts of climate risk involves a measure of subjectivity and simplification, so there is a relatively wide margin of uncertainty in these impacts. This type of modelling is therefore only one of several components of our climate risk management process and is not acted upon in isolation.

Metrics & Targets

Climate-related metrics form part of the Group's regular reporting to the Board, not just for disclosures but also for internal risk management. Expanded internal metrics are regularly reported for monitoring progress of the net zero transition.

The portfolio's "carbon footprint" is the principal metric for measuring financed emissions and monitoring progress toward the 2030 target and 2050 net zero ambition. The footprint is the total tonnes of carbon dioxide equivalents (CO₂e) "owned" by the portfolio and scaled by £million invested. Measurement initially includes the Scope 1 and 2 (i.e. operational) emissions of investee companies.

GROUP STRATEGIC REPORT (continued)**Key performance indicators**

The key performance indicators presented reflect the Group's most important priorities, including measures for assessing financial and non-financial performance and balancing the interests of various stakeholders, including customers, shareholders and colleagues of Lloyds Banking Group.

Under IFRS 17, profit is deferred through the contractual service margin (CSM) and the risk adjustment, which are both held on the balance sheet. CSM is released as insurance contract services are provided; risk adjustment is released as uncertainty within the calculation of the liabilities diminishes.

Following adoption of IFRS 17, management monitor the composition of this measure of deferred profit, as shown in the table below. Amounts are presented net of reinsurance.

	2025			2024			Change Total £m
	CSM	Risk adjustment	Total	CSM	Risk adjustment	Total	
	£m	£m	£m	£m	£m	£m	
At the start of the reporting period	4,047	822	4,869	3,813	1,086	4,899	(30)
New business							
of which: annuities	11	5	16	53	10	63	(47)
of which: pensions and investments	41	43	84	24	47	71	13
of which: protection and other	(22)	6	(16)	(20)	4	(16)	—
	4,077	876	4,953	3,870	1,147	5,017	(64)
Release to income statement	(560)	(45)	(605)	(416)	(52)	(468)	(137)
Other	753	74	827	593	(273)	320	507
At the end of the reporting period	4,270	905	5,175	4,047	822	4,869	306

The table below shows the total new business value of insurance and participating investments contracts, and reinsurance contracts recognised in the year. This includes the CSM and risk adjustment shown above plus the inclusion of losses recognised on initial recognition.

	2025 £m	2024 £m	Change £m
New business value of insurance and participating investment contracts, and reinsurance contracts recognised in the year			
Of which: deferred through CSM and risk adjustment	84	118	(34)
Of which: losses recognised on initial recognition	(14)	(19)	5
	70	99	(29)

For a definition and a reconciliation of the above KPI to the appropriate measure presented within the financial statements, see note 32.

The above table does not include CSM or risk adjustment balances allocated to disposal group assets and liabilities. Further details are provided in note 47.

Funds under management

Funds under management relating to policyholder liabilities were £188.0 billion (2024: £171.0 billion). The movement reflects net inflows and market gains during the year.

GROUP STRATEGIC REPORT (continued)**Key performance indicators (continued)***Solvency II*

Implementation of the Solvency UK Reforms was completed in 2024. From 31 December 2024 the Solvency UK framework replaced Solvency II in the UK, enhancing certain areas of regulation for Insurance companies. For clarity and in line with Policy Statement PS15/24 from the PRA, we will continue to use the term "Solvency II" as modified by the PRA's 2024 reforms instead of "Solvency UK" throughout.

Our business model has exposure to a portfolio of risk types which delivers a significant capital benefit through risk diversification allowed under Solvency II. An Internal Model is used to calculate the Solvency Capital Requirement (SCR) taking account of the specific risks to which the Company is exposed. A Matching Adjustment is applied, resulting in a beneficial impact on the level of regulatory capital held in relation to annuities business.

During the year, the Group has delivered Solvency II reporting including full annual quantitative reporting as at 31 December 2024, as well as the narrative reporting required by Solvency II. The Company has a waiver from the Prudential Regulation Authority (PRA) exempting it from preparing a solo Solvency and Financial Condition Report (SFCR) for each Insurance entity. Instead, in April 2025, the Company reported publicly through a Group SFCR for Scottish Widows Group Limited. The next SFCR will be published in April 2026.

The Directors believe that the Company currently has adequate capital resources and will continue to do so in the foreseeable future. On a Solvency II basis the regulatory surplus of the Company in excess of capital requirements is £1.2 billion (2024: £1.4 billion, net of a £60 million foreseeable dividend paid in February 2025).

The Solvency II ratio for SWG of 144 per cent (post dividend equivalent ratio for 2024: 156 per cent) represents the shareholder view of Solvency II surplus. The equivalent ratio for the Company is 146 per cent while the Regulatory Solvency Ratio included in the SFCR is 142 per cent (2024: 150 per cent and 144 percent respectively).

Generation of capital surplus

	Eligible Own Funds £m	SCR £m	Solvency Surplus £m
As at 31 December 2024	4,738	3,291	1,447
Regulatory and other model changes	9	1	8
Operating impacts:			
New business contribution ¹	87	168	(80)
Expected in-force contribution ¹	244	(135)	379
Assumption changes and experience variances ²	(77)	(84)	7
Debt costs ¹	(37)	—	(37)
Market variances ³	(78)	113	(191)
Tax profile change ⁴	(351)	(218)	(134)
Material miscellaneous items ⁵	(155)	(158)	3
Capital management ⁶	(155)	—	(155)
As at 31 December 2025	4,225	2,978	1,247

- Expected earnings on in-force business generated significant surplus capital in 2025, through both generation of Own Funds and run-off of the SCR. This was used in part to fund investment in new business and to cover debt costs.
- Assumption changes and experience variances are primarily driven by policy persistency and expenses.
- Market variances resulted in a decrease in Solvency Surplus due to a number of market factors including interest rates, equity markets, gilt spread movements and credit spread movements.
- Tax profile change; recognition of policyholder tax following utilisation of historic excess expenses.
- Material miscellaneous items comprise a number of items including the year end With Profits full recalculation, hedge rebalancing and the completion of the sale of the bulk annuity book.
- Capital management includes dividends of £155 million (March: £20m, July: £135m) paid to Scottish Widows Group Limited in 2025. It does not include the £60 million dividend paid in February 2025 as this was in respect of 2024 and is included in the 31 December 2024 position in the table above.

GROUP STRATEGIC REPORT (continued)**Key performance indicators (continued)**

Comparison of Group total equity to Solvency II own funds

Group Total Equity is as shown on the Balance Sheet on page 36.

	31 December 2025	31 December 2024
	£m	£m
Group total equity per the Balance Sheet	(195)	86
Adjustment to subsidiary values included in Solvency II own funds	181	186
Company total equity per the Balance Sheet	(14)	272
Valuation differences to Solvency II		
Intangible assets not valued in Solvency II (see note a)	(46)	(50)
Replace insurance and participating investment contract liabilities and non-participating investment contract liabilities with Solvency II best estimate liabilities (see note b):	6,855	7,100
Revalue investment in subsidiaries for Solvency II (see note c)	(90)	(136)
Subordinated debt contributing to capital under Solvency II (see note d)	(27)	(20)
Deferred tax (see note e)	(1,089)	(1,236)
Other	(2)	(3)
Solvency II excess of assets over liabilities	5,587	5,928
Movements from assets over liabilities to own funds (see note f)	(1,362)	(1,190)
Regulatory eligible own funds	4,225	4,738

Notes:

- a. Intangible assets including Deferred Income Reserve are not recognised under Solvency II.
- b. The difference between Solvency II Best Estimate Liabilities and IFRS Liabilities (in respect of Insurance, participating investment and non-participating investment contracts, Future Profits on non-participating business in the With Profit Fund and the Unallocated Surplus).
- c. The difference between Solvency II and IFRS valuation of subsidiaries. Under Solvency II, subsidiaries are recognised at their underlying balance sheet value, while under IFRS, some subsidiaries are recognised at cost.
- d. The difference within the Solvency II and IFRS valuation of subordinated debt.
- e. Deferred tax timing differences in relation to the valuation differences set out above.
- f. Subordinated debt less ring-fenced assets which cannot be used to cover capital requirements.

GROUP STRATEGIC REPORT (continued)**Key performance indicators (continued)**

The following table sets out the quality of eligible own funds of the Company

Tier 1 Own Funds decreased over 2025 primarily due to dividends, recognition of policyholder tax following utilisation of historic excess expenses, market volatility and the sale of the Company's bulk annuity business, offset by earnings from in-force business. Tier 2 Own Funds have not materially changed. The Company holds material investments in liquid assets, which could, if necessary, be realised within three months. The amount of liquid assets held is greater than the Own Funds in excess of capital requirements (£1.2 billion).

	31 December 2025	31 December 2024
Regulatory Eligible Own Funds	£m	£m
Tier 1 unrestricted	3,660	4,174
Tier 2	565	564
Total	4,225	4,738

Liquidity

The Company regularly monitors its liquidity position to ensure that, even under stressed conditions, the Company has sufficient liquidity to meet its obligations and remain within the approved risk appetite. During 2025, the Company's excess liquidity position increased, with a corresponding increase in the liquidity coverage. As at 31 December 2025 the Company had liquidity coverage of 142 per cent (2024: 132 per cent). This increase was primarily driven by equity hedge rebalancing, partially offset by market movements during the year. Liquidity coverage is defined as the comparison of available liquid assets, net of known cash flows, against 1-in-200 scenario stressed cash flows and 1-in-200 scenario liquidity risks. Liquidity methodology and reporting is compliant with Solvency II.

Non-financial KPIs

The Directors consider non-financial KPIs in respect of the Group's strategic priorities. Where relevant, non-financial KPIs are presented below against the strategic priorities presented in this report.

	2025	2024
Customer satisfaction (Trustpilot rating)	4.5	4.3
Customer complaints (FCA reportable complaints per 1,000 policies - scores align to latest Company biannual returns)	1.17	1.95
Colleague engagement index (% favourable - represents Insurance, Pensions & Investments division index)	66	62

Over the last year we've strengthened service resilience through increased colleague capacity, digital enhancements, and end-to-end journey improvements, which have contributed to better customer outcomes and more consistent service levels. This is reflected in our continued strong Trustpilot scores and a major reduction in complaints with volumes down circa 28 per cent for SW Ltd in 2025 versus 2024. Our future focus is on continuing to simplify processes, through initiatives such as Customer Service Vision, and to deliver increased automation and digitisation to our customers journeys, for example straight through claims processing. Key themes for our colleague engagement index were performance and accountability, change management and simplicity.

Other Sources where KPIs are presented

The Group also forms part of the IP&I Division of Lloyds Banking Group. The development, performance and position of the IP&I Division are presented within Lloyds Banking Group's Annual Report, which does not form part of this report.

The Directors consider that the above are the key performance indicators which are appropriate to the principal activity of the Group. These, together with other metrics which cover customer, operational measures and capital, are included in the balanced scorecard which is used to measure all aspects of the performance of the business. In addition, the Directors are of the opinion that the information contained in the Company's Solvency II reporting on capital resources and requirements and regular actuarial reports, in conjunction with the information presented in the financial statements as a whole, provide the management information necessary for the Directors to understand the development, performance and position of the business of the Company and the Group.

GROUP STRATEGIC REPORT (continued)

Review of the business

In addition to the progress made against the strategic initiatives summarised earlier there are other areas that are worthy of note and these are described below. Decisions taken in the areas described below and in pursuit of our strategy are brought to the Board for due consideration and approval.

Disposal of bulk annuity business

On 13 March 2024, the Group entered into a business transfer agreement with Rothesay Life plc for the sale of the Group's in-force bulk annuity business and to pursue the transfer of associated business assets and assumed liabilities under Part VII of the Financial Services and Markets Act 2000. A reinsurance agreement between the Group and Rothesay Life plc was signed on 30 April 2024 to materially de-risk the Group's bulk annuity portfolio. Ahead of entering into the reinsurance agreement, a portion of the previously issued pension contracts were recaptured by the respective scheme trustees and the Group's obligations under those contracts were extinguished. During 2024, the Group derecognised £855 million of bulk annuity contracts, net of reinsurance, which were consequently not reinsured under the agreement with Rothesay, and derecognised £828 million of assets, leading to a gain of £27 million, net of reinsurance.

On 11 June 2025 the Part VII business transfer was completed following approval by the High Court, through a process in which regulators and policyholders were given the opportunity to object. The sale of the in-force bulk annuity portfolio will enable the Group to focus on growing strategically important lines of business.

At the Part VII transfer date, the Group derecognised reinsurance contract assets of £4,882 million (comprising present value of future cash flows of £4,596 million, risk adjustment of £36 million and CSM of £427 million), insurance contract liabilities of £5,061 million (comprising present value of future cash flows of £4,689 million, risk adjustment of £36 million and CSM of £544 million) and a £9m deferred tax asset. The overall pre-tax gain on derecognition of the disposal group was £170 million. Further details are provided in note 47.

Migration of policy administration to outsourced partners

The outsourcing contract with Diligenta was signed on 19 September 2017 with the purpose of providing improvements in customer experience for closed book customers. The final migrations as part of this project were executed in 2025 and we exited the warranty period on 25th November 2025.

Outlook

The Directors consider that the Group's principal activities will continue to be unchanged in the foreseeable future.

Principal risks and uncertainties

Risks and uncertainties to our strategic plan, both positive and negative, are considered through the planning process. The following table describes the principal risks faced by the Group. Further details on financial risks and how the Group mitigates them can be found in note 44, as shown by the note reference.

GROUP STRATEGIC REPORT (continued)**Principal risks and uncertainties (continued)***Financial risks*

Principal Risk	Note reference	Description
Market risk	44(a)	Market risk is the risk that the Group's capital or earnings profile is adversely affected by changes in market rates or prices. Of particular importance to the Group are equity, credit default spreads, interest rates and inflation for assets backing insurance business, mitigated by the Market Risk Policy and the Insurance Asset & Liability Management Policy. External rates are outside of the Group's control, and mitigated by holding sufficient financial reserves to cover reduced earnings, and using hedging strategies (see note 24).
Insurance underwriting risk	44(b)	Insurance underwriting risk is defined as the risk of adverse developments in liabilities due to: timing, frequency and severity of claims for insured/underwritten events; customer behaviour; and expense costs. Specific risks include mortality risk, morbidity risk, persistency risk and longevity risk. To mitigate insurance underwriting risk, the Group uses underwriting, reinsurance, pricing-to-risk, claims management, product design and policy wording.
Credit risk	44(c)	Credit risk is the risk that parties with whom we have contracted, fail to meet their financial obligations. The Group is subject to credit risk through a variety of counterparties e.g. invested assets used to back annuity business, cash in liquidity funds and bank accounts, derivatives and reinsurance. Credit risk is mitigated by the Credit Risk Policy framework, which ensures exposures are appropriately monitored and action taken where necessary.
Capital risk	44(d)	<p>Capital risk is defined as the risk that an insufficient quantity or quality of capital is held to meet regulatory requirements or to support business strategy, an inefficient level of capital is held or that capital is inefficiently deployed across the Group. Capital, which includes regulatory capital for the Company and regulated subsidiaries, comprises all components of equity and subordinated debt.</p> <p>The PRA regulates the Group's business and specify the minimum amount of capital that must be held by the Company in addition to its liabilities. In addition, to ensuring that the Company maintains sufficient regulatory capital to meet Solvency II requirements, the Group's capital management strategy requires capital to be held in line with risk appetite, which is set to be able to withstand high-severity stress events without breaching capital requirements. Capital risk is mitigated by the Capital Risk Policy, which includes tools and governance to monitor capital requirements and assign capital accordingly.</p>
Liquidity risk	44(e)	Liquidity risk is the risk that the Group does not have sufficient financial resources to meet its commitments when they fall due, or can only secure them at excessive cost. The Group is exposed to liquidity risk from payments to policyholders and non- policyholder related activity (such as investment purchases and the payment of shareholder expenses). Liquidity risk is mitigated by the Liquidity Risk Policy, which includes controls to maintain liquidity at necessary levels.

GROUP STRATEGIC REPORT (continued)**Principal risks and uncertainties (continued)***Non-financial risks*

Principal Risk	Description
Operational risk	Operational risk is the risk of actual or potential impact to the Group (financial and/or non-financial) resulting from inadequate or failed internal processes, people and systems or from external events. This includes risks around Information, Cyber and Physical Security, IT Systems, Data and Privacy, Internal and External Supplier, People, Business Continuity, Payments and Transaction Execution, Financial Reporting (including Tax), Health & Safety and Premises, Change Execution risk. Operational risk is managed by operational risk policies and an operational risk framework. The Group maintains a formal approach to operational risk event escalation, whereby material events are identified, captured and escalated. Root causes of events are determined, and action plans and issues management are put in place to ensure an optimum level of control to keep customers and the business safe, reduce costs and improve efficiency.
Conduct risk	Conduct Risk is defined as the risk of our activities, behaviours, strategy or business planning, having an adverse impact on outcomes for customers, undermining the integrity of the market or distorting competition, which could lead to regulatory censure, reputational damage or financial loss. This is mitigated by the Group Customer, Colleague and Market Conduct policies, which ensure we deliver good customer outcomes and minimise the risk of customer harm.
Climate risk	The Group defines Climate Risk as the risk from the impacts of climate change and the transition to net zero ('inbound risk'), or a result of the Group's response to tackling climate change and supporting the transition to net zero ('outbound risk')

In addition, as described in note 36, during the ordinary course of business the Group is subject to complaints and threatened or actual legal proceedings (including class or Group action claims) brought by or on behalf of current or former employees, customers, investors or other third parties, as well as legal and regulatory reviews, challenges, investigations and enforcement actions, both in the United Kingdom and overseas.

All such material matters are periodically reassessed, with the assistance of external professional advisors where appropriate, to determine the likelihood of the Group incurring a liability. In those instances where it is concluded that it is more likely than not that a payment will be made, a provision is established to management's best estimate of the amount required at the relevant balance sheet date. In some cases it will not be possible to form a view, for example because the facts are unclear or because further time is needed to properly assess the situation, and no provisions are held in relation to such matters. However, the Group does not currently expect the final outcome of any such case to have a material adverse effect on its financial position, operations or cash flows.

Section 172(1) Statement and Statement of Engagement with Other Stakeholders**Effective stakeholder engagement is fundamental to good governance**

This section is our Section 172(1) statement for the purposes of the Companies Act 2006 (the Act), describing how the Directors have had regard to the matters set out in section 172(1) (a) to (f) of the Act when performing their duty to promote the success of the Company under section 172.

Further detail on stakeholder interaction is contained within the Directors' Report on pages 18 to 22. The Directors remain mindful in all their deliberations of the long-term consequences of their decisions, as well as the importance of Scottish Widows maintaining a reputation for high standards of business conduct and the Board engaging with, and taking account of the views of, its key stakeholders, including customers, shareholders, colleagues, regulators and the government, suppliers, communities and the environment.

As a Lloyds Banking Group subsidiary, Scottish Widows Limited follows many of Lloyds Banking Group's processes and practices, which are referred to in this statement where relevant.

The three key Board decisions outlined in this section (Customer-focused strategy, Consumer Duty and Operational resilience) illustrate how the Board is engaged in key decisions.

Decision 1 - Customer Focused StrategyBoard Considerations:

The Group's customer-centric approach underpins its strategic ambitions. The Board remains committed to understanding and addressing customer needs, ensuring these priorities are central to decision-making.

GROUP STRATEGIC REPORT (continued)

Section 172(1) Statement and Statement of Engagement with Other Stakeholders (continued)

Decision 1 - Customer Focused Strategy (continued)

Board Initiatives:

- **February** – the Board approved the Scottish Widows Lifetime Investment as the new workplace pension default investment option, reflecting customer feedback. Later in the year the Board supported offering an integrated Long-Term Asset Fund to give workplace pension customers access to private market investments.
- **June** – the Board looked in depth at its strategic vision to create Britain's most distinctive retirement proposition, including innovation via the Customer Waterfront.
- **October** – The Board of the Group's parent announced the full acquisition of Schroders Personal Wealth, previously a joint venture with Schroders Group and now rebranding to Lloyds Wealth. This acquisition supports ambitions for a market leading end to end wealth offering for customers, including financial advice.

Future Focus:

The Board will continue to place customers at the heart of its decisions, focusing on how the Group can best support them and enhance their overall experience.

Decision 2 - Consumer Duty

Board Considerations:

Throughout 2025, the Board has monitored the embedding of Consumer Duty requirements to deliver good customer outcomes in line with the Group's customer-centric strategy.

Board Initiatives:

- **MI** – Consumer Duty Management Information (MI) has significantly evolved over the past 12 months, enabling the creation of a comprehensive MI dashboard which supports regular deep dives into specific topics or themes.
- **June 2025** – the Board approved an assessment confirming that the Group is delivering good customer outcomes in line with Consumer Duty.

Future Focus:

The Board recognises that compliance with Consumer Duty will continue to embed. Progress updates will be provided in 2026, with regular customer engagement remaining a key priority.

Decision 3 - Operational Resilience

Board Considerations:

The Board considers operational resilience and sound risk management to be fundamental for customers and to the strength of the Group and its long-term success.

Board Initiatives:

- **July** – the Board approved the bi-annual Operational Resilience Self-Assessment and to move to an annual Self-Assessment in line with the Lloyds Banking Group process.
- **October** – a majority of the Independent Directors received a deep dive on Group Operational Resilience & Third-Party Risk Management to enable them to continue to provide effective challenge and assurance on operational resilience.

Future focus:

The Board will continue to monitor operational resilience capabilities in 2026 and will maintain focus on response, recovery and remediation plans until 2027.

Stakeholder Engagement

The Board recognises the vital importance of engaging with all its stakeholders. The Group's Board has a programme of engagement meetings with colleagues (Engagement Programme) within certain of its Board meeting programmes, as a way for non-executive Directors to hear directly from colleagues and other experts with insight into key stakeholder considerations and to gain insights beyond formal meetings. The Engagement Programme was designed to help the Directors better understand the important issues for our customers and colleagues, the role the Group plays in supporting them and how the Group is performing in this respect, helping to inform the Directors' decision making.

A number of activities took place under the Engagement Programme, to provide Independent Non-executive Directors with first-hand insight, which included meetings with customer-facing colleagues and those taking part in diversity initiatives.

GROUP STRATEGIC REPORT (continued)

Section 172(1) Statement and Statement of Engagement with Other Stakeholders (continued)

Customers

The Group's customer-centric approach means the Board has an ongoing commitment to understanding and addressing customer needs, which remains central to achieving the Group's strategic ambitions.

Examples of Board engagement included:

- **Site visits** - to customer operation teams including demonstration of the customer service platform and call listening;
- **Customer service vision** – the Board reviewed the future strategy across technology, people, and processes, with a strong focus on digital adoption and tailored support for vulnerable customers, including observing the system in action;
- **Digital Apps** – the Board debated enhancements with management to prioritise scalability and security;
- **Customer service performance** – was monitored across in-house teams and third-party partners via the Risk Oversight Committee (ROC), which also reviewed customer-related risks and metrics to identify improvement opportunities;
- **Trustpilot scores** – were tracked as a key measure for strengthening customer trust;
- **Consumer Duty** – the Board received regular updates (including via ROC) on management's progress and how the Board's obligations were being met; and
- **External asset manager performance** – was reviewed on an ongoing basis via the Board Investment Committee.

Shareholders

The Group is a wholly owned subsidiary of Lloyds Banking Group. The Shareholder seeks a financial return on its investment, delivered through dividends. Any dividend paid during the year is disclosed in the Directors' Report. As a wholly owned subsidiary, the Board ensures that the Group's strategy, priorities, processes, and practices are aligned, where appropriate, with those of its Shareholder, recognising the Shareholder's interests at all times.

Examples of Board engagement included:

- **Shareholder Director** – one Lloyds Banking Group Director also serves as a non-executive Director on the Group's Board
- **Joint strategy session and Audit & Risk Forum** – Directors participated in a joint session with the Boards of Lloyds Banking Group and of Lloyds Bank Corporate Markets plc.

Colleagues

The Group does not directly employ colleagues; they are employed by other Lloyds Banking Group entities. However, the Board, both directly and through its People Committee, actively considers matters affecting colleagues that are relevant to the Group, particularly in fulfilling its responsibilities under the Social pillar of its ESG strategy.

Examples of Board engagement included:

- **Property** – reviewing the impact on colleagues of changes to the Group's Edinburgh property estate;
- **People metrics** – assessing metrics across diversity, absence, and hybrid working;
- **Colleague survey** – challenging management on the results of the 2025 colleague survey and cultural priorities;
- **Talent and succession** – actively reviewing the health of the leadership bench and preparation for future readiness; and
- **Engagement Programme** – including site visits to meet colleagues supporting customers. The Board also met women leaders identified for intensive career development via the Women Into Leadership programme, giving the Group's non-executive Directors the opportunity to listen to feedback and share their own career journeys to inspire and support aspiring women colleagues.

Communities and the Environment

The Insurance Board is the ultimate authorisation body for matters which concern the operation of Scottish Widows' business and is responsible for approving the Scottish Widows Transition Plan and Insurance, Pensions and Investments' strategic response to ESG matters.

Further details are available in the Strategic Report of the 2025 Annual Report and Accounts on the Group's website.

GROUP STRATEGIC REPORT (continued)

Section 172(1) Statement and Statement of Engagement with Other Stakeholders (continued)

Examples of Board engagement included:

- **Investment strategy & performance** – overseen via the Board’s Investment Committee, which itself is supported by specialist committees and external fund managers. This ensures responsible asset management is aligned with long-term customer and sustainability goals;
- **Net Zero** – advancing progress towards halving the carbon footprint of the investment portfolio by 2030, as part of the journey to achieve net zero across all investments by 2050. Further details are available in the Scottish Widows Transition Plan on the [Scottish Widows website](#);
- **Scottish Widows Responsible Investment & Stewardship Report** – was reviewed; it outlines progress in 2025 to deliver good outcomes for customers in line with the principles of the Financial Reporting Council’s UK Stewardship Code. Further detail on Scottish Widows responsible investment and stewardship initiatives are available on the [Scottish Widows website](#);
- **Voting Guidelines** – exercising shareholder voting rights in major global companies using the Scottish Widows Voting Guidelines to ensure consistent and responsible decisions by the Group and its investment managers; and
- **Customer products** – continuing to support customers with their long-term protection, retirement, and investment needs.

Regulators and the government

The Group is authorised by the Prudential Regulation Authority (PRA) and regulated by the Financial Conduct Authority (FCA) and PRA. The Group is also the Funder of the Scottish Widows Master Trust, which is supervised by the Pensions Regulator. The Group continually engages with regulators and other Government authorities (as part of the wider Scottish Widows Group) to ensure the Group supports and delivers in line with current and developing regulation and legislation.

Examples of Board engagement included:

- **PRA discussion** – the Board welcomed representatives from the PRA to a meeting in the year for a discussion on key priorities;
- **Regulatory agenda** – Directors maintained ongoing dialogue with regulators on various matters within the regulatory agenda as part of normal business activity; and
- **Pensions dashboard** – the Board engaged with management on progress towards connecting to the centralised government dashboard architecture, designed to provide customers with a consolidated view of their pensions across all providers.

Suppliers

The Group is part of Lloyds Banking Group and has entered into strategic partnerships for important aspects of its operations and customer service provision. As well as external partners, the Group relies on intra-group supplier arrangements for certain services. The Board delegates to management the primary responsibility of overseeing external supplier relationships.

Examples of Board engagement included:

- **Supplier performance** – the Board has overseen management’s effectiveness in managing supplier performance and relationships, including third-party customer servicing arrangements;
- **Lloyds Banking Group’s Sourcing and Supply Chain Management Policy** – the Board ensured this was applied in a manner appropriate for the Group, while ensuring that significant supplier contracts received Board approval; and
- **Supplier compliance** – suppliers must comply with Lloyds Banking Group’s Supplier Code of Responsibility, available on the Lloyds Banking Group website.

Modern slavery

The Responsible Business Committee of the Board of Lloyds Banking Group, as part of its oversight of its performance (including that of the Group) as a responsible business, governs the approach to human rights. Lloyds Banking Group’s Human Rights Position Statement can be found on the Lloyds Banking Group website.

The Group’s day-to-day management of modern slavery and human rights is supported and coordinated by the Group Human Rights Manager, who is part of the Group Sustainable Business function, and is guided by a cross divisional working group, the Modern Slavery and Human Rights Working Group.

Lloyds Banking Group’s Modern Slavery & Human Trafficking Statement covers all its subsidiary companies and sets out the steps taken to combat modern slavery in Lloyds Banking Group’s business and operations (including suppliers).

The IP&I Executive Committee governs (and approves) this Statement as it relates to the Company. The statement is published on the Scottish Widows website.

GROUP STRATEGIC REPORT (continued)**Section 172(1) Statement and Statement of Engagement with Other Stakeholders (continued)****Diversity**

In line with Lloyds Banking Group strategy and activity to maximise the potential of people, its goal is to ensure inclusion is at the heart of everything it does. Further details of Lloyds Banking Group's diversity targets are set out in its Annual Report and Accounts available on its website.



On behalf of the Board of Directors

S T Nyahasha

Director

19 March 2026

DIRECTORS' REPORT

The Directors present the audited financial statements of the Company and the Group. The Company is a private company limited by shares, domiciled and incorporated in England and Wales. The Group also has freedom of services overseas through branches and subsidiaries, which administer a relatively small amount of business, principally in Germany. The Group's European business is administered through a Luxembourg based subsidiary, Scottish Widows Europe (SWE). Details of all the subsidiary undertakings are given in note 18.

Results and dividend

The result for the year ended 31 December 2025 is a Group loss after tax of £(65) million (2024 loss: £(159) million). Further information on the results of the Group, and future prospects of the business, are provided in the Group Strategic Report.

During the year, £215 million interim dividends (2024: £917 million) were paid. Details of dividends paid during the year are given in note 48.

Post balance sheet events

In February 2026, the Company entered into a Sale and Purchase Agreement to sell the entire issued share capital of Scottish Widows Europe S.A. to Chesnara plc. The sale is subject to regulatory approval, with completion expected in the second half of 2026. Further information on post balance sheet events is set out in note 51.

Directors

The names of the current Directors are listed on page 3. Changes in Directorships during the year and since the end of the year are as follows:

D L Davis	(resigned 18 March 2025)
J K Harris	(resigned 4 June 2025)
M H Trussell	(appointed 7 July 2025)
J S Wheway	(resigned 31 October 2025)
D J Brumpton	(appointed 2 February 2026)

Particulars of the Directors' emoluments are set out in note 45.

Directors' indemnities

Lloyds Banking Group plc has granted to the Directors of the Company a deed of indemnity which constitutes 'qualifying third party indemnity provisions' for the purposes of the Companies Act 2006. The deed was in force during the whole of the financial year and at the date of approval of the financial statements or from the date of appointment in respect of any Directors who joined the Board of the Company during the financial year. Directors no longer in office but who served on the Board of the Company at any time in the financial year had the benefit of this indemnity during that period of service.

The deed for existing Directors is available for inspection at the registered office of Lloyds Banking Group plc. In addition, the Group has in place appropriate Directors' and Officers' Liability Insurance cover which was in place throughout the financial year.

Disclosure of information to auditor

Each person who is a Director at the date of approval of this report confirms that, so far as the Director is aware, there is no relevant audit information of which the Company's auditors are unaware and each Director has taken all the steps that they ought to have taken as a Director in order to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information. This confirmation is given, and should be interpreted in accordance with, the provisions of the Companies Act 2006.

Future developments

Future developments are detailed within the Group Strategic Report and also in note 50.

Engagement with suppliers, customers, and others

Disclosures relating to engagement with suppliers, customers and others are included in the Group Strategic Report and are therefore incorporated into this report by reference.

DIRECTORS' REPORT (continued)

Research and Development

The accounting policy for software development costs is detailed in note 1(i) and further details of the development costs for 2025 are disclosed in note 15.

Employees

The Group has no employees as colleagues are employed by other subsidiaries within Lloyds Banking Group.

Lloyds Banking Group is committed to providing employment practices and policies which recognise the diversity of the workforce and ensure equality for employees regardless of sex, race, disability, age, sexual orientation or religious belief. In the UK, Lloyds Banking Group belongs to the major employer groups campaigning for equality for all staff, including Employers' Forum on Disability, Employers' Forum on Age and Stonewall. Lloyds Banking Group is also represented on the Board of Race for Opportunity and the Equal Opportunities Commission. Involvement with these organisations enables Lloyds Banking Group to identify and implement best practice for staff.

Lloyds Banking Group is committed to continuing the employment of, and for arranging appropriate training for, its employees who have become disabled persons during the period when they were employed.

Employees are kept closely involved in major changes affecting them through such measures as team meetings, briefings, internal communications and opinion surveys. These meetings, briefings and internal communications also serve to achieve a common awareness of the financial and economic factors that affect the performance of the Company and the Group. There are well-established procedures, including regular meetings with recognised unions, to ensure that the views of employees are taken into account in reaching decisions. Schemes offering share options or the acquisition of shares are available for most staff, to encourage their financial involvement in Lloyds Banking Group.

Corporate Governance Report

Approach to Corporate Governance

In accordance with the Large and Medium-sized Companies and Group (Accounts and Reports) Regulations 2008 (as amended by the Companies (Miscellaneous Reporting) Regulations 2018) (the 'Regulations'), the Group has applied the Wates Corporate Governance Principles for Large Private Companies (the 'Principles') in its corporate governance arrangements for the year ended 31 December 2025. The following section outlines the Group's approach to corporate governance and how it has applied the Principles.

Fundamental to the Group's strategy are high standards of corporate governance. The Group operates under a Corporate Governance Framework that sets the Group's approach and the standards applicable to its corporate governance arrangements, addressing the matters covered by the Principles.

This includes both the matters reserved to the Board, and those delegated to management, such as operational decision-making relating to credit, liquidity and the day-to-day risk management, and the governance requirements for the Group's operations outside the Lloyds Banking Group's Ring-Fenced Bank. Governance arrangements, including the Corporate Governance Framework, are reviewed at least annually to ensure they remain appropriate and effective. The Group's Corporate Governance Framework further addresses the requirements of the Principles as follows:

Principle One – Purpose and Leadership

Scottish Widows Limited carries out long-term insurance business and associated investment activities in the UK, offering a range of life and pensions products distributed through intermediaries, Lloyds Banking Group and directly.

The Board is collectively responsible for the long-term success of the Group. In directing the Group's affairs, it aims to generate sustainable shareholder value, embed a strong customer focused culture, and contribute positively to wider society. The Board fulfils these responsibilities by setting, the Group's strategy, aligned to the broader strategy of Lloyds Banking Group, and overseeing its delivery. It also oversees the management of the Group's culture, values and broader standards, ensuring alignment with the expectations established by Lloyds Banking Group.

Consideration of stakeholder needs is integral to the Group's operations, as is compliance with the conduct standards and regulations as applicable to the Board, including Consumer Duty. The Group's approach is shaped by its commitment to fostering a culture of customer focus, strong risk awareness, ethical behaviour and recognition of climate and sustainability considerations.

The Board, supported by one or more of its Committees, plays a leading role in setting, promoting and overseeing the Group's corporate culture and values. The Corporate Governance Framework ensures that these matters receive the appropriate level of prominence in both Board and Executive decision-making. The Group's culture and values are aligned with those of Lloyds Banking Group, which are described in further detail in the Lloyds Banking Group annual report and accounts for 2025.

DIRECTORS' REPORT (continued)

Corporate Governance Report (continued)

Principle Two – Board Composition

The Group is led by a Board comprising a Chair, Independent Non-Executive Directors, Non-Executive Directors and Executive Directors. Further details of the Directors can be found on page 3. All Directors hold equal voting rights.

The roles of Chair and Chief Executive are distinct and separate. The Board reviews its composition regularly and is committed to ensuring that its membership reflects diversity in its broadest sense. The Board considers its current size, and composition is appropriate for the Group's circumstances.

The Board is led by its Chair, who is responsible for ensuring the Board's overall effectiveness in directing the Group. The Chair plays a pivotal role in establishing the conditions under which the Group's Board and individual Directors operate, setting clear expectations for the style and tone of Board discussions, and for ensuring decision-making processes are robust and appropriately challenged.

The Chair ensures the Board receives accurate, timely and clear information on the Group's purpose, performance and material risks, and is expected to encourage open debate and support constructive discussion. The Chair is also responsible for ensuring that Directors have the capacity to contribute effectively and that adequate time is allocated for meaningful discussion.

The Board has adopted a Diversity Policy, which is published on the Scottish Widows website. It has committed to maintaining diversity in its broadest sense, ensuring the Board comprises an appropriate mix of skills, experience, education, professional expertise and other relevant attributes. This breadth of perspective supports high quality decision making, promotes accountability and enables constructive, objective challenge.

As at 31 December 2025, three of the nine Directors were women, and two were from Black, Asian or Minority Ethnic backgrounds. New appointments and succession plans are made on merit, taking account of the specific skills and experience, independence and knowledge required to maintain a balanced Board, while recognising the value that diverse candidates bring to overall Board composition.

Lloyds Banking Group supports a range of initiatives designed to provide mentoring and development opportunities for female and ethnically diverse executives and to ensure fair and unbiased career progression.

The Board is supported by a number of Committees, described in more detail below. With the exception of the Independent Governance Committee and With Profits Committee, whose remits are largely set out in regulation, the Board's Committees make decisions and recommendations to the Board in accordance with the matters delegated to them. These include responsibilities relating to internal controls, risk, investment strategy, certain cultural matters and financial reporting.

Each committee operates under written terms of reference that set out its delegated responsibilities. Committees are composed of individuals with the appropriate skills and experience and are chaired by suitably skilled and experienced Chairs. Following each Committee meeting, the Committee Chair reports to the Board at its next scheduled meeting.

The Board periodically undertakes self-assessments of its performance, providing an opportunity to identify efficiencies, maximise strengths and highlight areas for further development. These reviews are commissioned by the Chair of the Board, with support from the Company Secretary. In addition to evaluating the effectiveness of the Board as a whole, the performance of the Board Committees is also considered, either as part of the overall review or alternatively through a separate process where appropriate. The Chair also ensures that the performance of individual Directors is reviewed and that constructive feedback is provided.

Principle Three – Director Responsibilities

The Directors are ultimately responsible for all matters relating to the operation of the Group's business. Together with senior management, they are committed to maintaining a robust control framework as the foundation of effective governance, including the effective management of delegation through the Corporate Governance Framework. Policies are also in place in relation to identify, manage and, where necessary, mitigate potential conflicts of interest.

The Board is supported by its Committees, which make recommendations or decisions on matters delegated to them under the Corporate Governance Framework. Both the Board and its Committees operate in an environment that encourages open debate and provides sufficient time for Directors/members to consider proposals.

The Chair of the Board and each Committee, with support from the Company Secretary, are responsible for ensuring that accurate, timely and relevant information is provided to enable effective decision-making.

The Board receives regular reports from management at its meetings. These include standing materials, updated for each meeting, as well as updates on progress against strategic priorities, operational matters and performance. In addition, the Board receives papers relevant to current priorities and emerging areas of focus.

DIRECTORS' REPORT (continued)

Corporate Governance Report (continued)

Principle Four – Opportunity and Risk

The Board is responsible for approving and maintaining the Group's strategy, business model and long-term objectives, operating within the applicable legal and regulatory frameworks and taking into account the Group's long-term financial interests, solvency and sustainable success. It determines the Group's culture, purpose, values and strategy, aligned with the overarching framework of Lloyds Banking Group.

Further specific aims and responsibilities of the Board are set out in the Corporate Governance Framework, including oversight of key policies relating to capital, liquidity, compliance and internal controls. All significant matters presented to the Board are accompanied by a Risk Opinion prepared by the Chief Risk Officer, who is a standing attendee at Board meetings.

Effective risk management is central to the Group's strategy, and the Board is responsible for establishing, implementing and maintaining a comprehensive Risk Management Framework, including liquidity and funding frameworks, aligned to the Group's risk appetite. Risk is managed through clearly defined delegated authorities set out in the Corporate Governance Framework.

The Group's risk appetite, principles, policies, procedures, controls and reporting are reviewed regularly to ensure they remain appropriate and effective. The Group has implemented a Group-wide transformation programme, Resetting Risk, which modernises its Risk Management Framework, strengthens risk culture, enhances accountability and provides clearer, more consistent articulation and understanding of risks across the business.

The Group's principal risks are discussed further in note 44.

Principle Five – Remuneration

The Remuneration Committee of Lloyds Banking Group (the 'Remuneration Committee') is responsible for overseeing the Group's overall approach to remuneration. It governs the reward framework for the Group's colleagues, including its Executive Directors, Senior Managers, Material Risk Takers and other roles subject to specific remuneration requirements.

The Board of the Group, through its People Committee, provides input to the Lloyds Banking Group Remuneration Committee on matters that are specific to the Group or to particular colleagues within it, ensuring that Group-level considerations are appropriately reflected in remuneration outcomes.

Principle Six – Stakeholders

The Board is responsible for considering the views of the Group's key stakeholders. The Group operates within Lloyds Banking Group's broader responsible business approach, which aims to create a sustainable and inclusive future for people and businesses by developing commercially viable solutions to the critical challenges facing UK society and delivering them through strategy, core business activity and cross-Group collaboration.

Lloyds Banking Group has adopted a Code of Ethics and Responsibility that guides colleagues on how the Group's purpose underpins responsible engagement with external stakeholders.

The Lloyds Banking Group Board's Responsible Business Committee oversees the Group's strategy and plans to deliver its ambition of being a truly purpose-driven organisation and provides governance over activities that influence Lloyds Banking Group's behaviour and reputation.

The Board's approach to its non-colleague stakeholders is further described in the separate s172 statement, prepared in accordance with the Regulations, on page 13 to 17.

Going concern

The going concern of the Company and the Group is dependent on successfully maintaining adequate levels of capital and liquidity. In order to satisfy themselves that the Company and the Group have adequate resources to continue to operate for the foreseeable future, the Directors have considered a number of key dependencies which are set out in note 44 under principal risks and uncertainties: funding and liquidity in note 44(e) and capital position in note 44(d) and additionally have considered projections (including stress testing) for the Group's capital and funding position. Having consulted on these, the Directors conclude that it is appropriate to continue to adopt the going concern basis in preparing the accounts.

Hedging and financial risk management

Disclosures relating to hedge accounting are included within note 1 and note 24 to the accounts; disclosures relating to financial risk management are included in note 44 to the accounts and are therefore incorporated into this report by reference.

DIRECTORS' REPORT (continued)**Information incorporated by reference**

The following additional information forms part of the Directors' Report, and is incorporated by reference.

Requirement	Content	Section
Disclosures required under the Companies Act 2006 and the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008	Statement of other stakeholder engagement	Group Strategic Report
Disclosures required by the Financial Conduct Authority's Disclosure and Transparency Rule 7.2.5R	Corporate Governance Statement - internal control and risk management systems	Note 44 (Risk Management)

Streamlined energy and climate reporting

The Group and Company have taken advantage of the exemption from Streamlined Energy and Carbon Reporting (SECR) reporting requirements in its own Directors' Report, as it is covered by the Group SECR report of its ultimate parent company, given in the Lloyds Banking Group plc 2025 Annual Report and Accounts, available at www.lloydsbankinggroup.com/investors/financial-downloads.html.

Independent auditor

Pursuant to section 487 of the Companies Act 2006, auditors duly appointed by the members of the Company shall, subject to any resolution to the contrary, be deemed to be reappointed for the next financial year and Deloitte LLP will therefore continue in office.

Statement of Directors' responsibilities

The Directors are responsible for preparing the Directors' and Strategic Reports and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law, the Directors have prepared the Group and Company's financial statements in accordance with UK adopted international accounting standards in conformity with the requirements of the Companies Act 2006.

Additionally, the Financial Conduct Authority's Disclosure Guidance and Transparency Rules require the Directors to prepare the Group and Company's financial statements in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006. Under Company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and Company and of the profit or loss of the Group and Company for that period. In preparing the financial statements, the Directors are required to:

- properly select and apply accounting policies;
- 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 of the financial reporting framework are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- make an assessment of the company's ability to continue as a going concern.

The Directors are also responsible for safeguarding the assets of the Group and Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group and Company's transactions and disclose with reasonable accuracy at any time the financial position of the Group and Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions. A copy of the financial statements is placed on our website available at <https://www.scottishwidows.co.uk/about-us/financial-information/annual-accounts/>.

DIRECTORS' REPORT (continued)**Statement of Directors' responsibilities (continued)**

Each of the Directors whose names are listed on page 3 confirms that, to the best of their knowledge:

- The Group and Company financial statements which have been prepared in accordance with UK-adopted international accounting standards in conformity with the requirements of the Companies Act 2006, give a true and fair view of the assets, liabilities, financial position and financial performance of the Group and Company.
- The Group Strategic Report on pages 4 to 17, and the Directors' Report on pages 18 to 22 include a fair review of the development and performance of the business and the position of the Group and Company, together with a description of the principal risks and uncertainties that it faces.

The Directors have also separately reviewed and approved the Strategic Report.

On behalf of the Board of Directors



S T Nyahasha

Director

19 March 2026

INDEPENDENT AUDITOR'S REPORT TO THE MEMBER OF SCOTTISH WIDOWS LIMITED**Report on the audit of the financial statements****1. Opinion**

In our opinion:

- the financial statements of Scottish Widows Limited (the 'Company', or the 'Parent Company') and its subsidiaries (the 'Group') give a true and fair view of the state of the Group's and of the Company's affairs as at 31 December 2025 and of the Group's loss for the year then ended;
- the Group financial statements have been properly prepared in accordance with United Kingdom adopted international accounting standards;
- the Company financial statements have been properly prepared in accordance with United Kingdom adopted international accounting standards and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:

- the Consolidated Statement of Comprehensive Income;
- the Group and Company Balance Sheets;
- the Group and Company Statements of Cash Flows;
- the Group and Company Statements of Changes in Equity; and
- the related notes 1 to 51 (excluding the capital adequacy disclosures calculated in accordance with the Solvency II regime which are disclosed as unaudited within note 44).

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom adopted international accounting standards and, as regards the Company financial statements, as applied in accordance with the provisions of the Companies Act 2006.






2. Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.





We are independent of the Group and the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (the 'FRC's') Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. The non-audit services provided to the Group and Company for the year are disclosed in note 13 to the financial statements. We confirm that we have not provided any non-audit services prohibited by the FRC's Ethical Standard to the Group or the Company.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBER OF SCOTTISH WIDOWS LIMITED (continued)**3. Summary of our audit approach**

Key audit matters	<p>The key audit matters that we identified in the current year were:</p> <ul style="list-style-type: none"> • Valuation of insurance contract and participating investment contract liabilities, comprising the following risk areas (Group and Company): <ul style="list-style-type: none"> – Base mortality and mortality improvement assumptions used for the annuity business;  – Maintenance expenses;  – Persistency assumptions used for the workplace pensions business; and  – Illiquidity premium adjustment to the risk-free rate used in valuation of annuity business;  • Valuation of illiquid financial instruments (Group and Company) 
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Within this report, key audit matters are identified as follows:

-  Newly identified
-  Increased level of risk
-  Similar level of risk
-  Decreased level of risk

Materiality	<p>The materiality that we used for the Group's consolidated financial statements was £61.3m, which was determined based on the total of the Group's net assets plus the value of the Group's contractual service margin (CSM) net of reinsurance.</p> <p>Overall materiality used for the Company financial statements was £56.9m, which used the same materiality benchmark, capped at 95% of Group materiality.</p>
Scoping	<p>Our audit scope covers 99.8% of the Group's total assets, 99.8% of the Group's total liabilities, 99.8% of the Group's income and 99.7% of the Group's expenses.</p>
Significant changes in our approach	<p>The key audit matters relating to the base mortality and mortality improvement assumptions and the illiquidity premium adjustment to the risk-free rate applied in discounting the insurance contract liabilities for the annuity business, no longer include the Bulk Annuity proposition post the Part VII business transfer of the associated business assets and liabilities (as set out in note 47).</p>

4. Conclusions relating to going concern

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Our evaluation of the directors' assessment of the Group's and Company's ability to continue to adopt the going concern basis of accounting included:

- Obtaining an understanding of management's going concern assessment process and controls related to the review of the Group and Company's going concern assessment;
- Challenging the key assumptions used in management's forward-looking operating plan by considering growth rates against market data and analyst reports as well as validating the consistency of planned management actions with inquiries of management and inspection of minutes of meetings of those charged with governance;
- Assessing management's stress testing and reverse stress testing over the projected profitability, solvency and liquidity positions and the likelihood of the various scenarios that could adversely impact upon the Group and Company's liquidity and solvency headroom;
- Making enquiries of Group management about the assumptions, including climate risk considerations, used in their going concern models, and assessing the reasonableness of those assumptions and historical accuracy;
- Inspecting the Group's Own Risk and Solvency Assessment (ORSA) to support our understanding of the key risks faced by the Group and its ability to continue as a going concern; and
- Obtaining and inspecting correspondence between the Group and Company and their regulators, the Financial Conduct Authority (FCA) and the Prudential Regulatory Authority (PRA), as well as attending the Risk Oversight Committee meetings regularly, to identify any items of interest which could potentially indicate either non-compliance with legislation or potential litigation or regulatory action held against the Group or the Company.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBER OF SCOTTISH WIDOWS LIMITED (continued)**4. Conclusions relating to going concern (continued)**

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

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

5. Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team.

These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

5.1 Valuation of insurance contract and participating investment contract liabilities

Refer to Note 1 - Accounting policies (pages 40-64), Note 2 - Critical accounting judgements and estimates (page 67) and notes 29 (page 97), 30 (page 99), 31 (page 111), 32 (page 123), 33 (page 126) and 43 (page 135).

The Group's insurance contract and participating investment contract liabilities are £134,986 million (2024: £121,803 million) and represent the largest liability on the balance sheet. Valuation of these liabilities requires management to select methods and assumptions that are subject to estimation uncertainty. We have identified the following key audit matters in relation to their valuation. These matters are also identified as fraud risk areas as small changes in these methods or assumptions can materially impact the valuation of the liabilities.

Key audit matter description	Annuitant mortality and mortality improvement assumptions are material and highly judgemental for the Individual Annuity proposition. Expert judgement is required to set the assumptions, which are based on a combination of historical experience investigations and expectations about expected future mortality trends.
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How the scope of our audit responded to the key audit matter

With the support of our life actuarial specialists, we have:

- Tested the relevant controls relating to the business processes associated with the key audit matter;
- Assessed the accuracy and completeness of the underlying movement data used within the annual mortality experience investigations, through comparison with administration system records, on a sample basis;
- Evaluated the underlying experience investigations, including independently replicating a sample of experience studies, and challenged judgemental overlays by considering the range of plausible alternatives;
- Challenged the choice of model and corresponding parameters used within with the latest available Continuous Mortality Investigation ('CMI') model by assessing the judgements applied, considering specific features in the Group's policies (including any adjustments for socio-economic group); and
- Challenged judgements made in respect of past or potential future internal or external events which could impact future mortality rates, with consideration given to both internal and external data sources. This includes consideration of the impact of Covid-19 on past and expected future experience, and of the current macro-economic environment and its potential effects on future mortality rates and level of improvements.

Key observations

The base mortality and mortality improvement assumptions used for the Annuity business in the year-end 2025 valuation are reasonable.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBER OF SCOTTISH WIDOWS LIMITED (continued)**5.1.2 Maintenance Expenses** 

Key audit matter description The maintenance expense assumptions reflect the expected future expenses that will be required to maintain insurance contracts existing at the balance sheet valuation date until maturity. Small changes to these assumptions can have a material impact on the valuation of the Group's and Company's insurance and participating investment contracts.

Judgement is required to:

- identify all expenses which are attributable to the Group's and Company's insurance business;
- identify the subset of total expenses that are required to maintain the in-force insurance contracts;
- allocate these expenses between product types; and
- adjust management's best estimate to reflect that these expenses will change in the future given the expected changes in business composition, cost saving initiatives and other events impacting the cost of maintaining and servicing insurance contracts.

How the scope of our audit responded to the key audit matter

With the support of our life actuarial specialists, we have:

- Tested the relevant controls relating to the business processes associated with the key audit matter;
- Evaluated the appropriateness of the application of the expense allocation methodology, and the subsequent derivation of per-policy expenses, by agreeing the cost drivers based on supporting evidence and recalculating associated allocation rates across a sample of cost centres;
- Assessed the appropriateness of the expenses allocated to in-force business, including reconciliation of a sample of expenses to the ledger, as well as policy counts used in the derivation of the assumptions;
- Challenged the judgements applied in the allocation process including the treatment of the Group's allocation of overhead costs from its ultimate parent company, through a combination of testing a sample of expense allocations and performing substantive analytical procedures to assess the year-on-year allocation movements; and
- Assessed the accuracy of a sample of cost base adjustments for one-off events and third-party costs, including the reallocation of stranded bulk annuity expenses post the Part VII disposal.

Key observations

The derivation of the maintenance expense assumptions for the year-end 2025 is reasonable.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBER OF SCOTTISH WIDOWS LIMITED (continued)**5.1.3 Persistency assumptions used for workplace pensions business** 

Key audit matter description	Insurance contract liabilities for Workplace Pensions business are sensitive to the duration over which policies are expected to remain in force and policyholders are expected to pay premiums. Workplace Pensions persistency assumptions are set using historical data and a judgement relating to expected changes in future policyholder behaviour.
How the scope of our audit responded to the key audit matter	<p>With the support of our life actuarial specialists, we have:</p> <ul style="list-style-type: none"> • Tested the relevant controls relating to the business processes associated with the key audit matter; • Assessed the accuracy and completeness of the internally generated persistency movement data used within the persistency experience investigations, through comparison with administration system records, on a sample basis; • Tested the underlying persistency experience investigations through independent recalculation of the crude persistency rates; • Challenged the judgements made in setting the final persistency assumptions, including the appropriateness, and subsequent use, of historical data by considering possible alternative data ranges; and • Challenged the judgements used in setting the persistency assumptions and tested the calculation of all non-trivial provisions by inspecting trends in the underlying experience data and considering potential impacts of macro-economic and other internal and external events.
Key observations	The persistency assumptions used for the Workplace Pensions business in the year-end 2025 valuation are reasonable.

5.1.4 Illiquidity premium (“ILP”) adjustment to the risk-free rate used in valuation of annuity business 

Key audit matter description	The year-end valuation of insurance contract liabilities is highly sensitive to changes in the ILP, which is used in the calculation of the current discount rate for the Annuity business. The top-down calculation of the ILP requires an estimate of credit risk, which is deducted from the spread on the underlying assets backing annuitant liabilities. The methodology used to set the ILP requires significant judgement.
How the scope of our audit responded to the key audit matter	<p>With the support of our life actuarial specialists, we have:</p> <ul style="list-style-type: none"> • Tested the relevant controls relating to the business processes associated with the key audit matter; • Evaluated the appropriateness of the methodology used in the calculation of the ILP adjustment, including the related judgements, specifically in setting the best estimate assumptions for credit related risk; • Tested the implementation of the methodology through independent replication of the ILP calculation; • Assessed the appropriateness of the key liability inputs into the ILP calculation, including the liability cashflows, PRA Fundamental Spread inputs and risk-free-rates; and • Agreed a sample of asset data inputs into the ILP rate calculation.
Key observations	The illiquidity premium adjustment to the risk-free rate for the year-end 2025 valuation of the annuity business is reasonable.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBER OF SCOTTISH WIDOWS LIMITED (continued)

5.2 Valuation of illiquid financial instruments 

Key audit matter description Refer to note 1 - Accounting policies (page 43), note 2 - Critical accounting judgements and estimates (page 66), note 26 – Investments at fair value through profit or loss (page 94) and note 44 - Risk management (page 145) to the Group financial statements.

The Group's investments at fair value through profit or loss total £201,584 million (2024: £175,261 million).

Within this investment balance, the Group holds a significant portfolio of illiquid financial instruments. This comprises loans in the commercial real estate, social housing, infrastructure, and education sectors. The fair value of the illiquid financial instruments is determined in accordance with IFRS 13 Fair Value Measurement, with the valuation of these loans using complex valuation models. Illiquid loan valuations necessitate estimating an ILP to reflect the yield difference compared to public debt. Estimating the ILP is complex, requiring significant judgement and expertise due to limited trading data and the difficulty in isolating the ILP from borrower-specific factors. This complexity involves substantial estimation uncertainty and increases susceptibility to management bias as ILP determination relies heavily on expert assessment and professional judgement. We consider the key risk related to the valuation of these loans to be the significant judgement involved in setting the spread above risk free rates, this being the loan-to-bond premium, and calibration spread. We also consider these judgements to be at risk of management bias, giving rise to a fraud risk.

How the scope of our audit responded to the key audit matter

In conjunction with our valuation specialists, we have performed the following procedures:

- Tested the relevant controls relating to the business processes associated with the key audit matter;
- Challenged the appropriateness of loan valuation methodologies by considering alternative valuation methodologies;
- Calculated valuations for the entire population of modelled illiquid financial instruments using an independent valuation model, considering reasonable alternative key assumptions based on comparable securities and comparing results to those produced by management;
- Evaluated the appropriateness of the internal credit rating methodology and tested the appropriateness for a sample of credit files; and
- Evaluated the consistency and appropriateness of inputs and assumptions over time, challenging both significant movements and non-movements where we expected change.

Key observations

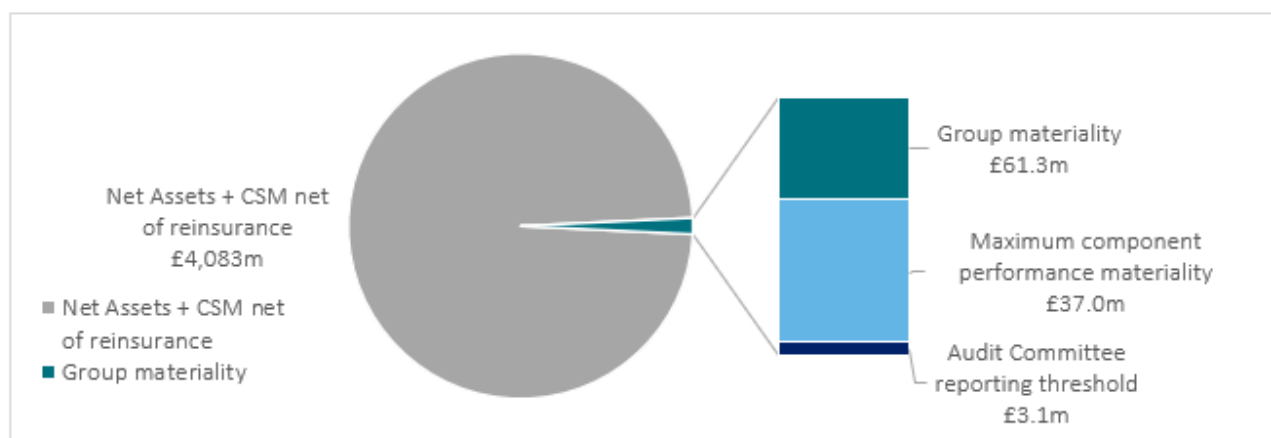
The year-end 2025 valuation of the illiquid financial instruments are reasonable and in accordance with IFRS 13.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBER OF SCOTTISH WIDOWS LIMITED (continued)**6. Our application of materiality****6.1. Materiality**

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

	Group financial statements	Company financial statements
Materiality	£61.3m (2024: £62.1m)	£56.9m (2024: £59.0m)
Basis for determining materiality	1.5% of net assets plus CSM net of reinsurance (2024: 1.5% of net assets plus CSM net of reinsurance)	Company materiality equates to 1.4% of net assets plus CSM net of reinsurance (2024: 1.4% of net assets plus CSM net of reinsurance).
Rationale for the benchmark applied	The key stakeholders of the Group and Company are focused on managing capital held under Solvency II. Following this consideration and applying professional judgement we determined that the most closely aligned GAAP metric to Solvency II metrics to be the net asset position of the Group. In addition, we consider the addition of the CSM net of reinsurance to the benchmark is appropriate as this represents the estimated deferred profit that is expected to be realised within net assets within future reporting periods.	

**6.2. Performance materiality**

We set performance materiality at a level lower than materiality to reduce the probability that, in aggregate, uncorrected and undetected misstatements exceed the materiality for the financial statements as a whole.

	Group financial statements	Company financial statements
Performance materiality	65% of Group materiality (2024: 65%)	65% of Company materiality (2024: 65%)
Basis and rationale for determining performance materiality	<p>In determining performance materiality, we considered the following factors:</p> <ul style="list-style-type: none"> • The level of uncorrected misstatements in historical audits, alongside the likelihood of recurrence of misstatements; and • Reliability of the entity's internal controls over financial reporting with respect to changes in deficiencies identified over the years. 	

6.3. Error reporting threshold

We agreed with the Audit Committee that we would report to the Committee all audit differences in the Group financial statements in excess of £3.1m (2024: £3.1m), audit differences in the Company financial statements in excess of £2.8m (2024: £2.9m), and differences below those thresholds that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identify when assessing the overall presentation of the financial statements.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBER OF SCOTTISH WIDOWS LIMITED (continued)**7. An overview of the scope of our audit****7.1. Identification and scoping of components**

The nature of the Group is such that we have identified components based on the Group's operating segments and their geographical location. We have assessed the qualitative and quantitative characteristics of each financial statement line item and considered the relative contribution of each component to these line items in determining which components would be subject to audit procedures.

We have performed audit procedures over specific classes of transactions, account balances or disclosures for the following components:

- Scottish Widows Limited including internally managed Open Ended Investment Companies (OEICs)
- Scottish Widows Europe S.A.
- Scottish Widows Administration Services Limited
- Externally managed OEICs

The scope of work over the above components was completed to individual component performance materiality levels which ranged up to 93% of the Group performance materiality (2024: 95%).

For the remaining components, we performed analysis at an aggregated Group level to re-assess our evaluation that there were no identified risks of material misstatement in any of these components. We have performed audit procedures in aggregate at the SWL Group level over cash, deferred tax, equity, and the income tax expense.

We have performed audit procedures for specified account balances that together represent 99.8% of Group's total assets, 99.8% Group's total liabilities, 98.8% of Group's income and 98.7% of Group's expenses.

Finally, we performed audit procedures over the consolidation process by testing the material consolidation adjustments made by management in producing the consolidated financial statements.

All work was performed by the Group engagement team.

7.2. Our consideration of the control environment

We planned to test relevant controls across all key control cycles operated by management. Controls were relied upon across all business cycles.

Material policy administration systems and the general ledger system used have been identified as key IT applications. In addition, IT systems used to transform key pieces of actuarial data and systems used to administer the Group's investment operations are all considered relevant. We planned to test and rely on the IT controls associated with these systems and thus we obtained an understanding of relevant IT controls. We worked with our IT specialists to test the general IT controls.

In addition, there are several systems operated by service organisations where we relied on service organisation control reports. These relate to business and IT controls operated by service organisations that operate key policy administration systems, support investment accounting operations, and host actuarial modelling software. We also gained an understanding of the controls operated by the service organisations as one of our review procedures performed in relation to these reports.

7.3. Our consideration of climate-related risks

In planning our audit, we considered the impact of climate change on the Group's operations and subsequent impact on its financial statements. The Group sets out its assessment of the potential impact on page 5 of the Group Strategic Report section of the annual report.

We held discussions with the Group to understand management's:

- process for identifying affected operations, including the governance and controls over the long-term assumptions used in the valuation of the Group's assets and liabilities, and the subsequent effect on the financial reporting for the Group; and
- long-term strategy to respond to climate change risks as they emerge including the effect on the Group's forecasts.

In conjunction with ESG specialists, our audit work has involved:

- understanding the entity's approach to climate change, the internal controls related to climate;
- performing a detailed assessment of climate considerations such as strict government measures, increased frequency of weather events and the analysing the impact of these considerations on portfolios, market behaviour and the valuation of illiquid property-backed assets; and
- assessing the impact of global warming on life expectancy and other estimates used in actuarial valuations.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBER OF SCOTTISH WIDOWS LIMITED (continued)**7.3 Our consideration of climate-related risks (continued)**

As part of our procedures, we are required to read the information including consideration of principal risks and uncertainties relating to climate change in the Group Strategic Report and to consider whether it is materially inconsistent with the financial statements, or our knowledge obtained during the course of our audit; we did not identify any material inconsistencies as a result of these procedures.

8. Other information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information contained within the annual report.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit, or otherwise appears to be materially misstated.

If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

9. Responsibilities of directors

As explained more fully in the statement of Directors' responsibilities, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Group's and the Company's ability to continue as a going concern, disclosing as applicable matters related to going concern, and using the going concern basis of accounting unless the directors either intend to liquidate the Group or the Company or to cease operations, or have no realistic alternative but to do so.

10. Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

11. Extent to which the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

11.1. Identifying and assessing potential risks related to irregularities

In identifying and assessing risks of material misstatement in respect of irregularities, including fraud and non-compliance with laws and regulations, we considered the following:

- the nature of the industry and sector, control environment and business performance including the design of the Group's remuneration policies, key drivers for directors' remuneration, bonus levels and performance targets;
- results of our enquiries of management, internal audit, the directors and the audit committee about their own identification and assessment of the risks of irregularities, including those that are specific to the Group's insurance sector;

INDEPENDENT AUDITOR'S REPORT TO THE MEMBER OF SCOTTISH WIDOWS LIMITED (continued)

- any matters we identified having obtained and reviewed the Group's documentation of their policies and procedures relating to:
 - identifying, evaluating and complying with laws and regulations and whether they were aware of any instances of non-compliance;
 - detecting and responding to the risks of fraud and whether they have knowledge of any actual, suspected or alleged fraud;
 - the internal controls established to mitigate risks of fraud or non-compliance with laws and regulations;
- the matters discussed among the audit engagement team and relevant internal specialists, including tax, valuations, life actuarial, IT and financial instrument specialists regarding how and where fraud might occur in the financial statements and any potential indicators of fraud.

As a result of these procedures, we considered the opportunities and incentives that may exist within the organisation for fraud and identified the greatest potential for fraud in the key audit matters, where identified as such above. We have concluded that all key audit matters present a fraud risk.

In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override.

We also obtained an understanding of the legal and regulatory frameworks that the Group operates in, focusing on provisions of those laws and regulations that had a direct effect on the determination of material amounts and disclosures in the financial statements. The key laws and regulations we considered in this context included the UK Companies Act, UK Listing Rules, the Solvency II regulatory framework and relevant tax legislation.

In addition, we considered provisions of other laws and regulations that do not have a direct effect on the financial statements but compliance with which may be fundamental to the Group's ability to operate or to avoid a material penalty. These included the Group's regulatory solvency requirements that are fundamental to the Group's ability to continue as a going concern, and compliance with the requirements of the FCA and PRA regulations.

11.2. Audit response to risks identified

As a result of performing the above, we identified the Group's determination of the following as key audit matters related to the potential risk of fraud:

- Base mortality and mortality improvement assumptions used for the annuity business;
- Maintenance expenses;
- Persistency assumptions used for the workplace pensions business;
- Illiquidity premium adjustment to the risk-free rate used in the valuation of the annuity business; and
- Valuation of illiquid financial instruments.

The key audit matters section of our report explains the matters in more detail and also describes the specific procedures we performed in response to those key audit matters.

In addition to the above, procedures to respond to risks identified included the following:

- reviewing the financial statement disclosures and testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described as having a direct effect on the financial statements;
- enquiring of management, the audit committee and in-house legal counsel concerning actual and potential litigation and claims;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- reading minutes of meetings of those charged with governance, reviewing internal audit reports and reviewing correspondence with the FCA and the PRA; and
- in addressing the risk of fraud through management override of controls, testing the appropriateness of journal entries and other adjustments; assessing whether the judgements made in making accounting estimates are indicative of a potential bias; and
- evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business.

We also communicated relevant identified laws and regulations and potential fraud risks to all engagement team members including internal specialists, and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBER OF SCOTTISH WIDOWS LIMITED (continued)**Report on other legal and regulatory requirements****12. Opinions on other matters prescribed by the Companies Act 2006**

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the Group and the Parent Company and their environment obtained in the course of the audit, we have not identified any material misstatements in the strategic report or the directors' report.

13. Matters on which we are required to report by exception**13.1. Adequacy of explanations received and accounting records**

Under the Companies Act 2006 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
- adequate accounting records have not been kept by the Parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the Parent Company financial statements are not in agreement with the accounting records and returns.

We have nothing to report in respect of these matters.

13.2. Directors' remuneration

Under the Companies Act 2006 we are also required to report if in our opinion certain disclosures of directors' remuneration have not been made.

We have nothing to report in respect of this matter.

14. Other matters which we are required to address**14.1. Auditor tenure**

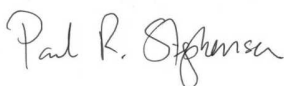
Following the recommendation of the Audit Committee, we were appointed by shareholders at its annual general meeting on 20 May 2021 to audit the financial statements of Scottish Widows Limited for the year ended 31 December 2021. Subsequent annual reappointments have resulted in a total uninterrupted engagement of the firm of five years, covering the years 31 December 2021 to 31 December 2025.

14.2 Consistency of the audit report with the additional report to the audit committee

Our audit opinion is consistent with the additional report to the audit committee we are required to provide in accordance with ISAs (UK).

15. Use of our report

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.



Paul Stephenson (Senior statutory auditor)

For and on behalf of Deloitte LLP

Statutory Auditor

London, United Kingdom

19 March 2026

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2025

	Note	2025 £m	2024 £m
		<i>Group</i>	<i>Group</i>
Insurance revenue	3	2,706	2,639
Insurance service expenses	4	(1,949)	(2,151)
Net expenses from reinsurance contracts held	5	(91)	(30)
Insurance service result		666	458
Investment income	6	5,070	4,910
Net gain on assets and liabilities at fair value through profit or loss	7	17,852	9,909
Investment return	8	22,922	14,819
Net finance expense from insurance and participating investment contracts	8	(15,350)	(10,406)
Net finance income from reinsurance contracts held	8	53	48
Change in contracts with reinsurers at fair value through profit or loss	8	1,082	1,448
Change in non-participating investment contract liabilities	8	(6,795)	(4,875)
Net profit attributable to external interests in collective investment vehicles	8	(2,012)	(1,147)
Net financial result		(100)	(113)
Fee and commission income	9	207	198
Other operating income	10	94	96
Other operating expenses	11	(627)	(707)
Other finance costs	12	(43)	(48)
Profit/(loss) before tax		197	(116)
Taxation charge	14	(262)	(43)
Loss for the year		(65)	(159)
Other comprehensive loss			
Items that may subsequently be reclassified to profit or loss			
Currency translation differences		(1)	(2)
Total comprehensive loss for the year		(66)	(161)

The notes set out on pages 40 to 178 are an integral part of these financial statements.

BALANCE SHEETS AS AT 31 DECEMBER 2025

	Note	31 December 2025		31 December 2024	
		£m	£m	£m	£m
		<i>Group</i>	<i>Company</i>	<i>Group</i>	<i>Company</i>
ASSETS					
Intangible assets	15	56	14	63	14
Deferred origination costs	16	38	37	42	42
Deferred tax assets	17	10	—	124	113
Current tax recoverable	17	42	32	99	84
Investment in subsidiaries	18	—	419	—	483
Investment properties	19	2,171	17	2,139	23
Insurance contract assets	29	77	77	—	—
Reinsurance contract assets	29	400	396	412	408
Contracts with reinsurers at fair value through profit or loss	22	8,168	8,168	10,527	10,527
Other assets	23	125	105	113	99
Derivative financial instruments	24	1,453	1,301	1,147	1,055
Loans and receivables at amortised cost	25	757	419	712	326
Investments at fair value through profit or loss	26	201,584	187,516	175,261	162,361
Cash and cash equivalents	27	229	198	214	179
Disposal group assets	47	—	—	5,072	5,072
Total assets		215,110	198,699	195,925	180,786
EQUITY AND LIABILITIES					
Capital and reserves attributable to the Group's equity shareholder					
Share capital	28	—	—	70	70
Share premium		—	—	1	1
Retained profits and other reserves		(195)	(14)	15	201
Total equity		(195)	(14)	86	272
Liabilities					
Insurance contract and participating investment contract liabilities	29	134,986	133,211	121,803	120,198
Reinsurance contract liabilities	29	17	9	14	6
Current tax liabilities	17	—	—	—	—
Deferred tax liabilities	17	65	36	13	—
Provisions for other liabilities and charges	36	96	43	85	35
Accruals and deferred income	37	16	4	19	7
Subordinated debt	38	509	538	508	545
Non-participating investment contract liabilities	39	61,640	61,616	51,225	51,221
Derivative financial instruments	24	2,435	2,168	2,613	2,292
Other financial liabilities	40	1,321	906	1,976	781
External interests in collective investment vehicles		14,033	—	12,149	—
Borrowings	41	182	182	161	161
Lease Liabilities	46	5	—	5	—
Disposal group liabilities	47	—	—	5,268	5,268
Total liabilities		215,305	198,713	195,839	180,514
Total equity and liabilities		215,110	198,699	195,925	180,786

Retained earnings for the Company includes profit/(loss) for the year of £(71) million (2024: £(122) million).

The notes set out on pages 40 to 178 are an integral part of these financial statements.

The financial statements on pages 35 to 36 were approved by the Board on 19 March 2026, and signed on behalf of the Board:

A handwritten signature in black ink, appearing to read 'S T Nyahasha', with a long horizontal flourish extending to the right.

S T Nyahasha

Director

19 March 2026

STATEMENTS OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2025

	Note	2025		2024	
		£m	£m	£m	£m
		<i>Group</i>	<i>Company</i>	<i>Group</i>	<i>Company</i>
Cash flows from operating activities					
Net Profit/(loss) before tax		197	98	(116)	(171)
Adjusted for:					
Amortisation of intangible assets	15	12	—	13	—
Other finance costs	12	43	43	48	48
Impairment in investment in subsidiary	18	—	64	—	40
Net decrease in operating assets and liabilities	42	45	19	973	967
Repayment of subordinated debt		—	—	—	—
Currency translation differences		(1)	—	(2)	—
Taxation (paid)/received		(40)	32	10	94
Net cash flows generated from operating activities		256	256	926	978
Cash flows from investing activities					
Addition of intangible assets	15	(4)	—	(2)	—
Capital injections to subsidiaries		—	—	—	(40)
Net cash flows used in investing activities		(4)	—	(2)	(40)
Cash flows from financing activities					
Dividends paid	48	(215)	(215)	(917)	(917)
Other finance costs	12	(43)	(43)	(48)	(48)
Net cash flows used in financing activities		(258)	(258)	(965)	(965)
Net decrease in cash and cash equivalents		(6)	(2)	(41)	(27)
Cash and cash equivalents at the beginning of the year		53	18	94	45
Net cash and cash equivalents at the end of the year	27	47	16	53	18

The notes set out on pages 40 to 178 are an integral part of these financial statements.

STATEMENTS OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2025

Group

	Note	Share capital £m	Share premium £m	Retained profits £m	Other Reserves £m	Total equity £m
Balance as at 1 January 2024		70	1	1,085	8	1,164
Loss for the year		—	—	(159)	—	(159)
Other comprehensive loss		—	—	—	—	—
Currency translation		—	—	—	(2)	(2)
Total comprehensive loss for the year		—	—	(159)	(2)	(161)
Dividend	48	—	—	(917)	—	(917)
Balance as at 31 December 2024		70	1	9	6	86
Loss for the year		—	—	(65)	—	(65)
Other comprehensive income		—	—	—	—	—
Currency translation		—	—	—	(1)	(1)
Total comprehensive loss for the year		—	—	(65)	(1)	(66)
Reduction of share capital and share premium	28	(70)	(1)	71	—	—
Dividend	48	—	—	(215)	—	(215)
Balance as at 31 December 2025		—	—	(200)	5	(195)

Company

	Note	Share capital £m	Share premium £m	Retained profits £m	Other Reserves £m	Total equity £m
Balance as at 1 January 2024		70	1	1,243	(3)	1,311
Loss for the year		—	—	(122)	—	(122)
Other comprehensive loss		—	—	—	—	—
Currency translation		—	—	—	—	—
Total comprehensive loss for the year		—	—	(122)	—	(122)
Dividend	48	—	—	(917)	—	(917)
Balance as at 31 December 2024		70	1	204	(3)	272
Loss for the year		—	—	(71)	—	(71)
Other comprehensive income		—	—	—	—	—
Currency translation		—	—	—	—	—
Total comprehensive loss for the year		—	—	(71)	—	(71)
Reduction of share capital and share premium	28	(70)	(1)	71	—	—
Dividend	48	—	—	(215)	—	(215)
Balance as at 31 December 2025		—	—	(11)	(3)	(14)

Not all of the above amounts can be distributed to the equity holder since the Company is required to meet regulatory capital requirements. Further details are given in note 44.

The notes set out on pages 40 to 178 are an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2025**1. Accounting policies**

The accounting policies adopted in the preparation of the financial statements, which have been consistently applied to all periods presented in these financial statements unless stated otherwise, are set out below.

(a) Basis of preparation

The financial statements of the Group and Company have been prepared:

- (1) in accordance with United Kingdom adopted international accounting standards in conformity with the requirements of the Companies Act 2006;
- (2) under the historical cost convention, as modified by the revaluation of investment properties and certain financial assets and financial liabilities at fair value through profit or loss, as set out in the relevant accounting policies, and insurance and reinsurance contract assets and liabilities measured at their fulfilment values plus (if any) CSM in accordance with IFRS 17.

The Directors are satisfied that the Group and Company have adequate resources to continue in business for the foreseeable future. Accordingly, the financial statements of the Group and Company have been prepared on a going concern basis.

In accordance with IAS 1 'Presentation of Financial Statements', assets and liabilities in the balance sheet are presented in accordance with management's estimated order of liquidity. Analysis of the assets and liabilities of the Group and Company into amounts expected to be received or settled within 12 months after the reporting date (current) and more than 12 months after the reporting date (non-current) is presented in the notes.

The Group has taken advantage of the provisions of section 408 of the Companies Act 2006 and has not disclosed a statement of comprehensive income and related notes in respect of the Company.

Standards and interpretations effective in 2025

The International Accounting Standards Board (IASB) has issued an amendment to IAS 21 The Effects of Changes in Foreign Exchange Rates, effective 1 January 2025. This amendment has not had a significant impact on the Group or Company.

As at the date of authorisation of these financial statements, the Group has not early adopted any issued amendments or standards. Details of standards and interpretations in issue but which have not been adopted early are set out at note 50.

(b) Basis of consolidation

The assets, liabilities and results of Group undertakings (including structured entities) are included on the basis of financial statements made up to the reporting date. Group undertakings include all entities controlled by the Group. The Group controls an entity when it has power over the entity, is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through the exercise of power. This generally accompanies a shareholding of more than one half of the voting rights. The existence and effect of substantive rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity and the Group reassesses whether or not it controls an entity if facts and circumstances indicate that there are changes to any of these elements.

Collective investment vehicles and limited partnerships ('investment vehicles') where the Group has control, in part through its long-term funds, are consolidated. Control arises where the Group has substantive rights to remove the external decision maker of the investment vehicle, and has a significant exposure to variable returns from the beneficial interest it holds in the investment vehicle.

Where a subsidiary or related party of the Group acts as the decision maker of an investment vehicle the Group considers a number of factors in determining whether it acts as principal and therefore controls the investment vehicle including: an assessment of the scope of the Group's decision-making authority over the investment vehicle; the rights held by other parties including substantive removal rights without cause over the Group acting as decision maker; the remuneration to which the Group is entitled in its capacity as decision maker; and the Group's exposure to variable returns from the beneficial interest it holds in the investment vehicle.

Consolidation can be appropriate in circumstances where the Group has less than a majority beneficial interest. Where a collective investment vehicle is consolidated the interest of parties other than the Group are reported within liabilities as external interests in collective investment vehicles. Where a limited partnership is consolidated the non-controlling interest is reported in equity. Group undertakings are fully consolidated from the date on which the ability to exercise control is transferred to the Group and cease to be consolidated from the date on which the ability to exercise control ceases.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2025**1. Accounting policies (continued)****(b) Basis of consolidation (continued)**

The treatment of transactions with non-controlling interests depends on whether, as a result of the transaction, the Group loses control of the subsidiary. Changes in the parent's ownership interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions; any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to the owners of the parent entity. Where the Group loses control of the subsidiary, at the date when control is lost the amount of any non-controlling interest in that former subsidiary is derecognised and any investment retained in the former subsidiary is remeasured to its fair value; the gain or loss that is recognised in profit or loss on the partial disposal of the subsidiary includes the gain or loss on the remeasurement of the retained interest.

Intragroup transactions, balances and gains and losses on transactions between Group companies have been eliminated.

All the financial statements included are uniformly prepared in conformity with IFRS Accounting Standards and the Group's accounting policies and the Group has adopted consistent accounting policies as at 31 December 2025 and 31 December 2024

(c) Product classification

The Group issues contracts that transfer insurance risk or financial risk or both.

Insurance and participating investment contracts

The Group enters into insurance contracts, reinsurance contracts (issued and held) and participating investment contracts.

Insurance contracts are contracts that transfer significant insurance risk and may also transfer financial risk. The Group defines significant insurance risk as the possibility of having to pay benefits on the occurrence of an insured event which are significantly higher than the benefits payable if the insured event were not to occur. If a reinsurance contract held does not expose the Group to the possibility of a significant loss, that contract is still deemed to transfer significant insurance risk if it transfers to the Group substantially all the insurance risk relating to the reinsured portions of the underlying insurance contracts. Once a contract has been classified as an insurance contract, it remains an insurance contract until all obligations are extinguished, even if the insurance risk reduces significantly over time, unless that contract is derecognised due to a contract modification. These contracts are classified as either direct participating contracts or contracts without direct participation features. Contracts without direct participation features are accounted for using the general measurement model for life contracts, for example annuities and non-linked protection products (see policy 1(u)vi). Direct participating contracts are contracts for which, at inception, the contractual terms specify the policyholders participate in a clearly identified pool of underlying items. Under the terms of these contracts the Group expects to pay the policyholders an amount equal to a substantial share of the returns on the underlying items, and the Group expects a substantial proportion of any change in the amounts to be paid to the policyholder to vary with the change in fair value of the underlying items. These contracts are accounted for under the variable fee approach and comprise with-profits and unit-linked products (see policy 1(u)vi).

Participating investment contracts are investment contracts that contain a discretionary participation feature (DPF), as defined below. They do not transfer significant insurance risk, but contain a contractual right to receive, as a supplement to an amount not subject to the discretion of the Group, additional amounts that are expected to be a significant portion of the total contractual benefits. The timing or amount of these additional amounts are at the discretion of the Group and are contractually based on the returns on a specified pool of contracts or type of contract, returns on a specified pool of assets held by the Group or profit or loss of a fund.

For certain insurance and investment contracts, the contract can be partly invested in units which contain a DPF and partly in units without. In these circumstances, where the contract also contains features that transfer significant insurance risk, they are classified as insurance contracts. Where this is not the case, and the discretionary cash flows are expected to be a significant portion of the total contractual benefits, they are classified as participating investment contracts, as described below. The investment component of the insurance and participating investment contract is non-distinct and is not separated.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2025**(c) Product classification (continued)***Investment contracts*

Any long-term contracts not considered to be insurance contracts under IFRS Accounting Standards because they do not transfer significant insurance risk are classified as investment contracts. Such contracts are further analysed between those with and without a discretionary participation feature (DPF). Contracts containing a DPF are referred to as participating investment contracts, or investment contracts with DPF, and those without a DPF as non-participating investment contracts.

A DPF is a contractual right that gives investors the right to receive, as a supplement to guaranteed benefits, additional discretionary benefits or bonuses that are likely to be a significant portion of the total contractual benefits, through participation in the surplus arising from the assets held in the fund. The Group has the discretion within the constraints of the terms and conditions of the contract to allocate part of this surplus to the policyholders and part to the Group's shareholder. Participating investment contracts issued by the Group are accounted for in accordance with the requirements of IFRS 17 'Insurance Contracts'.

Non-participating investment contracts are contracts that neither transfer significant insurance risk nor contain a DPF. Such contracts are accounted for as financial instruments under IFRS 9.

Financial assets and financial liabilities

Management determines the classification of its financial assets and financial liabilities at initial recognition. Management's policies for the recognition of specific financial assets and financial liabilities, as identified on the balance sheet, are set out under the relevant accounting policies.

On initial recognition, financial assets are classified as measured at amortised cost or fair value through profit or loss, depending on the Group's business model for managing the financial assets and whether the cash flows represent solely payments of principal and interest. The Group assesses its business models at a portfolio level based on its objectives for the relevant portfolio, how the performance of the portfolio is managed and reported, and the frequency of asset sales. Financial assets with embedded derivatives are considered in their entirety when considering their cash flow characteristics. The Group reclassifies financial assets when and only when its business model for managing those assets changes. A reclassification will only take place when the change is significant to the Group's operations and will occur at a portfolio level and not for individual instruments; reclassifications are expected to be rare. The Group initially recognises loans, debt securities and subordinated liabilities when the Group becomes a party to the contractual provisions of the instrument. Regular way purchases and sales of securities and other financial assets and trading liabilities are recognised on trade date, being the date that the Group is committed to purchase or sell an asset.

Financial assets are derecognised when the contractual right to receive cash flows from those assets has expired or when the Group has transferred its contractual right to receive the cash flows from the assets and either: substantially all of the risks and rewards of ownership have been transferred; or the Group has neither retained nor transferred substantially all of the risks and rewards, but has transferred control.

Financial liabilities are derecognised when the obligation is discharged, cancelled or expires.

Derivative assets (other than a derivative which is a designated and effective hedging instrument) are classified as held for trading. With the exception of derivative liabilities, no liabilities are classified as held for trading.

Transaction costs incidental to the acquisition of a financial asset classified as measured at fair value through profit or loss are expensed through the statement of comprehensive income, within net gains and losses on assets and liabilities at fair value through profit or loss.

Financial assets and financial liabilities are offset and the net amount reported in the balance sheet only when there is a legally enforceable right to offset the recognised amounts, both in the normal course of business and in the event of default, and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2025**1. Accounting policies (continued)****(d) Fair value methodology**

All assets and liabilities carried at fair value, or for which a fair value measurement is disclosed, are categorised into a 'fair value hierarchy' as follows:

(i) Level 1

Valued using quoted prices in active markets for identical assets and liabilities to those being valued. An active market is one in which similar arm's length transactions in the instrument occur with both sufficient frequency and volume to provide pricing information on an on-going basis. Examples include listed equities, listed debt securities, Open Ended Investment Companies (OEICs) and unit trusts traded in active markets, and exchange traded derivatives such as futures.

(ii) Level 2

Valued using inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices). If the asset or liability has a specified (contractual) term, a Level 2 input must be observable for substantially the full term of the asset or liability. Level 2 inputs include the following:

- Quoted prices for similar (but not identical) instruments in active markets
- Quoted prices for identical or similar instruments in markets that are not active, where prices are not current, or price quotations vary substantially either over time or among market makers
- Inputs other than quoted prices that are observable for the instrument (for example, interest rates and yield curves observable at commonly quoted intervals and default rates)
- Inputs that are derived principally from, or corroborated by, observable market data by correlation or other means
- Examples of these are securities measured using discounted cash flow models based on market observable swap yields such as Over the Counter interest rate swaps, listed debt and restricted equity securities.

(iii) Level 3

Valuations are based on mathematical models, market prices/data (where available) and subjective assumptions, including unobservable inputs. Unobservable inputs may have been used to measure fair value where observable inputs are not available. This approach allows for situations in which there is little, if any, market activity for the asset or liability at the measurement date (or market information for the inputs to any valuation models). Unobservable inputs reflect the assumptions the Group considers that market participants would use in pricing the asset or liability, for example private equity investments held by the Group and Company. Where estimates are used, these are based on a combination of independent third-party evidence and internally developed models, calibrated to market observable data where possible.

Examples of Level 3 assets include portfolio of illiquid loans and advances to customers, investments in private debt funds, private equity shares and complex derivatives.

Further analysis of the Group's and Company's instruments held at fair value is set out at note 44. The Group's management, through a Fair Value Pricing Committee, review information on the fair value of the Group's financial assets and the sensitivities to these values on a regular basis.

Transfers between different levels of the fair value hierarchy are deemed to have occurred at the next reporting date after the change in circumstances that caused the transfer.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2025**1. Accounting policies (continued)****(e) Revenue recognition***Insurance revenue*

The Group recognises insurance revenue to reflect the provision of services arising from groups of insurance and participating investment contracts at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those services. As the Group recognises insurance revenue, it reduces the liability for remaining coverage (LRC). Insurance revenue is the amount of profit released from the CSM in the period, plus items that relate to insurance services and that affect profit in the current period. It comprises the following:

- A release of the CSM, measured based on coverage units provided, see note 2b.(viii). For investment contracts with DPF (as described in policy 1(c)), the pattern of CSM release reflects the transfer of investment services under the contract;
- Changes in the risk adjustment for non-financial risk relating to current services;
- Expected claims and other insurance service expenses (measured at the amounts expected at the beginning of the period), excluding any amounts relating to the risk adjustment for non-financial risk and any amounts allocated to the loss component of the liability for incurred claims;
- Amounts related to income tax that are specifically chargeable to the policyholder;
- Amounts related to insurance acquisition cash flows.

Changes in the LRC that do not relate to services for which the Group expects to receive consideration, including investment components (see 1(u)i and 2(b)vii for more details on investment components), are excluded from insurance revenue.

The Group allocates a portion of premiums that relate to recovering insurance acquisition cash flows to each period based on the coverage units provided in the reporting period. The Group recognises the allocated amount as insurance revenue and an equal amount as insurance service expenses.

Fee and commission income

The Group receives on-going investment management fees which are recognised as revenue as the investment management services are provided on a daily basis throughout the life of the investment. These fees are charged as a percentage of the fund being managed and are taken directly from the fund, or typically settled monthly.

The Group also receives initial investment management fees in the form of an adjustment, or charge, to the amount invested. These fees are in respect of services rendered in conjunction with the issue and management of investment contracts where the Group actively manages the consideration received from its customers to fund a return that is based on the investment profile that the customer selected on origination of the contract. These services comprise an indeterminate number of acts over the lives of the individual contracts and, therefore, the Group defers these fees and recognises them on a straight-line basis over the estimated lives of the contracts unless there is evidence to support an alternative recognition basis. Where an alternative recognition basis is applied, this is calculated by reference to experience information in respect of the period over which income from contracts is earned. The income is recognised through the statement of comprehensive income, within fee and commission income. The liability is recognised in the balance sheet within accruals and deferred income until recognition criteria are met.

Investment income

Interest income for all interest-bearing financial instruments is recognised in the statement of comprehensive income as it accrues, within investment income.

Dividends receivable in respect of listed shares and collective investment vehicles are recognised on the date that these are quoted ex-dividend; other dividend income is recognised when the right to receive the dividend is established. All dividends received are recognised through the statement of comprehensive income, within investment income.

Rental income in respect of investment properties is recognised on a straight line basis over the term of the lease. The costs of incentives are recognised as a reduction of total income over the term of the lease on a straight line basis.

Net gains and losses on assets and liabilities at fair value through profit or loss

Net gains and losses on assets and liabilities at fair value through profit or loss includes both realised and unrealised gains and losses. Movements are recognised in the statement of comprehensive income in the period in which they arise. This includes derivatives used for risk mitigation (see note 2(b)(viii)).

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2025**1. Accounting policies (continued)****(e) Revenue recognition (continued)***Other operating income*

Within other operating income are rebates of annual management charges from external fund managers. Rebates are recognised when they are earned, as performance obligations are satisfied, being the Group's investment in the fund. The transaction price is calculated as a percentage of the fund value. Due to the ongoing investments in the fund, the Group recognises the revenue on a daily basis. Outstanding amounts are typically settled monthly.

(f) Accruals and deferred income

For non-participating investment contracts, the recognition of income is governed by IFRS 15. Income received for services to be provided in future periods is deferred and recognised in the statement of comprehensive income as the performance obligation is met. Estimation is required of the period that the business is expected to remain in force and an assessment of the duration of the Group's performance obligations are required for contracts which do not have a fixed maturity date. Further information on this liability is given in note 37.

(g) Expense recognition*Insurance service expense*

The Group presents in the income statement insurance service expenses arising from groups of insurance and participating investment contracts, generally as they are incurred. Insurance services expenses are comprised of the following amounts:

- incurred claims (excluding repayments of investment components, see 1(u)i and 2(b)vii for more details on investment components);
- other incurred insurance service expenses;
- the amortisation of insurance acquisition cash flows. This is equal to the amount of insurance revenue recognised in the year in relation to recovery of insurance acquisition cash flows;
- changes that relate to past service, i.e. changes in fulfilment cash flows relating to the liability for incurred claims;
- changes that relate to future service i.e. losses on onerous groups of contracts and reversals of such losses; and
- impairment losses on insurance acquisition assets.

Net income or expenses from reinsurance contracts held

The Group presents income or expenses from a group of reinsurance contracts held (other than insurance finance income or expenses), as a single amount. This amount represents the net of amounts recovered from the reinsurer and an allocation of the premiums paid to the reinsurer for the period.

For a group of reinsurance contracts held covering onerous underlying contracts, the Group establishes a loss-recovery component of the asset for remaining coverage to depict the recovery of losses recognised:

- on recognition of onerous underlying contracts, if the reinsurance contract covering those contracts is entered into before or at the same time as those contracts are recognised; and
- for changes in fulfilment cash flows of the group of reinsurance contracts relating to future services that result from changes in fulfilment cash flows of the onerous underlying contracts.

The loss-recovery component determines the amounts that are subsequently presented in profit or loss as reversals of recoveries of losses from the reinsurance contracts and are excluded from the allocation of reinsurance premiums paid. It is adjusted to reflect changes in the loss component of the onerous group of underlying contracts, but it cannot exceed the portion of the loss component of the onerous group of underlying contracts that the Group expects to recover from the reinsurance contracts.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2025**1. Accounting policies (continued)****(g) Expense recognition (continued)***Insurance finance income or expenses*

Insurance finance income and expenses comprise changes in the carrying amounts of groups of insurance, participating investment and reinsurance contracts arising from:

- the effects of the time value of money and changes in the time value of money; this includes the unwind of discount rates on the best estimate liabilities and interest accretion on the CSM;
- financial risk and changes in financial risk, including changes in discount rates from one reporting period to the next and where the risk mitigation option is applied (see note 2(b)viii), but;
- excluding any such changes for groups of direct participating contracts which are allocated to a loss component and included in insurance service expenses.

For the general measurement model (see 1(u)vi), insurance finance income or expenses comprise the effect of:

- the unwind of discount rates on the best estimate liabilities and interest accretion on the CSM;
- changes in discount rates from one reporting period to the next;
- the difference between the impact of demographic experience and assumptions change calculated at current rates when the CSM is unlocked (adjusted) at locked-in rates; and
- the impact of exchange differences on changes in the carrying amount of groups of insurance contracts.

For the variable fee approach (see 1(u)vi), insurance finance income or expenses are primarily:

- changes in the measurement of groups of contracts caused by changes in the value of underlying items (excluding additions and withdrawals);
- interest accreted and the effect of changes in financial assumptions on the best estimate liabilities that do not vary with returns on underlying items; and
- the impact of exchange differences on changes in the carrying amount of groups of insurance and participating investment contracts.

The Group has chosen not to disaggregate insurance finance income or expense between profit or loss and other comprehensive income, with it all being taken to profit or loss.

Operating expenses

Commission paid in respect of non-participating investment contracts written by the Group is recognised through the statement of comprehensive income, within operating expenses. Where certain criteria are met, commission and other origination costs relating to non-participating investment contracts may be deferred. The circumstances under which such costs are deferred are set out at policy 1(j).

Other operating expenses are recognised in the statement of comprehensive income as incurred, within operating expenses. This amount includes amounts presented in insurance service expenses arising from insurance and participating investment contracts (see above).

Expenses for asset management services received are recognised within operating expenses as they accrue. Where these expenses relate to IFRS 17 contracts, these amounts are reported within insurance service expenses.

(h) Leases

Assets leased to third parties, including properties leased to tenants, are classified as finance leases if the lease agreements transfer substantially all the risks and rewards of ownership to the lessee, otherwise they are classified as operating leases. Operating lease rental income and expenditure are recognised on a straight-line basis over the life of the leases through the statement of comprehensive income, within investment income and operating expenses respectively. Properties leased out to tenants under operating leases are included in investment properties in the balance sheet.

The Group has ground rent commitments on its investment properties, these commitments are accounted for as leases. The lease payments are discounted using the Group's incremental borrowing rate and the Group recognises the lease liabilities and a corresponding right-of-use asset in the balance sheet. The right-of-use asset is classified as investment property and is subsequently measured at fair value. Lease payments are allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2025**1. Accounting policies (continued)****(i) Intangible assets****(i) Acquired value of in-force business**

Non-participating investment contracts acquired in business combinations (other than business combinations of entities under common control) are initially measured at fair value at the time of acquisition. The initial fair value includes the recognition of an acquired value of in-force (acquired VIF) asset which reflects the present value of future cash flows expected from the business acquired. The asset is shown gross of attributable tax and a corresponding deferred tax liability has been established.

The acquired VIF balance and related tax is amortised over the estimated life of the contracts. The amortisation is carried out on a best estimate basis over the estimated life of the contracts. The amortisation charge for the year is recognised through the statement of comprehensive income, within operating expenses. The carrying value of the acquired VIF balance is tested for impairment at each reporting date or when there is an earlier indication of impairment (further information on the Group's impairment policy is set out at policy 1(r)). Such an asset is not recognised in respect of future profits on contracts written in the normal course of business.

(ii) Software development costs

Costs that are directly associated with the acquisition of software licences and the production of identifiable and unique software products controlled by the Group, and that is expected to generate economic benefits exceeding costs beyond one year, are recognised as intangible assets, subject to de minimis limits.

Direct costs include the software development team's employee costs and an appropriate portion of relevant overheads. All other costs associated with developing or maintaining computer software programmes are recognised through the statement of comprehensive income as an expense as incurred, within operating expenses.

Computer software development costs recognised as assets are valued at cost and amortised using the straight-line method over their expected useful lives, not exceeding a period of seven years. Subsequent expenditure is only capitalised when it increases the expected future economic benefits of the specific asset to which it relates. The amortisation charge for the year in respect of software licences and software development costs is recognised through the statement of comprehensive income, within operating expenses. The carrying value of the assets is tested for impairment at each reporting date. Further information on the Group's impairment policy is set out at policy 1(r).

(iii) Goodwill

Goodwill arises on business combinations and represents the excess of the cost of an acquisition over the fair value of the Group's share of the identifiable assets, liabilities and contingent liabilities acquired.

Goodwill is recognised as an asset at cost and is tested at least annually for impairment. If an impairment is identified the carrying value of the goodwill is written down immediately through the statement of comprehensive income and is not subsequently reversed. Further information on the Group's impairment policy is set out at policy 1(r). At the date of disposal of a subsidiary, the carrying value of attributable goodwill is included in the calculation of the profit or loss on disposal.

(j) Deferred origination costs

Costs which are directly attributable and incremental to securing new non-participating investment contracts are capitalised as deferred origination costs. This asset is subsequently amortised over the estimated contractual lifetime of each policy on a straight-line basis unless there is evidence to support an alternative recognition basis. Where an alternative recognition basis is applied, this is calculated by reference to experience information in respect of the period over which income from contracts is earned. The amortisation charge for the year is recognised through the statement of comprehensive income, within operating expenses. The carrying value of the asset is tested for impairment at each reporting date. Further information on the Group's impairment policy is set out at policy 1(r).

(k) Investment in subsidiaries

The Company owns a number of subsidiaries as set out in note 18. Certain subsidiaries do not form part of actively managed investment portfolios and the risks and rewards of owning those subsidiaries primarily rest with the shareholder of the Company, including such investments where ownership of the subsidiary is split between the Company's long-term fund and its shareholder fund. These subsidiaries are held initially at cost, being the fair value of the consideration given to acquire the holding, then subsequently at cost subject to impairment. Further information on the Group's impairment policy is set out at policy 1(r).

Subsidiaries representing holdings in collective investment vehicles are held primarily as vehicles through which specific investments are held as part of the actively managed investment portfolios, which are considered to be part of a business model that is managed and whose performance is evaluated on a fair value basis. Accordingly, such subsidiaries are carried at fair value and presented within investments at fair value through profit or loss in the Company as set out in policy 1(p). Changes in their fair value are reflected in the statement of comprehensive income, within net gains and losses on assets and liabilities at fair value through profit or loss.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2025**1. Accounting policies (continued)****(l) Investment properties**

Investment properties comprise freehold and long leasehold land and buildings, which are held either to earn rental income or for capital appreciation, or both, are initially measured at cost, being the fair value of the consideration given, including directly attributable transaction costs. Subsequently, on a periodic basis and at each reporting date, such properties are carried at fair value, being the open market value, as assessed by qualified external appraisers who have recent experience in the relevant location and the category of properties being valued. If this information is not available, alternative valuation methods such as discounted cash flow analysis or recent prices are used. Investment property being redeveloped for continuing use as investment property, or for which the market has become less active, continues to be measured at fair value.

Gains or losses arising from changes in the fair values of investment properties are recognised in the statement of comprehensive income in the period in which they arise, within net gains and losses on assets and liabilities at fair value through profit or loss.

Service charge income and expense are disclosed separately within the investment income and operating expense notes.

(m) Contracts with reinsurers at fair value through profit or loss

Contracts with reinsurers that do not transfer significant insurance risk to the reinsurer are measured as fair value through profit or loss as they are within a portfolio of financial assets that is managed and whose performance is evaluated on a fair value basis. These contracts, whilst legally reinsurance contracts, do not meet the definition of a reinsurance contract under IFRS Accounting Standards. Where this is the case, the amounts recoverable have been recognised as a financial asset on the face of the balance sheet. Changes in these assets are recognised on the face of the statement of comprehensive income, through change in contracts with reinsurers at fair value through profit or loss.

(n) Derivative financial instruments*Classification*

Derivative financial instruments, including embedded derivatives, are classified and measured at fair value through profit or loss. Certain derivatives are designated as effective hedging instruments, which are also held at fair value through profit or loss. Derivatives that are not designated as effective hedging instruments are used for the purposes of efficient portfolio management or to match contractual liabilities.

Recognition

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.

Measurement

Fair values are obtained from quoted market prices or, if these are not available, by using valuation techniques such as discounted cash flow models or other pricing models. Derivatives are presented as assets when the fair values are positive and as liabilities when the fair values are negative.

Changes in the fair value of derivatives are recognised in the statement of comprehensive income, through net gains and losses on assets and liabilities at fair value through profit or loss.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2025**1. Accounting policies (continued)****(n) Derivative financial instruments (continued)***Hedge accounting*

In limited circumstances, derivatives are designated as fair value hedges. Hedge accounting allows one instrument, generally a derivative such as a swap, to be designated as a hedge of another instrument such as a loan.

Derivatives may only be designated as hedging instruments provided certain strict criteria are met. At the inception of a hedge, its terms must be clearly documented and there must be an expectation that the derivative will be highly effective in offsetting changes in the fair value of the hedged risk. The hedge documentation must also specify the methodology that will be used to measure effectiveness. Changes in the fair value of derivatives that are designated as fair value hedges are recorded in the statement of comprehensive income, through net gains and losses on assets and liabilities at fair value through profit or loss, together with the changes in the fair value of the hedged asset or liability that are attributable to the hedged risk.

The effectiveness of the hedging relationship must be tested throughout its life. A hedge is regarded as highly effective if the change in fair value of the hedge instrument and the hedge item are negatively correlated within a range of 80 per cent to 125 per cent, either for the period since effectiveness was last tested or for the period since inception. Where the hedge is highly effective, the net impact on the statement of comprehensive income is minimised. If, at a reporting date, it is concluded that the hedge is no longer highly effective in achieving its objective, the hedge relationship is terminated. Should this happen, changes in the fair value of the hedged item are no longer recognised in the statement of comprehensive income and the adjustment that has been made to the carrying amount of the hedged item is amortised to the statement of comprehensive income over the period to maturity of the hedged item.

(o) Loans and receivables at amortised cost

Loans and receivables at amortised cost are financial assets, other than cash and cash equivalents that are held to collect contractual cash flows where those cash flows represent solely payments of principal and interest, a basic lending arrangement results in contractual cash flows that are solely payments of principal and interest on the principal amount outstanding. Where the contractual cash flows introduce exposure to risks or volatility unrelated to a basic lending arrangement such as changes in equity prices or commodity prices, the payments do not comprise solely principal and interest.

Loans and receivables at amortised cost are initially recognised at fair value less directly attributable transaction costs and subsequently measured at amortised cost, subject to impairment. Further information on the Group's impairment policy is set out at policy 1(r).

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2025**1. Accounting policies (continued)****(p) Investments at fair value through profit or loss**

Investments at fair value through profit or loss comprise debt, equity securities, loans and advances to banks and loans and advances to customers.

Classification

Financial assets are classified at fair value through profit or loss where they are within a portfolio of financial assets that is managed and whose performance is evaluated on a fair value basis or they do not otherwise meet the criteria to be measured at amortised cost. All derivatives and equity instruments are carried at fair value through profit or loss.

Financial liabilities are measured at fair value through profit or loss where they are designated at fair value through profit or loss in order to reduce an accounting mismatch or the liabilities are part of a group of liabilities (or assets and liabilities) which is managed, and its performance evaluated, on a fair value basis; or where the liabilities contain one or more embedded derivatives that significantly modify the cash flows arising under the contract and would otherwise need to be separately accounted for.

Recognition

Purchases and sales of financial assets are recognised on the trade date, i.e. the date the Group commits to purchase the asset from, or deliver the asset to, the counterparty. Investments are initially recognised at their fair value and are subsequently remeasured at fair value.

Measurement

The fair values of investments are based on current bid prices and therefore price in market expectations of the expected effects of potential changes to laws and regulations, risks associated with climate, credit and general market change and other factors. If the market for a financial asset is not active, and also for unlisted securities, the Group establishes fair value by using valuation techniques. These include the use of similar arm's length transactions and reference to other instruments that are substantially the same, making maximum use of market inputs and relying as little as possible on entity-specific inputs. Refer to note 1(d) Fair value methodology and note 44 Risk management for details of valuation techniques and significant inputs to valuation models.

In order to ensure that a fair value is recognised for unquoted or illiquid debt securities, the primary price source is an external broker valuation.

Structured entities

The Group invests in structured entities arising from investments in investment properties held through limited partnerships. The unconsolidated limited partnerships are initially recognised at cost, being the fair value of the consideration given. After initial recognition, such assets are accounted for and measured at fair value, which equates to the relevant proportion of the published net asset value of the Company. This valuation is based on open market valuations of the properties held by the limited partnership, as provided at the reporting date by independent valuers.

The Group holds investments in structured entities arising from investments in collective investment vehicles, carried at fair value. Some of these structured entities are consolidated, as set out at policy 1(b). Unconsolidated collective investment vehicles are carried at fair value.

(q) Cash and cash equivalents

Cash and cash equivalents includes cash at bank, short-term highly liquid investments with original maturities of three months or less (excluding such investments as otherwise meet this definition but which are held for investment purposes rather than for the purposes of meeting short-term cash commitments) and bank overdrafts where a legal right of set off exists.

Cash and cash equivalents that are held to collect contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. A basic lending arrangement results in contractual cash flows that are solely payments of principal and interest on the principal amount outstanding. Cash and cash equivalents that are within a portfolio of financial assets that are managed and whose performance is evaluated on a fair value basis or do not meet the criteria to be measured at amortised cost are classified and measured as investments at fair value through profit or loss, as set out in policy 1(p).

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2025**1. Accounting policies (continued)****(r) Impairment***Financial assets*

The impairment charge in the statement of comprehensive income includes the change in expected credit losses for financial assets held at amortised cost and certain lease receivables. Expected credit losses are calculated by using an appropriate probability of default and applying this to the estimated exposure of the Group at the point of default after taking into account the value of any collateral held or other mitigants of loss.

At initial recognition, allowance is made for expected credit losses resulting from default events that are possible within the next 12 months (12-month expected credit losses). In the event of a significant increase in credit risk, allowance is made for expected credit losses resulting from all possible default events over the expected life of the financial instrument (lifetime expected credit losses). Financial assets where 12-month expected credit losses are recognised are considered to be Stage 1; financial assets which are considered to have experienced a significant increase in credit risk are in Stage 2; and financial assets which have defaulted or are otherwise considered to be credit impaired are allocated to Stage 3.

An assessment of whether credit risk has increased significantly since initial recognition considers the change in the risk of default occurring over the remaining expected life of the financial instrument. The assessment is unbiased, probability-weighted and uses forward-looking information consistent with that used in the measurement of expected credit losses. In determining whether there has been a significant increase in credit risk, the Group uses quantitative tests based on relative and absolute probability of default (PD) movements linked to internal credit ratings and other indicators of historic delinquency. However, unless identified at an earlier stage, the credit risk of financial assets is deemed to have increased significantly when more than 30 days past due. Where the credit risk subsequently improves such that it no longer represents a significant increase in credit risk since initial recognition, the asset is transferred back to Stage 1.

For financial instruments that are considered to have low credit risk, the credit risk is assumed to not have increased significantly since initial recognition. Financial instruments are considered to have low credit risk when the borrower is considered to have a low risk of default from a market perspective. Typically financial instruments with an external credit rating of investment grade are considered to have low credit risk.

Assets are transferred to Stage 3 when they have defaulted or are otherwise considered to be credit impaired. IFRS 9 contains a rebuttable presumption that default occurs no later than when a payment is 90 days past due. The Group uses this 90 day backstop.

The loss allowance for lease receivables and trade receivables without a significant financing component is measured at an amount equal to lifetime expected credit losses, in accordance with the simplified approach in IFRS 9.

A loan or receivable is normally written off, either partially or in full, against the related allowance when the proceeds from realising any available security have been received or there is no realistic prospect of recovery and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off decrease the amount of impairment losses recorded in the statement of comprehensive income.

Non-financial assets

Assets that have an indefinite useful life, for example land, are not subject to depreciation or amortisation and are tested annually for impairment. Assets that are subject to amortisation 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 estimated recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and its value in use. For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows.

If there is objective evidence that an impairment loss has occurred, the amount of the loss is charged to the relevant line in the statement of comprehensive income in the period in which it occurs. Non-financial assets that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

Insurance acquisition cash flows

The Group assesses the recoverability of assets for insurance acquisition cash flows at the end of each reporting period (see policy 1(u)iv), if facts and circumstances indicate that an asset for insurance acquisition cash flows may be impaired. If the Group determines that the asset is impaired, then an impairment loss is recognised in profit or loss so that the carrying amount of the asset does not exceed the expected net cash inflow for the related group. The Group reverses any impairment losses in profit or loss and increases the carrying amount of the asset to the extent that the impairment conditions have improved or no longer exist.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2025**1. Accounting policies (continued)****(s) Taxes**

Tax expense comprises current and deferred tax. Current and deferred tax are charged or credited in the Statement of Comprehensive Income except to the extent that the tax arises from a transaction or event which is recognised, in the same or a different period, outside the Statement of Comprehensive Income (either in other comprehensive income, directly in equity, or through a business combination), in which case the tax appears in the same statement as the transaction that gave rise to it.

Current tax

Current tax is the amount of corporate income taxes expected to be payable or recoverable based on the profit for the period as adjusted for items that are not taxable or not deductible, and is calculated using tax rates and laws that were enacted or substantively enacted at the balance sheet date.

Current tax includes amounts provided in respect of uncertain tax positions when management expects that, upon examination of the uncertainty by His Majesty's Revenue and Customs (HMRC) or other relevant tax authority, it is more likely than not that an economic outflow will occur. Provisions reflect management's best estimate of the ultimate liability based on their interpretation of tax law, precedent and guidance, informed by external tax advice as necessary. Changes in facts and circumstances underlying these provisions are reassessed at each balance sheet date, and the provisions are re-measured as required to reflect current information.

Deferred tax

Deferred tax is recognised on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the balance sheet. Deferred tax is calculated using tax rates and laws that have been enacted or substantively enacted at the balance sheet date, and which are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled.

Deferred tax liabilities are generally recognised for all taxable temporary differences but not recognised for taxable temporary differences arising on investments in subsidiaries where the reversal of the temporary difference can be controlled and it is probable that the difference will not reverse in the foreseeable future. Deferred tax liabilities are not recognised on temporary differences that arise from goodwill which is not deductible for tax purposes.

Deferred tax assets are recognised to the extent it is probable that taxable profits will be available against which the deductible temporary differences can be utilised, and are reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are not recognised in respect of temporary differences that arise on initial recognition of assets and liabilities acquired other than in a business combination. Deferred tax is not discounted.

The Group has applied the exception to recognising and disclosing information about deferred tax assets and liabilities related to Pillar 2 income taxes currently required by IAS12 *Income Taxes*. No provision for Pillar 2 current tax is required in respect of this period.

Allocation of tax charge between shareholder and policyholders

The tax expense in the statement of comprehensive income is analysed between policyholder and shareholder tax. This allocation is based on the definition of policyholders' share and shareholders' share of taxable profit under current UK tax rules.

(t) Share capital

Shares are classified as equity when there is no obligation to transfer cash or other assets. Incremental costs directly attributable to the issue of equity instruments are shown in equity as a deduction from the proceeds, net of tax.

Dividends payable

Dividends payable on ordinary shares are recognised in equity in the period in which they are approved.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2025
1. Accounting policies (continued)**(u) Insurance contracts and participating investment contracts**

The Group issues life insurance and participating investment contracts to protect customers from the consequences of events (such as death, critical illness or disability) that would affect the ability of the customer or their dependents to maintain their current level of income and also issues pension and annuity contracts. Guaranteed claims paid on occurrence of the specified insured event are either fixed or linked to the extent of the economic loss suffered by the policyholder.

(i) Separating components from insurance contracts, participating investment contracts and reinsurance contracts

The Group separates the following components from insurance contracts (including reinsurance contracts) issued, participating investment contracts issued and reinsurance contracts held, and accounts for the components separately:

- Embedded derivatives whose economic characteristics and risks are not closely related to the economic characteristics and risks of the host contract, and whose terms would meet the definition of a derivative if it were a separate instrument. If the terms of the embedded derivative would not meet the definition of an insurance or reinsurance contract as a separate instrument, the embedded derivative is accounted for as if it were a separate financial instrument.
- Distinct investment components – that is investment components that are not highly interrelated with the insurance components and for which contracts with equivalent terms are sold, or could be sold, separately in the same market or the same jurisdiction. The distinct investment component is accounted for as if it were a separate financial instrument.
- Any promise to transfer to a policyholder distinct goods or services other than insurance contract services. The separated component is accounted for as if it were a separate contract with customers applying IFRS 15 'Revenue from Contracts with Customers'.

After separating these components, the Group applies IFRS 17 'Insurance Contracts' to all remaining components of the contract. Any separated components would be accounted for as financial instruments. Currently, the Group's contracts do not include components that require separation. All investment components have been assessed as highly interrelated with the insurance component due to being dependent on the insurance event.

(ii) Level of aggregation of insurance and reinsurance contracts

The Group aggregates insurance contracts, participating investment contracts and reinsurance contracts into portfolios of contracts subject to similar risks and managed together. Each portfolio of insurance contracts and reinsurance contracts is divided into annual cohorts (by year of issue). Annual cohorts of insurance contracts and reinsurance contracts issued are divided into groups as follows:

- contracts that are onerous at initial recognition;
- contracts that at initial recognition have no significant possibility of becoming onerous subsequently; and
- the remaining contracts in the portfolio.

Annual cohorts of reinsurance contracts held are divided into groups as follows:

- reinsurance contracts with a net gain at initial recognition,
- groups of contracts that at initial recognition have no significant possibility of a net gain arising subsequently, and the remaining contracts in the portfolio.

The Group assesses whether groups of contracts are onerous at least annually, as a result of significant repricing of contracts in the group, or as a result of changes in assumptions (further details of assumptions are given in note 43). Where this assessment indicates that a profitable group has become onerous (or vice versa), the Group considers whether a new group is required.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2025**1. Accounting policies (continued)****(u) Insurance contracts and participating investment contracts (continued)****(iii) Recognition***Insurance contracts*

The Group recognises a group of insurance contracts issued from the earliest of:

- the beginning of its coverage period (i.e. the period during which the Group provides insurance contract services in respect of any premiums within the boundary of the contract);
- when the first payment from the policyholder becomes due or, if there is no contractual due date, when it is received from the policyholder; and
- when facts and circumstances indicate that the contract is onerous.

An insurance contract acquired in a transfer of contracts or a business combination (other than a transfer of contracts or business combinations of entities under common control) is recognised on the date of acquisition.

When the contract is recognised, it is added to an existing group of contracts or, if the contract does not qualify for inclusion in an existing group, it forms a new group to which future contracts are added. Groups of contracts are established on initial recognition and their composition is not revised once all contracts have been added to the group.

Participating investment contracts

The Group recognises a group of participating investment contracts (as described in 1(c)) at the date when the Group or Company becomes party to the contract.

A participating investment contract acquired in a transfer of contracts or a business combination (other than a transfer of contracts or business combinations of entities under common control) is recognised on the date of acquisition.

Reinsurance contracts held

The Group recognises a group of reinsurance contracts held at the earliest of:

- the beginning of its coverage period. The Group delays the recognition of a group of reinsurance contracts held that provide proportionate coverage until the date when any underlying insurance contract is initially recognised, if that date is later than the beginning of the coverage period of the group of reinsurance contracts held; and
- the date the Group recognises an onerous group of underlying insurance contracts (see recognition of insurance contracts above), if the Group entered into the related reinsurance contract held in the group of reinsurance contracts held at or before that date.

Reinsurance contracts acquired (other than business combinations of entities under common control) are recognised on the date of acquisition.

(iv) Insurance acquisition cash flows

Insurance acquisition cash flows arise from the costs of selling, underwriting and starting a group of insurance contracts (issued or expected to be issued) that are directly attributable to the portfolio of insurance contracts to which the group belongs.

Insurance acquisition cash flows are allocated to groups of insurance contracts using a systematic and rational method.

Where insurance acquisition cash flows have been paid or incurred before the related group of insurance contracts is recognised in the balance sheet, a separate asset for insurance acquisition cash flows is recognised for each related group, which is presented as part of insurance and participating investment contract liabilities. Prior to the business transfer arrangement with Rothesay Life plc, such assets arose in respect of payments made for future bulk annuity contracts. However, on 13 March 2024, the Group entered into a business transfer agreement with Rothesay Life plc for the sale of the Group's bulk annuity business, (see note 47) and no further assets for insurance acquisition cash flows have arisen since then. The Group derecognises assets for insurance acquisition cash flows from the balance sheet when the insurance acquisition cash flows are included in the initial measurement of the CSM of the related group of insurance contracts.

At the end of each reporting period, the Group revises the amounts allocated to groups to reflect any changes in assumptions that determine the inputs to the allocation method used.

The Group assesses the recoverability of assets for insurance acquisition cash flows at the end of each reporting period as described in policy 1(r). The Group is no longer writing new bulk annuity business, and the bulk annuity assets for insurance acquisition cash flows were fully impaired in 2024.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2025
1. Accounting policies (continued)**(u) Insurance contracts and participating investment contracts (continued)****(v) Contract boundaries***Insurance contracts (excluding participating investment contracts)*

The measurement of a group of contracts includes all future cash flows within the boundary of each contract in the group. Cash flows are within the contract boundary if they arise from substantive rights and obligations that exist during the reporting period in which the Group can compel the policyholder to pay premiums or has a substantive obligation to provide services (including insurance coverage and any investment services). A substantive obligation to provide services ends when:

- the Group has the practical ability to reassess the risks of the particular policyholder and can set a price or level of benefits that fully reflects those reassessed risks; or
- the Group has the practical ability to reassess the risks of the portfolio that contains the contract and can set a price or level of benefits that fully reflects the risks of that portfolio, and the pricing of the premiums up to the reassessment date does not take into account risks that relate to periods after the reassessment date.

For example, where the terms of premium escalations, benefits and options are set out in the terms and conditions at inception, the cash flows for those premiums, benefits and options are included in the contract boundary.

For certain unitised with-profits and unit-linked policies, a guaranteed minimum pension is payable at a vesting date, and for certain conventional with-profits pensions, policyholders have the option to convert to an annuity on guaranteed terms. There is no contract boundary at the vesting date of these policies; the pre and post vesting date phases are treated as a single insurance contract.

The contract boundary of each group is reassessed at the end of each reporting period to include the effect of changes in circumstances on the Group's substantive rights and obligations.

Reinsurance contracts held

For groups of reinsurance contracts held, cash flows are within the contract boundary if they arise from substantive rights and obligations of the Group that exist during the reporting period in which the Group is compelled to pay amounts to the reinsurer or in which the Group has a substantive right to receive services from the reinsurer.

Except for the reinsurance of the Group's bulk annuity business with Rothesay Life plc, which were disposed of during the year (see note 47) and where the Group is no longer writing new bulk annuity business, for contracts initiated during the current year, the Group typically allows for 3 months of future new business within the contract boundary to reflect there being a 3 month notice period for both parties to change terms or cease trading, which creates a substantive obligation for the 3 month period.

The contract boundary for reinsurance contracts held on subsequent measurement is that arising from the underlying contract.

Participating Investment contracts

For participating investment contracts (as described in 1(c)), cash flows are within the contract boundary if they result from a substantive obligation of the Group to deliver cash at a present or future date. The Group has no substantive obligation to deliver cash if it has the practical ability to set a price for the promise to deliver the cash that fully reflects the amount of cash promised and related risks. For example, increments on pensions are within the contract boundary, because they are set out in the terms and conditions at inception, whereas for bonds, the terms and conditions do not obligate the Group to accept increments and the Group has the ability to re-price, so these increments are outside the contract boundary.

The contract boundary of each group is reassessed at the end of each reporting period as described above.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2025
1. Accounting policies (continued)**(u) Insurance contracts and participating investment contracts (continued)****(vi) Measurement**

The Group's insurance contracts without direct participation features are accounted for under the general measurement model of IFRS 17; the general model is modified for reinsurance contracts held. Contracts with direct participation features (direct participating contracts) are accounted for under the variable fee approach. The Group does not use the premium allocation approach due to the long-term nature of contracts issued. The following table provides further information about the Group's use of the IFRS 17 measurement models:

Product Group as Reported	Products	Measurement Model
Annuities	Bulk annuities, individual annuities (immediate and deferred)	General Measurement Model
Pensions and Investments	Corporate pensions, individual pensions, savings and bonds (all unit-linked and with-profits)	Variable Fee Approach
Protection and Other	Mostly non-linked protection, but also with-profits and unit-linked protection.	The majority of these products are General Measurement Model
Reinsurance contracts held	Reinsurance of bulk annuities, individual annuities, protection, and pensions, savings and bonds (unit linked and with-profits)	General Measurement Model (modified for reinsurance contracts held)

1. Initial measurement – insurance contracts and participating investment contracts

On initial recognition under both the general measurement model and the variable fee approach, the Group measures a group of insurance and participating investment contracts as the total of the fulfilment cash flows and the CSM. The fulfilment cash flows comprise unbiased and probability-weighted estimates of future cash flows, discounted to present value to reflect the time value of money and financial risks, plus a risk adjustment for non-financial risk.

The discount rate applied reflects the time value of money, the characteristics of the cash flows, the liquidity characteristics of the insurance and participating investment contracts and, where appropriate, is consistent with observable current market prices. For more information about discount rates see note 2.

The risk adjustment for non-financial risk for a group of insurance and participating investment contracts is the compensation required for bearing uncertainty about the amount and timing of the cash flows that arises from non-financial risk. The risk adjustment is explicit and determined separately from other fulfilment cash flows. For further information about the risk adjustment, see note 2(b)v.

The CSM of a group of insurance and participating investment contracts represents the unearned profit that the Group will recognise as it provides services under those contracts in the future. A CSM arises on initial recognition for a group of insurance and participating investment contracts when the total of the following is a net inflow:

- the fulfilment cash flows,
- any cash flows arising at that date and
- any amount arising from the derecognition of assets for insurance acquisition cash flows as described in policy 1(u)iv.

The CSM is measured as the equal and opposite amount of the net inflow, which results in no income or expenses arising on initial recognition.

In respect of contracts in the Group's with-profits fund, after the insurance coverage has been provided, payments may still be made to policyholders from the Group's shareholder fund. The Group does not allocate these fulfilment cash flows to specific groups, but instead recognises a separate liability comprising fulfilment cash flows plus a risk adjustment.

If the total of i) fulfilment cash flows allocated to a contract, ii) any previously recognised insurance acquisition cash flows and iii) any cash flows arising from the contract at the date of initial recognition in total is a net outflow, then the contract is onerous. In this case, the net outflow for the group of onerous contracts is recognised as a loss in profit or loss. A loss component is created to depict the amount of the net cash outflow, as described in policy 1(u)viii, which determines the amounts that are subsequently presented in profit or loss as reversals of losses on onerous contracts and are excluded from insurance revenue.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2025
1. Accounting policies (continued)**(u) Insurance contracts and participating investment contracts (continued)***2. Initial measurement – reinsurance contracts held*

On initial recognition, the Group measures a group of reinsurance contracts held using the same approach as for insurance contracts, with the following exceptions:

- estimates of the present value of future cash flows use assumptions that are consistent with the underlying insurance contracts;
- estimates of the present value of future cash flows include the effect of any risk of non-performance by the issuer of the reinsurance contract, including the effects of collateral and losses from disputes;
- the risk adjustment for non-financial risk is determined so that it represents the amount of risk being transferred by the holder of the group of reinsurance contracts to the issuer of those contracts;
- both gains and losses at initial recognition are recognised in the balance sheet as a CSM and released to profit or loss as the reinsurer provides services, except for any portion of a loss on initial recognition that relates to events before initial recognition. This portion of the loss on initial recognition is recognised in profit or loss; and
- if the Group recognises a loss on initial recognition of an onerous group of underlying insurance contracts or on addition of onerous underlying insurance contracts to a group, a loss-recovery component is recognised to reflect the recovery of future losses. This adjusts the CSM of the group of reinsurance contracts held, resulting in a gain to profit or loss. Loss-recovery components adjust the carrying amount of the asset for remaining coverage.

3. Subsequent measurement – general measurement model

The core feature of IFRS 17 is the general measurement model, under which the discount rates are locked in at the inception of the contract. Other financial assumptions are locked in prospectively, i.e. actual financial variables are used up to the measurement date and 'locked-in' financial variables are used for future periods.

IFRS 17 allows an accounting policy choice to be made between including insurance finance income or expenses for the period in profit or loss or disaggregating insurance income or expenses for the period to include in profit or loss an amount determined by a systematic allocation of the expected total insurance finance income or expenses over the duration of the group of contracts. The Group has chosen to recognise insurance finance income or expenses in profit or loss in the period in which they arise, as an accounting policy choice, as described in policy 1(u)viii.

This model is used for the Group's annuity and protection business. In addition, the Group has various conventional with-profit pensions and group and Directors' pension products which contain an option to convert to an annuity at vesting on guaranteed terms. The Group also has some unitised with-profit and unit-linked contracts that have a guaranteed minimum pension. Under IFRS 17, both the pre-vesting savings phase and the post-vesting annuity phase are treated as being within the same contract boundary. Such contracts do not meet the condition to be treated as direct participating contracts due to there being a short pre-vesting phase, which results in the fulfilment cash flows being largely independent of any underlying items. Such products are therefore accounted for under the general measurement model. Note 1(c) contains more information on the classification requirements of direct participating contracts.

The carrying amount of a group of insurance contracts at each reporting date is the sum of the liability for remaining coverage and the liability for incurred claims. The liability for remaining coverage comprises the fulfilment cash flows that relate to services that will be provided under the contracts in future periods and any remaining CSM at that date. The liability for incurred claims includes the fulfilment cash flows for incurred claims and expenses that have not yet been paid, including claims that have been incurred but not yet reported. The fulfilment cash flows of groups of insurance contracts are measured at the reporting date using current estimates of future cash flows, current discount rates and current estimates of the risk adjustment for non-financial risk. Changes in fulfilment cash flows are recognised as follows:

- Changes related to future service are adjusted against the CSM unless the group is onerous in which case such changes are recognised in the insurance service result in profit or loss;
- Changes related to past or current service are recognised in the insurance service result in profit or loss; and
- The effects of the time value of money and financial risk are recognised as insurance finance income or expenses in profit or loss.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2025**1. Accounting policies (continued)****(u) Insurance contracts and participating investment contracts (continued)**

The carrying amount of the CSM at the end of the reporting period is the carrying amount at the start of the year, adjusted for:

- the CSM of any new contracts that are added to the group in the year;
- interest accreted on the carrying amount of the CSM during the reporting period using the discount rate determined at the date of initial recognition of the group of contracts;
- the changes in fulfilment cash flows relating to future service (except where increases in fulfilment cash flows cause a group of contracts to become onerous or decreases in fulfilment cash flows are allocated to the loss component of the liability for remaining coverage);
- foreign exchange differences on the CSM; and
- the amount recognised as insurance revenue because of the insurance contract services provided in the year. This is based on coverage units, a measure used to determine the allocation of the CSM over the current and remaining coverage periods. Note 2(b)(ii) contains further information on coverage units.

Changes in fulfilment cash flows which relate to future service include:

- experience adjustments arising from premiums received in the period that relate to future service, and related cash flows such as insurance acquisition cash flows and premium-based taxes, measured at the discount rates determined at the date of initial recognition of the group of contracts;
- changes in estimates of the present value of the future cash flows in the liability for remaining coverage, except those which relate to the time value of money and financial risk, measured at the discount rates determined at the date of initial recognition of the group of contracts;
- differences between any investment component expected to become payable in the period and the actual investment component that becomes payable in the period, being determined by comparing the actual investment component that becomes payable in the period with the payment in the period that was expected at the start of the period plus any insurance finance income or expenses related to that expected payment before it becomes payable;
- changes in the risk adjustment for non-financial risk that relate to future service.

4. Subsequent measurement – general measurement model – reinsurance contracts held

All of the Group's reinsurance contracts held are measured using the general measurement model. To measure a group of reinsurance contracts held subsequently, the Group applies the same accounting policies as are applied to insurance contracts measured under the general measurement model, with some modifications.

The carrying amount of a group of reinsurance contracts at each reporting date is the sum of the asset for remaining coverage and the asset for incurred claims. The asset for remaining coverage comprises: the fulfilment cash flows that relate to services that will be received under the contracts in future periods; and any remaining CSM at that date. The asset for incurred claims comprises the fulfilment cash flows related to past service allocated to the group at the reporting date.

The Group measures the estimates of the present value of future cash flows using assumptions that are consistent with those used to measure the estimates of the present value of future cash flows for the underlying insurance contracts, with an adjustment for any risk of non-performance by the reinsurer. The effect of the non-performance risk of the reinsurer is assessed at each reporting date and the effect of changes in the non-performance risk is recognised in profit or loss.

The carrying amount of the CSM at the end of the reporting period for a group of reinsurance contracts held is the carrying amount at the start of the year, adjusted for:

- the CSM of any new contracts that are added to the group in the year;
- interest accreted on the carrying amount of the CSM during the reporting period using the discount rate determined at the date of initial recognition of the group of contracts;
- income recognised in profit or loss in the reporting period when the Group recognises a loss on initial recognition of an onerous group of underlying insurance contracts or on addition of onerous underlying insurance contracts to a group (see below for further details). This allows the loss arising on the underlying insurance contracts to be partially offset by corresponding income on reinsurance contracts held;
- reversals of a loss-recovery component (see 1(u)viii, presentation), to the extent those reversals are not changes in the fulfilment cash flows of the group of reinsurance contracts held;

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2025
1. Accounting policies (continued)**(u) Insurance contracts and participating investment contracts (continued)**

- the changes in fulfilment cash flows relating to future service, measured at the discount rate determined at the date of initial recognition (except where the change results from a change in fulfilment cash flows allocated to a group of onerous underlying contracts, in which case they are recognised in profit or loss and create or adjust a loss-recovery component);
- foreign exchange differences on the CSM; and
- the amount recognised in profit or loss because of services received in the period. This is based on coverage units, a measure used to determine the allocation of the CSM remaining at the end of the reporting period (before any allocation) over the current and remaining coverage period.

Reinsurance of onerous underlying contracts

The Group adjusts the CSM of the group to which a reinsurance contract belongs and as a result recognises income, when it recognises a loss on initial recognition of onerous underlying contracts, if the reinsurance contract is entered into before or at the same time as the onerous underlying contracts are recognised. The adjustment to the CSM is determined by multiplying:

- the amount of the loss that relates to the underlying contracts; and
- the percentage of claims on the underlying contracts that the Group expects to recover from the reinsurance contracts.

If the reinsurance contract covers only some of the insurance contracts included in an onerous group of contracts, then the Group uses a systematic and rational method to determine the portion of losses recognised on the onerous group of contracts that relates to underlying contracts covered by the reinsurance contract.

A loss recovery component is created or adjusted for the group of reinsurance contracts to depict the adjustment to the CSM, which determines the amounts that are subsequently presented in profit or loss as reversals of recoveries of losses from the reinsurance contracts and are excluded from the allocation of reinsurance premiums paid. For more information see policy 1(u)viii.

5. Subsequent measurement – variable fee approach

The majority of the Group's with-profits and unit-linked insurance contracts and participating investment contracts are direct participating contract as defined in policy 1(c), under which the Group's obligation to the policyholder is the payment of an amount equal to the fair value of the underlying items, less a variable fee. These contracts comprise the Group's pensions products and some protection products. The variable fee is deducted in exchange for the future service provided by the insurance contract, comprising:

- i. the amount of the entity's share of the fair value of the underlying items; less
- ii. fulfilment cash flows that do not vary based on the returns on underlying items.

Unit-linked insurance contracts that are not direct participating contracts are those with guaranteed minimum pensions. Similarly, certain unitised with-profits contracts have guaranteed minimum pensions and certain conventional with-profits contracts and deferred annuity contracts have guaranteed annuity options. These contracts are accounted for under the general measurement model (see policy 1(u)vi 3).

Estimates of future cash flows are discounted at current, market consistent risk-free rates. For more detail on discount rates, see note 2.

On subsequent measurement of a group of direct participating contracts, changes to the fulfilment cash flows reflecting changes in the obligation to pay the policyholder an amount equal to the fair value of the underlying items are recognised in profit or loss, because they do not relate to future service and so do not adjust the CSM.

The CSM is adjusted for changes in the amount of the Group's share of the fair value of the underlying items, which relate to future services, as explained below.

The carrying amount of the CSM at the end of the reporting period is the carrying amount at the start of the year, adjusted for:

- the CSM of any new contracts that are added to the group in the year;
- the change in the amount of the Group's share of the fair value of the underlying items and changes in fulfilment cash flows that relate to future services, except where:
 - the Group has applied the risk mitigation option to exclude from the CSM changes in the effect of financial risk on the amount of its share of the underlying items or fulfilment cash flows, as described in note 2b viii;

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2025**1. Accounting policies (continued)****(u) Insurance contracts and participating investment contracts (continued)**

- a loss component is established (or increased) as a result of a decrease in the amount of the Group's share of the fair value of the underlying items, or an increase in the fulfilment cash flows that relate to future services, exceeding the carrying amount of the CSM; or
- an increase in the amount of the Group's share of the fair value of the underlying items, or a decrease in the fulfilment cash flows that relate to future services, is allocated to the loss component, reversing losses previously recognised from establishing or increasing a loss component.
- foreign exchange differences on the CSM; and
- the amount recognised as insurance revenue because of the services provided in the year (see policy 1(e)).

Where changes to fulfilment cash flows are not the result of returns on underlying items:

- those comprising the change in the effect of the time value of money and financial risks not arising from underlying items (such as financial guarantees) adjust the CSM, since they relate to future services, except where the Group has applied the risk mitigation option (see note 2(b)viii); and
- the Group determines whether all other changes relate to future service as described in policy 1(u)vi 3. Those relating to future service adjust the CSM.

6. Transition to IFRS 17

IFRS 17 required a Full Retrospective Approach, unless impracticable. The Full Retrospective Approach was deemed impracticable for contracts initially recognised prior to 2016. This was the date when Solvency II models, required to calculate the Risk Adjustment, became available and were used within the Group. Prior to this date, the models required to calculate the Risk Adjustment were not in use within the business and hindsight would be required to retrospectively calculate the Risk Adjustment prior to that point. The Group decided to use the Fair Value approach for business initially recognised prior to 2016.

Under the Fair Value approach, the CSM (or the loss component) at 1 January 2022 was determined as the difference between the fair value of a group of contracts at that date and the fulfilment cash flows at that date. Fair value was determined using an economic value creation model. The model considered the expected profit arising in each future period as the value of the realistic cash flow less the release of required capital. The stream of profits derived was then discounted at a required rate of return.

The key assumptions underlying the fair value calculation of the liabilities are:

- The market participant in the transaction is assumed to share the same characteristics as the Group since a third party purchasing the portfolio of contracts would be expected to be of similar structure and scale;
- Consequently, the assumptions used in the fair value calculation are aligned to the best estimate assumptions applying to the Group's regulatory calculations as at 1 January 2022;
- The required capital assumed in the fair value calculation is the regulatory capital requirement of the portfolio of contracts at 1 January 2022 plus the additional internal capital buffer.

For all contracts measured using the fair value approach, the Group used reasonable and supportable information available at 1 January 2022 to determine:

- How to identify groups of contracts;
- Whether a contract meets the definition of a direct participating contract;
- How to identify discretionary cash flows for insurance contracts without direct participation features, and
- Whether an investment contract meets the definition of an investment contract with discretionary participation features.

In applying this approach, the Group did not split groups of contracts into annual cohorts but instead took the optional exemption in IFRS 17, which allows groups of contracts to include contracts issued more than one year apart. The discount rates on initial recognition were determined at 1 January 2022 instead of the date of initial recognition.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2025**1. Accounting policies (continued)****(u) Insurance contracts and participating investment contracts (continued)****(vii) Derecognition and contract modifications**

The Group derecognises an insurance contract (including a reinsurance contract) or participating investment contract issued when it is extinguished (that is, when the obligation specified in the contract expires or is discharged or cancelled).

The Group also derecognises an insurance contract (including a reinsurance contract) or participating investment contract issued if its terms are modified in a way that would have changed the accounting for the contract significantly had the new terms always existed, in which case a new contract based on the modified terms is recognised. If a contract modification does not result in derecognition, then the Group treats the changes in cash flows caused by the modification as changes in estimates of fulfilment cash flows.

On derecognition of an insurance contract (including a reinsurance contract) or a participating investment contract issued from a group of contracts, the Group:

- adjusts the fulfilment cash flows to eliminate the present value of future cash flows and risk adjustment for non-financial risk relating to the rights and obligations that have been derecognised from the group of contracts;
- adjusts the CSM of the group of contracts for the change in the fulfilment cash flows, except where such changes are allocated to a loss component;
- adjusts the number of coverage units for the expected remaining services, to reflect the number of coverage units derecognised from the group of contract;
- has made an accounting policy choice relating to the presentation of the release of acquisition costs on derecognition following contract modifications whereby such amounts are netted against the loss on modification shown in insurance service expenses, as opposed to being presented within insurance revenue.

If a contract is derecognised because it is transferred to a third party, then the CSM of the group of contracts from which the transferred contract is derecognised is also adjusted for the premium charged by the third party, unless the group is onerous.

If a contract is derecognised because its terms are modified, then the CSM of the group of contracts from which the modified contract is derecognised is also adjusted for the premium that would have been charged had the Group entered into a contract with the new contract's terms at the date of modification, less any additional premium charged for the modification. If the new contract recognised is insurance contract (including a reinsurance contract) or a participating investment contract issued, then it is measured assuming that, at the date of modification, the Group received the premium that it would have charged less any additional premium charged for the modification.

Where the adjustments to CSM result in the CSM being reduced to nil, any further adjustments are recognised in the income statement in insurance service expenses.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2025**1. Accounting policies (continued)****(u) Insurance contracts and participating investment contracts (continued)****(viii) Presentation**

The Group presents separately in the balance sheet the carrying amount of portfolios of insurance contracts (including reinsurance contracts) and participating investment contracts issued that are assets, portfolios of insurance contracts (including reinsurance contracts) and participating investment contracts issued that are liabilities, portfolios of reinsurance contracts held that are assets and portfolios of reinsurance contracts held that are liabilities. Any assets for insurance acquisition cash flows recognised before the corresponding insurance contracts are recognised are included in the carrying amount of the related portfolios of insurance contracts issued. Such assets arose on the Group's bulk annuity business, but are no longer recognised following the Group's business transfer arrangements with Rothesay Life plc for the sale of the Group's bulk annuity business (see note 47).

The Group disaggregates the amounts recognised in the statement of comprehensive income into an insurance service result, comprising insurance revenue and insurance service expenses, and insurance finance income or expenses. The Group does not disaggregate the change in risk adjustment for non-financial risk between the insurance service result and insurance finance income or expenses and includes the entire change as part of the insurance service result. The Group separately presents income or expenses from reinsurance contracts held from the expenses or income from insurance contracts (including reinsurance contracts) and participating investment contracts issued.

The Group has chosen to include all insurance finance income and expenses in profit or loss.

For more information on presentation of revenue and expenses, see policies 1(e) and 1(g).

Loss components

The Group establishes a loss component, as part of the LRC, which is a notional record of the losses attributable to each group of onerous insurance and participating investment contracts. Losses are immediately recognised in profit or loss through insurance service expenses, as described in policy 1(g). The loss component determines the amounts of fulfilment cash flows that are subsequently presented in profit or loss as reversals of losses on onerous groups and are therefore excluded from insurance revenue. Subsequent changes in the fulfilment cash flows of the LRC are allocated on a systematic basis between the loss component of the LRC and the LRC, excluding the loss component. Changes in fulfilment cash flows relating to future services and changes in the amount of the Group's share of the fair value of the underlying items for direct participating contracts are allocated solely to the loss component. If the loss component is reduced to zero, then any excess over the amount allocated to the loss component creates a new CSM for the group of contracts. The loss component is also updated for subsequent changes relating to future service in estimates of the fulfilment cash flows and the risk adjustment for non-financial risk.

The systematic allocation of subsequent changes to the loss component results in the total amounts allocated to the loss component being equal to zero by the end of the coverage period of a group of contracts (since the loss component will have been materialised in the form of incurred claims). The Group uses the proportion at the beginning of each year (on initial recognition if a group of contracts is initially recognised in the year) to determine the systematic allocation of subsequent changes in future cash flows between the loss component of the LRC and LRC, excluding the loss component.

Loss recovery components

As described in policy 1(u)vi, the Group establishes a loss-recovery component of the asset for remaining coverage to depict the recovery of future losses:

- on recognition of onerous underlying contracts, if the reinsurance contract covering those contracts is entered into before or at the same time as those contracts are recognised; and
- for changes in fulfilment cash flows of the group of reinsurance contracts relating to future services that result from changes in fulfilment cash flows of the onerous underlying contracts.

The loss-recovery component determines the amounts that are presented in profit or loss as reversals of recoveries of losses from the reinsurance contracts held and are therefore excluded from the allocation of reinsurance premiums paid. It is adjusted to reflect changes in the loss component of the onerous group of underlying contracts, but only to the extent that the Group expects to recover from the reinsurance contracts held, since reinsurance contracts held cannot be onerous.

Income tax expenses specifically chargeable to policyholders

When income and expenses are specifically chargeable to the policyholder under the terms of the contract, the Group includes the charges to the policyholder and offsetting policyholder tax payable to the tax authorities in the fulfilment cash flows, in accordance with IFRS 17. These are recognised in insurance revenue when incurred.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2025**1. Accounting policies (continued)****(v) Provisions for other liabilities and charges**

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, when it is probable that the obligation will result in an outflow of resources to settle the obligation and when a reliable estimate of the amount of the obligation can be made. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessment of the time value of money and, where appropriate, the risks specific to the liability.

The Group recognises a provision for onerous contracts when the expected benefits to be derived from contracts are less than the unavoidable costs of meeting the obligations under the contracts.

Contingent liabilities are possible obligations whose existence depends on the outcome of uncertain future events or those present obligations where the outflows of resources are uncertain or cannot be measured reliably. Contingent liabilities are not recognised in the financial statements but are disclosed unless the likelihood of possible obligations arising is remote.

(w) Subordinated debt

Subordinated debt comprises dated and undated loan capital. They are recognised initially at fair value, being the issue proceeds net of transaction costs incurred. Subordinated debt is subsequently stated at amortised cost: any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the statement of comprehensive income through finance costs over the period of the liabilities using the effective interest rate applicable to the instrument. Both dated and undated subordinated debt is adjusted for hedged interest rate risk. Changes in the resulting value of this subordinated debt is accounted for as set out at policy 1(p). Interest payable is recognised in the statement of comprehensive income, through finance costs.

The subordinated guaranteed bonds are classified as a liability on the basis of the existence of a capital disqualification event considered to be a genuine settlement provision in the context of current uncertainty surrounding the direction of future regulatory rule developments.

(x) Non-participating investment contracts

The Group's non-participating investment contracts are primarily unit-linked. These contracts are accounted for as financial liabilities whose value is contractually linked to the fair values of financial assets within the Group's unitised investment funds. The value of the unit-linked financial liabilities is determined using current unit prices multiplied by the number of units attributed to the contract holders at the reporting date. Their value is never less than the amount payable on surrender, discounted for the required notice period where applicable. Investment income allocated to non-participating investment contracts is presented within investment income, with corresponding movements being included in change in non-participating investment contract liabilities.

Deposits and withdrawals are not accounted for through the statement of comprehensive income but are accounted for directly in the balance sheet as adjustments to the liability arising from non-participating investment contracts.

Fee and commission income in relation to non-participating unit linked investment business is presented within the statement of comprehensive income within fee and commission income.

(y) Other financial liabilities

Other financial liabilities are initially recognised at fair value less directly attributable transaction costs and subsequently measured at amortised cost. In practice, the carrying value of these balances equates to the fair value due to the short-term nature of the amounts included within other financial liabilities.

(z) External interests in collective investment vehicles

External interests in collective investment vehicles which are accounted for by the Group as investments in subsidiaries as set out at policy 1(k) above are initially recognised, and subsequently measured at amortised cost. Due to the nature of these balances, the carrying value equates to the fair value. The fair value of holdings in these funds is determined at the valuation point applicable to the collective investment vehicles at the reporting date as set out under policy 1(p) above. Changes in the value of this balance are recognised in the statement of comprehensive income, through net profit attributable to external interests in collective investment vehicles.

(aa) Borrowings

Borrowings are recognised initially at fair value, being the issue proceeds net of transaction costs incurred. In practice, due to the nature of these balances, being bank overdrafts, the carrying value equates to the fair value of these liabilities as the borrowings are repayable on demand.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2025**1. Accounting policies (continued)****(ab) Foreign currency translation**

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'). The consolidated financial statements are presented in pounds sterling, rounded to the nearest million, which is the Company's presentation and functional currency.

Monetary items denominated in foreign currencies are translated into sterling at the exchange rates ruling at the reporting date. Non-monetary items denominated in foreign currencies that are measured at fair value are translated at the exchange rates ruling at the date when the current fair value is determined. Non-monetary items denominated in foreign currencies that are measured at historical cost are translated at the exchange rates ruling at the date of the transaction. Revenue transactions and those relating to the acquisition and realisation of investments have been translated at rates of exchange ruling at the time of the respective transactions. Any exchange differences are dealt with in that part of the statement of comprehensive income in which the underlying transaction is reported.

The results and financial position of the Group's foreign operations that have a functional currency different from the presentational currency are translated into sterling at foreign exchange rates ruling at the balance sheet date.

The income and expenses of foreign operations are translated into sterling at average exchange rates, unless these do not approximate to the foreign exchange rates ruling at the dates of the transactions in which case income and expenses are translated at the dates of the transactions. Foreign exchange differences arising on the translation of foreign operations are recognised in other comprehensive income.

(ac) Collateral

The Group receives or pledges collateral in the form of cash or securities in respect of derivative transactions it undertakes. The Group also receives collateral in the form of securities in respect of stock lending agreements, repurchase agreements, certain loans made to related parties and bulk annuity contracts. Cash collateral received is recognised as an asset on the balance sheet. Non-cash collateral is recognised as an asset on the balance sheet when the Group has the right to sell or repledge the collateral and when the transferor has defaulted. A corresponding liability for repayment of collateral is recognised in financial liabilities. Collateral received that is not recognised on the balance sheet is legally segregated from the assets of the Group. Cash collateral pledged is derecognised from the balance sheet and a corresponding asset is recognised. Non-cash collateral continues to be recognised on the balance sheet as the Group retains the risks and rewards of ownership.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2025**2. Critical accounting judgments and estimates**

The Group's management makes estimates and judgements that affect the reported amount of assets and liabilities. Estimates and judgements are continually evaluated and based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

a. Key sources of estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

i. Insurance contracts and participating investment contract liabilities

The estimation of the ultimate liability arising from insurance contracts and participating investment contracts, being fulfilment cash flows plus the CSM, is the Group's most key source of estimation uncertainty. Fulfilment cash flows comprise estimates of future cash flows, an adjustment for the time value of money and the financial risks related to future cash flows, and a risk adjustment for non-financial risk.

Estimates of future cash flows

The Group estimates future cash flows based on which cash flows are expected and the probability that they will occur as at the measurement date (see note 2(b)(ii) for more information on judgements regarding which cash flows are included). The Group uses information about past events, current conditions and forecasts of future conditions to inform these expectations. The Group's estimate of future cash flows is the mean of a range of scenarios that reflect the full range of possible outcomes, considering all reasonable and supportable information available at the reporting date. The probability-weighted average of the future cash flows is calculated using a deterministic scenario representing the probability-weighted mean of a range of scenarios, except for with-profits business, which uses stochastic simulation models as described below.

The Group uses assumptions to develop estimates of future cash flows. These assumptions are reassessed at each reporting date to reflect conditions existing at the measurement date.

For non-participating contracts, uncertainty in the estimation of future claims and benefit payments and premium receipts arises primarily from the unpredictability of long-term changes in the mortality rates, the variability in policyholder behaviour, and uncertainties regarding future inflation rates and expenses growth.

For the participating contracts, uncertainty in the estimation of future claims and benefit payments arises primarily from the variability in policyholder behaviour. Guarantees embedded in investment contracts with DPF are measured using stochastic modelling, because the guarantee does not move symmetrically with different scenarios relevant to those guarantees. The guarantees are measured using a full range of scenarios representing possible future environments.

For insurance contracts outside the With Profits Funds and Unit Linked Funds, the liabilities are calculated using a projection of future cash flows after making best estimate assumptions about matters such as risk free returns, expenses, credit default and mortality.

The liabilities of the Group's With Profits Funds are calculated using underlying asset or liability market values and stochastic simulation models which value liabilities on a basis consistent with tradable market option contracts (a 'market-consistent' basis). The liabilities are sensitive to both financial market conditions and changes to a number of non-economic assumptions, such as the level of take-up of options inherent in the contracts, mortality rates and lapses prior to dates at which a guarantee would apply.

The liabilities of the Group's Unit Linked Funds that are in scope for IFRS 17 are calculated using underlying asset or liability market values and a projection of future cash flows after making best estimate assumptions about matters such as risk free returns, expenses and annual management charges. The liabilities are sensitive to both financial market conditions and changes to a number of non-economic assumptions, such as premium increments, lapses and the date when policyholder contributions cease.

More information on these assumptions is available in note 43.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2025**2. Critical accounting judgments and estimates (continued)***Discount rates (including illiquidity premium)*

Information about the judgements made in the approach to determine discount rates, including illiquidity premium, is presented in note 2(b)(vi). The yield curves that were used to discount the estimates of future cash flows that do not vary based on the returns of the underlying items are as follows:

Group and Company as at 31 December 2025

	Currency	1 year	5 years	10 years	20 years	30 years
Individual Annuities	£	4.74 %	5.25 %	6.00 %	6.24 %	5.57 %
Pensions and Investments	£	3.50 %	4.01 %	4.76 %	5.00 %	4.33 %
Protection and Other ¹	£	3.50 %	4.01 %	4.76 %	5.00 %	4.33 %

¹Included within Protection and Other is whole of life protection, which has an additional illiquidity premium of 27bps.

Group and Company as at 31 December 2024

	Currency	1 year	5 years	10 years	20 years	30 years
Individual Annuities	£	5.59 %	5.19 %	5.68 %	5.73 %	5.07 %
Bulk Annuities	£	5.61 %	5.21 %	5.69 %	5.75 %	5.09 %
Pensions and Investments	£	4.29 %	3.89 %	4.37 %	4.43 %	3.77 %
Protection and Other ¹	£	4.29 %	3.89 %	4.37 %	4.43 %	3.77 %
Reinsurance contracts held relating to bulk annuity business ²	£	5.61 %	5.21 %	5.69 %	5.75 %	5.09 %

¹Included within Protection and Other is whole of life protection, which has an additional illiquidity premium of 24bps.

²The yield curve for reinsurance contracts held relating to bulk annuity business is primarily driven by the reinsurance agreement between the Group and Rothesay Life plc that was signed on 30 April 2024 to materially de-risk the Group's bulk annuity portfolio. Further details of this transaction are provided in Note 47.

ii. Fair value of financial instruments

In accordance with IFRS 13, the Group categorises financial instruments carried on the balance sheet at fair value using a three level hierarchy. Financial instruments categorised as Level 1 are valued using quoted market prices and therefore there is minimal judgement applied in determining fair value. However, the fair value of financial instruments categorised as Level 2 and, in particular, Level 3 is determined using valuation techniques. These valuation techniques involve management judgement and estimates, the extent of which depends on the complexity of the instrument and the availability of market observable information. Further details of these valuations are described in note 44.

iii. Provisions for other liabilities and charges

The Group continues to receive claims in Germany and Austria from customers relating to policies historically issued by the Company, under its former name of Clerical Medical Investment Group Limited but sold by independent intermediaries in Germany and Austria, principally during the late 1990s and early 2000s. These policies have subsequently been transferred to a subsidiary (Scottish Widows Europe S.A.), however, an indemnity has been provided by the Company to Scottish Widows Europe S.A. to cover the ongoing cost of claims.

New complaint and litigation volumes have continued to reduce in 2025. The total provision made to 31 December 2025 is £709 million (2024: £709 million); utilisation has decreased to £4 million in the year ended 31 December 2025 (2024: £13 million); the remaining unutilised provision as at 31 December 2025 is £58 million (2024: £62 million).

The validity of the claims facing the Group depends upon the facts and circumstances in respect of each claim. As a result the ultimate financial effect, which could be significantly different from the current provision, will only be known once all relevant claims have been resolved.

The Directors believe this provision represents an appropriate estimate of the financial impact based upon a series of assumptions, including the number of claims received from the respective populations of different classes of policies, the proportion upheld, and resulting legal and administration costs. Further information in relation to the provision is set out in note 36.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2025**2. Critical accounting judgments and estimates (continued)****b. Critical judgements**

The Directors also use judgement in the process of applying the Group's accounting policies. The following judgements have the most significant effect on the amounts recognised in the consolidated financial statements.

i. Assessment of significant insurance risk

Insurance contracts are those contracts which transfer significant insurance risk. As a general guideline, the Group and the Company defines significant insurance risk as the possibility of having to pay benefits on the occurrence of an insured event which are significantly more than the benefits payable if the insured event were not to occur. Management judgement is required in assessing whether contracts transfer significant insurance risk to determine whether the contract is accounted for under IFRS 17. Further information about the Group's insurance and participating contract liabilities is set out in notes 29, 30 and 31.

ii. Transition to IFRS 17

The Group has applied judgement in determining whether it is impracticable and whether sufficient reasonable and supportable information is available to apply the full retrospective approach. The Full Retrospective Approach was deemed impracticable for contracts initially recognised prior to 2016. This was the date when Solvency II models, required to calculate the Risk Adjustment, became available and were used within the Group. Prior to this date, the models required to calculate the Risk Adjustment were not in use within the business and hindsight would be required to retrospectively calculate the Risk Adjustment prior to that point. The Group decided to use the Fair Value approach for business initially recognised prior to 2016.

iii. Contract boundaries

The Group applies judgement to determine which cash flows are within the boundary of an insurance contract. Cash flows are included in the contract boundary if they arise from substantive rights and obligations under the contract. For pension contracts, increments such as top-ups and transfers are included within the contract boundary, and therefore assumptions will be determined as to the level of those increments. Certain unit-linked and conventional with-profits insurance contracts have guaranteed minimum pensions and guaranteed annuity options. The pre-vesting savings phase and the post-vesting annuity phase are deemed to be within the same contract boundary as the Group has an obligation to provide the annuity to the policyholder. This has implications on the choice of measurement model, as typically the two phases of this contract would use different measurement models as described in note 1(u).

iv. Eligibility for the variable fee approach

The Group has considered which unit-linked and with-profits products meet the eligibility criteria for the variable fee approach, based on a straightforward qualitative assessment of product features and how returns are generated to the shareholder and policyholder. For products with guarantees, such as guaranteed annuity options and guaranteed minimum pensions, judgement has been applied to determine whether the guarantees create a significant level of the policyholder's share of returns being from the underlying items and the degree of variability in total payments to the policyholder.

v. Risk adjustment

The Group has applied judgement in determining the technique for estimating the risk adjustment. The risk adjustment for non-financial risk is the compensation that is required for bearing the uncertainty about the amount and timing of cash flows that arises from non-financial risk as the insurance contract is fulfilled.

The Group estimates the risk adjustment separately from other components of the fulfilment cash flows using an explicit margins approach such that a confidence level scenario is used to determine the margins to be applied to the best estimate assumptions, see note 43 for more information. The risk adjustment represents the difference in the value of the best estimate cash flows with and without these margins. The risk adjustment is calculated using Group level diversification of risks to determine an explicit margin, which is then used to calculate the risk adjustment at a policy level.

The Group does not disaggregate the change in the risk adjustment for non-financial risk between the insurance service result and insurance finance income or expenses, as described in notes 2(g) and 1(u).

The confidence level corresponding to the risk adjustment is 85 per cent (2024: 85 per cent). The risk adjustment is calibrated to the value at risk over a one-year time horizon at this confidence level for non-financial risks. This is translated, using statistical approximations, into an equivalent confidence level on a value at risk basis over the expected lifetime of in-force policies of approximately 67.5 per cent (2024: 67.5 per cent) at the end of the reporting period. The risk calibrations used to determine the explicit margin are aligned to those used for Solvency II, adjusted to remove operational risk and reinsurer default risk, and allows for the impact of reinsurance.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2025
2. Critical accounting judgments and estimates (continued)**vi. Discount rates**

Discount rates are applied to best estimate cash flows, the risk adjustment, accretion of CSM and to discount coverage units. The Group uses risk-free yield curves adjusted to reflect the characteristics of the cash flows and the liquidity of the insurance contracts. The Group has applied judgment in determining the characteristics which make a product illiquid, the level of illiquidity premium to apply to the discount rate of different products and how the illiquidity premium is determined, where material.

The products to which an illiquidity premium has been applied to the discount rate are annuity contracts, due to the illiquid nature of their cash flows, certain reinsurance contracts held where the underlying contracts are annuity contracts, due to the transfer of longevity risk to the reinsurer, and whole of life protection contracts, due to the inherent policyholder value and zero surrender option.

For annuity contracts and reinsurance of annuity contracts, at initial recognition, the illiquidity premium is calculated with reference to a strategic portfolio of assets, and subsequently measured to reflect the mix of actual assets backing annuity contracts, adjusted to reflect the impacts of transition from initial recognition. To reflect differences between the characteristics of insurance contracts and the derivation of discount rates based on a reference portfolio, adjustments for credit risk are required. To maintain consistency with the regulatory approach, the Group uses the same Solvency II fundamental spread but with an adjustment to reflect the internal view of recovery rates to better reflect a best estimate view for individual annuities. No additional adjustment was made in respect of Bulk annuity business (disposed of during the year, see note 47) as this was wholly reinsured and so a notional portfolio approach is used without applying internal recovery rates. For protection contracts, the illiquidity premium is based on the spread on a covered bond index.

vii. Investment components

An investment component is defined as the amount that an insurance contract requires the entity to repay to a policyholder in all circumstances, regardless of whether an insured event occurs. The Group has applied judgement to determine the investment component for each contract. In assessing whether an investment component is distinct and therefore required to be accounted for separately applying IFRS 9, the Group considers if the investment and insurance components are highly interrelated or not by considering factors such as whether the policyholder is able to benefit from one component unless the other component is present and whether the value of the investment component is dependent on the timing of the insured event. If the investment component is considered to be distinct then it would not be in scope of IFRS 17. As described in note 1(u)i the Group's investment components have all been assessed as non-distinct. Where the following product types contain a non-distinct investment component, the valuation basis is shown in the table below:

Product	Non-distinct investment component
Immediate annuities	Full claim amount when within guaranteed period
Deferred annuities	Lower of surrender value and full claim value
Unit-linked	Policyholder's account value (unit value)
With-profits	Policyholder's account value (asset share) or death benefit payable for return of premium on death products

Where a non-distinct investment component exists, expected and actual investment components are excluded from insurance revenue and insurance service expense respectively, as they do not relate to the services expected to be covered by the consideration received by the entity.

viii. Contractual service margin**1. Identifying coverage units**

The CSM of a group of contracts is recognised in profit or loss to reflect services provided in each year based on the number of coverage units provided in the year. The Group considers, for each contract, the quantity of the benefits provided over its expected coverage period and allocates coverage units to the current period to determine the amount recognised in profit for loss in the year. The coverage units are reviewed and updated at each reporting date.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2025**2. Critical accounting judgments and estimates (continued)**

The Group determines the quantity of the benefits provided under each contract as follows:

Product	Basis for determining quantity of benefits provided
Unit-linked and unitised with-profits	Policyholder's account value ¹ (unit value or asset share)
Conventional with-profits	The greater of policyholder's account value ¹ (asset share) and guaranteed benefits
Lump sum protection	Sum assured
Income protection	Present value of future benefits payable
Immediate annuities	Annuity payout
Deferred annuities	Pre vesting date: benefit amount payable; post vesting date: annuity payout
Reinsurance contracts held	The same basis as the underlying contracts

¹Policyholder account value is reflective of the service provided in respect of investment management expenses.

The Group has applied judgement in determining the relative weighting of benefits provided by insurance coverage and investment return or investment related services. A weighting is applied to each service, taking into consideration the relative amount of the benefit over the full lifetime of the contract, using a present value approach. For deferred annuities, the different insurance services provided are weighted by taking into consideration the relative amount of the benefit over the full lifetime of the contract.

The Group reflects the time value of money in the allocation of the CSM to coverage units, using discount rates determined at initial recognition for contracts under the general measurement model; market consistent risk-free rates are used for direct participating contracts.

2. Risk mitigation option

For certain contracts with direct participation features, the Group's documented risk management objective and strategy requires the use of equity and currency hedges to mitigate financial risk. An economic offset exists between the equity and currency hedges and the related insurance contracts and credit risk does not dominate the offset.

The Group chooses not to adjust the CSM for changes in the fulfilment cash flows and/or entity's share of the underlying items that reflect some of the changes in the effect of time value of money and financial risk. These amounts are instead reflected in profit or loss. The adjustment to the CSM that would otherwise have been made in 2025 is a increase of £174 million (2024: increase of £161 million), see note 1(g).

ix. Profitability groups

The Group applies judgement on initial recognition to assess the profitability of groups of insurance and participating investment contracts. For more information on the estimates and judgements involved for the calculation of the relevant fulfilment cash flows, see notes 2a)(i) and 3b)(i), (iii) - (vii).

x. Investment vehicles

The Group consolidates investment vehicles when it has control and is therefore acting as a principal rather than an agent. Control typically arises where the Group has the power to determine investment activities of the fund and also has exposure to significant variable returns. Variable returns are assessed together with other relevant factors in accordance with the guidance in IFRS 10, such as the fund structure and remuneration of the decision maker. Control can arise when the Group has less than a majority beneficial interest. The Group's holdings in these investment funds can fluctuate over time. The Group has established a set of principles covering the percentage ownership of investment funds, approach to consolidation where ownership share varies and nature of the returns from the funds, which are considered together at each reporting date to allow judgement to be applied as to whether the Group is acting as a principal or agent.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2025**3. Insurance revenue**

<i>Group</i>	2025	2024
	Total	Total
	£m	£m
<hr/>		
Amounts relating to the changes in liabilities for remaining coverage:		
- Contractual service margin recognised for services provided	587	448
- Change in risk adjustment for non-financial risk expired	49	57
- Expected claims and other insurance service expenses	1,735	1,917
- Charges to funds in respect of policy holder tax	200	108
- Other	16	—
Recovery of insurance acquisition cash flows	119	109
Total	2,706	2,639

Included within insurance revenue for 2025 is £179 million relating to the gain on the sale of the Group's bulk annuity business. See note 47 for more information.

In the opinion of the Directors, the Group operates in a single business segment, being the provision of long-term insurance and investment contracts. The table above presents revenues from external customers in accordance with IFRS 17 and as required by IFRS 8 'Operating Segments'. Further information about revenue from external customers by product type can be found in note 30.

4. Insurance service expenses

<i>Group</i>	2025	2024
	Total	Total
	£m	£m
<hr/>		
Incurring claims and other insurance service expenses	(1,759)	(1,974)
Changes that relate to past service: adjustments to liabilities for incurred claims	(6)	(9)
Changes that relate to future service: losses and reversal of losses on onerous contracts	(64)	(50)
Amortisation of insurance acquisition cash flows	(120)	(109)
Insurance service expenses excluding net impairment loss on insurance acquisition assets (note 30)	(1,949)	(2,142)
Net impairment loss on insurance acquisition assets (note 35)	—	(9)
Total	(1,949)	(2,151)

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2025**5. Net expenses from reinsurance contracts held**

<i>Group</i>	2025	2024
	Total	Total
	£m	£m
Allocation of premiums paid		
Amounts relating to the changes in the remaining coverage:		
Expected recoveries of incurred claims and other insurance services expenses	(345)	(611)
Changes in risk adjustment recognised for the risk expired	(4)	(5)
Contractual service margin recognised for the services received	(27)	(32)
Other	(3)	—
	(379)	(648)
Amounts recoverable from reinsurers		
Recoveries of incurred claims and other insurance services expenses	303	593
Recoveries and reversals of recoveries of losses on onerous underlying contracts	(22)	28
Adjustments to assets for incurred claims	7	(3)
	288	618
Total	(91)	(30)

6. Investment income

<i>Group</i>	2025	2024
	£m	£m
Net income on investments at fair value through profit or loss	4,920	4,740
Rental income on investment properties	132	144
Service charge income	4	10
Other	14	16
Total	5,070	4,910

7. Net (loss)/gain on assets and liabilities at fair value through profit or loss

<i>Group</i>	2025	2024
	£m	£m
Derivative financial instruments at fair value through profit or loss	197	(753)
Investments at fair value through profit or loss	17,690	10,318
Investment properties at fair value through profit or loss	44	49
Fair value hedge adjustment in respect of swap	4	63
Foreign exchange	(83)	232
Total	17,852	9,909

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2025

8. Net financial result

Group

	2025		
	Insurance business	Non- participating investment contracts and other	Total
	£m	£m	£m
Investment income:			
Net income on investments at fair value through profit or loss	3,187	1,733	4,920
Rental income on investment properties	4	128	132
Service charge income	—	4	4
Other	—	14	14
	3,191	1,879	5,070
Net (loss)/gain on assets and liabilities at fair value through profit or loss:			
Derivative financial instruments at fair value through profit or loss	(26)	223	197
Investments at fair value through profit or loss	11,444	6,246	17,690
Investment properties at fair value through profit or loss	(4)	48	44
Fair value hedge adjustment in respect of swap	4	—	4
Foreign exchange	(41)	(42)	(83)
	11,377	6,475	17,852
Net investment return on assets held to back insurance and participating investment contracts¹ and non-participating investment contracts	14,568	8,354	22,922
Net Finance expense from insurance and participating investment contracts			
Change in measurement due to changes in fair value of underlying items of direct participating contracts	(14,958)	—	(14,958)
Effects of risk mitigation option	174	—	174
Interest accreted	(703)	—	(703)
Effect of changes in interest rates and other financial assumptions	71	—	71
Effect of changes in fulfilment cash flows at current rates when contractual service margin is unlocked at locked-in rates	66	—	66
	(15,350)	—	(15,350)
Net Finance income from reinsurance contracts held			
Interest accreted	143	—	143
Effect of changes in interest rates and other financial assumptions	(101)	—	(101)
Effect of changes in fulfilment cash flows at current rates when contractual service margin is unlocked at locked-in rates	11	—	11
	53	—	53
Change in non-participating investment contract liabilities	—	(6,795)	(6,795)
Change in contracts with reinsurers at fair value through profit or loss	253	829	1,082
Net profit attributable to external interests in collective investment vehicles	—	(2,012)	(2,012)
Net financial result	(476)	376	(100)

¹Net investment return on assets held to back insurance and participating investment contracts is reported within net gain/(loss) on assets at fair value through profit or loss on the face of the Group's income statement; includes income of £14,233 million (2024: £9,946 million) in respect of assets held to back unit-linked and with-profit contracts measured applying the variable fee approach. The assets generating the investment return held to back insurance and participating investment contracts are carried at fair value on the Group's balance sheet.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2025

8. Net financial result (Continued)

Group	2024		Total
	Insurance business	Non- participating investment contracts and other	
	£m	£m	£m
Investment income:			
Net income on investments at fair value through profit or loss	3,199	1,541	4,740
Rental income on investment properties	—	144	144
Service charge income	—	10	10
Other	3	13	16
	3,202	1,708	4,910
Net (loss)/gain on assets and liabilities at fair value through profit or loss:			
Derivative financial instruments at fair value through profit or loss	(729)	(24)	(753)
Investments at fair value through profit or loss	6,662	3,656	10,318
Investment properties at fair value through profit or loss	(3)	52	49
Fair value hedge adjustment in respect of swap	63	—	63
Foreign exchange	198	34	232
	6,191	3,718	9,909
Net investment return on assets held to back insurance and participating investment contracts¹ and non-participating investment contracts	9,393	5,426	14,819
Net Finance expense from insurance contracts and participating investment contracts			
Changes in measurement due to changes in fair value of underlying items of direct participating contracts	(10,838)	—	(10,838)
Effects of risk mitigation option	161	—	161
Interest accreted	(849)	—	(849)
Effect of changes in interest rates and other financial assumptions	1,014	—	1,014
Effect of changes in fulfilment cash flows at current rates when contractual service margin is unlocked at locked-in rates	106	—	106
	(10,406)	—	(10,406)
Net Finance income from reinsurance contracts held			
Interest accreted	253	—	253
Effect of changes in interest rates and other financial assumptions	(188)	—	(188)
Effect of changes in fulfilment cash flows at current rates when contractual service margin is unlocked at locked-in rates	(16)	—	(16)
Other	(1)	—	(1)
	48	—	48
Change in non-participating investment contract liabilities	—	(4,875)	(4,875)
Change in contracts with reinsurers at fair value through profit or loss	635	813	1,448
Net profit attributable to external interests in collective investment vehicles	—	(1,147)	(1,147)
Net financial result	(330)	217	(113)

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2025**9. Fee and commission income**

<i>Group</i>	2025	2024
	£m	£m
Fund management and policy administration fees	204	195
Change in deferred income	2	2
Other	1	1
Total	207	198

10. Other operating income

<i>Group</i>	2025	2024
	£m	£m
External rebates	68	73
Other	26	23
Total	94	96

11. Other operating expenses

<i>Group</i>	2025	2024
	£m	£m
Acquisition and origination costs in respect of insurance and investment contracts	119	35
Expenses for administration	875	966
	994	1,001
Fees and commissions payable	39	50
Expenses for asset management services received	176	173
Change in deferred origination costs	5	6
Service charge expense	10	14
Amortisation of acquired VIF	1	—
Other	91	105
	322	348
Less: Amounts attributable to insurance acquisition cash flows	(318)	(276)
Amounts reported within Insurance service expenses	(371)	(366)
Total	627	707

12. Other finance costs

<i>Group</i>	2025	2024
	£m	£m
Interest on swaps	(24)	(20)
Interest on subordinated debt	46	46
Other	21	22
Total	43	48

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2025**13. Auditor's remuneration**

<i>Group</i>	2025	2024
	£000	£000
Fees payable to the Group's auditors for the audit of the Company's annual financial statements and the consolidation	4,829	4,767
Fees payable to the Group's auditor and its associates for other services:		
Audit of subsidiaries	1,001	1,052
Audit-related assurance services	550	498
Total fees payable	6,380	6,317

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2025

14. Taxation charge/(credit)

(a) Current year tax charge/(credit)

<i>Group</i>	2025	2024
	£m	£m
Current tax:		
UK corporation tax	56	(9)
Overseas Tax	20	17
Adjustment in respect of prior years	16	6
Total current tax	92	14
Deferred tax:		
Reversal of temporary differences	168	29
Change in tax rate	—	—
Adjustment in respect of prior years	2	—
Total deferred tax	170	29
Total income tax charge	262	43

The policyholder tax expense or benefit is included in the income tax charge/(credit). Policyholder tax is a charge of £222 million (2024: £137 million).

(b) Reconciliation of tax charge/(credit)

<i>Group</i>	2025	2024
	£m	£m
Profit/(loss) before tax	(197)	115
Tax at 25% (2024: 25%)	49	(29)
Effects of:		
Non-taxable income	(23)	(39)
Policyholder tax in respect of collective investment vehicles	71	75
Adjustment in respect of prior years	18	6
Disallowable expenses	11	4
Life assurance business not taxed on a profits basis	118	5
Overseas tax	11	15
Tax loss where no deferred tax recognised	6	8
Other	1	(2)
Total	262	43

On 11 July 2023, the UK Government enacted its legislation implementing the G20-OECD Inclusive Framework Pillar 2 rules in the UK, including a Qualified Domestic Minimum Top-Up Tax rule. This legislation seeks to ensure that UK-headquartered multinational enterprises pay a minimum tax rate of 15 per cent on UK and overseas profits arising after 31 December 2023. No provision for Pillar 2 current tax is included in tax expense for the period because Lloyds Banking Group plc, the Group's ultimate parent entity, will bear the cost of any Pillar 2 income taxes payable in respect of 2025 on behalf of its subsidiaries.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2025

15. Intangible assets

	2025		2024	
	£m	£m	£m	£m
	<i>Group</i>	<i>Company</i>	<i>Group</i>	<i>Company</i>
Acquired VIF	7	4	8	4
Goodwill	15	10	15	10
Software development costs	34	—	41	—
Total	56	14	63	14

The recoverable amount of the goodwill relating to the Workplace Savings business has been based on a value-in-use calculation. The calculation uses pre-tax projections of future cash flows based upon budgets and plans approved by management covering a three-year period, the related run-off of existing business in-force and a pre-tax discount rate of 11.0 per cent (2024: 11.0 per cent). The budgets and plans are based upon past experience adjusted to take into account anticipated changes in sales volumes, product mix and margins having regard to expected market conditions and competitor activity. The discount rate is determined with reference to internal measures and available industry information.

New business cash flows beyond the three-year period have been extrapolated using a combination of actuarial assumptions and strategic data points (such as market share) to estimate the number of policies and relative amount of assets over a longer period, and a terminal value whose growth factor is 3.1 per cent (2024: 2.6 per cent) is applied, which does not exceed the long-term average growth rate for the life assurance market. Management believes that any reasonably possible change in the key assumptions above would not cause the recoverable amount of goodwill to fall below its balance sheet carrying value.

<i>Group</i>	2025				2024			
	Acquired VIF	Goodwill	Software development costs	Total	Acquired VIF	Goodwill	Software development costs	Total
	£m	£m	£m	£m	£m	£m	£m	£m
Cost								
At 1 January	147	15	92	254	147	15	90	252
Additions	—	—	4	4	—	—	2	2
At 31 December	147	15	96	258	147	15	92	254
Accumulated amortisation and impairment								
At 1 January	(139)	—	(51)	(190)	(139)	—	(38)	(177)
Amortisation during the year	(1)	—	(11)	(12)	—	—	(13)	(13)
At 31 December	(140)	—	(62)	(201)	(139)	—	(51)	(190)
Carrying amount								
At 31 December	7	15	34	56	8	15	41	63

Of the above Group total for acquired VIF, £7 million (2024: £7 million) is expected to be recovered more than one year after the reporting date. The remaining amortisation period is 12 years (2024: 13 years) for £7 million of the acquired VIF.

The additions to software development costs arise from additional enhancements to the Corporate Saving Platform by Scottish Widows Administration Services Limited (SWAS) during the year. The costs are related to software in the course of completion and therefore these assets are not yet subject to amortisation.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2025

15. Intangible assets (continued)

<i>Company</i>	2025			2024		
	Acquired VIF	Goodwill	Total	Acquired VIF	Goodwill	Total
	£m	£m	£m	£m	£m	£m
Cost						
At 1 January	141	10	151	141	10	151
Additions	—	—	—	—	—	—
At 31 December	141	10	151	141	10	151
Accumulated amortisation and impairment						
At 1 January	(137)	—	(137)	(137)	—	(137)
Amortisation during the year	—	—	—	—	—	—
At 31 December	(137)	—	(137)	(137)	—	(137)
Carrying amount						
At 31 December	4	10	14	4	10	14

Of the above Company total for acquired VIF, £4 million (2024: £4 million) is expected to be recovered more than one year after the reporting date. The remaining amortisation period is 12 years (2024: 13 years).

16. Deferred origination costs

	2025		2024	
	£m	£m	£m	£m
	<i>Group</i>	<i>Company</i>	<i>Group</i>	<i>Company</i>
Deferred origination costs	38	37	41	42
Total	38	37	41	42

	2025		2024	
	£m	£m	£m	£m
	<i>Group</i>	<i>Company</i>	<i>Group</i>	<i>Company</i>
At 1 January	42	42	48	48
Amounts incurred during the year	—	—	—	—
Amortisation during the year	(4)	(5)	(6)	(6)
At 31 December	38	37	42	42

Of the above total, £33 million for Group and £33 million for Company (2024: £37 million for Group and £37 million for Company) is expected to be recovered more than one year after the reporting date.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2025

17. Tax assets and liabilities

	2025		2024	
	£m	£m	£m	£m
	<u>Group</u>	<u>Company</u>	<u>Group</u>	<u>Company</u>
Current tax recoverable	42	32	99	84
Deferred tax assets	10	—	124	113
Deferred tax assets for disposal group ¹	—	—	13	13
Total tax assets	52	32	236	210
Current tax liabilities	—	—	—	—
Deferred tax liabilities	(65)	(36)	(13)	—
Total tax liabilities	(65)	(36)	(13)	—

¹ Further information on the disposal group is provided in note 47.

The Group has made claims to recover historic UK taxes paid on overseas dividends received. These claims may result in recovery of a material amount of taxes previously paid by the Company and the OEICs it consolidates, though the benefit of these claims remains uncertain pending ongoing litigation and other uncertainties.

HMRC issued a briefing note in January 2020 and July 2024 on their intended approach to settling some of these claims. The tax assets recognised in these accounts reflect the Group's view of the impact of this guidance.

a. Recognised deferred tax

Deferred tax assets and liabilities have been offset in the balance sheet where there is a legally enforceable right of offset. The tables below split the individual deferred tax assets and liabilities by type, before such netting.

The amounts are as follows:

	2025		2024	
	£m	£m	£m	£m
	<u>Group</u>	<u>Company</u>	<u>Group</u>	<u>Company</u>
Deferred tax assets comprise:				
Trading losses	10	—	12	—
Expenses deductible in future periods	184	184	306	306
Transitional adjustments on introduction of IFRS17	88	88	31	31
Total deferred tax assets	282	272	348	337
Deferred tax liabilities comprise:				
Unrealised gains on investment assets	(334)	(306)	(215)	(202)
Deferred origination costs	(2)	(2)	(9)	(9)
Deferred tax on acquired VIF	(1)	—	—	—
Total deferred tax liabilities	(337)	(308)	(224)	(211)
Net deferred tax assets/(liabilities)	(55)	(36)	124	126

Deferred tax assets for trading losses are recognised on the basis of future profit projections, which show sufficient future taxable profits to utilise these assets.

Positive life business investment returns in the year mean that historic expenses of the Company have now been fully utilised in the calculation of policyholder tax liabilities. As a result, there is no net deferred tax asset to recognise in respect of them (2024: £104 million).

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2025**17. Tax assets and liabilities (continued)****a. Recognised deferred tax (continued)**

In addition, of the deferred tax assets included in the above table, £97 million for Group and Company, in respect of the IFRS17 transitional adjustment and expenses, (2024: £4 million for Group and Company) are expected to be settled within one year of the reporting date.

Of the deferred tax liabilities included in the above table, £(67) million for Group and Company, in respect of deferred costs and unrealised gains, (2024: £(1) million for Group and Company) are expected to be settled within one year of the reporting date.

The tax charge/(credit) in the statement of comprehensive income relating to each item is as follows:

	2025	2024
	£m	£m
	<i>Group</i>	<i>Group</i>
Trading losses	2	—
Expenses deductible in future periods	122	(27)
Unrealised gains/ (losses) on investment assets	119	54
Deferred acquisition costs	(7)	(1)
Transitional adjustment on introduction of IFRS17	(66)	4
Total deferred tax charge/(credit)	170	29

b. Unrecognised deferred tax

Deferred tax assets are recognised for tax loss carry forwards only to the extent that realisation of the related tax benefit is probable. The UK deferred tax assets not recognised are not subject to any expiry date and the Luxembourg trading losses are subject to a limit of 17 years.

Deferred tax assets have not been recognised in respect of non-trade loan relationship deficits carried forward of £4 million (2024: £4 million) and in respect of £8 million of trading losses in Scottish Widows Europe (2024: £10 million), as there is insufficient certainty as to the availability of future profits.

18. Investment in subsidiaries

<i>Company</i>	2025	2024
	£m	£m
At 1 January	483	483
Impairment of investment in subsidiaries	(64)	(40)
Investment in subsidiary	—	40
At 31 December	419	483

In 2024, a capital injection of £40 million was made to SWAS.

In 2024, an impairment of £40 million was required for the investment in subsidiary valuation of SWE. The impairment was driven by updated forecasts reflective of the economic environment and SWE's performance in the last financial year. The investment in SWE was written down to its estimated value-in-use. In 2025, an additional impairment of £64m was required for the investment in subsidiary valuation of SWE because the Company was considering the sale of SWE, and the value-in-use was based on continuing use of the asset until expected disposal and expected disposal proceeds less costs of disposal. In February 2026, the Company entered into a Sale and Purchase Agreement to sell the entire issued share capital of SWE to Chesnara plc, and the investment in subsidiary was classified as held for sale. Further details of the post balance sheet event are provided in note 51.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2025
18. Investment in subsidiaries (continued)

All entities detailed below are wholly-owned via ordinary share capital, directly or indirectly, and transact insurance or reinsurance business, investment management activities or services in connection therewith, unless otherwise stated. Following are particulars of the Company's subsidiaries:

Clerical Medical Non Sterling Property Company SARL	(2)	Scottish Widows Fund and Life Assurance Society	(3)
Dalkeith Corporation LLC ¹	(5)	Scottish Widows Industrial Properties Europe BV	(8)
France Industrial Premises Holding Company	(7)	Scottish Widows Trustees Limited	(3)
General Reversionary and Investment Company (80 per cent)	(1)	Scottish Widows Unit Trust Managers Limited	(10)
Halifax Life Limited	(9)	St Andrew's Life Assurance Limited	(1)
Otium Lifetime Funding No. 1 Limited	(4)	Saint Michel Holding Company No 1	(7)
Scottish Widows Administration Services Limited	(10)	Saint Michel Investment Property	(7)
Scottish Widows Administration Services (Nominees) Limited	(3)	Saint Witz II Holding Company No 1	(7)
Scottish Widows Auto Enrolment Services Limited	(10)	Saint Witz II Investment Property	(7)
Scottish Widows Europe S.A.	(6)	Thistle Investments (AMC) Limited	(4)

¹ In Liquidation

The ability of regulated entities to pay cash dividends to the Company or repay loans or advances is restricted by regulatory solvency requirements as well as Companies Act distributable reserves requirements. The ability of non-regulated entities to pay cash dividends to the Company or repay loans or advances is restricted by Companies Act distributable reserves requirements.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2025**18. Investment in subsidiaries (continued)****Registered office addresses**

- (1) 33 Old Broad Street, London, EC2N 1HZ
- (2) Citco REIF Services, 20 Rue de la Poste, L-2346, Luxembourg
- (3) The Mound, Edinburgh, EH1 1YZ
- (4) 10th Floor, 5 Churchill Place, London, E14 5HU
- (5) Corporation Service Company, 251 Little Falls Drive, Wilmington, DE 19808, United States
- (6) 2, Rue Albert Borschette, L-1246, Luxembourg, Grand-Duchy of Luxembourg, Luxembourg
- (7) SAB Formalities, 23 Rue de Roule, Paris, 75001, France
- (8) Hoogoorddreef, 151101BA, Amsterdam, Netherlands
- (9) Trinity Road, Halifax, West Yorkshire, HX1 2RG
- (10) 25 Gresham Street, London, EC2V 7HN

The table overleaf lists collective investment vehicles and limited partnerships (investment vehicles) which are considered to be related undertakings due to the Group holding of 20 per cent or more. The basis to determine whether these investment vehicles are consolidated, in part through the Group's long-term funds, is set out in policy 1(b). The carrying value of the investment vehicles which are not consolidated is presented in investments at fair value through profit or loss (note 26).

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2025**18. Investment in subsidiaries (continued)**

Name of Umbrella And Undertaking	% Held	Name of Umbrella And Undertaking	% Held
Abrdn OEIC I (i)		HLE Active Managed Portfolio Ausgewogen (xii)	
abrdn European Real Estate Share Fund	50.07%	HLE Active Managed Portfolio Ausgewogen	48.93%
Abrdn OEIC VI (i)		HLE Active Managed Portfolio Dynamisch (xii)	
abrdn Emerging Markets Equity Enhanced Index Fund	71.82%	HLE Active Managed Portfolio Dynamisch	37.85%
Absolute Insight Funds P.L.C. (ii)		HLE Active Managed Portfolio Konservativ (xii)	
Insight Broad Opportunities Fund	36.52%	HLE Active Managed Portfolio Konservativ	37.20%
ACS Pooled Property (iii)		Invesco American Investment Series (xiii)	
Scottish Widows Pooled Property ACS Fund 1	99.75%	Invesco US Equity Fund	35.70%
Scottish Widows Pooled Property ACS Fund 2	99.40%	Invesco Fixed Interest Investment Series (xiii)	
Baillie Gifford Investment Funds ICVC (iv)		Invesco Global Bond Fund	31.97%
Baillie Gifford Diversified Growth Fund	56.42%	Lazard Investment Funds (xiv)	
Blackrock Authorised Contractual Scheme I (v)		Lazard Developing Markets Fund	97.81%
ACS 30:70 Global Equity Tracker Fund	33.84%	MGI Funds Plc (xv)	
ACS Climate Transition World Equity Fund	93.32%	Mercer Diversified Retirement Fund	71.23%
ACS World Multifactor Equity Tracker Fund	73.23%	Mercer Long Term Growth Fund	54.23%
Blackrock Collective Investment Funds (v)		Mercer Multi Asset Defensive Fund	39.25%
BlackRock Global Corporate ESG Insights Bond Fund	24.99%	Mercer Multi Asset Growth Fund	55.27%
Blackrock Fixed Income Dublin Funds Plc (vi)		Mercer Multi Asset High Growth Fund	48.82%
iShares Emerging Markets Government Bond Index Fund (IE)	82.26%	Mercer Multi Asset Moderate Growth Fund	58.05%
iShares Emerging Markets Local Government Bond Index Fund (IE)	73.32%	Mercer Passive Sustainable Global Equity Feeder Fund	59.83%
BNY Mellon Global Funds, Plc (vii)		Morgan Stanley Investment Funds (xvi)	
BNY Mellon Global Leaders Fund	80.77%	Global Credit Fund	46.72%
BNY Mellon Investment Funds (viii)		Nordea 1, SICAV (xvii)	
BNY Mellon Global Absolute Return Fund	76.10%	Nordea 1 – GBP Diversified Return Fund	29.02%
BNY Mellon Global Dynamic Bond Fund	26.70%	Retail Authorised Unit Trusts (v)	
BNY Mellon Global Multi-Strategy Fund	42.31%	BlackRock Balanced Growth Portfolio Fund	37.60%
BNY Mellon UK Income Fund	20.84%	Royal London Equity Funds ICVC (xviii)	
BNY Mellon Global Equity Fund	27.28%	Royal London UK Equity Income Fund	20.62%
BNY Mellon UK Opportunities Fund (Responsible)	69.39%	Schroder Funds ICAV (xix)	
CG Scottish Widows LTAF (ix)		Schroder Sterling Liquidity Fund	80.32%
CG Scottish Widows Growth LTAF	100.00%	Schroder Sterling Short Duration Bond Fund	82.60%
CG Scottish Widows Diversified Credit LTAF	100.00%	Schroder International Selection Fund (xx)	
Franklin Templeton Global Funds Plc (x)		Emerging Market Bond	65.41%
FTGF Western Asset Multi-Asset Credit Fund	55.36%	Sustainable Emerging Markets Synergy	28.36%
HBOS International Investment Funds ICVC (xi)		Schroder Unit Trusts Limited (xxi)	
International Growth Fund	62.89%	Schroder Global ex UK Equity Tracker Component Fund	27.34%
HBOS Property Investment Funds ICVC (xi)			
UK Property Fund	54.27%		
HBOS Specialised Investment Funds ICVC (xi)			
Cautious Managed Fund	48.02%		
HBOS UK Investment Funds ICVC (xi)			
UK Equity Tracker Fund	54.14%		

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2025

18. Investment in subsidiaries (continued)

Name of Umbrella And Undertaking	% Held	Name of Umbrella And Undertaking	% Held
Scottish Widows Income And Growth Funds ICVC (iii)		SEI Global Assets Fund Plc (xxii)	
Balanced Growth Fund	29.16%	The SEI Core Fund	71.48%
Corporate Bond 1 Fund	82.56%	The SEI Defensive Fund	60.66%
Corporate Bond PPF Fund	100.00%	The SEI Moderate Fund	83.28%
Global Tactical Asset Allocation 1 Fund	84.67%	SEI Global Master Fund Plc (xxiii)	
Progressive Growth Fund	41.79%	The SEI Factor Allocation Global Equity Fund	92.70%
UK Index Linked Gilt Fund	100.00%	SPW Investment Portfolio ICVC (xxiv)	
ESG-Tilted Sterling Corporate Bond Fund	81.87%	Schroders Personal Wealth IPS Growth Portfolio	49.86%
Scottish Widows Investment Solutions Funds ICVC (iii)		Schroders Personal Wealth IPS Income Portfolio	55.61%
Corporate Bond Fund	69.20%	SSGA (xxv)	
Developed Asia Pacific (ex Japan ex Korea) Equity Tracker Fund	100.00%	State Street AUT Emerging Market Screened Index Equity Fund	99.63%
Developed Europe (ex UK) Equity Tracker Fund	95.96%	The SVS Levitas Funds (xxvi)	
Fundamental Index Emerging Markets Equity Fund	94.57%	SVS Levitas A Fund	88.84%
Fundamental Index Global Equity Fund	92.50%	SVS Levitas B Fund	85.74%
Gilt Fund	94.93%	Universe, The CMI Global Network Fund (xxvi)	
Global Environmental Solutions Fund	93.64%	CMI Continental European Equity	97.68%
High Income Bond Fund	65.99%	CMI Pacific Basin Enhanced Equity	79.29%
Japan Equity Fund	99.19%	CMI UK Equity	73.03%
Strategic Income Fund	67.04%	CMI US Enhanced Equity	91.87%
US Equity Fund	97.09%	CMI US Equity Index Tracking	44.95%
Developed Markets Tilted Equity Tracker Fund	72.69%	CMIG Access 70% Flexible	100.00%
Emerging Markets Tilted Equity Tracker Fund	94.56%	CMIG Access 80%	100.00%
Developed Government Bond Tracker Fund	73.96%	CMIG Access 80% Flexible	100.00%
Scottish Widows Managed Investment Funds ICVC (iii)		CMIG Access 90% Flexible	100.00%
Balanced Growth Portfolio	26.80%	CMIG Focus Euro Bond	100.00%
Cash Fund	99.59%	WS Ruffer Managed Funds (xxvii)	
International Equity Tracker Fund	78.14%	WS Ruffer Diversified Return Fund	23.17%
Progressive Growth Portfolio 1	45.07%		
Scottish Widows Overseas Growth Investment Funds ICVC (iii)			
Global Select Growth Fund	50.69%		
Global Growth Fund	76.22%		
Scottish Widows Tracker And Specialist Investment Funds ICVC (iii)			
Emerging Markets Fund	77.55%		
UK Equity Tracker Fund	66.64%		
UK Fixed Interest Tracker Fund	62.05%		
UK Index-Linked Tracker Fund	52.05%		
UK Tracker Fund	42.11%		
Scottish Widows UK And Income Investment Funds ICVC (iii)			
Environmental Investor Fund	75.41%		

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2025**18. Investment in subsidiaries (continued)****Principal Place of Business:**

- (i) abrdn Fund Managers Limited, 280 Bishopsgate, London, EC2M 4AG
- (ii) Absolute Insight Funds Plc Riverside Two Sir John Rogerson's Quay Dublin 2 D02 KV60 Ireland
- (iii) 69 Morrison Street, Edinburgh, United Kingdom, EH3 8BW
- (iv) Calton Square, 1 Greenside Row, Edinburgh, EH1 3AN
- (v) BlackRock Fund Managers Limited, 12 Throgmorton Avenue, London EC2N 2DL
- (vi) 200 Capital Dock, 79 Sir John Rogerson's Quay, Dublin 2, D02 RK57, Ireland
- (vii) One Dockland Central, Guild Street, IFSC, Dublin 1, Ireland
- (viii) BNY Mellon Investment Funds, BNY Mellon Centre, 160 Queen Victoria Street, London EC4V 4LA
- (ix) CG Scottish Widows LTAF, 2nd Floor, 29-30 Cornhill, London EC3V 3NF
- (x) 20-26 Sir John Rogerson's Quay, Grand Canal Dock, Dublin 2, Ireland
- (xi) Trinity Road, Halifax, West Yorkshire, HX1 2RG
- (xii) Oppenheim Asset Management
Services S.à r.l.
2, Boulevard Konrad Adenauer, L-1115 Luxembourg
- (xiii) Perpetual Park, Perpetual Park Drive, Henley on Thames, Oxfordshire RG9 1HH
- (xiv) Lazard Investment Funds, 20 Manchester Square, London W1U 3PZ
- (xv) MGI Funds Plc, 6th Floor, 2 Grand Canal Square, Dublin 2, Ireland
- (xvi) MSIM Fund Management (Ireland) Limited, The Observatory, 7-11 SirJohn Rogerson's Quay, Dublin 2, D02 VC42, Ireland
- (xvii) Nordea 1, SICAV, 562, Rue de Neudorf, L-2220 Luxembourg
- (xviii) 80 Fenchurch Street, London, EC3M 4BY
- (xix) Schroder Investment Management (Ireland) Limited, Georges Court, 54-62 Townsend Street, Dublin 2, D02 R156
- (xx) 5, Rue Höhenhof, L-1736, Senningerberg, Luxembourg
- (xxi) 1 London Wall Place, London EC2Y 5AU
- (xxii) SEI Global Assets Fund plc, One Charlemont Square Dublin 2 Ireland
- (xxiii) SEI Global Master Fund plc, One Charlemont Square Dublin 2 Ireland
- (xxiv) Schroders Personal Wealth (ACD), 25 Gresham Street London EC2V 7HN
- (xxv) 20 Churchill Place, Canary Wharf, London E14 5HJ
- (xxvi) St Vincent St Fund Administration, 45 Gresham Street, London, EC2V 7BG
- (xxvi) Lemanik Asset Management S.A. 106, route d'Arlon, L-8210 Mamer, Grand Duchy of Luxembourg
- (xxvii) 3rd Floor Central Square, 29 Wellington Street, Leeds, LS1 4DL

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2025

19. Investment properties

	2025		2024	
	£m	£m	£m	£m
	<u>Group</u>	<u>Company</u>	<u>Group</u>	<u>Company</u>
At 1 January	2,139	23	2,380	48
Additions – new properties	—	—	—	—
Additions – subsequent expenditure on existing properties	10	—	21	—
Disposals	(22)	—	(311)	(22)
Net (loss)/gain from change in fair values	44	(6)	49	(3)
At 31 December	2,171	17	2,139	23

Rental income arising from investment properties during the year, included in investment income, amounted to: Group £132 million (2024: £144 million) and Company £4 million (2024: £4 million). The total future minimum rental payments receivable under non-cancellable leases, including subleases, are as follows:

	2025		2024	
	£m	£m	£m	£m
	<u>Group</u>	<u>Company</u>	<u>Group</u>	<u>Company</u>
Within one year	121	4	120	4
Between one and two years	111	4	114	4
Between two and three years	102	5	103	4
Between three and four years	92	5	94	5
Between four and five years	76	5	83	5
Beyond five years	574	82	572	85
Total	1,076	105	1,085	107

Direct operating expenses (included within operating expenses) arising in respect of such investment properties during the year amounted to: Group £18 million (2024: £16 million) and Company nil (2024: nil).

Expenditure on investment properties which did not generate rental income was: Group £1 million (2024: £1 million) and Company nil (2024: nil). The carrying value of land held for development in Group is £9 million (2024: £10 million) and Company is nil (2024: nil). The carrying value of investment property under development in Group is nil (2024: nil) and Company is nil (2024: nil).

Due to the nature of the above assets, there is no fixed term associated with these investments. The investment properties are independently valued by Coldwell Banker Richard Ellis (CBRE), on at least a quarterly basis for the purpose of determining the open market value of the properties. Commercial investment property is measured at fair value by independent property valuers having appropriate recognised professional qualifications and recent experiences in the location and category of the property being valued.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2025

20. Reconciliation of reinsurance balances by remaining coverage and incurred claims

For all tables in this note, Company table is not presented as none of the amounts for the Company are materially different than for the Group.

<i>Group</i>	2025			Total £m
	Asset for remaining coverage		Asset for incurred claims	
	Excluding loss-recovery component	Loss-recovery component		
	£m	£m	£m	
At 1 January				
Reinsurance contract assets	5,071	265	135	5,471
Reinsurance contract liabilities	(14)	—	—	(14)
	5,057	265	135	5,457
Allocation of reinsurance premiums paid				
Contracts under the fair value transition approach	(104)	—	—	(104)
Other contracts	(275)	—	—	(275)
	(379)	—	—	(379)
Amounts recoverable from reinsurers				
Recoveries of incurred claims and other insurance service expenses	—	(18)	321	303
Recoveries and reversals of recoveries of losses on onerous underlying contracts	—	(22)	—	(22)
Adjustments to assets for incurred claims	—	—	7	7
	—	(40)	328	288
Effect of changes in non-performance risk of reinsurers	—	—	—	—
Net income/(expenses) from reinsurance contracts held	(379)	(40)	328	(91)
Net finance income/(expense) from reinsurance contracts held	53	—	—	53
Exchange differences	—	—	—	—
Total change in profit or loss	(326)	(40)	328	(38)
Investment components	—	—	—	—
Cash flows				
Premiums paid	178	—	—	178
Amounts received	—	—	(322)	(322)
	178	—	(322)	(144)
Derecognition consideration¹	(4,892)	—	—	(4,892)
Net asset	17	225	141	383
At 31 December				
Reinsurance contract assets	34	225	141	400
Reinsurance contract liabilities	(17)	—	—	(17)
Net asset	17	225	141	383

¹Derecognition consideration recognised due to transfer of bulk annuity business to Rothesay, as set out in note 47.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2025

20. Reconciliation of reinsurance balances by remaining coverage and incurred claims (continued)

<i>Group</i>	2024			Total £m
	Asset for remaining coverage		Asset for incurred claims	
	Excluding loss-recovery component £m	Loss-recovery component £m	£m	
At 1 January				
Reinsurance contract assets	71	256	105	432
Reinsurance contract liabilities	(11)	—	—	(11)
	60	256	105	421
Allocation of reinsurance premiums paid				
Contracts under the fair value transition approach	(106)	—	—	(106)
Other contracts	(542)	—	—	(542)
	(648)	—	—	(648)
Amounts recoverable from reinsurers				
Recoveries of incurred claims and other insurance service expenses	—	(19)	612	593
Recoveries and reversals of recoveries of losses on onerous underlying contracts	—	28	—	28
Adjustments to assets for incurred claims	—	—	(3)	(3)
	—	9	609	618
Effect of changes in non-performance risk of reinsurers	—	—	—	—
Net income/(expenses) from reinsurance contracts held	(648)	9	609	(30)
Net finance income/(expense) from reinsurance contracts held	46	—	2	48
Exchange differences	—	—	—	—
Total change in profit or loss	(602)	9	611	18
Investment components	—	—	—	—
Cash flows				
Premiums paid	5,599	—	—	5,599
Amounts received	—	—	(581)	(581)
	5,599	—	(581)	5,018
Net asset	5,057	265	135	5,457
At 31 December				
Reinsurance contract assets	5,071	265	135	5,471
Reinsurance contract liabilities	(14)	—	—	(14)
Net asset	5,057	265	135	5,457

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2025

21. Reconciliation of the measurement components of reinsurance contract balances

For all tables in this note, Company table is not presented as none of the amounts for the Company are materially different than for the Group.

	Present value of future cash flows	Risk adjustment for non-financial risk	2025			Total
			Contractual service margin	Other contracts	Total	
	£m	£m	Contracts measured under the fair value approach	£m	£m	£m
At 1 January						
Reinsurance contract assets	4,901	71	(8)	507	499	5,471
Reinsurance contract liabilities	20	(2)	2	(34)	(32)	(14)
	4,921	69	(6)	473	467	5,457
Relating to current services						
Contractual service margin recognised for services received	—	—	(5)	(21)	(26)	(26)
Changes in risk adjustment for non-financial risk for risk expired	—	(4)	—	—	—	(4)
Experience adjustments	(46)	—	—	—	—	(46)
Relating to future services						
Contracts initially recognised in the year	46	9	—	22	22	77
Changes in estimates that adjust the contractual service margin	418	(33)	9	(394)	(385)	—
Changes in estimates that relate to losses and reversals of losses on onerous underlying contracts	(99)	—	—	—	—	(99)
Relating to past services						
Changes to assets for incurred claims	9	(2)	—	—	—	7
Effect of changes in non-performance risk of reinsurers	—	—	—	—	—	—
Net expenses from reinsurance contracts held	328	(30)	4	(393)	(389)	(91)
Net finance income from reinsurance contracts held	44	—	(3)	12	9	53
Exchange differences	—	—	—	—	—	—
Total change in profit or loss	372	(30)	1	(381)	(380)	(38)
Investment components	—	—	—	—	—	—
Cash flows						
Premiums paid	178	—	—	—	—	178
Amounts received	(322)	—	—	—	—	(322)
	(144)	—	—	—	—	(144)
Derecognition consideration¹	(4,892)	—	—	—	—	(4,892)
Net asset	257	39	(5)	92	87	383
At 31 December						
Reinsurance contract assets	238	40	(4)	126	122	400
Reinsurance contract liabilities	19	(1)	(1)	(34)	(35)	(17)
Net asset	257	39	(5)	92	87	383

The value of the contracts measured under the modified retrospective approach were nil for both 2025 and 2024.

¹Derecognition consideration recognised due to transfer of bulk annuity business to Rothesay, as set out in note 47.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2025

21. Reconciliation of the measurement components of reinsurance contract balances (continued)

	Present value of future cash flows	Risk adjustment for non-financial risk	2024			Total
			Contractual service margin	Other contracts	Total	
	£m	£m	Contracts measured under the fair value approach	£m	£m	£m
At 1 January						
Reinsurance contract assets	165	70	—	197	197	432
Reinsurance contract liabilities	(18)	(5)	4	8	12	(11)
	147	65	4	205	209	421
Relating to current services						
Contractual service margin recognised for services received	—	—	(4)	(28)	(32)	(32)
Changes in risk adjustment for non-financial risk for risk expired	—	(5)	—	—	—	(5)
Experience adjustments	(18)	—	—	—	—	(18)
Relating to future services						
Contracts initially recognised in the year	(295)	40	—	321	321	66
Changes in estimates that adjust the contractual service margin	76	(31)	(6)	(39)	(45)	—
Changes in estimates that relate to losses and reversals of losses on onerous underlying contracts	(38)	—	—	—	—	(38)
Relating to past services						
Changes to assets for incurred claims	(3)	—	—	—	—	(3)
Effect of changes in non-performance risk of reinsurers	—	—	—	—	—	—
Net expenses from reinsurance contracts held	(278)	4	(10)	254	244	(30)
Net finance expense from reinsurance contracts held	34	—	—	14	14	48
Exchange differences	—	—	—	—	—	—
Total change in profit or loss	(244)	4	(10)	268	258	18
Investment components	—	—	—	—	—	—
Cash flows						
Premiums paid	5,599	—	—	—	—	5,599
Amounts received	(581)	—	—	—	—	(581)
	5,018	—	—	—	—	5,018
Net asset	4,921	69	(6)	473	467	5,457
At 31 December						
Reinsurance contract assets	4,901	71	(8)	507	499	5,471
Reinsurance contract liabilities	20	(2)	2	(34)	(32)	(14)
Net asset	4,921	69	(6)	473	467	5,457

Note: The value of the contracts measured under the modified retrospective approach were nil for both 2025 and 2024.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2025

22. Contracts with reinsurers at fair value through profit or loss

	2025		2024	
	Group £m	Company £m	Group £m	Company £m
At 1 January	10,527	10,527	11,424	11,424
Movement recognised through the statement of comprehensive income	1,082	1,082	1,448	1,448
Other movements recognised directly through the balance sheet	(3,441)	(3,441)	(2,345)	(2,345)
At 31 December	8,168	8,168	10,527	10,527
Amounts in respect of liabilities arising from insurance and participating investment contracts	1,909	1,909	4,614	4,614
Amounts in respect of liabilities arising from non-participating investment contracts	6,259	6,259	5,913	5,913
Total	8,168	8,168	10,527	10,527

Contracts with reinsurers at fair value include £7,702 million for Group and Company (2024: £9,979 million for Group and Company) that is expected to be settled more than one-year after the reporting date.

23. Other assets

	2025		2024	
	£m	£m	£m	£m
	<i>Group</i>	<i>Company</i>	<i>Group</i>	<i>Company</i>
Prepayments	36	34	36	35
Other receivables	89	71	77	64
Total	125	105	113	99

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2025

24. Derivative financial instruments

In the normal course of business, the Group and Company enter into swap contracts, option contracts, index futures contracts and forward foreign exchange contracts. All such contracts are undertaken either for efficient portfolio management purposes or for the purpose of matching contractual liabilities. In addition, the Company has entered into a swap for the specific purpose of hedging movements in the fair value of certain subordinated debt, as described in note 38.

Swap contracts include currency, interest and inflation rate swaps. Currency swaps generally involve the exchange of interest payment obligations denominated in different currencies; the exchange of principal can be notional or actual. An interest or inflation rate swap is an agreement between two parties to exchange fixed and variable rate interest payments, based upon interest or inflation rates defined in the contract, without the exchange of the underlying principal amount.

Option contracts include index and single equity options. Such options represent a contract sold by one party to another party offering the right, but not the obligation, to buy or sell a financial asset at an agreed price on a specified future date or within a specified period of time.

Index futures contracts are used to hedge the investment portfolio against adverse movements in underlying markets or effecting policy switches between markets without the need to trade the underlying securities. Futures may also be used for the purposes of efficient portfolio management provided that their substance would otherwise be permitted as a series of direct transactions. Forward foreign exchange contracts are an agreement to buy or sell a specified amount of foreign currency on a specified future date at an agreed rate.

Details regarding derivative financial instruments are given in the following tables:

<i>Group</i>	2025			2024		
	Contract Amount £m	Fair value assets £m	Fair value liabilities £m	Contract Amount £m	Fair value assets £m	Fair value liabilities £m
Derivative financial instruments held for trading:						
Swap contracts	26,012	966	(2,154)	26,668	1,002	(2,303)
Option contracts	735	33	(61)	897	24	(46)
Index futures contracts	6,721	48	(16)	6,778	87	(60)
Forward foreign exchange contracts	32,539	406	(89)	10,437	34	(92)
Derivative financial instruments designated as fair value hedges	650	—	(115)	650	—	(112)
Total	66,657	1,453	(2,435)	45,430	1,147	(2,613)

<i>Company</i>	2025			2024		
	Contract Amount £m	Fair value assets £m	Fair value liabilities £m	Contract Amount £m	Fair value assets £m	Fair value liabilities £m
Derivative financial instruments held for trading:						
Swap contracts	23,990	900	(1,905)	24,942	937	(2,057)
Option contracts	735	33	(61)	818	24	(45)
Index futures contracts	3,919	33	(12)	4,390	75	(36)
Forward foreign exchange contracts	26,472	335	(75)	5,700	19	(42)
Derivative financial instruments designated as fair value hedges	650	—	(115)	650	—	(112)
Total	55,766	1,301	(2,168)	36,500	1,055	(2,292)

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2025

24. Derivative financial instruments (continued)

Derivative financial instrument fair value assets include £977 million for Group and £912 million for Company (2024: £956 million for Group and £898 million for Company) that is expected to be recovered more than one year after the reporting date.

Derivative financial instrument fair value liabilities include £2,331 million for Group and £2,083 million for Company (2024: £2,425 million for Group and £2,180 million for Company) that is expected to be settled more than one year after the reporting date.

The fair value hedges included in the above tables represent interest rate swaps in respect of the interest payments relating to subordinated debt issued by the Group. These instruments form part of hedge relationships with the subordinated debt issued.

Details of collateral accepted and pledged in respect of derivative financial instruments are given in note 44.

The following tables provide information about the designated fair value hedge, which hedges against interest rate risk, for the Group and Company. The hedged item is presented in the statement of financial position in subordinated debt. The hedging instrument is presented in the statement of financial position in derivative financial instruments.

<i>Group and Company</i>	2025		2024	
	Hedged item	Hedging instrument	Hedged item	Hedging instrument
	£m	£m	£m	£m
Notional amount of hedging instrument		650	—	650
Carrying amount:				
Assets	—	—	—	—
Liabilities	—	(115)	—	(112)
Change in fair value used for calculating hedge ineffectiveness	4	(3)	63	(63)
Accumulated amount of fair value hedge adjustments on the hedged item included in the carrying amount of the hedged item:				
Assets	126	—	122	—
Liabilities	—	—	—	—

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2025

25. Loans and receivables at amortised cost

	2025		2024	
	£m	£m	£m	£m
	<u>Group</u>	<u>Company</u>	<u>Group</u>	<u>Company</u>
Accrued income, dividend and rent	207	55	218	77
Loans to related parties	14	6	22	14
Other amounts due from related parties	59	30	45	44
Amounts receivable from direct insurance business	63	55	54	46
Amounts due from brokers ¹	173	139	147	57
Other	241	134	226	88
Total	757	419	712	326

¹In previous years this total was part of the Other total.

Of the above total, nil for Group and Company (2024: nil for Group and Company) is expected to be recovered more than one year after the reporting date. The carrying amount of loans to related parties is a reasonable approximation of fair value.

Within loans and receivables at amortised cost, there is no material credit concentration (2024: £4 million). Further information in respect of credit risk, including credit concentration risk and collateral held against loans to related parties, is given in note 44.

26. Investments at fair value through profit or loss

	2025		2024	
	£m	£m	£m	£m
	<u>Group</u>	<u>Company</u>	<u>Group</u>	<u>Company</u>
Shares and other variable yield securities	144,183	150,998	132,035	147,796
Debt and other fixed/variable income securities	47,779	29,366	33,606	7,761
Loans and advances to customers	6,421	6,015	6,476	6,046
Loans and advances to banks	3,201	1,137	3,144	758
Total investments at fair value	201,584	187,516	175,261	162,361

Debt securities of £39,604 million for Group and £28,967 million for Company (2024: £23,512 million for Group and £7,383 million for Company) is expected to be recovered more than one year after the reporting date. Loans and Advances to Customers of £5,706 million for Group and £5,549 million for Company (2024: £6,169 million for Group and £5,986 million for Company) is expected to be recovered more than one year after the reporting date. Loans and advances to banks are short-term in nature. Due to the nature of shares and other variable yield securities there is no fixed term associated with these securities. Included within shares and other variable yield securities for Company are shares in subsidiary undertakings of £47,152 million (2024: £57,006 million), which are held at fair value through profit or loss.

During 2025, the Group acquired illiquid credit assets from, or issued by, parties within Lloyds Banking Group totalling £18 million (2024: £35 million). The Group also originated loans during the year totalling £205 million (2024: nil) and committed to lend a further £188 million (2024: £64 million). The Group has an external third party funding arrangement with Liverpool Victoria Equity Release to acquire Lifetime Mortgages. The total loans acquired during the year were £129 million (2024: £70 million). These credit assets are secured on Social Housing, Infrastructure, Lifetime Mortgages and Commercial Real Estate portfolios. Further details on the credit risk and fair value measurement of these assets can be found in note 44.

All assets acquired from Lloyds Banking Group were acquired at their fair value and further details on the credit risk and fair value measurement of these assets can be found in note 44.

Of the total Loans and advances to customers above, £3,826 million for Group (2024: £3,550 million) and £3,669 million for Company (2024: £3,367 million) is secured on real estate. Of the Loans and advances to customers above, £3,317 million (2024: £4,367 million) for Group and £3,160 million (2024: £4,184 million) for Company was acquired from a related party. All transactions were completed at arm's length.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2025**26. Investments at fair value through profit or loss (continued)**

Within shares and other variable yield securities are cash funds of £67 million for Group and £32 million for Company (2024: £62 million for Group and £19 million for Company) representing collateral received and reinvested in relation to derivatives contracts, further details are given in note 44.

Interests in unconsolidated structured entities

Included within investments at fair value through profit or loss are investments in unconsolidated structured entities for Group of £45,991 million (2024: £86,630 million) arising from investments in collective investment vehicles and limited partnerships. Refer to note 18 for the list of these collective investment vehicles and limited partnerships.

The collective investment vehicles and limited partnerships are primarily financed by investments from investors in the vehicles. The investments are carried at fair value and the Group's maximum exposure to loss is equal to the carrying value of the investment.

However, investments in collective investment vehicles and limited partnerships are primarily held to match policyholder liabilities and the majority of the risk from a change in the value of the Group's investment is matched by a change in policyholder liabilities. At 31 December 2025, the total net assets of unconsolidated collective investment vehicles and limited partnerships in which the Group held a beneficial interest were £2,627 billion (2024: £2,434 billion). During the year the Group has not provided any non-contractual financial or other support to these unconsolidated collective investment vehicles and limited partnerships (2024: none).

The Group sponsors a range of collective investment vehicles and limited partnerships where it acts as the decision maker over the investment activities and markets the funds under one of Lloyds Banking Group's brands. The Group earns fees from managing the investments of these funds. The investment management fees that the Group earned from these sponsored unconsolidated collective investment vehicles and limited partnerships, including those in which the Group held no interest at 31 December 2025 was £24 million (2024: £24 million).

Interests in consolidated structured entities

The Group consolidates a number of structured entities, in accordance with the consolidation policy set out in note 1(b).

In 2015 the Company fully assumed a guarantee granted by SW Funding plc. The guarantee concerns a contractual arrangement with State Street Trustees Limited (SSTL), which acts as the Depositary of a consolidated structured entity, the Scottish Widows Property Authorised Contractual Scheme (SWACS). Under the terms of the contractual arrangement, the Company has indemnified SSTL against all losses suffered or incurred by SSTL arising out of or in relation to the scheme property of the SWACS, which consists of real property and for which SSTL is the legal owner. During the year, no losses have arisen and the Company has made no payment under this contractual arrangement (2024: none).

During the year, the Group has not provided any non-contractual financial support to consolidated structured entities and has no current intention of providing such support (2024: none).

27. Cash and cash equivalents

Cash and cash equivalents for the purposes of the statement of cash flows include the following:

	2025		2024	
	£m	£m	£m	£m
	<i>Group</i>	<i>Company</i>	<i>Group</i>	<i>Company</i>
Cash at bank	229	198	214	179
Less: bank overdrafts note 41	(182)	(182)	(161)	(161)
Total	47	16	53	18

Overdrafts above represent gross balances on accounts within a cash pooling arrangement, see note 41 for details.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2025
28. Share capital

	2025		2024	
	£m	£m	£m	£m
	<u>Group</u>	<u>Company</u>	<u>Group</u>	<u>Company</u>
Authorised, issued and fully paid share capital:				
50,000 (2024: 70,000,000) ordinary shares of £1 each	0.05	0.05	70	70
Total	0.05	0.05	70	70

On 11th September the Directors proposed and the Company's shareholder approved special resolutions, supported by a solvency statement under Section 641 of the Companies Act 2006, to reduce the Company's share capital from 70,000,000 ordinary shares of £1 each to 50,000 shares of £1 each, and share premium from £1 million to nil. The special resolutions, together with the solvency statement, were registered with Companies House on 15 September 2025 and took effect from that date.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2025

29. Summary of insurance assets and liabilities

Group	Note	2025				2024			
		Annuities £m	Pensions and Investments £m	Protection and Other £m	Total £m	Annuities £m	Pensions and Investments £m	Protection and Other £m	Total £m
Insurance contracts									
Insurance and participating investment contract liabilities									
- Present value of future cash flows	30, 31	(11,168)	(118,022)	(633)	(129,823)	(14,984)	(106,098)	(467)	(121,549)
- Risk Adjustment	30, 31	(70)	(795)	(21)	(886)	(116)	(689)	(86)	(891)
- Contractual Service Margin	30, 31	(864)	(3,087)	(326)	(4,277)	(1,478)	(2,718)	(435)	(4,631)
- Assets for insurance acquisition cash flows	35	—	—	—	—	—	—	—	—
		(12,102)	(121,904)	(980)	(134,986)	(16,578)	(109,505)	(988)	(127,071)
Less disposal group insurance contract liabilities	47	—	—	—	—	(5,268)	—	—	(5,268)
		(12,102)	(121,904)	(980)	(134,986)	(11,310)	(109,505)	(988)	(121,803)
Insurance contract assets									
- Present value of future cash flows	30, 31	—	—	215	215	—	—	—	—
- Risk Adjustment	30, 31	—	—	(58)	(58)	—	—	—	—
- Contractual Service Margin	30, 31	—	—	(80)	(80)	—	—	—	—
- Assets for insurance acquisition cash flows	35	—	—	—	—	—	—	—	—
		—	—	77	77	—	—	—	—
Reinsurance contracts									
Reinsurance contract assets									
- Present value of future cash flows	20, 21	(7)	5	240	238	4,589	5	307	4,901
- Risk Adjustment	20, 21	1	—	39	40	37	—	34	71
- Contractual Service Margin	20, 21	16	—	106	122	442	—	57	499
		10	5	385	400	5,068	5	398	5,471
Less disposal group reinsurance contract assets	47	—	—	—	—	5,059	—	—	5,059
		10	5	385	400	9	5	398	412
Reinsurance contract liabilities									
- Present value of future cash flows	20, 21	—	(8)	27	19	—	(11)	31	20
- Risk Adjustment	20, 21	—	1	(2)	(1)	—	1	(3)	(2)
- Contractual Service Margin	20, 21	—	(1)	(34)	(35)	—	1	(33)	(32)
		—	(8)	(9)	(17)	—	(9)	(5)	(14)

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2025

29. Summary of insurance assets and liabilities (continued)

Company	2025				2024			
	Annuities £m	Pensions and Investments £m	Protection and Other £m	Total £m	Annuities £m	Pensions and Investments £m	Protection and Other £m	Total £m
Insurance contracts								
Insurance and participating investment contract liabilities								
- Present value of future cash flows	(11,149)	(116,398)	(632)	(128,179)	(14,967)	(104,632)	(467)	(120,066)
- Risk Adjustment	(71)	(782)	(21)	(874)	(116)	(665)	(86)	(867)
- Contractual Service Margin	(864)	(2,968)	(326)	(4,158)	(1,478)	(2,620)	(435)	(4,533)
- Assets for insurance acquisition cash flows	—	—	—	—	—	—	—	—
	(12,084)	(120,148)	(979)	(133,211)	(16,561)	(107,917)	(988)	(125,466)
Less disposal group insurance contract liabilities	—	—	—	—	(5,268)	—	—	(5,268)
	(12,084)	(120,148)	(979)	(133,211)	(11,293)	(107,917)	(988)	(120,198)
Insurance contract assets								
- Present value of future cash flows	—	—	215	215	—	—	—	—
- Risk Adjustment	—	—	(58)	(58)	—	—	—	—
- Contractual Service Margin	—	—	(80)	(80)	—	—	—	—
- Assets for insurance acquisition cash flows	—	—	—	—	—	—	—	—
	—	—	77	77	—	—	—	—
Reinsurance contracts								
Reinsurance contract assets								
- Present value of future cash flows	(8)	1	240	233	4,589	—	307	4,896
- Risk Adjustment	1	—	39	40	37	—	34	71
- Contractual Service Margin	16	1	106	123	442	1	57	500
	9	2	385	396	5,068	1	398	5,467
Less disposal group reinsurance contract assets	—	—	—	—	5,059	—	—	5,059
	9	2	385	396	9	1	398	408
Reinsurance contract liabilities								
- Present value of future cash flows	—	—	27	27	—	—	30	30
- Risk Adjustment	—	—	(2)	(2)	—	—	(3)	(3)
- Contractual Service Margin	—	—	(34)	(34)	—	—	(33)	(33)
	—	—	(9)	(9)	—	—	(6)	(6)

Insurance and participating investment contract liabilities for annuities business includes present value of future cash flows of £nil million for Group and £nil million for Company (2024: £4,689 million for Group and Company), risk adjustment £nil million for Group and £nil million for Company (2024: £36 million for Group and Company), and contractual service margin £nil million for Group and £nil million for Company (2024: £544 million for Group and Company) that are classified and presented as disposal group liabilities on the balance sheet.

Reinsurance contract assets for annuities business includes present value of future cash flows £nil million for Group and £nil million for Company (2024: £4,596 million for Group and Company), risk adjustment £nil million for Group and £nil million for Company (2024: £36 million for Group and Company), and contractual service margin £nil million for Group and £nil million for Company (2024: £427 million for Group and Company) that are classified and presented as disposal group assets on the balance sheet.

Further information on the disposal group is provided in note 47.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2025

30. Reconciliation of insurance balances for remaining coverage and liability for incurred claims

Group	2025			
	Liabilities for remaining coverage		Liability for incurred claims	Total
Total	Excluding loss component	Loss component		
	£m	£m	£m	£m
At 1 January				
Insurance contract assets	—	—	—	—
Insurance and participating investment contract liabilities	(125,929)	(532)	(610)	(127,071)
	(125,929)	(532)	(610)	(127,071)
Insurance revenue				
Contracts under the fair value transition approach	1,665	—	—	1,665
Other contracts	1,041	—	—	1,041
	2,706	—	—	2,706
Insurance service expenses				
Incurred claims and other insurance service expenses	—	39	(1,797)	(1,758)
Adjustments to liabilities for incurred claims	—	(1)	(6)	(7)
Losses and reversal of losses on onerous contracts	—	(64)	—	(64)
Amortisation of insurance acquisition cash flows	(120)	—	—	(120)
	(120)	(26)	(1,803)	(1,949)
Insurance service result	2,586	(26)	(1,803)	757
Net finance income/(expenses) from insurance contracts	(15,324)	(20)	(6)	(15,350)
Exchange differences	(91)	—	(1)	(92)
Total change in profit or loss	(12,829)	(46)	(1,810)	(14,685)
Investment components	10,412	—	(10,412)	—
Cash flows				
Premiums received including investment components	(10,635)	—	—	(10,635)
Claims and other insurance service expenses paid, including investment components	—	—	12,247	12,247
Insurance acquisition cash flows	315	—	—	315
	(10,320)	—	12,247	1,927
Transfer to other items in the balance sheet				
Derecognition Consideration¹	4,920	—	—	4,920
Net asset (liability)	(133,746)	(578)	(585)	(134,909)
At 31 December				
Insurance contract assets	408	(331)	—	77
Insurance and participating investment contract liabilities	(134,154)	(247)	(585)	(134,986)
Net asset (liability)	(133,746)	(578)	(585)	(134,909)

As at 31 December 2025, £46 million of the Liability for incurred claims balance would be subject to development profile that extends beyond one year.

¹Derecognition consideration recognised due to transfer of bulk annuity business to Rothesay, as set out in note 47.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2025**30. Reconciliation of insurance balances for remaining coverage and liability for incurred claims (continued)**

Amounts for the Company are materially the same as for the Group, save for as follows. Differences arise on the SWE business unit best estimate liabilities, non-unit best estimate liabilities (representing future AMCs less expenses) and CSM.

- For the Company at 1 January, the LRC excluding LC for insurance and participating investment contract liabilities was £124,360 million (£1,569 million lower)
- Exchange differences of nil for the Company (£92 million more) decreased the LRC excluding LC.
- Incurred claims and other insurance service expenses of £1,745 million for the Company (£52 million less) decreased the LIC.
- Investment components for the Company of £10,287 million (£125 million less) increased the LRC excluding loss component and reduced the LIC.
- Claims and other insurance service expenses paid, including investment components, that reduced the Company's LIC were £12,062 million (£185 million less).
- Premiums received, including investment components for the Company of £10,575 million (£60 million less) decreased the LRC excluding LC.
- The Company's LRC, excluding LC, at 31 December was a net liability of £132,410 million (£1,744 million lower).

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2025

30. Reconciliation of insurance balances for remaining coverage and liability for incurred claims (continued)

Group Total	2024			Total £m
	Liabilities for remaining coverage Excluding loss component £m	Loss component £m	Liability for incurred claims £m	
At 1 January				
Insurance contract assets	1	—	—	1
Insurance and participating investment contract liabilities	(118,871)	(516)	(596)	(119,983)
	(118,870)	(516)	(596)	(119,982)
Insurance revenue				
Contracts under the fair value transition approach	1,469	—	—	1,469
Other contracts	1,170	—	—	1,170
	2,639	—	—	2,639
Insurance service expenses				
Incurred claims and other insurance service expenses	—	45	(2,019)	(1,974)
Adjustments to liabilities for incurred claims	—	—	(9)	(9)
Losses and reversal of losses on onerous contracts	—	(50)	—	(50)
Amortisation of insurance acquisition cash flows	(109)	—	—	(109)
	(109)	(5)	(2,028)	(2,142)
Insurance service result	2,530	(5)	(2,028)	497
Net finance income/(expenses) from insurance contracts	(10,390)	(11)	(5)	(10,406)
Exchange differences	78	—	2	80
Total change in profit or loss	(7,782)	(16)	(2,031)	(9,829)
Investment components	10,209	—	(10,209)	—
Cash flows				
Premiums received including investment components	(10,604)	—	—	(10,604)
Claims and other insurance service expenses paid, including investment components	832	—	12,226	13,058
Insurance acquisition cash flows	286	—	—	286
	(9,486)	—	12,226	2,740
Transfer to other items in the balance sheet	—	—	—	—
Net asset (liability)	(125,929)	(532)	(610)	(127,071)
At 31 December				
Insurance contract assets	—	—	—	—
Insurance and participating investment contract liabilities	(125,929)	(532)	(610)	(127,071)
Net asset (liability)	(125,929)	(532)	(610)	(127,071)

As at 31 December 2024, £75 million of the Liability for incurred claims balance would be subject to development profile that extends beyond one year.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2025**30. Reconciliation of insurance balances for remaining coverage and liability for incurred claims (continued)**

Amounts for the Company are materially the same as for the Group, save for as follows. Differences arise on the SWE business unit best estimate liabilities, non-unit best estimate liabilities (representing future AMCs less expenses) and CSM.

- For the Company at 1 January, the LRC excluding LC for insurance and participating investment contract liabilities was £117,209 million (£1,662 million lower).
- Exchange differences of nil for the Company (£78 million less) increased the LRC excluding LC.
- Investment components for the Company of £10,061 million (£148 million less) increased the LRC excluding loss component and reduced the LIC.
- Claims and other insurance service expenses paid, including investment components, that reduced the Company's LIC were £12,053 million (£173 million less).
- Premiums received, including investment components for the Company of £10,454 million (£150 million less) decreased the LRC excluding LC.
- The Company's LRC, excluding LC, at 31 December was a net liability of £124,360 million (£1,570 million lower).

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2025

30. Reconciliation of insurance balances for remaining coverage and liability for incurred claims (continued)

Group	2025			
	Liabilities for remaining coverage		Liability for incurred claims	Total
	Excluding loss component	Loss component		
	£m	£m	£m	£m
At 1 January				
Insurance contract assets	—	—	—	—
Insurance and participating investment contract liabilities	(16,493)	(49)	(36)	(16,578)
	(16,493)	(49)	(36)	(16,578)
Insurance revenue				
Contracts under the fair value transition approach	961	—	—	961
Other contracts	316	—	—	316
	1,277	—	—	1,277
Insurance service expenses				
Incurred claims and other insurance service expenses	—	—	(1,008)	(1,008)
Adjustments to liabilities for incurred claims	—	—	—	—
Losses and reversal of losses on onerous contracts	—	(73)	—	(73)
Amortisation of insurance acquisition cash flows	(8)	—	—	(8)
	(8)	(73)	(1,008)	(1,089)
Insurance service result	1,269	(73)	(1,008)	188
Net finance income/(expenses) from insurance contracts	(580)	3	—	(577)
Exchange differences	—	—	—	—
Total change in profit or loss	689	(70)	(1,008)	(389)
Investment components	239	—	(239)	—
Cash flows				
Premiums received including investment components	(1,341)	—	—	(1,341)
Claims and other insurance service expenses paid, including investment components	—	—	1,244	1,244
Insurance acquisition cash flows	42	—	—	42
	(1,299)	—	1,244	(55)
Transfer to other items in the balance sheet				
Derecognition consideration¹	4,920	—	—	4,920
Net asset (liability)	(11,944)	(119)	(39)	(12,102)
At 31 December				
Insurance contract assets	—	—	—	—
Insurance and participating investment contract liabilities	(11,944)	(119)	(39)	(12,102)
Net asset (liability)	(11,944)	(119)	(39)	(12,102)

The Company table is not presented, because none of the items for the Company are materially different than for the Group.

¹Derecognition consideration recognised due to transfer of bulk annuity business to Rothesay, as set out in note 47.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2025

30. Reconciliation of insurance balances for remaining coverage and liability for incurred claims (continued)

<i>Group</i>	2025			
	Liabilities for remaining coverage		Liability for incurred claims	Total
	Excluding loss component	Loss component		
	£m	£m	£m	£m
At 1 January				
Insurance contract assets	—	—	—	—
Insurance and participating investment contract liabilities	(108,951)	(61)	(493)	(109,505)
	(108,951)	(61)	(493)	(109,505)
Insurance revenue				
Contracts under the fair value transition approach	512	—	—	512
Other contracts	522	—	—	522
	1,034	—	—	1,034
Insurance service expenses				
Incurred claims and other insurance service expenses	—	5	(504)	(499)
Adjustments to liabilities for incurred claims	—	—	16	16
Losses and reversal of losses on onerous contracts	—	(13)	—	(13)
Amortisation of insurance acquisition cash flows	(30)	—	—	(30)
	(30)	(8)	(488)	(526)
Insurance service result	1,004	(8)	(488)	508
Net finance income/(expenses) from insurance contracts	(14,691)	(14)	(2)	(14,707)
Exchange differences	(91)	—	(1)	(92)
Total change in profit or loss	(13,778)	(22)	(491)	(14,291)
Investment components	10,134	—	(10,134)	—
Cash flows				
Premiums received including investment components	(8,873)	—	—	(8,873)
Claims and other insurance service expenses paid, including investment components	—	—	10,671	10,671
Insurance acquisition cash flows	94	—	—	94
	(8,779)	—	10,671	1,892
Transfer to other items in the balance sheet	—	—	—	—
Net asset (liability)	(121,374)	(83)	(447)	(121,904)
At 31 December				
Insurance contract assets	—	—	—	—
Insurance and participating investment contract liabilities	(121,374)	(83)	(447)	(121,904)
Net asset (liability)	(121,374)	(83)	(447)	(121,904)

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2025**30. Reconciliation of insurance balances for remaining coverage and liability for incurred claims (continued)**

Amounts for the Company are materially the same as for the Group, save for as follows. Differences arise on the SWE business unit best estimate liabilities, non-unit best estimate liabilities (representing future AMCs less expenses) and CSM.

- For the Company at 1 January, the LRC excluding LC for insurance and participating investment contract liabilities was £107,398 million (£1,553 million lower). The Company's LRC, excluding LC, at 31 December was a net liability of £119,647 million (£1,727 million lower).
- Exchange differences of nil for the Company (£92 million less) increased the LRC excluding LC.
- Incurred claims and other insurance service expenses of £452 million (£52 million less) decreased the LIC.
- Investment components for the Company of £10,010 million (£124 million less) increased the LRC excluding LC and reduced the LIC.
- Premiums received, including investment components for the Company of £8,811 million (£62 million lower) decreased the LRC excluding LC.
- Claims and other insurance service expenses paid, including investment components for the Company of £10,486 million (£185 million less) increased the LIC.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2025

30. Reconciliation of insurance balances for remaining coverage and liability for incurred claims (continued)

Group	2025				
	Protection and Other	Liabilities for remaining coverage		Liability for incurred claims	Total
		Excluding loss component	Loss component		
		£m	£m		
At 1 January					
Insurance contract assets	—	—	—	—	
Insurance and participating investment contract liabilities	(485)	(422)	(81)	(988)	
	(485)	(422)	(81)	(988)	
Insurance revenue					
Contracts under the fair value transition approach	192	—	—	192	
Other contracts	203	—	—	203	
	395	—	—	395	
Insurance service expenses					
Incurred claims and other insurance service expenses	—	34	(285)	(251)	
Adjustments to liabilities for incurred claims	—	(1)	(22)	(23)	
Losses and reversal of losses on onerous contracts	—	22	—	22	
Amortisation of insurance acquisition cash flows	(82)	—	—	(82)	
	(82)	55	(307)	(334)	
Insurance service result	313	55	(307)	61	
Net finance income/(expenses) from insurance contracts	(53)	(9)	(4)	(66)	
Exchange differences	—	—	—	—	
Total change in profit or loss	260	46	(311)	(5)	
Investment components	39	—	(39)	—	
Cash flows					
Premiums received including investment components	(421)	—	—	(421)	
Claims and other insurance service expenses paid, including investment components	—	—	332	332	
Insurance acquisition cash flows	179	—	—	179	
	(242)	—	332	90	
Transfer to other items in the balance sheet	—	—	—	—	
Net asset (liability)	(428)	(376)	(99)	(903)	
At 31 December					
Insurance contract assets	408	(331)	—	77	
Insurance and participating investment contract liabilities	(836)	(45)	(99)	(980)	
Net asset (liability)	(428)	(376)	(99)	(903)	

The Company table is not presented, because none of the items for the Company are materially different than for the Group.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2025

30. Reconciliation of insurance balances for remaining coverage and liability for incurred claims (continued)

<i>Group</i>	2024			
	Liabilities for remaining coverage		Liability for incurred claims	Total
	Excluding loss component	Loss component		
	£m	£m	£m	£m
At 1 January				
Insurance contract assets	—	—	—	—
Insurance and participating investment contract liabilities	(17,514)	(19)	(41)	(17,574)
	(17,514)	(19)	(41)	(17,574)
Insurance revenue				
Contracts under the fair value transition approach	835	—	—	835
Other contracts	524	—	—	524
	1,359	—	—	1,359
Insurance service expenses				
Incurred claims and other insurance service expenses	—	4	(1,194)	(1,190)
Adjustments to liabilities for incurred claims	—	—	—	—
Losses and reversal of losses on onerous contracts	—	(36)	—	(36)
Amortisation of insurance acquisition cash flows	(16)	—	—	(16)
	(16)	(32)	(1,194)	(1,242)
Insurance service result	1,343	(32)	(1,194)	117
Net finance income/(expenses) from insurance contracts	254	2	—	256
Exchange differences	1	—	—	1
Total change in profit or loss	1,598	(30)	(1,194)	374
Investment components	211	—	(211)	—
Cash flows				
Premiums received including investment components	(1,674)	—	—	(1,674)
Claims and other insurance service expenses paid, including investment components	832	—	1,410	2,242
Insurance acquisition cash flows	54	—	—	54
	(788)	—	1,410	622
Transfer to other items in the balance sheet	—	—	—	—
Net asset (liability)	(16,493)	(49)	(36)	(16,578)
At 31 December				
Insurance contract assets	—	—	—	—
Insurance and participating investment contract liabilities	(16,493)	(49)	(36)	(16,578)
Net asset (liability)	(16,493)	(49)	(36)	(16,578)

The Company table is not presented, because none of the items for the Company are materially different than for the Group.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2025

30. Reconciliation of insurance balances for remaining coverage and liability for incurred claims (continued)

Group	2024			
	Liabilities for remaining coverage		Liability for incurred claims	Total
	Excluding loss component	Loss component		
	£m	£m	£m	£m
At 1 January				
Insurance contract assets	—	—	—	—
Insurance and participating investment contract liabilities	(100,852)	(56)	(441)	(101,349)
	(100,852)	(56)	(441)	(101,349)
Insurance revenue				
Contracts under the fair value transition approach	422	—	—	422
Other contracts	474	—	—	474
	896	—	—	896
Insurance service expenses				
Incurred claims and other insurance service expenses	—	8	(536)	(528)
Adjustments to liabilities for incurred claims	—	—	(34)	(34)
Losses and reversal of losses on onerous contracts	—	(10)	—	(10)
Amortisation of insurance acquisition cash flows	(26)	—	—	(26)
	(26)	(2)	(570)	(598)
Insurance service result	870	(2)	(570)	298
Net finance income/(expenses) from insurance contracts	(10,585)	(3)	—	(10,588)
Exchange differences	77	—	2	79
Total change in profit or loss	(9,638)	(5)	(568)	(10,211)
Investment components	9,946	—	(9,946)	—
Cash flows				
Premiums received including investment components	(8,501)	—	—	(8,501)
Claims and other insurance service expenses paid, including investment components	—	—	10,462	10,462
Insurance acquisition cash flows	94	—	—	94
	(8,407)	—	10,462	2,055
Transfer to other items in the balance sheet	—	—	—	—
Net asset (liability)	(108,951)	(61)	(493)	(109,505)
At 31 December				
Insurance contract assets	—	—	—	—
Insurance and participating investment contract liabilities	(108,951)	(61)	(493)	(109,505)
Net asset (liability)	(108,951)	(61)	(493)	(109,505)

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2025**30. Reconciliation of insurance balances for remaining coverage and liability for incurred claims (continued)**

Amounts for the Company are materially the same as for the Group, save for as follows. Differences arise on the SWE business unit best estimate liabilities, non-unit best estimate liabilities (representing future AMCs less expenses) and CSM.

- For the Company at 1 January, the LRC excluding LC for insurance and participating investment contract liabilities was £99,209 million (£1,643 million lower). The Company's LRC, excluding LC, at 31 December was a net liability of £107,398 million (£1,553 million lower).
- Exchange differences of nil for the Company (£77 million less) increased the LRC excluding LC.
- Investment components for the Company of £9,798 million (£148 million less) increased the LRC excluding LC and reduced the LIC.
- Premiums received, including investment components for the Company of £8,350 million (£151 million lower) decreased the LRC excluding LC.
- Claims and other insurance service expenses paid, including investment components for the Company of £10,287 million (£175 million less) increased the LIC.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2025

30. Reconciliation of insurance balances for remaining coverage and liability for incurred claims (continued)

Group	2024				
	Protection and Other	Liabilities for remaining coverage		Liability for incurred claims	Total
		Excluding loss component	Loss component		
		£m	£m		
At 1 January					
Insurance contract assets	1	—	—	1	
Insurance and participating investment contract liabilities	(505)	(441)	(114)	(1,060)	
	(504)	(441)	(114)	(1,059)	
Insurance revenue					
Contracts under the fair value transition approach	212	—	—	212	
Other contracts	172	—	—	172	
	384	—	—	384	
Insurance service expenses					
Incurred claims and other insurance service expenses	—	33	(289)	(256)	
Adjustments to liabilities for incurred claims	—	—	25	25	
Losses and reversal of losses on onerous contracts	—	(4)	—	(4)	
Amortisation of insurance acquisition cash flows	(67)	—	—	(67)	
	(67)	29	(264)	(302)	
Insurance service result	317	29	(264)	82	
Net finance income/(expenses) from insurance contracts	(59)	(10)	(5)	(74)	
Exchange differences	—	—	—	—	
Total change in profit or loss	258	19	(269)	8	
Investment components	52	—	(52)	—	
Cash flows					
Premiums received including investment components	(429)	—	—	(429)	
Claims and other insurance service expenses paid, including investment components	—	—	354	354	
Insurance acquisition cash flows	138	—	—	138	
	(291)	—	354	63	
Transfer to other items in the balance sheet	—	—	—	—	
Net asset (liability)	(485)	(422)	(81)	(988)	
At 31 December					
Insurance contract assets	—	—	—	—	
Insurance and participating investment contract liabilities	(485)	(422)	(81)	(988)	
Net asset (liability)	(485)	(422)	(81)	(988)	

The Company table is not presented, because none of the items for the Company are materially different than for the Group.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2025

31. Reconciliation of the measurement components of insurance contract balances

Group Total	2025					Total £m
	Present value of future cash flows £m	Risk adjustment for non-financial risk £m	Contractual service margin			
			Contracts measured under the fair value approach £m	Other contracts £m	Total £m	
At 1 January						
Insurance contract assets	—	—	—	—	—	—
Insurance and participating investment contract liabilities	(121,550)	(890)	(1,402)	(3,229)	(4,631)	(127,071)
	(121,550)	(890)	(1,402)	(3,229)	(4,631)	(127,071)
Relating to current services						
CSM recognised for services provided	—	—	239	350	589	589
Changes in risk adjustment for non-financial risk for risk expired	—	47	—	—	—	47
Experience adjustments	192	—	—	—	—	192
	192	47	239	350	589	828
Relating to future services						
Contracts initially recognised in the year (note 32)	(24)	(59)	—	(13)	(13)	(96)
Changes in estimates that adjust the CSM	298	(48)	79	(329)	(250)	—
Changes in estimates that result in losses and reversal of losses on onerous contracts	39	(1)	—	(6)	(6)	32
	313	(108)	79	(348)	(269)	(64)
Relating to past services						
Adjustments to liabilities for incurred claims	(15)	8	—	—	—	(7)
Insurance service result	490	(53)	318	2	320	757
Net finance income/(expenses) from insurance contracts	(15,308)	—	—	(42)	(42)	(15,350)
Exchange differences	(87)	(1)	(4)	—	(4)	(92)
Total change in profit or loss	(14,905)	(54)	314	(40)	274	(14,685)
Investment components	—	—	—	—	—	—
Cash flows						
Premiums received including investment components	(10,635)	—	—	—	—	(10,635)
Claims and other insurance service expenses paid, including investment components	12,247	—	—	—	—	12,247
Insurance acquisition cash flows	315	—	—	—	—	315
	1,927	—	—	—	—	1,927
Derecognition consideration¹	4,920	—	—	—	—	4,920
Net asset (liability)	(129,608)	(944)	(1,088)	(3,269)	(4,357)	(134,909)
At 31 December						
Insurance contract assets	215	(58)	(73)	(7)	(80)	77
Insurance and participating investment contract liabilities	(129,823)	(886)	(1,015)	(3,262)	(4,277)	(134,986)
Net asset (liability)	(129,608)	(944)	(1,088)	(3,269)	(4,357)	(134,909)

¹Derecognition consideration recognised due to transfer of bulk annuity business to Rothesay, as set out in note 47.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2025**31. Reconciliation of the measurement components of insurance contract balances (continued)**

Amounts for the Company are materially the same as for the Group, save for as follows. Differences arise on the SWE business unit best estimate liabilities, non-unit best estimate liabilities (representing future AMCs less expenses) and CSM.

- For the Company, at 1 January, the present value of future cash flows was £120,068 million (£1,482 million lower). The CSM of contracts measured under the fair value approach was £1,304 million (£98 million lower).
- Net finance income/(expenses) from insurance contracts for the Company of £15,132 million (£176 million less) decreased the present value of future cashflows.
- Exchange differences for the Company of nil (£92 million less), increased the present value of future cash flows.
- Premiums received, including investment components were £10,573 million (£62 million less), decreased the present value of future cash flows.
- Claims and other insurance service expenses paid, including investment components were £12,062 million (£185 million less) for the present value of future cash flows.
- At 31 December, the net liability for the present value of future cash flows was £128,179 million (£1,644 million less). The net liability for the CSM for contracts measured under the fair value approach was £967 million (£121 million less).

The value of the contracts measured under the modified retrospective approach were nil for both 2025 and 2024.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2025

31. Reconciliation of the measurement components of insurance contract balances (continued)

Group Total	2024					Total £m
	Present value of future cash flows £m	Risk adjustment for non-financial risk £m	Contractual service margin			
Contracts measured under the fair value approach £m			Other contracts £m	Total £m		
At 1 January						
Insurance contract assets	—	1	—	—	—	1
Insurance and participating investment contract liabilities	(114,810)	(1,152)	(1,112)	(2,909)	(4,021)	(119,983)
	(114,810)	(1,151)	(1,112)	(2,909)	(4,021)	(119,982)
Relating to current services						
CSM recognised for services provided	—	—	169	279	448	448
Changes in risk adjustment for non-financial risk for risk expired	—	57	—	—	—	57
Experience adjustments	51	—	—	—	—	51
	51	57	169	279	448	556
Relating to future services						
Contracts initially recognised in the year (note 32)	33	(66)	—	(62)	(62)	(95)
Changes in estimates that adjust the CSM	722	249	(467)	(504)	(971)	—
Changes in estimates that result in losses and reversal of losses on onerous contracts	25	20	—	—	—	45
	780	203	(467)	(566)	(1,033)	(50)
Relating to past services						
Adjustments to liabilities for incurred claims	(9)	—	—	—	—	(9)
Insurance service result	822	260	(298)	(287)	(585)	497
Net finance income/(expenses) from insurance contracts	(10,378)	—	5	(33)	(28)	(10,406)
Exchange differences	76	1	3	—	3	80
Total change in profit or loss	(9,480)	261	(290)	(320)	(610)	(9,829)
Investment components	—	—	—	—	—	—
Cash flows						
Premiums received including investment components	(10,604)	—	—	—	—	(10,604)
Claims and other insurance service expenses paid, including investment components	13,058	—	—	—	—	13,058
Insurance acquisition cash flows	286	—	—	—	—	286
	2,740	—	—	—	—	2,740
Transfer to other items in the balance sheet						
	—	—	—	—	—	—
Net asset (liability)	(121,550)	(890)	(1,402)	(3,229)	(4,631)	(127,071)
At 31 December						
Insurance contract assets	—	—	—	—	—	—
Insurance and participating investment contract liabilities	(121,550)	(890)	(1,402)	(3,229)	(4,631)	(127,071)
Net asset (liability)	(121,550)	(890)	(1,402)	(3,229)	(4,631)	(127,071)

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2025**31. Reconciliation of the measurement components of insurance contract balances (continued)**

Amounts for the Company are materially the same as for the Group, save for as follows. Differences arise on the SWE business unit best estimate liabilities, non-unit best estimate liabilities (representing future AMCs less expenses) and CSM.

- For the Company, at 1 January, the present value of future cash flows was £113,256 million (£1,554 million lower). The CSM of contracts measured under the fair value approach was £1,015 million (£97 million lower).
- Exchange differences for the Company of nil (£76 million less), increased the present value of future cash flows.
- Premiums received, including investment components were £10,454 million (£150 million less), decreased the present value of future cash flows.
- Claims and other insurance service expenses paid, including investment components were £12,885 million (£173 million less) for the present value of future cash flows.
- At 31 December, the net liability for the present value of future cash flows was £120,068 million (£1,482 million less). The net liability for the CSM for contracts measured under the fair value approach was £1,304 million (£98 million less).

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2025

31. Reconciliation of the measurement components of insurance contract balances (continued)

Group Annuities	2025					Total £m
	Present value of future cash flows £m	Risk adjustment for non- financial risk £m	Contractual Service Margin			
			Contracts measured under the fair value approach £m	Other contracts £m	Total £m	
At 1 January						
Insurance contract assets	—	—	—	—	—	—
Insurance and participating investment contract liabilities	(14,985)	(115)	(853)	(625)	(1,478)	(16,578)
	(14,985)	(115)	(853)	(625)	(1,478)	(16,578)
Relating to current services						
CSM recognised for services provided	—	—	170	96	266	266
Changes in risk adjustment for non-financial risk for risk expired	—	2	—	—	—	2
Experience adjustments	(7)	—	—	—	—	(7)
	(7)	2	170	96	266	261
Relating to future services						
Contracts initially recognised in the year (note 32)	13	(5)	—	(8)	(8)	—
Changes in estimates that adjust the CSM	(436)	48	179	209	388	—
Changes in estimates that result in losses and reversal of losses on onerous contracts	(73)	—	—	—	—	(73)
	(496)	43	179	201	380	(73)
Relating to past services						
Adjustments to liabilities for incurred claims	—	—	—	—	—	—
Insurance service result	(503)	45	349	297	646	188
Net finance income/(expenses) from insurance contracts	(545)	—	(20)	(12)	(32)	(577)
Exchange differences	—	—	—	—	—	—
Total change in profit or loss	(1,048)	45	329	285	614	(389)
Investment components	—	—	—	—	—	—
Cash flows						
Premiums received including investment components	(1,341)	—	—	—	—	(1,341)
Claims and other insurance service expenses paid, including investment components	1,244	—	—	—	—	1,244
Insurance acquisition cash flows	42	—	—	—	—	42
	(55)	—	—	—	—	(55)
Derecognition consideration¹	4,920	—	—	—	—	4,920
Net asset (liability)	(11,168)	(70)	(524)	(340)	(864)	(12,102)
At 31 December						
Insurance contract assets	—	—	—	—	—	—
Insurance and participating investment contract liabilities	(11,168)	(70)	(524)	(340)	(864)	(12,102)
Net asset (liability)	(11,168)	(70)	(524)	(340)	(864)	(12,102)

The Company table is not presented, because none of the items for the Company are materially different than for the Group.

¹Derecognition consideration recognised due to transfer of bulk annuity business to Rothesay, as set out in note 47.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2025

31. Reconciliation of the measurement components of insurance contract balances (continued)

Group Pensions and Investments	2025					Total £m
	Present value of future cash flows £m	Risk adjustment for non-financial risk £m	Contractual Service Margin			
			Contracts measured under the fair value approach £m	Other contracts £m	Total £m	
At 1 January						
Insurance contract assets	—	—	—	—	—	—
Insurance and participating investment contract liabilities	(106,097)	(690)	(152)	(2,566)	(2,718)	(109,505)
	(106,097)	(690)	(152)	(2,566)	(2,718)	(109,505)
Relating to current services						
CSM recognised for services provided	—	—	30	253	283	283
Changes in risk adjustment for non-financial risk for risk expired	—	38	—	—	—	38
Experience adjustments	184	—	—	—	—	184
	184	38	30	253	283	505
Relating to future services						
Contracts initially recognised in the year (note 32)	29	(39)	—	(5)	(5)	(15)
Changes in estimates that adjust the CSM	733	(96)	(98)	(539)	(637)	—
Changes in estimates that result in losses and reversal of losses on onerous contracts	4	(1)	—	(1)	(1)	2
	766	(136)	(98)	(545)	(643)	(13)
Relating to past services						
Adjustments to liabilities for incurred claims	22	(6)	—	—	—	16
Insurance service result	972	(104)	(68)	(292)	(360)	508
Net finance income/(expenses) from insurance contracts	(14,702)	—	25	(30)	(5)	(14,707)
Exchange differences	(87)	(1)	(4)	—	(4)	(92)
Total change in profit or loss	(13,817)	(105)	(47)	(322)	(369)	(14,291)
Investment components	—	—	—	—	—	—
Cash flows						
Premiums received including investment components	(8,873)	—	—	—	—	(8,873)
Claims and other insurance service expenses paid, including investment components	10,671	—	—	—	—	10,671
Insurance acquisition cash flows	94	—	—	—	—	94
	1,892	—	—	—	—	1,892
Transfer to other items in the balance sheet	—	—	—	—	—	—
Net asset (liability)	(118,022)	(795)	(199)	(2,888)	(3,087)	(121,904)
At 31 December						
Insurance contract assets	—	—	—	—	—	—
Insurance and participating investment contract liabilities	(118,022)	(795)	(199)	(2,888)	(3,087)	(121,904)
Net asset (liability)	(118,022)	(795)	(199)	(2,888)	(3,087)	(121,904)

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2025**31. Reconciliation of the measurement components of insurance contract balances (continued)**

Amounts for the Company are materially the same as for the Group, save for as follows. Differences arise on the SWE business unit best estimate liabilities, non-unit best estimate liabilities (representing future AMCs less expenses) and CSM.

- For the Company, at 1 January, the present value of future cash flows was £104,634 million (£1,463 million lower) and the CSM of contracts measured under the fair value approach was £54 million (£98 million lower).
- Net finance income/(expenses) from insurance contracts for the company of £14,523 million (£179 million less) decreased the present value of future cash flows.
- Exchange differences increased the present value of future cash flows by nil (£92 million less).
- Premiums received, including investment components increased the present value of future cash flows by £8,809 million (£64 million less).
- Claims and other insurance service expenses paid, including investment components decreased the present value of future cash flows by £10,486 million (£185 million less).
- At 31 December, the net liability for the present value of future cash flows was £116,399 million (£1,623 million lower) and the net liability for the CSM for contracts measured under the fair value approach was £79 million (£120 million lower).

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2025

31. Reconciliation of the measurement components of insurance contract balances (continued)

Group Protection and Other	2025					Total £m
	Present value of future cash flows £m	Risk adjustment for non-financial risk £m	Contractual Service Margin			
			Contracts measured under the fair value approach £m	Other contracts £m	Total £m	
At 1 January						
Insurance contract assets	—	—	—	—	—	—
Insurance and participating investment contract liabilities	(468)	(85)	(397)	(38)	(435)	(988)
	(468)	(85)	(397)	(38)	(435)	(988)
Relating to current services						
CSM recognised for services provided	—	—	39	1	40	40
Changes in risk adjustment for non-financial risk for risk expired	—	7	—	—	—	7
Experience adjustments	15	—	—	—	—	15
	15	7	39	1	40	62
Relating to future services						
Contracts initially recognised in the year (note 32)	(66)	(15)	—	—	—	(81)
Changes in estimates that adjust the CSM	1	—	(2)	1	(1)	—
Changes in estimates that result in losses and reversal of losses on onerous contracts	108	—	—	(5)	(5)	103
	43	(15)	(2)	(4)	(6)	22
Relating to past services						
Adjustments to liabilities for incurred claims	(37)	14	—	—	—	(23)
Insurance service result	21	6	37	(3)	34	61
Net finance income/(expenses) from insurance contracts	(61)	—	(5)	—	(5)	(66)
Exchange differences	—	—	—	—	—	—
Total change in profit or loss	(40)	6	32	(3)	29	(5)
Investment components	—	—	—	—	—	—
Cash flows						
Premiums received including investment components	(421)	—	—	—	—	(421)
Claims and other insurance service expenses paid, including investment components	332	—	—	—	—	332
Insurance acquisition cash flows	179	—	—	—	—	179
	90	—	—	—	—	90
Transfer to other items in the balance sheet						
	—	—	—	—	—	—
Net asset (liability)	(418)	(79)	(365)	(41)	(406)	(903)
At 31 December						
Insurance contract assets	215	(58)	(73)	(7)	(80)	77
Insurance and participating investment contract liabilities	(633)	(21)	(292)	(34)	(326)	(980)
Net asset (liability)	(418)	(79)	(365)	(41)	(406)	(903)

The Company table is not presented, because none of the items for the Company are materially different than for the Group.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2025

31. Reconciliation of the measurement components of insurance contract balances (continued)

Group	2024					Total
	Annuities	Present value of future cash flows	Risk adjustment for non-financial risk	Contractual Service Margin		
£m				£m	Contracts measured under the fair value approach	Other contracts
At 1 January						
Insurance contract assets	—	—	—	—	—	—
Insurance and participating investment contract liabilities	(15,800)	(289)	(873)	(612)	(1,485)	(17,574)
	(15,800)	(289)	(873)	(612)	(1,485)	(17,574)
Relating to current services						
CSM recognised for services provided	—	—	92	54	146	146
Changes in risk adjustment for non-financial risk for risk expired	—	4	—	—	—	4
Experience adjustments	3	—	—	—	—	3
	3	4	92	54	146	153
Relating to future services						
Contracts initially recognised in the year (note 32)	69	(11)	—	(58)	(58)	—
Changes in estimates that adjust the CSM	(112)	162	(56)	6	(50)	—
Changes in estimates that result in losses and reversal of losses on onerous contracts	(55)	19	—	—	—	(36)
	(98)	170	(56)	(52)	(108)	(36)
Relating to past services						
Adjustments to liabilities for incurred claims	—	—	—	—	—	—
Insurance service result	(95)	174	36	2	38	117
Net finance income/(expenses) from insurance contracts	287	—	(16)	(15)	(31)	256
Exchange differences	1	—	—	—	—	1
Total change in profit or loss	193	174	20	(13)	7	374
Investment components	—	—	—	—	—	—
Cash flows						
Premiums received including investment components	(1,674)	—	—	—	—	(1,674)
Claims and other insurance service expenses paid, including investment components	2,242	—	—	—	—	2,242
Insurance acquisition cash flows	54	—	—	—	—	54
	622	—	—	—	—	622
Transfer to other items in the balance sheet	—	—	—	—	—	—
Net asset (liability)	(14,985)	(115)	(853)	(625)	(1,478)	(16,578)
At 31 December						
Insurance contract assets	—	—	—	—	—	—
Insurance and participating investment contract liabilities	(14,985)	(115)	(853)	(625)	(1,478)	(16,578)
Net asset (liability)	(14,985)	(115)	(853)	(625)	(1,478)	(16,578)

The Company table is not presented, because none of the items for the Company are materially different than for the Group.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2025

31. Reconciliation of the measurement components of insurance contract balances (continued)

Group Pensions and Investments	2024					Total £m
	Present value of future cash flows £m	Risk adjustment for non-financial risk £m	Contractual Service Margin			
			Contracts measured under the fair value approach £m	Other contracts £m	Total £m	
At 1 January						
Insurance contract assets	—	—	—	—	—	—
Insurance and participating investment contract liabilities	(98,157)	(784)	(120)	(2,288)	(2,408)	(101,349)
	(98,157)	(784)	(120)	(2,288)	(2,408)	(101,349)
Relating to current services						
CSM recognised for services provided	—	—	23	223	246	246
Changes in risk adjustment for non-financial risk for risk expired	—	45	—	—	—	45
Experience adjustments	51	—	—	—	—	51
	51	45	23	223	246	342
Relating to future services						
Contracts initially recognised in the year ¹ (note 32)	20	(45)	—	—	—	(25)
Changes in estimates that adjust the CSM ²	468	89	(74)	(483)	(557)	—
Changes in estimates that result in losses and reversal of losses on onerous contracts ²	11	4	—	—	—	15
	499	48	(74)	(483)	(557)	(10)
Relating to past services						
Adjustments to liabilities for incurred claims	(34)	—	—	—	—	(34)
Insurance service result	516	93	(51)	(260)	(311)	298
Net finance income/(expenses) from insurance contracts	(10,586)	—	16	(18)	(2)	(10,588)
Exchange differences	75	1	3	—	3	79
Total change in profit or loss	(9,995)	94	(32)	(278)	(310)	(10,211)
Investment components	—	—	—	—	—	—
Cash flows						
Premiums received including investment components	(8,501)	—	—	—	—	(8,501)
Claims and other insurance service expenses paid, including investment components	10,462	—	—	—	—	10,462
Insurance acquisition cash flows	94	—	—	—	—	94
	2,055	—	—	—	—	2,055
Transfer to other items in the balance sheet						
	—	—	—	—	—	—
Net asset (liability)	(106,097)	(690)	(152)	(2,566)	(2,718)	(109,505)
At 31 December						
Insurance contract assets	—	—	—	—	—	—
Insurance and participating investment contract liabilities	(106,097)	(690)	(152)	(2,566)	(2,718)	(109,505)
Net asset (liability)	(106,097)	(690)	(152)	(2,566)	(2,718)	(109,505)

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2025**31. Reconciliation of the measurement components of insurance contract balances (continued)**

Amounts for the Company are materially the same as for the Group, save for as follows. Differences arise on the SWE business unit best estimate liabilities, non-unit best estimate liabilities (representing future AMCs less expenses) and CSM.

- For the Company, at 1 January, the present value of future cash flows was £96,622 million (£1,535 million lower) and the CSM of contracts measured under the fair value approach was £23 million (£97 million lower).
- Exchange differences increased the present value of future cash flows by nil (£79 million less).
- Premiums received, including investment components increased the present value of future cash flows by £8,350 million (£151 million less).
- Claims and other insurance service expenses paid, including investment components decreased the present value of future cash flows by £10,287 million (£175 million less).
- At 31 December, the net liability for the present value of future cash flows was £104,632 million (£1,465 million lower) and the net liability for the CSM for contracts measured under the fair value approach was £54 million (£98 million lower).

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2025

31. Reconciliation of the measurement components of insurance contract balances (continued)

Group Protection and Other	2024					Total £m
	Present value of future cash flows £m	Risk adjustment for non- financial risk £m	Contractual Service Margin			
			Contracts measured under the fair value approach £m	Other contracts £m	Total £m	
At 1 January						
Insurance contract assets	—	1	—	—	—	1
Insurance and participating investment contract liabilities	(853)	(79)	(119)	(9)	(128)	(1,060)
	(853)	(78)	(119)	(9)	(128)	(1,059)
Relating to current services						
CSM recognised for services provided	—	—	54	2	56	56
Changes in risk adjustment for non-financial risk for risk expired	—	8	—	—	—	8
Experience adjustments	(3)	—	—	—	—	(3)
	(3)	8	54	2	56	61
Relating to future services						
Contracts initially recognised in the year (note 32)	(56)	(9)	—	(4)	(4)	(69)
Changes in estimates that adjust the CSM	366	(2)	(337)	(27)	(364)	—
Changes in estimates that result in losses and reversal of losses on onerous contracts	69	(4)	—	—	—	65
	379	(15)	(337)	(31)	(368)	(4)
Relating to past services						
Adjustments to liabilities for incurred claims	25	—	—	—	—	25
Insurance service result	401	(7)	(283)	(29)	(312)	82
Net finance expenses from insurance contracts	(79)	—	5	—	5	(74)
Exchange differences	—	—	—	—	—	—
Total change in profit or loss	322	(7)	(278)	(29)	(307)	8
Investment components	—	—	—	—	—	—
Cash flows						
Premiums received including investment components	(429)	—	—	—	—	(429)
Claims and other insurance service expenses paid, including investment components	354	—	—	—	—	354
Insurance acquisition cash flows	138	—	—	—	—	138
	63	—	—	—	—	63
Transfer to other items in the balance sheet	—	—	—	—	—	—
Net asset (liability)	(468)	(85)	(397)	(38)	(435)	(988)
At 31 December						
Insurance contract assets	—	—	—	—	—	—
Insurance and participating investment contract liabilities	(468)	(85)	(397)	(38)	(435)	(988)
Net asset (liability)	(468)	(85)	(397)	(38)	(435)	(988)

The Company table is not presented, because none of the items for the Company are materially different than for the Group.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2025

32. Impact of contracts recognised in the year

Group and Company Total	2025			2024		
	Profitable contracts issued	Onerous contracts issued	Total	Profitable contracts issued	Onerous contracts issued	Total
	£m	£m	£m	£m	£m	£m
Insurance contracts						
Insurance acquisition cash flows	(112)	(205)	(317)	(39)	(223)	(262)
Claims and other directly attributable expenses	(5,564)	(578)	(6,142)	(1,409)	(4,554)	(5,963)
Estimates of the present value of future cash outflows	(5,676)	(783)	(6,459)	(1,448)	(4,777)	(6,225)
Estimates of the present value of future cash inflows	5,733	702	6,435	1,522	4,736	6,257
Risk adjustment for non-financial risk	(44)	(15)	(59)	(11)	(54)	(65)
Contractual service margin	(13)	—	(13)	(62)	—	(62)
Losses recognised on initial recognition	—	(96)	(96)	—	(95)	(95)

Group and Company Annuities	2025			2024		
	Profitable contracts issued	Onerous contracts issued	Total	Profitable contracts issued	Onerous contracts issued	Total
	£m	£m	£m	£m	£m	£m
Insurance contracts						
Insurance acquisition cash flows	(39)	—	(39)	(39)	—	(39)
Claims and other directly attributable expenses	(1,169)	—	(1,169)	(1,385)	—	(1,385)
Estimates of the present value of future cash outflows	(1,208)	—	(1,208)	(1,424)	—	(1,424)
Estimates of the present value of future cash inflows	1,221	—	1,221	1,493	—	1,493
Risk adjustment for non-financial risk	(5)	—	(5)	(11)	—	(11)
Contractual service margin	(8)	—	(8)	(58)	—	(58)
Losses recognised on initial recognition	—	—	—	—	—	—

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2025

32. Impact of contracts recognised in the year (continued)

<i>Group and Company</i>		2025			2024		
Pensions and Investments	Profitable contracts issued	Onerous contracts issued	Total	Profitable contracts issued	Onerous contracts issued	Total	
	£m	£m	£m	£m	£m	£m	
Insurance contracts							
Insurance acquisition cash flows	(67)	(20)	(87)	—	(88)	(88)	
Claims and other directly attributable expenses	(4,365)	(186)	(4,551)	(11)	(4,286)	(4,297)	
Estimates of the present value of future cash outflows	(4,432)	(206)	(4,638)	(11)	(4,374)	(4,385)	
Estimates of the present value of future cash inflows	4,476	191	4,667	11	4,393	4,405	
Risk adjustment for non-financial risk	(39)	—	(39)	—	(45)	(45)	
Contractual service margin	(5)	—	(5)	—	—	—	
Losses recognised on initial recognition	—	(15)	(15)	—	(26)	(26)	

<i>Group and Company</i>		2025			2024		
Protection and Other	Profitable contracts issued	Onerous contracts issued	Total	Profitable contracts issued	Onerous contracts issued	Total	
	£m	£m	£m	£m	£m	£m	
Insurance contracts							
Insurance acquisition cash flows	(6)	(185)	(191)	—	(135)	(135)	
Claims and other directly attributable expenses	(30)	(392)	(422)	(13)	(268)	(281)	
Estimates of the present value of future cash outflows	(36)	(577)	(613)	(13)	(403)	(416)	
Estimates of the present value of future cash inflows	36	511	547	18	343	360	
Risk adjustment for non-financial risk	—	(15)	(15)	—	(9)	(9)	
Contractual service margin	—	—	—	(4)	—	(4)	
Losses recognised on initial recognition	—	(81)	(81)	—	(69)	(69)	

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2025

32. Impact of contracts recognised in the year (continued)

Group and Company	2025			2024		
	Contracts initiated without loss-recovery component	Contracts initiated with loss-recovery component	Total	Contracts initiated without loss-recovery component	Contracts initiated with loss-recovery component	Total
	£m	£m	£m	£m	£m	£m
Reinsurance contracts held						
Estimates of the present value of future cash outflows	(19)	(279)	(298)	5,109	(180)	4,929
Estimates of the present value of future cash inflows	19	325	344	(5,443)	219	(5,224)
Risk adjustment for non-financial risk	—	9	9	35	5	40
Income recognised on initial recognition	—	(77)	(77)	—	(66)	(66)
Contractual service margin	—	(22)	(22)	(299)	(22)	(321)

For 2024, the above table for Group and Company includes a reinsurance agreement between the Company and Rothesay Life plc, signed on the 30 April 2024, that is classified and presented within disposal group assets. Upon entering into the reinsurance agreement, the Group and Company derecognised £5.4 billion of financial assets which represents the reinsurance premium paid and at 30 April 2024 recognised a reinsurance contract asset of £5.4 billion, of which £0.3 billion contractual service margin was recognised. Further information on the disposal group is provided in note 47.

New business value of insurance and participating investment contracts recognised in the year

The table below reconciles the impact of insurance and participating investment contracts recognised in the year presented above, to new business value of insurance and participating investment contracts, and reinsurance contracts recognised in the year, a KPI presented within the Strategic Report.

This KPI represents the value added to the contractual service margin and risk adjustment at the initial recognition of new insurance and participating investment contracts, net of the impact of reinsurance contracts recognised in the year, and net of any loss component recognised on inception for onerous contracts. For this KPI, new business is valued as at the balance sheet date, and includes the impact of increments and transfer experience on workplace pension contracts.

Group and Company	2025 £m	2024 £m
Contractual service margin ¹	13	62
Risk adjustment for non-financial risk ¹	59	65
Losses recognised on initial recognition ¹	(96)	(95)
Impact of insurance and participating investment contracts recognised in the year	(24)	33
Contractual service margin ²	(22)	(321)
Risk adjustment for non-financial risk ²	(9)	(40)
Income recognised on initial recognition ²	77	66
Impact of reinsurance contracts recognised in the year	46	(296)
Roll forward of new business to end of period including increments, single premiums and transfers, of contracts initially recognised in the year	48	31
Removal of CSM and risk adjustment for non-financial risk allocated to disposal group assets and liabilities	—	331
New business value of insurance and participating investment contracts recognised in the year³	70	99

¹ As shown in Group and Company Total Insurance contracts table above.

² As shown in Group and Company Reinsurance contracts held table above.

³ As shown in the new business value of insurance and participating investment contracts, and reinsurance contracts recognised in the year, a key performance indicator presented within the Strategic Report.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2025

33. Contractual service margin

Group as at 31 December 2025

	Less than 1 year	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	5 to 10 years	Over 10 years	Total
	£m	£m	£m	£m	£m	£m	£m	£m
Insurance and participating investment contract liabilities								
Annuities	(70)	(64)	(60)	(56)	(52)	(213)	(349)	(864)
Pensions and Investments	(274)	(249)	(205)	(187)	(171)	(656)	(1,345)	(3,087)
Protection and Other	(36)	(33)	(30)	(27)	(25)	(94)	(161)	(406)
Total	(380)	(346)	(295)	(270)	(248)	(963)	(1,855)	(4,357)
Reinsurance contracts								
Annuities	1	1	1	1	1	2	9	16
Pensions and Investments							(1)	(1)
Protection and Other	11	9	7	6	5	15	19	72
Total	12	10	8	7	6	17	27	87

Group as at 31 December 2024

	Less than 1 year	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	5 to 10 years	Over 10 years	Total
	£m	£m	£m	£m	£m	£m	£m	£m
Insurance and participating investment contract liabilities								
Annuities ¹	(623)	(69)	(64)	(60)	(56)	(229)	(377)	(1,478)
Pensions and Investments	(239)	(217)	(198)	(164)	(150)	(588)	(1,162)	(2,718)
Protection and Other	(41)	(36)	(33)	(30)	(27)	(101)	(167)	(435)
Total	(902)	(322)	(295)	(254)	(233)	(919)	(1,706)	(4,631)
Reinsurance contracts								
Annuities ¹	426	1	1	1	1	3	9	442
Pensions and Investments	—	—	—	—	—	—	1	1
Protection and Other	6	5	4	3	2	4	—	24
Total	432	6	5	4	3	7	10	467

¹CSM of £544 million arising from insurance contracts classified and presented as disposal group liabilities has been included in less than 1 year. CSM of £427 million arising from reinsurance contracts held classified and presented as disposal group assets has been included in less than 1 year. The Group derecognised the CSM in 2025 upon disposal of the insurance contract liabilities and reinsurance contract assets. Further information on the disposal group is provided in note 47.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2025

33. Contractual service margin (continued)

Company as at 31 December 2025

	Less than 1 year	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	5 to 10 years	Over 10 years	Total
	£m	£m	£m	£m	£m	£m	£m	£m
Insurance and participating investment contract liabilities								
Annuities	(70)	(64)	(60)	(56)	(52)	(213)	(349)	(864)
Pensions and Investments	(264)	(240)	(197)	(180)	(164)	(634)	(1,289)	(2,968)
Protection and Other	(36)	(33)	(30)	(27)	(25)	(94)	(161)	(406)
Total	(370)	(337)	(287)	(263)	(241)	(941)	(1,799)	(4,238)

Reinsurance contracts

Annuities	1	1	1	1	1	2	9	16
Pensions and Investments							1	1
Protection and Other	11	9	7	6	5	15	19	72
Total	12	10	8	7	6	17	29	89

Company as at 31 December 2024

	Less than 1 year	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	5 to 10 years	Over 10 years	Total
	£m	£m	£m	£m	£m	£m	£m	£m
Insurance and participating investment contract liabilities								
Annuities ¹	(623)	(69)	(64)	(60)	(56)	(229)	(377)	(1,478)
Pensions and Investments	(230)	(209)	(191)	(157)	(145)	(566)	(1,121)	(2,620)
Protection and Other	(41)	(36)	(33)	(30)	(27)	(101)	(167)	(435)
Total	(894)	(315)	(288)	(247)	(228)	(896)	(1,665)	(4,533)

Reinsurance contracts

Annuities ¹	426	1	1	1	1	3	9	442
Pensions and Investments	—	—	—	—	—	—	1	1
Protection and Other	6	5	4	3	2	4	—	24
Total	432	6	5	4	3	7	10	467

¹CSM of £544 million arising from insurance contracts classified and presented as disposal group liabilities has been included in less than 1 year. CSM of £427 million arising from reinsurance contracts held classified and presented as disposal group assets has been included in less than 1 year. The Group derecognised the CSM in 2025 upon disposal of the insurance contract liabilities and reinsurance contract assets. Further information on the disposal group is provided in note 47.

For contracts classified and presented within disposal group assets or disposal group liabilities, the Group and Company includes the CSM in less than one year. For all other contracts, the Group and Company determines the amount of CSM recognised in the Income Statement for the reporting periods shown in the above tables based on future coverage units and does not allow for interest accretion.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2025

34. Underlying items backing contracts with direct participation features

The following table shows the composition and the fair value of underlying items of the Group's and Company's direct participating contracts.

	2025		2024	
	£m	£m	£m	£m
	Group	Company	Group	Company
Fair value of underlying items				
Investment properties	14	14	19	19
Derivative financial instruments	(902)	(902)	(1,125)	(1,125)
Loans and receivables at amortised cost	10	3	12	(17)
Investments at fair value through profit or loss	122,683	121,186	111,435	110,051
Cash and cash equivalents	—	—	2	—
Other assets	366	349	86	116
Other liabilities	(804)	(773)	(383)	(396)
Total	121,367	119,878	110,045	108,649

35. Assets for acquisition cash flows

Group	2025				2024			
	Annuities	Pensions and Investments	Protection and Other	Total	Annuities	Pensions and Investments	Protection and Other	Total
	£m	£m	£m	£m	£m	£m	£m	£m
Balance at 1 January	—	—	—	—	9	—	—	9
Amounts incurred during the year	—	—	—	—	—	—	—	—
Amounts derecognised and included in the measurement of insurance contracts								
(Present value of future cash flows and Contractual Service Margin)	—	—	—	—	—	—	—	—
Impairment losses and reversals (note 4)	—	—	—	—	(9)	—	—	(9)
Exchange differences	—	—	—	—	—	—	—	—
Balance at 31 December	—	—	—	—	—	—	—	—

The Company table is not presented as all amounts for Group are the same as for Company.

On 13 March 2024, the Group entered into a business transfer agreement with Rothesay Life plc for the sale of the Group's bulk annuity business and to pursue the transfer of associated business assets and assumed liabilities under Part VII of the Financial Services and Markets Act 2000. Further details are provided in note 47. The Group is no longer writing new bulk annuity business, and in 2024 the bulk annuity assets for acquisition cash flows amounts for Group and Company were fully impaired.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2025

36. Provisions for other liabilities and charges

Group	2025			2024		
	German insurance business litigation	Other	Total	German insurance business litigation	Other	Total
	£m	£m	£m	£m	£m	£m
At 1 January	62	23	85	75	22	97
Increase in the year	—	37	37	—	26	26
Amount utilised in the period	(4)	(22)	(26)	(13)	(25)	(38)
At 31 December	58	38	96	62	23	85

Company	2025			2024		
	German insurance business litigation	Other	Total	German insurance business litigation	Other	Total
	£m	£m	£m	£m	£m	£m
At 1 January	11	24	35	22	23	45
Increase in the year	—	37	37	—	25	25
Amount utilised in the period	(1)	(22)	(23)	(3)	(24)	(27)
Unused amount reversed in period*	(6)	—	(6)	(8)	—	(8)
At 31 December	4	39	43	11	24	35

Of the above total, provisions for other liabilities and charges include £51 million for Group and £3 million for Company (2024: £52 million for Group and £10 million for Company) expected to be settled more than one year after the reporting date.

*Reflects a €6.5 million provision transfer from the Company to SWE during 2025 (2024: €10 million).

Customer claims in relation to insurance business in Germany and Austria

The Group continues to receive claims in Germany and Austria from customers relating to policies issued by the Company, under its former name of Clerical Medical Investment Group Limited. The total provision made to 31 December 2025 is £709 million (2024: £709 million). Utilisation, which includes the impact of currency movements, has decreased to £4 million in the year ended 31 December 2025 (2024: £13 million); the remaining unutilised provision as at 31 December 2025 is £58 million (2024: £62 million).

The validity of the claims facing the Group depends upon the facts and circumstances in respect of each claim. As a result, the ultimate financial effect, which could be significantly different from the current provision, will only be known once all relevant claims have been resolved. Claims received to date represent 13 per cent of the relevant total policy population. Key metrics and sensitivities are highlighted in the table below:

Sensitivities	Actuals to date	Anticipated Future	Sensitivity
Number of claims	19,900	900	1,000 = £13 million
Average uphold rate per claim	64 per cent	48 per cent	10 per cent = £4 million
Average redress per upheld claim	£38,000	£25,000	£1,000 = £1 million
Administrative expenses	£200 million	£20 million	1 case = £3,700

The actuals to date include claims that have been received and provided for but not yet resolved. For future claims the anticipated average uphold rate, redress per upheld claim and administrative (including legal) expenses are based on actual experience seen over the 24 months prior to the reporting date.

The Company has provided a 90 per cent indemnity to SWE in respect of costs arising on these matters in relation to business transferred to SWE in March 2019. In February 2026, the Company entered into a Sale and Purchase Agreement to sell the entire issued share capital of SWE to Chesnara plc. The existing deed of indemnity, will be superseded by a replacement deed of indemnity with effect from completion of the sale. Further details of the post balance sheet event are provided in note 51.

Other provisions

Other provisions include amounts for customer remediation costs, restructuring and third-party contractual compensation.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2025**36. Provisions for other liabilities and charges (continued)****Contingent liabilities***Tax authorities*

Lloyds Banking Group has an open matter in relation to a claim for group relief of losses incurred in its former Irish banking subsidiary, which ceased trading on 31 December 2010. In 2020, HMRC concluded its enquiry into the matter and issued a closure notice denying the group relief claim. The Group appealed to the First Tier Tax Tribunal. The hearing took place in May 2023. In January 2025, the First Tier Tribunal concluded in favour of HMRC. The Group believes it has applied the rules correctly and that the claim for group relief is correct. Having reviewed the Tribunal's conclusions and having taken appropriate advice the Group has appealed to the Upper Tier Tax Tribunal, and does not consider this to be a case where an additional tax liability will ultimately fall due. If the final determination of the matter by the judicial process is that HMRC's position is correct, management believes that this would result in an increase in the Group's current tax liabilities of approximately £24.9 million (including interest). The appeal has been listed for hearing in March 2027, but final conclusion of the judicial process may not be for several years.

Other legal actions and regulatory matters

In addition, in the course of its business the Group is subject to other complaints and threatened or actual legal proceedings (including class or group action claims) brought by or on behalf of current or former employees, customers (including their appointed representatives), investors or other third parties, as well as legal and regulatory reviews, enquiries and examinations, requests for information, audits, challenges, investigations and enforcement actions, which could relate to a number of issues. This includes matters in relation to compliance with applicable laws and regulations, such as those relating to prudential regulation, consumer protection, investment advice, business conduct, systems and controls, environmental, competition/anti-trust, tax, anti-bribery, anti-money laundering and sanctions, some of which may be beyond the Group's control, both in the UK and overseas. Where material, such matters are periodically reassessed, with the assistance of external professional advisers where appropriate, to determine the likelihood of the Group incurring a liability. The Group does not currently expect the final outcome of any such case to have a material adverse effect on its financial position, operations or cash flows.

Guarantees

In previous years, the Group and Company entered into arrangements with Trustees of bulk annuity schemes for which the Group and Company holds insurance contract liabilities, whereby Lloyds Bank Plc provided a loan to the bulk annuity scheme and the Group and Company provided an intra-group guarantee to Lloyds Bank Plc covering the full amount of the loan. The guarantee was backed by provisions in the relevant bulk annuity contracts which allow the Group and Company to terminate or reduce the benefits under those contracts and use cashflows avoided in this circumstance to meet its obligations under the guarantee. The total value of loan guarantees at 31 December 2024 was £125 million, and there was no indication that these would be called upon at that date. The Group and Company transferred the guarantee to Rothesay Life plc when the Group and Company's bulk annuity business was transferred to Rothesay Life plc in June 2025. Further information on the transfer of the Group and Company's bulk annuity business is provided in Note 47.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2025

37. Accruals and deferred income

	2025		2024	
	£m	£m	£m	£m
	<i>Group</i>	<i>Company</i>	<i>Group</i>	<i>Company</i>
Accrued expenses	10	—	12	—
Deferred income	6	4	7	7
Total	16	4	19	7

Of the above total, £3 million for Group and £3 million for Company (2024: £5 million for Group and £5 million for Company) is expected to be settled more than one year after the reporting date.

38. Subordinated debt

The carrying value shown in the balance sheet is as follows:

	2025		2024	
	£m	£m	£m	£m
	<i>Group</i>	<i>Company</i>	<i>Group</i>	<i>Company</i>
Subordinated debt	621	650	613	650
Issue costs	(11)	(11)	(8)	(8)
	610	639	605	642
Accrued interest on subordinated debt	25	25	25	25
Fair value hedge adjustment	(126)	(126)	(122)	(122)
Total	509	538	508	545

Movements in the carrying value are as follows:

	£m	£m
	<i>Group</i>	<i>Company</i>
At 1 January 2025	508	545
Changes in fair value	(4)	(4)
Other non-cash movements	51	42
Interest settlement	(46)	(46)
At 31 December 2025	509	538

£1,500 million of fixed rate subordinated notes were issued by the Company in April 2013, at a discount of £13 million. On 16 June 2023, the Company redeemed £850 million of the subordinated notes in issue, at their par value. Redemption is due in 2043 for the remaining £650 million. Interest was payable on an annual basis at a rate of 5.5 per cent on the former and is payable at 7 per cent on the latter. Repayment of the notes is subordinate to the claims of the Company's senior creditors, including all policyholders.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2025

38. Subordinated debt (continued)

The interest rate risk of the notes is managed using a derivative which is accounted for using hedge accounting, as set out in note 1(n).

The fair values of the subordinated debt of the Group and Company are as follows:

Group	2025		2024	
	£m	£m	£m	£m
	<u>Carrying value</u>	<u>Fair value</u>	<u>Carrying value</u>	<u>Fair value</u>
Dated subordinated debt	509	677	508	653
Total	509	677	508	653

Company	2025		2024	
	£m	£m	£m	£m
	<u>Carrying value</u>	<u>Fair value</u>	<u>Carrying value</u>	<u>Fair value</u>
Dated subordinated debt	538	706	545	690
Total	538	706	545	690

The fair value of dated subordinated debt has been assessed by management with reference to published prices.

39. Non-participating investment contract liabilities

An analysis of the change in net liabilities arising from non-participating investment contracts is as follows:

Group	2025			2024		
	Gross	Contracts with reinsurers	Net	Gross	Contracts with reinsurers	Net
	£m	£m	£m	£m	£m	£m
At 1 January	51,225	(5,913)	45,312	44,978	(7,297)	37,681
New business	4,666	—	4,666	2,085	—	2,085
Changes in existing business	5,749	(346)	5,403	4,162	1,384	5,546
At 31 December	61,640	(6,259)	55,381	51,225	(5,913)	45,312

Company	2025			2024		
	Gross	Contracts with reinsurers	Net	Gross	Contracts with reinsurers	Net
	£m	£m	£m	£m	£m	£m
At 1 January	51,221	(5,913)	45,308	44,960	(7,297)	37,663
New business	4,666	—	4,666	2,085	—	2,085
Changes in existing business	5,729	(346)	5,383	4,176	1,384	5,560
At 31 December	61,616	(6,259)	55,357	51,221	(5,913)	45,308

An analysis of the contractual and expected maturities of liabilities arising from non-participating investment contracts is given in note 44.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2025

40. Other financial liabilities

	2025		2024	
	£m	£m	£m	£m
	<i>Group</i>	<i>Company</i>	<i>Group</i>	<i>Company</i>
Amounts payable in respect of direct insurance business	227	172	196	163
Due to related parties	165	161	225	231
Due to brokers	532	244	1,163	65
Collateral liability	32	32	20	19
Other	365	297	371	303
Total	1,321	906	1,976	781

Of the above total, nil for Group and nil for Company (2024: nil for Group and nil for Company) is expected to be settled more than one year after the reporting date.

41. Borrowings

	2025		2024	
	£m	£m	£m	£m
	<i>Group</i>	<i>Company</i>	<i>Group</i>	<i>Company</i>
Bank overdrafts	182	182	161	161
Total	182	182	161	161

Bank overdrafts above represent gross balances on accounts within a cash pooling arrangement maintained for operational reasons. These balances are presented separately from cash and cash equivalents, as they do not meet the requirements for offsetting under IAS 32.

The fair value of the balances set out above is not materially different to the carrying value due to the short-term nature of these balances.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2025

42. Net (increase)/decrease in operating assets and liabilities

	2025		2024	
	£m	£m	£m	£m
	<u>Group</u>	<u>Company</u>	<u>Group</u>	<u>Company</u>
Net (increase)/decrease in operating assets				
Deferred origination costs	4	5	7	6
Investment properties	(32)	6	241	25
Reinsurance contract assets*	12	12	(5,039)	(5,038)
Other Assets	(12)	(6)	24	18
Insurance contract assets	(77)	(77)	1	1
Financial assets:				
Contracts with reinsurers at fair value through profit or loss	2,359	2,359	897	897
Derivative financial instruments	(306)	(246)	728	618
Loans and receivables at amortised cost	(45)	(93)	(117)	(57)
Investments at fair value through profit or loss	(26,323)	(25,155)	(9,124)	(8,357)
Movement in Disposal Group Assets	5,072	5,072	—	—
Net (increase)/decrease in operating assets	(19,348)	(18,123)	(12,382)	(11,887)
Net (increase)/decrease in operating liabilities				
Insurance and participating investment contract liabilities*	13,183	13,013	7,097	7,171
Reinsurance contract liabilities	3	3	3	1
Provisions for other liabilities and charges	11	8	(12)	(10)
Accruals and deferred income	(3)	(3)	(7)	(5)
Financial liabilities:				
Subordinated debt	1	(7)	(74)	(62)
Non-participating investment contract liabilities	10,415	10,395	6,247	6,261
Derivative financial instruments	(178)	(124)	(365)	(395)
Other financial liabilities	(655)	125	328	(107)
External interest in collective investment vehicles	1,884	—	138	—
Lease liabilities	—	—	—	—
Movement in Disposal Group Liabilities	(5,268)	(5,268)	—	—
Net (increase)/decrease in operating liabilities	19,393	18,142	13,355	12,854
Net (increase)/decrease in operating assets and liabilities	45	19	973	967

*In 2024 this includes reinsurance contract assets and insurance contract liabilities classified and presented as disposal group assets and liabilities. Further information on the disposal group is provided in note 47.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2025**43. Liabilities arising from insurance and investment contracts - assumptions, change in assumptions and sensitivities**

Policyholder liabilities can be separated into non-participating fund liabilities and With Profits Fund liabilities. Non-participating liabilities in scope of IFRS 17, which comprise IFRS 17 measurement components, are accounted for using prospective actuarial discounted cash flow methods. The IFRS 17 measurement components of With Profits Funds are accounted for on a realistic basis using a combination of deterministic and stochastic modelling methods.

(1) Processes used to determine key assumptions in respect of insurance and investment contracts**(a) Liabilities of the non-participating funds****(i) Insurance contracts and participating investment contracts**

The measurement components of liabilities of the Group and Company are determined on the basis of recognised actuarial methods. The methods used involve estimating future policy cash flows over the duration of the in-force book of policies, and discounting these cash flows back to the valuation date allowing for probabilities of occurrence.

The liabilities will vary with movements in interest rates (this applies in particular to the cost of guaranteed benefits payable in the future) and with movements in the cost of life assurance and annuity benefits for which future mortality is uncertain.

Assumptions are made in respect of all material factors affecting future cash flows, including future interest rates, persistency, mortality, maintenance expenses and credit default. Assumptions used to value the liabilities are on a realistic best estimate basis. A Risk Adjustment is held reflecting the compensation the entity requires for bearing the uncertainty within the future cashflows, due to non-financial risk. The assumptions to which the liabilities are most sensitive are the interest rates used to discount the cash flows and the mortality assumptions, particularly those for annuitants. The persistency assumption has the most significant impact on workplace pension products due its sensitivity to changes in the lapse rate.

The key assumptions used in the measurement of the non-participating fund liabilities are:

Interest rates

Discount rates used to value the liabilities for annuity business are set with reference to the risk-adjusted yields on the underlying assets and for non-annuity business with reference to risk free returns.

Mortality and morbidity

The mortality and morbidity assumptions, including allowances for improvements in longevity for annuitants, are set with regard to the Group's actual experience where this provides a reliable basis, and relevant industry data otherwise.

We have seen mortality rates fall since the peak of the pandemic and believe that excess mortality due to Covid-19 will continue to fall. Improvements in individual annuitant mortality are modelled based on population data and are assumed to follow the CMI_2024 mortality projection model from the Actuarial profession's Continuous Mortality Investigation. We have used the core settings of the CMI_2024 model in respect of the new overlay and half-life assumptions but have adjusted the new multiple period term functionality.

Maintenance expenses

Allowance is explicitly made for future attributable policy costs. Expense loadings are determined by reference to an internal analysis of current and expected future expense levels. Explicit allowance is made for future expense inflation from the valuation date. There are some allowances made for any expected reductions in expense levels arising from existing initiatives.

Since 1 May 2018, to comply with Ring-Fenced Bank regulations, a mark-up of 4.5 per cent on certain cost recharges from Lloyds Banking Group has been included.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2025
43. Liabilities arising from insurance and investment contracts - assumptions, change in assumptions and sensitivities (continued)
(1) Processes used to determine key assumptions in respect of insurance and investment contracts (continued)
(a) Liabilities of the non-participating funds (continued)
(i) Insurance contracts and participating investment contracts (continued)
Persistency rates

Realistic lapse rate assumptions have been used for term assurance business, workplace pensions, unit-linked savings and term assurance business.

Paid-Up Policies

Realistic PUP rate assumptions have been used for workplace pensions and unit-linked savings business and other business categories.

Premium Increments

Allowance is made for single premium top-ups to premium paying policies and incremental increases in regular premiums for workplace pensions business. The assumed rate of increase is based upon expected salary increases over the term of the business.

(ii) Non-participating investment contracts

These contracts are unit-linked, and the liability is determined as the value of the units allocated to the contracts.

(b) Liabilities of the With Profits Funds calculated on a realistic basis

The Group and Company has With Profits Funds containing both insurance and participating investment contracts. The main components reflected in the measurement of fulfilment cashflows are: with profits benefit reserves (i.e. the total asset shares for with profits policies); the costs of options and guarantees; deductions levied against asset shares; the impact of smoothing policy; with profits fund surplus.

The calculation of fulfilment cashflows is carried out using a stochastic simulation model which values liabilities on a market consistent basis and uses best estimate assumptions of e.g. mortality, persistency and expenses.

The processes for determining the key assumptions are set out below, and unless otherwise stated, remain unchanged from the prior year:

Investment returns and discount rates

A stochastic economic scenario generator, which uses recognised asset models, provides future asset value and yield scenarios; these determine investment returns for each scenario. The economic scenario generator is calibrated to observable yield curves and option prices where possible. Nominal interest rates are modelled using a standard interest rate model, calibrated to risk-free yields. The risk-free yield is defined as the PRA risk free rate with no adjustment for credit risk. The liabilities are valued by discounting projected future cash flows using the risk-free yield.

Investment volatility

The volatility of future equity returns in excess of nominal interest rates has been calibrated to at-the-money forward options of up to 10 years term on appropriate indices. The indices used are the FTSE-100, the EuroStoxx-50, and the S&P 500. For property, no observable prices exist and so volatility has been derived from analysis of historic data.

Mortality and morbidity

The mortality and morbidity assumptions, including allowances for improvements in longevity for annuitants, are based on recent actual experience, industry and internal tables and projection models, internal research and reinsurance terms.

Persistency

Persistency is a function of both the rate of policy termination and the rate at which policyholders stop paying regular premiums. The assumed levels of these rates are based on a combination of historical experience and management's views on future experience taking into consideration potential changes that may result from guarantees and options becoming more valuable under adverse market conditions.

Maintenance expenses

Allowance is made for the charges applied to the With Profits Funds and these are, for conventional with profits business, governed by the relevant Schemes of Transfer.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2025
43. Liabilities arising from insurance and investment contracts - assumptions, change in assumptions and sensitivities (continued)
(1) Processes used to determine key assumptions in respect of insurance and investment contracts (continued)
(b) Liabilities of the With Profits Funds calculated on a realistic basis (continued)
Guaranteed annuity option take-up rates

The guaranteed annuity option take-up rates are set with regard to the Group and Company's recent actual experience.

(c) Risk Adjustment

The Risk Adjustment for non-financial risk represents the compensation an entity requires for bearing the uncertainty inherent within the fulfilment cashflows. The Risk Adjustment is calculated for both non-participating business and participating business by applying explicit margins to the best estimate assumptions used to calculate the realistic liabilities.

Under the Group's explicit margins approach, a confidence level scenario is derived using a stochastic simulation model producing a loss distribution from one million simulations. The scenario at the specified confidence level (averaged over the 3000 surrounding simulations) is used to determine the appropriate explicit margins to be applied to the best estimate assumptions used to calculate the best estimate liabilities.

The confidence level chosen reflects Lloyds Banking Group's required compensation for bearing the uncertainty within insurance business cashflows arising from non-financial risk. Lloyds Banking Group calibrates its Risk Adjustment by targeting an 85 per cent (2024: 85 per cent) one-year Value at Risk confidence level. The disclosed 67.5 per cent (2024: 67.5 per cent) confidence level is an approximation to this, representing the Value at Risk over the lifetime of the insurance contracts. The one year Value at Risk confidence level is translated into an equivalent confidence level over the lifetime of the contracts using recognised statistical approximations (a "mean sum of squares" approach) assuming that the spread of losses during a year are normally distributed and each year's risk distributions are independent.

The calibration used to determine the confidence level scenario considers diversification across all life insurance business including business accounted for under both IFRS17 and IFRS9. The single scenario applies across all portfolios of the Life Insurance business and includes allowance for reinsurance in determining the scenario.

The risks included within the calibration are aligned to those included within the internal model used for regulatory reporting with two exceptions:

- Operational and counterparty risk is excluded from the Risk Adjustment calibration.
- Premium escalation assumption risk is included within the Risk Adjustment, however escalating premiums are not allowed for within the internal model used for regulatory reporting.

(2) Key assumptions
(a) Non-participating funds

The principal assumptions underlying the calculation of each of the businesses transferred in from Group companies in respect of non-participating fund liabilities are given below.

(i) Investment returns and discount rates

Discount rate assumptions by class of business are shown in note 2.

(ii) Mortality assumptions

The initial rate of improvement and smoothing parameter used are both higher than the core values in CMI 2024 and we are not using the core approach for setting the new period terms.

The mortality assumptions for the main classes of business are shown below. Products with similar terms and conditions and risk characteristics arising from different heritage entities are managed consistently and subject to the same approach for reviewing and updating assumptions. In some cases the assumptions are based on different underlying mortality tables only due to their origination in different heritage entities:

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2025

43. Liabilities arising from insurance and investment contracts - assumptions, change in assumptions and sensitivities (continued)

(2) Key assumptions (continued)

(a) Non-participating funds (continued)

(ii) Mortality assumptions (continued)

Proposition	Product Type	Heritage	2025 Assumption	2024 Assumption
Annuities				
Individual Standard Annuities	Purchased (whole life) Self-employed / personal pensions Executive Pensions and Pension Annuities	Scottish Widows, Clerical Medical and Halifax Life	Bespoke base tables CMI2024_{M/F}_Q3(7.25) HL-1_{2.0/1.8%}_0.5A	Bespoke base tables CMI2023_{M/F}_ (7.25) {2.0/1.8%} 0.5A (5%w22_10%w23)
Other Annuities	Group Scheme Annuities / Transferred from LTSB / Deferred & Other Annuities in payment	Scottish Widows, Clerical Medical and Halifax Life	Bespoke base tables CMI2024_{M/F}_Q3(7.25) HL-1_{2.0/1.8%}_0.5A	Bespoke base tables CMI2023_{M/F}_ (7.25) {2.0/1.8%} 0.5A (5%w22_10%w23)
Protection				
Whole of Life	Protection for Life	Scottish Widows	90%-107% Bespoke base tables CMI2024_{M/F}_Q3(7.25)_{2.0/1.8%}0.5A	92%-108% Bespoke base tables CMI2023_{M/F}_ (7.25) 2%_0.5A_(5%w22_10%w23)
Term Assurance	Protection for Life	Scottish Widows	103%-115% TxyL16 Select	104%-115% TxyL16 Select
	Plan and Protect	Scottish Widows	87%-135% TxyL16 Select	Bespoke table
	SW Protect	Scottish Widows	73%-84% TxyL16 Select	87%-96% TxyL16 Select
	Closed book	Scottish Widows	78%-100% TxyL08 Ultimate	78%-100% TxyL08 Ultimate
		St Andrews Life	92%-135% TxyL16	111%-150% TxyL16 Ultimate

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2025

43. Liabilities arising from insurance and investment contracts - assumptions, change in assumptions and sensitivities (continued)

(2) Key assumptions (continued)

(a) Non-participating funds (continued)

(ii) Mortality assumptions (continued)

Proposition	Product Type	Heritage	2025 Assumption	2024 Assumption
Pensions				
Pensions	Unitised Pensions (Solutions, Stakeholder)	Scottish Widows	102%- 119 TxCL16 Ultimate	107%- 125% TxCL16 Ultimate
	Retirement Account		99%-107 % TxCL16 Ultimate	98%-103 % TxCL16 Ultimate
	UL Individual Pensions Regular Premium	Halifax Life	56%-59% AxCO0 Ultimate	56%-59% AxCO0 Ultimate
	UL Individual Pensions Single Premium		56%-59% AxCO0 Ultimate	56%-59% AxCO0 Ultimate
	UL Group Pension		72%-86% AxCO0 Ultimate	72%-86% AxCO0 Ultimate
	Black Horse Life Pensions	Scottish Widows	91%-132% TxyL16 Ultimate	101%-146% TxyL16 Ultimate
	UL SP Investment Bonds	St Andrews Life	82%-107% TxCL16 Ultimate	82%-107% TxCL16 Ultimate

(iii) Persistency

Persistency assumptions are set by analysing recent experience and using judgement to adjust this where there is reason to believe that future experience will differ. For our main pensions business we set assumptions for lapse rates, rates of becoming paid-up and assumptions regarding policy behaviour relating to pension freedoms. The assumptions vary by policy duration, age, pot size and premium paying status. Protection lapse assumptions can vary by policy duration, policy type, sales channel and smoker status.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2025

43. Liabilities arising from insurance and investment contracts - assumptions, change in assumptions and sensitivities (continued)

(2) Key assumptions (continued)

(a) Non-participating funds (continued)

(iii) Persistency (continued)

The table below shows the range of lapse assumptions for our more significant portfolios of business.

	Product Type	2025 assumptions	2024 assumptions
		Range	
Workplace Pensions	Active	2.0% - 7.3%	1.8% - 7.7%
	Inactive	2.0% - 16.9%	1.7% - 12.9%
Individual pensions	Active	1.9% - 7.3%	1.1% - 8.4%
	Inactive	1.8% - 8.0%	1.4% - 10.6%
Bonds	Onshore	2.6% - 4.2%	2.9% - 4.2%
	Offshore	2.9% - 9.6%	2.9% - 9.6%
Protection	Decreasing Term - Bancassurance	5.8% - 8.3%	5.8% - 8.3%
	Level and Increasing Term – Bancassurance	3.3% - 5.2%	3.4% - 5.2%
	Decreasing Term – IFA	3.5% - 9.9%	3.3% - 9.8%
	Level & Increasing Term - IFA	3.1% - 31.0%	3.1% - 21.70%
	Guaranteed Acceptance Whole of Life	0.0% - 2.5%	0.5% - 2.4%

(b) With Profits Funds

Assumptions are set for the realistic valuation of the Company's With Profits Funds. In addition, liabilities in respect of non-participating policies in the Scottish Widows With Profits Fund are accounted for under the same realistic valuation basis.

(i) Investment returns and discount rates

In the realistic valuation of liabilities in calibrating the economic scenario generator, the risk-free yield curve is defined as the PRA risk free rate, consistent with the regulatory basis. For more information about discount rates, see note 2.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2025

43. Liabilities arising from insurance and investment contracts - assumptions, change in assumptions and sensitivities (continued)

(2) Key assumptions (continued)

(b) With Profits Funds (continued)

(ii) Mortality assumptions

The mortality assumptions for the main classes of business are set with regard to recent Group experience and general industry trends, all of which are adjusted for smoker status and age / sex specific factors. The mortality tables used in the valuation are summarised below. The approach to reviewing and updating assumptions is consistent across both the Scottish Widows and Clerical Medical business but in some cases based on different mortality tables due to originating in different heritage entities.

Proposition	Product Type	Heritage	2025 Assumption	2024 Assumption
Annuities				
Purchased Annuities	Purchased (whole life)	Scottish Widows	Bespoke base tables CMI2024_{M/F}_Q3(7.25) HL-1_{2.0/1.8%} 0.5A	Bespoke base tables CMI2023_{M/F}_ (7.25) {2.0/1.8%} 0.5A (5%w22_10%w23)
Pension Annuities	Self-employed / personal pensions	Scottish Widows and Clerical Medical	Bespoke base tables CMI2024_{M/F}_Q3(7.25) HL-1_{2.0/1.8%} 0.5A	Bespoke base tables CMI2023_{M/F}_ (7.25) {2.0/1.8%} 0.5A (5%w22_10%w23)
Other Annuities	Deferred Annuities	Scottish Widows	85%-87% TxCL08 CMI2024_{M/F}_Q3(7.25) HL-1_{2.0/1.8%} 0.5A	85%-87% TxCL08 CMI2023_{M/F}_ (7.25) {2.0/1.8%} 0.5A (5%w22_10%w23)
	Other Annuities in payment	Scottish Widows	Bespoke base tables CMI2024_{M/F}_Q3(7.25) HL-1_{2.0/1.8%} 0.5A	Bespoke base tables CMI2023_{M/F}_ (7.25) {2.0/1.8%} 0.5A (5%w22_10%w23)
Assurances				
Assurances	Conventional With Profits	Scottish Widows	86%-129% TxyL16 Ultimate	86%-129% TxyL16 Ultimate
		Clerical Medical	86%-129% TxyL16 Ultimate	35%-50% AMC00/AFC00 Ultimate
	Unitised Assurances	Scottish Widows	42%-66% TMCL08/TFCL08 Ultimate	42%-66% TMCL08/TFCL08 Ultimate
		Clerical Medical	79%-83% AMC00/AFC00 Ultimate	79%-83% AMC00/AFC00 Ultimate

With regard to the above tables, the initial rate of improvement and smoothing parameter used are both higher than the core values in CMI_2024. Additionally, for with-profit annuities business, the long term rate of mortality improvements in the CMI mortality projections model begins to taper linearly to zero from a lower age than the core value in CMI_2024.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2025

43. Liabilities arising from insurance and investment contracts - assumptions, change in assumptions and sensitivities (continued)

(3) The effect of changes in key assumptions

(i) Non-participating fund

Changes in certain key assumptions were made during the year and the impacts shown within note 31 as changes in estimates that adjust the CSM or changes in estimates that result in losses and reversal of losses on onerous contracts. The changes to key assumptions impact proposition results in the following ways:

Variable	Annuities	Protection and Other	Pensions and Investments
Mortality	Changes in mortality rates lead to changes in fulfilment cashflows. These impacts are offset by changes in the CSM to the extent that locked in discount rates are aligned to current discount rates.	Changes in mortality rates lead to changes in fulfilment cashflows. These impacts are partially offset by changes in the CSM to the extent that locked in discount rates are aligned to current discount rates.	Changes in mortality rates lead to changes in fulfilment cashflows. These impacts are offset by corresponding changes in the CSM.
Expenses	Changes in expenses lead to changes in fulfilment cashflows. These impacts are partially offset by changes in the CSM to the extent that locked in discount rates are aligned to current discount rates.	Changes in expenses lead to changes in fulfilment cashflows. These impacts are partially offset by changes in the CSM to the extent that locked in discount rates are aligned to current discount rates.	Changes in expenses lead to changes in fulfilment cashflows. These impacts are offset by corresponding changes in the CSM.
Lapses	Not applicable for annuity business.	Changes in lapses lead to changes in fulfilment cashflows. These impacts are partially offset by changes in the CSM to the extent that locked in discount rates are aligned to current discount rates.	Changes in lapses lead to changes in fulfilment cashflows. These impacts are offset by corresponding changes in the CSM.
Interest Rates	Changes in interest rates lead to changes in fulfilment cashflows that are not offset within the CSM and so directly impact the P&L.	Changes in interest rates lead to changes in fulfilment cashflows that are not offset within the CSM and so directly impact the P&L.	Changes in discount rates lead to changes in fulfilment cashflows. These impacts are offset by corresponding changes in the CSM.

Where locked in discount rates are not aligned to the current discount rates, the Statement of comprehensive income will be impacted by the difference in best estimate liabilities, valued under each discount rate. In the case of onerous contracts, there is no corresponding CSM and so the impact of changes on fulfilment cashflows directly impacts the Statement of comprehensive income.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2025

43. Liabilities arising from insurance and investment contracts - assumptions, change in assumptions and sensitivities (continued)

(3) The effect of changes in key assumptions (continued)

(ii) With Profits Funds

There is no net impact on profit before tax of the changes in key assumptions within the With Profits Funds as the total policyholder liabilities are determined by the size of the assets so will not change as a result of the change in assumptions.

(4) Sensitivity analysis (in respect of insurance and participating investment contracts only)

(i) Non-participating funds

The following table demonstrates the effect of changes in key assumptions on profit after tax assuming that the other assumptions remain unchanged. In practice this is unlikely to occur, and changes in some assumptions may be correlated. These impacts are partially offset by changes in the CSM to the extent that future locked in inflation rates align to current rates with the remaining impact flowing through the income statement.

Group As at 31 December 2025

Variable	Change in variable	PBT Increase/ (decrease) Net of Reinsurance	Equity Increase/ (decrease) Net of Reinsurance
		£m	£m
Annuitant mortality	5% increase	(37)	(28)
Annuitant mortality	5% decrease	33	25
Non-annuitant mortality and morbidity	5% increase	(26)	(20)
Non-annuitant mortality and morbidity	5% decrease	31	24
Lapse rates	10% increase	(9)	(6)
Lapse rates	10% decrease	8	6
Future maintenance and investment expenses	10% increase	(31)	(23)
Future maintenance and investment expenses	10% decrease	29	22

The Company table is not presented, as none of the items for the Company are materially different than for the Group.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2025

43. Liabilities arising from insurance and investment contracts - assumptions, change in assumptions and sensitivities (continued)

(4) Sensitivity analysis (in respect of insurance and participating investment contracts only) (continued)

(i) Non-participating funds (continued)

Group As at 31 December 2024

Variable	Change in variable	PBT Increase/ (decrease) Net of Reinsurance £m	Equity Increase/ (decrease) Net of Reinsurance £m
Annuitant mortality	5% increase	(59)	(44)
Annuitant mortality	5% decrease	61	46
Non-annuitant mortality and morbidity	5% increase	(10)	(8)
Non-annuitant mortality and morbidity	5% decrease	17	13
Lapse rates	10% increase	(4)	(3)
Lapse rates	10% decrease	5	4
Future maintenance and investment expenses	10% increase	(27)	(20)
Future maintenance and investment expenses	10% decrease	27	20

The Company table is not presented, as none of the items for the Company are materially different than for the Group.

(ii) With Profits Funds

There is no net impact on profit before tax of the changes in key assumptions within the With Profits Funds as the total policyholder liabilities are determined by the size of the assets so will not change as a result of the change in assumptions.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2025**44. Risk management**

The Group is a part of Lloyds Banking Group. The principal activity is the undertaking of ordinary long-term insurance and savings business and associated activities in the United Kingdom. The Group offers a wide range of life insurance products such as annuities, pensions, term life and investment type products through independent financial advisors, the Lloyds Banking Group network and direct sales. The Company also reinsures business with insurance entities external to the Group.

This note summarises the financial risks and the way in which they are managed.

The Group writes a variety of insurance and investment contracts (non-profit), With Profits or unit-linked in nature.

The Group is exposed to a range of financial risks through its financial assets, financial liabilities, assets arising from reinsurance contracts and liabilities arising from insurance and investment contracts. In particular, the key financial risk is that long-term investment proceeds are not sufficient to fund the obligations arising from its insurance and investment contracts. The most important components of financial risk are market, insurance underwriting, credit, capital and liquidity risk.

The Group manages these risks in a number of ways, including risk appetite assessment and monitoring of capital resource requirements. The Group also uses financial instruments (including derivatives) as part of its business activities and to reduce its own exposure to market risk and credit risk. In addition, the Principles and Practices of Financial Management (PPFMs) set out the way in which the With Profits business is managed.

For With Profits business, subject to minimum guarantees, policyholders' benefits are influenced by the smoothed investment returns on assets held in the With Profits Funds. The smoothing cushions policyholders from daily fluctuations in investment markets. This process is managed in accordance with the published PPFMs.

The financial risks arising from providing minimum guaranteed benefits are borne in the With Profits Funds, but the Group bears financial risk in relation to the possibility that in extreme market conditions the With Profits Funds might be unable to bear the full costs of the guarantees. The amount of the guaranteed benefits increases as additional benefits are declared and allocated to policies.

For unit-linked business, policyholders' benefits are closely linked to the investment returns on the underlying funds. In the short-term, profit and equity are impacted to the extent there are differences between liabilities to policyholders and the value of units held in internal unit-linked funds. However, any change in the market value of these funds will impact profit and equity of the Group and Company through the collection of annual management and other fund related charges and differences in the value of funds held by the Company and liabilities to policyholders as a result of the unit matching approach implemented by the Company. As markets rise or fall, the value of these charges and the difference in the value of funds held by the Company and liabilities to policyholders rises or falls correspondingly.

For non-participating business, the principal market risk is interest rate risk, which arises because assets and liabilities may exhibit differing changes in market value as a result of changes in interest rates. Asset and liability matching is used to mitigate the impact of changes in interest rates where the difference is material.

Financial assets and financial liabilities are measured on an on-going basis either at fair value or at amortised cost. The summary of significant accounting policies (note 1) describes how the classes of financial instruments are measured and how income and expenses, including fair value gains and losses, are recognised.

The timing of the unwind of the deferred tax assets and liabilities is dependent on the timing of the unwind of the temporary timing differences, arising between the tax bases of the assets and liabilities and their carrying amounts for financial reporting purposes, to which these balances relate.

The sensitivity analysis given throughout this note is based on a change in a set of assumptions. The sensitivity analysis presented also represents management's assessment of a reasonably set of possible alternatives when using different sensitivities to reflect favourable and adverse outcomes.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2025

44. Risk management (continued)

(a) Market risk

Market risk is defined as the risk that our capital or earnings profile is affected by adverse market movements, in particular equity, credit default spreads, interest rates and inflation in Insurance business.

Investment holdings within the Group are diversified across markets and, within markets, across sectors. Holdings of individual assets are diversified to minimise specific risk and large individual exposures are monitored closely. For assets held with unit-linked funds, investments are only permitted in countries and markets which are sufficiently regulated and liquid.

Market risk policy is dependent on the nature of the funds in question, and can be broadly summarised as follows:

- Assets held in shareholder funds are invested in money-market funds, gilts, loans and investment grade bonds to match regulatory capital requirements. The balance of the shareholder fund assets is managed in line with the policies of Lloyds Banking Group to optimise shareholder risk and return. This includes suitable use of derivatives to minimise shareholder risk.
- Unit-linked assets are invested in accordance with the nature of the fund mandates. "Unit matching" is adopted on a significant proportion of unit-linked business, under which sufficient units are created to cover Solvency II technical provisions. An equity hedging programme has also been established in respect of the unit-linked business that is not subject to unit matching. This is an economic hedge designed to mitigate the effects of the equity market on capital.
- Conventional non-profit liabilities are 'close matched' as far as possible in relation to currency, nature and duration.
- With Profits Funds are managed in line with the published PPFMs. Benchmarks and minimum and maximum holdings in asset classes are specified to allow limited investment management discretion whilst ensuring adequate diversification. Swaps and swaptions provide significant protection to the With Profits Funds from the effects of interest rate falls in respect of the cost of guaranteed annuity rates (as annuity rates are determined by interest rates).

Below is an analysis of the carrying values of assets and liabilities at fair value through profit or loss and assets and liabilities for which a fair value is required to be disclosed, according to their fair value hierarchy (as defined in note 1 (d)).

Group As at 31 December 2025

	Fair value hierarchy			Total £m
	Level 1 £m	Level 2 £m	Level 3 £m	
Investment properties	—	—	2,171	2,171
Contracts with reinsurers at fair value through profit or loss	—	8,168	—	8,168
Shares and other variable yield securities	144,044	30	109	144,183
Debt and other fixed/variable income securities	16,788	30,261	730	47,779
Loans and advances to customers	—	649	5,772	6,421
Loans and advances to banks	—	3,201	—	3,201
Derivative financial assets	48	1,393	12	1,453
Total assets	160,880	43,702	8,794	213,376
Derivative financial liabilities	16	2,419	—	2,435
Liabilities arising from non-participating investment contracts	—	61,640	—	61,640
Subordinated debt	—	509	—	509
Total liabilities	16	64,568	—	64,584

For all financial assets held at amortised cost by the Group and Company, carrying value is a reasonable approximation of fair value. The fair value of subordinated debt is presented in note 38.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2025

44. Risk management (continued)

(a) Market risk (continued)

Group As at 31 December 2024

	Fair value hierarchy			Total £m
	Level 1 £m	Level 2 £m	Level 3 £m	
Investment properties	—	—	2,139	2,139
Contracts with reinsurers at fair value through profit or loss	—	10,527	—	10,527
Shares and other variable yield securities	131,827	—	208	132,035
Debt and other fixed/variable income securities	7,100	26,023	483	33,606
Loans and advances to customers	—	800	5,676	6,476
Loans and advances to banks	—	3,144	—	3,144
Derivative financial assets	87	1,039	21	1,147
Total assets	139,014	41,533	8,527	189,074
Derivative financial liabilities	59	2,554	—	2,613
Liabilities arising from non-participating investment contracts	—	51,225	—	51,225
Subordinated debt	—	508	—	508
Total liabilities	59	54,287	—	54,346

Company As at 31 December 2025

	Fair value hierarchy			Total £m
	Level 1 £m	Level 2 £m	Level 3 £m	
Investment properties	—	—	17	17
Contracts with reinsurers at fair value through profit or loss	—	8,168	—	8,168
Shares and other variable yield securities	150,746	—	252	150,998
Debt and other fixed/variable income securities	12,881	15,568	917	29,366
Loans and advances to customers	—	400	5,615	6,015
Loans and advances to banks	—	1,137	—	1,137
Derivative financial assets	33	1,256	12	1,301
Total assets	163,660	26,529	6,813	197,002
Derivative financial liabilities	12	2,156	—	2,168
Liabilities arising from non-participating investment contracts	—	61,616	—	61,616
Subordinated debt	—	538	—	538
Total liabilities	12	64,310	—	64,322

For all financial instruments held at amortised cost by the Group and Company, carrying value is a reasonable approximation of fair value.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2025

44. Risk management (continued)

(a) Market risk (continued)

Company As at 31 December 2024

	Fair value hierarchy			Total £m
	Level 1 £m	Level 2 £m	Level 3 £m	
Investment properties	—	—	23	23
Contracts with reinsurers at fair value through profit or loss	—	10,527	—	10,527
Shares and other variable yield securities	147,539	—	257	147,796
Debt and other fixed/variable income securities	3,523	3,517	721	7,761
Loans and advances to customers	—	553	5,493	6,046
Loans and advances to banks	—	758	—	758
Derivative financial assets	75	959	21	1,055
Total assets	151,137	16,314	6,515	173,966
Derivative financial liabilities	36	2,256	—	2,292
Liabilities arising from non-participating investment contracts	—	51,221	—	51,221
Subordinated debt	—	545	—	545
Total liabilities	36	54,022	—	54,058

Contracts with reinsurers measured at fair value through profit or loss are valued using published prices of the underlying investment funds.

Shares and other variable yield securities comprise externally managed collective investment schemes and equities within Scottish Widows managed funds. The £140 million sub funds of the CG Scottish Widows Long-term Asset Fund (LTAF), the Diversified Credit LTAF and the Growth LTAF launched in December 2025, are classified as Level 3 due to limited trading activity and quarterly net asset value reporting.

Debt and other fixed or variable income securities are valued using vendor prices specified in Securities Price Source Agreement (PSA) between Lloyds Banking Group and the third-party fund administrator, State Street. Level 1 and Level 2 assets primarily comprise government and corporate bonds, while Level 3 assets include lifetime mortgage loans, student loans, and inflation-linked bonds. Year-on-year movements reflect portfolio rebalancing and asset reallocation under the Pension Investment Approach (PIA) Evolution within the Scottish Widows Lifetime Investment (SWLI) strategy introduced in February 2025.

Derivative securities are valued according to price sources defined in the separate OTC and CCP Derivatives PSA between LBG and the Fund Administrator. Level 3 classification applies where only a single price source is available. Additional detail on derivatives is provided in notes 1(n) and 24.

Other Level 3 assets include illiquid loans and advances to customers, private debt and private equity investments, and investment properties. Loans and private credit portfolios are valued using discounted cashflow models requiring unobservable inputs, primarily credit spreads, while private equity valuations are based on net asset values derived from income multiplier and financial statement review. Investment properties are independently valued as described in the Property section.

The aggregate investment portfolio increased by 13.2 per cent during the year, closing at £197 billion (2024: £174 billion). Declines of average 20 bps in risk-free rates and average 30 bps in generic gilt yields contributed to higher valuations for debt securities. Rising equity indices further supported gains in equities and equity funds.

The increase in Level 1 and Level 2 holdings primarily reflects higher allocations to directly invested government and corporate bonds under the SWLI strategy. Level 3 assets continue to represent approximately 4 per cent of total portfolio value.

The valuation methodologies and sensitivity analyses applied are consistent for both the Group and the Company.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2025**44. Risk management (continued)****(a) Market risk (continued)***Loan assets*

Loans classified as Level 3 within debt securities are valued using a discounted cash flow model. The discount rate comprises market observable interest rates, a risk margin that reflect loan credit ratings and calibrated to weighted average life on borrower level using sector bond spread curves for each rating, and an incremental illiquidity premium that is estimated by reference to historical spreads at origination on similar loans where available and established measures of market liquidity. Prepayment options are valued using a monthly time step binomial lattice approach.

The base valuation of loans is £5.3 billion (2024: £5.3 billion). The unobservable inputs in the valuation model include the credit spread and specifically the illiquidity premium of loans compared to bonds and the spread adjustments due to the specific credit characteristics of the borrower. The impact of current economic conditions and changes in the loans portfolio composition have been taken into account into the year-end valuation. Credit risk loan guarantees are used to cover a portion of the portfolio in the education sector with a total notional covered of £202 million (2024: no loan guarantees). The impact of applying reasonably possible alternative assumptions to the value of these loans would be to decrease the fair value by £122 million (2024: £194 million) or increase it by £134 million (2024: £212 million). The impact of alternative assumptions, mainly related to credit spread and illiquidity premium sensitivities would be -2.3 per cent (2024: -3.7 per cent) to base in adverse scenario and +2.5 per cent (2024: +4.0 per cent) to base in the favourable scenario. The lower impact of alternative assumptions from previous year is the result of a refinement in approach whereby a probabilistic method to credit spread uncertainty has been developed. The skew observed in 2025 is on the favourable side as compared to 2024, driven by a reduction in the base spreads for education sector loans, and updated recovery estimates for distressed debt.

Agricultural Loans – Agriculture SPV

A portfolio of Agricultural loans is securitised through a Special Purpose Vehicle into a Senior Note (A Note) and a Junior Note (E Note). These notes are classified as Level 3 within debt securities. The underlying Agricultural loans are valued using a discounted cash flow approach. The discount rate comprises market observable interest rates, a risk margin that reflects underlying loan credit ratings, a spread to represent the risks associated with the Agricultural sector and an incremental illiquidity premium including additional spread for prepayment uncertainty.

The unobservable input in the valuation model is principally the credit spread including the illiquidity premium of loans compared to mortgages, the spread adjustments relevant to the Agricultural sector and the credit profile of the borrowers and the notes issued from the securitisation.

The base valuation of Agricultural loans is £164 million (2024: £189 million). The impact of applying reasonably possible alternative assumptions to the valuation of the loans and senior note would be to decrease the fair value of the SPV by £2 million (2024: £6 million) or increase it by £2 million (2024: £5 million). The year on year change is due to lower base valuation and using correlated total spread dispersion. The impact of alternative assumptions on credit spread, illiquidity premium and prepayment assumptions is -1.4 per cent (2024: -3.0 per cent) to base in the adverse scenario and +1.4 per cent (2024: +2.6 per cent) to base in the favourable scenario.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2025**44. Risk management (continued)****(a) Market risk (continued)***Originated Lifetime Mortgage Loans*

Since April 2020, Lloyds Banking Group has originated Lifetime Mortgage Loans (LTM) for the Company under Project Otium, with a large portion securitized in October 2023 and others awaiting securitization. Project Gatwick, launched in November 2023 with Liverpool Victoria as servicer, is similarly warehoused for future securitization.

Both Otium and Gatwick loans are valued using a discounted cash flow approach with decrements (mortality, voluntary early repayment, and entry into long-term care). The discount rate includes an illiquidity premium by reference to the market for new LTMs, adjusted for portfolio differences. The No Negative Equity Guarantee (NNEG) is assessed using a Jarrow–Yildirim framework and economic scenario generator.

The base valuation of LTM as of December 2025 is £322 million (2024: £238 million). As of December 2025, valuation uncertainty mainly reflects new market rate volatility, and acquisition cost uncertainty. Applying alternative assumptions could decrease the fair value by £18 million (2024: £12 million) or increase it by £12 million (2024: £9 million). Notional interest rates for December 2025 ranged from 6.2 per cent to 7.8 per cent (Favourable), 6.9 per cent to 8.8 per cent (Adverse), and 6.2 per cent to 8.0 per cent (Base).

Lifetime Mortgage Public Securitisation

The Company holds several public securitisations of UK Lifetime Mortgages, the fair value of the assets are £314 million (2024: £114 million) of the Class A1 notes, £128 million (2024: £79 million) of the Class A2 notes and £195 million (2024: £130 million) for Class A3. The assets are classified as Level 3 and are included within Asset Backed Securities. The increase in base valuation is driven by new transactions.

For the assessment of valuation uncertainty alternative assumptions of valuations are applied, resulting in a decrease by £21 million (2024: £10 million) to base in the adverse scenario and an increase by £23 million (2024: £9 million) to base in favourable scenario. Increase in both adverse and favourable valuation uncertainty is driven by new transactions.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2025**44. Risk management (continued)****(a) Market risk (continued)***Private Credit Funds*

The Company holds investments in Pemberton European Mid-Market Debt Fund II (E) (Pemberton) that hold portfolios to European medium sized enterprises. The assets are classified as level 3 and are included within equity securities. The underlying loan values, on which the investment values are based, are assessed by the fund manager on a discounted cash flows approach using spreads determined from the credit quality and illiquidity of the loans as compared to other credit assets. Our valuation uncertainty on these investments is assessed based on the valuation uncertainty characteristics of the underlying illiquid loans.

The fair value of Pemberton is £103 million (2024: £178 million) with valuations provided by fund managers. The large decrease in value year on year is mainly driven by income distributions. The effect of applying reasonably possible alternative assumptions to the value of these assets would be to decrease the fair value by £2 million (2024: £5 million) or increase it by £1 million (2024: nil), predominantly driven by reduction in base valuation and lower credit spreads compared with 2024.

Derivatives with Unobservable inputs

Derivatives are used to hedge interest rate and inflation risks. Where complex risks arise in other assets or liabilities, these hedging derivatives can be complex and have unobservable inputs such as volatilities, correlations and basis differences to vanilla derivatives. In these cases, the complex derivatives are classified as level 3.

The Matching Adjustment (MA) Hedge is the only derivative inventory classified as level 3.

The base valuation of MA Hedge (Prepayment Hedge and Tenor Basis Hedge) is £12 million (2024: £21 million). The large decrease is mainly driven by the sale of some illiquid loans as part of the reinsurance of the Group's bulk annuity business with Rothesay Life plc. The effect of applying reasonably possible alternative assumptions to the value of these assets would be to decrease the fair value by £7 million (2024: £11 million), predominantly driven by reduction in the base valuation of the Prepayment Hedge.

Property

The fair value of Property investments is £27 million (2024: £99 million). Property investments are held either directly, where Scottish Widows entities own therefore consolidates the underlying property fund, or indirectly through investments in external property funds. Investment properties are valued by Coldwell Banker Richard Ellis (CBRE) using industry standard methodologies and expert judgement, incorporating market conditions, sector transactions, expected rental income and growth, and occupancy levels.

Reasonably possible alternative assumptions would reduce fair value by £1 million (2024: £3 million) or increase it by £0.1 million (2024: £0.6 million). The reduction in both upside and downside sensitivities reflects a 29 per cent reduction in the property portfolio due to disposals, offers received on marketed properties and improved market liquidity compared with 2024.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2025

44. Risk management (continued)

(a) Market risk (continued)

The table below shows movements in the assets and liabilities measured at fair value based on valuation techniques for which any significant input is not based on observable market data (Level 3 only).

Group

	2025		2024	
	£m	£m	£m	£m
	<u>Assets</u>	<u>Liabilities</u>	<u>Assets</u>	<u>Liabilities</u>
Balance at 1 January	8,527	—	10,625	—
Transfers in	35	—	89	—
Transfers out	(93)	—	(47)	—
Purchases	869	—	545	—
Disposals	(660)	—	(2,666)	—
Net gains / (losses) recognised within net gain on assets and liabilities at fair value through profit or loss in the statement of comprehensive income	116	—	(19)	—
Balance at 31 December	8,794	—	8,527	—
Total unrealised gains / (losses) for the period included in the statement of comprehensive income for assets and liabilities held at 31 December	86	—	(260)	—

Company

	2025		2024	
	£m	£m	£m	£m
	<u>Assets</u>	<u>Liabilities</u>	<u>Assets</u>	<u>Liabilities</u>
Balance at 1 January	6,515	—	8,451	—
Transfers in	2	—	40	—
Transfers out	(69)	—	(4)	—
Purchases	984	—	541	—
Disposals	(668)	—	(2,447)	—
Net gains / (losses) recognised within net gain on assets and liabilities at fair value through profit or loss in the statement of comprehensive income	49	—	(66)	—
Balance at 31 December	6,813	—	6,515	—
Total unrealised gains / (losses) for the period included in the statement of comprehensive income for assets and liabilities held at 31 December	14	—	(204)	—

Total gains or losses for the period included in the statement of comprehensive income, as well as total gains or losses relating to assets and liabilities held at the reporting date, are presented in the statement of comprehensive income, through net gains/losses on assets and liabilities at fair value through profit or loss.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2025**44. Risk management (continued)****(a) Market risk (continued)****(i) Equity risk**

The exposure of the Group's insurance and investment contract business to equity risk relates to financial assets and financial liabilities whose values will fluctuate as a result of changes in market prices other than from interest and foreign exchange fluctuations. This is due to factors specific to individual instruments, their issuers or factors affecting all instruments traded in the market. Accordingly, the Group monitors exposure limits both to any one counterparty and any one market.

From 2018, exposure to market risk has been managed by the implementation of unit matching and equity hedging to reduce the sensitivity of future dividend payments to market movements. Unit matching involves more effectively matching unit linked liabilities on a best-estimate view (as defined by Solvency regulations). This best-estimate view incorporates an allowance for expected future income and expenses. As a result, this leads to a mismatch between IFRS statutory assets and liabilities in respect of market movements. For example, in the event of rising markets, a loss would now be recognised in the accounts as a result of this mismatch, which would be offset in the future due to CSM release.

The sensitivity analysis below illustrates how the fair value of future cash flows in respect of equities and the corresponding offsetting movements in insurance contract and participating investment contract liabilities, will fluctuate because of changes in market prices at the reporting date. This sensitivity analysis only presents impacts on financial statement line items for which the shareholder is exposed to fluctuations in value; where the impact is borne by policyholders, values are excluded. The equity sensitivity includes the impact of unit matching and equity hedging which leads to a statutory profit or loss, mainly due to the hedging result under falling and rising markets respectively.

In 2025, SWL utilised all its remaining brought forward life assurance expenses to reduce the cost of policyholder tax charged on its investment gains. Future investment gains cannot therefore be sheltered by expenses, and as a result the equity impacts in sensitivity table below for 2025 include the cost of policyholder tax whereas the 2024 comparatives do not.

(ii) Interest rate risk

Interest rate risk is the risk that the value of future cash flows of a financial instrument will fluctuate because of changes in interest rates and the shape of the yield curve. Interest rate risk in respect of the Group's insurance and investment contracts arises when there is a mismatch in duration or yield between liabilities and the assets backing those liabilities.

A fall in market interest rates will result in a lower yield on the assets supporting guaranteed investment returns payable to policyholders. This investment return guarantee risk is managed by matching assets to liabilities as closely as possible. An increase in market interest rates will result in a reduction in the value of assets subject to fixed rates of interest which may result in losses.

The effect on the Group of changes in the value of investments held in respect of investment contract liabilities due to fluctuations in market interest rates is negligible as any changes will be offset by movements in the corresponding liability.

The sensitivity analysis below illustrates how the fair value of future cash flows in respect of interest-bearing financial assets and the corresponding offsetting movements in insurance contract and participating investment contract liabilities, will fluctuate because of changes in market interest rates at the reporting date. This sensitivity analysis only presents impacts on financial statement line items for which the shareholder is exposed to fluctuations in value; where the impact is borne by policyholders, values are excluded.

In 2025, SWL utilised all its remaining brought forward life assurance expenses to reduce the cost of policyholder tax charged on its investment gains. Future investment gains cannot therefore be sheltered by expenses, and as a result the equity impacts in sensitivity table below for 2025 include the cost of policyholder tax whereas the 2024 comparatives do not.

(iii) Inflation risk

The Company's exposure to inflation risk on its liabilities arises primarily from annuity contracts, where the benefit payments are linked to an inflation index, and from the element of all policyholder liabilities relating to the future expenses of administering the in-force policies which are expected to increase with higher inflation. This exposure is hedged through holding appropriate assets, generally RPI linked swaps, such that the change in value of the assets is broadly offsetting to the change in value of the liabilities.

Within the Group, Scottish Widows Europe also hedges its exposure to inflation from the liability to future expenses.

Residual risk remains after the hedges. For example due to caps and floors to payments on some of the annuity liabilities and differences in inflation measures between assets and liabilities (e.g. RPI, CPI and salary growth).

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2025**(a) Market risk (continued)****(iii) Inflation risk (continued)**

The sensitivity below shows the expected impact of a 0.5 per cent increase to inflation in all future years. This is a multiple of the impact of one year's inflation increasing. This sensitivity analysis only presents impacts on financial statement line items for which the shareholder is exposed to fluctuations in value; where the impact is borne by policyholders, values are excluded.

Group as at 31 December 2025

Variable	Change in variable	Net Insurance Contracts £m	Financial instruments £m	PBT Increase/ (decrease) Net of Reinsurance £m	Equity Increase/ (decrease) Net of Reinsurance £m
Equities	10% increase	242	(300)	(58)	(144)
Equities	10% decrease	(236)	300	64	145
Interest rates	100bp increase	766	(1,003)	(237)	(136)
Interest rates	100bp decrease	(893)	1,164	271	157
Inflation	50bp increase	(62)	146	84	63
Inflation	50bp decrease	60	(137)	(77)	(58)

The Company tables is not presented, as none of the items for the Company are materially different than for the Group.

44. Risk management (continued)**Group as at 31 December 2024**

Variable	Change in variable	Net Insurance Contracts £m	Financial instruments £m	PBT Increase/ (decrease) Net of Reinsurance £m	Equity Increase/ (decrease) Net of Reinsurance £m
Equities	10% increase	278	(405)	(127)	(95)
Equities	10% decrease	(268)	405	137	103
Interest rates	100bp increase	745	(964)	(219)	(164)
Interest rates	100bp decrease	(860)	1,122	262	197
Inflation	50bp increase	(60)	155	95	72
Inflation	50bp decrease	58	(144)	(86)	(64)

The Company tables is not presented, as none of the items for the Company are materially different than for the Group.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2025**44. Risk management (continued)****(a) Market risk (continued)****(iv) Foreign exchange risk**

Foreign exchange risk relates to the effects of movements in exchange markets including changes in exchange rates.

The Group's foreign currency exposure is driven by holding assets in non sterling currencies to back sterling liabilities, and exposure to currency fluctuation on overseas (European) business in a subsidiary. Hedges are placed by the Company to reduce foreign exchange exposure in the SII capital position in both cases.

Sensitivity analysis for the impact of a 10 per cent depreciation of sterling against foreign currency shows a £(58) million impact for 2025 on profit after tax and equity (2024: £(88) million).

With the exception of these holdings, the overall risk to the Group is minimal due to the following:

- The Group's principal transactions are carried out in pounds sterling
- The Group's financial assets are primarily denominated in the same currencies as its insurance and investment contract liabilities
- Other than shareholder funds, all non-linked investments of the non-profit funds are in sterling or are currency matched. The effect on the Group of changes in the value of investments held in respect of investment contract liabilities due to fluctuations in foreign exchange rates is negligible as any changes will be offset by movements in the corresponding liability.

(b) Insurance underwriting risk

The risk of adverse developments in liabilities due to: timing, frequency and severity of claims for insured/underwritten events; customer behaviour; and expense costs.

The principal risk the Group faces under insurance contracts is that the actual claims and benefit payments exceed the amounts expected at the time of determining the insurance liabilities.

The nature of the Group's business involves the accepting of insurance underwriting risks which primarily relate to mortality, longevity, morbidity, persistency and expenses. When transacting new business, the Group underwrites policies to ensure an appropriate premium is charged, considering both the risk and the Group's strategic aims, or that the risk is declined.

The Group principally writes the following types of life insurance contracts:

- Life assurance – where the life of the policyholder is insured against death or permanent disability, usually for pre-determined amounts
- Annuity products – where typically the policyholder is entitled to payments which cease upon death
- Morbidity products – where the policyholder is insured against the risk of contracting a defined illness

For contracts where death is the insured risk, the most significant factors that could increase the overall level of claims are epidemics or widespread changes in lifestyle, such as eating, smoking and exercise habits, resulting in earlier or more claims than expected. The occurrence of a pandemic, such as the one arising from COVID-19 in 2020 and 2021, is regarded as a potentially significant mortality risk. For contracts where survival is the insured risk, the most significant factor is continued improvement in medical science and social conditions that would increase longevity.

Improvements in annuitant mortality are modelled based on population data and are assumed to follow the CMI_2024 mortality projection model from the Actuarial profession's Continuous Mortality Investigation (CMI).

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2025**44. Risk management (continued)****(b) Insurance underwriting risk (continued)**

For contracts with fixed and guaranteed benefits and fixed future premiums, there are no mitigating terms and conditions that significantly reduce the insurance underwriting risk accepted. For participating investment contracts, the participating nature of these contracts results in a significant portion of the insurance underwriting risk being shared with the policyholder.

Insurance underwriting risk is also affected by the policyholders' right to pay reduced or no future premiums, to terminate the contract completely, or to exercise a guaranteed annuity option. As a result, the amount of insurance underwriting risk is also subject to policyholder behaviour. On the assumption that policyholders will make decisions that are in their best interests, overall insurance underwriting risk will generally be aggravated by policyholder behaviour. For example, it is likely that policyholders whose health has deteriorated significantly will be less inclined to terminate contracts insuring death benefits than those policyholders who remain in good health.

The Group has taken account of the expected impact of policyholder behaviour in setting the assumptions used to measure insurance and investment contract liabilities.

The principal methods available to the Group to control or mitigate longevity, mortality and morbidity risk are through the following processes:

- Underwriting (the process to ensure that new insurance proposals are properly assessed)
- Pricing-to-risk (new insurance proposals would usually be priced in accordance with the underwriting assessment)
- Demographics to accurately assess mortality risk
- Claims management
- Product design
- Policy wording
- The use of reinsurance and other risk mitigation techniques

Rates of mortality and morbidity are investigated annually based on the Group's recent experience. Future mortality improvement assumptions are set using the latest population data available. Where they exist, the reinsurance arrangements of each company in the Group are reviewed at least annually.

Persistency risk is the risk associated with the ability to retain long-term business. The Group aims to reduce its exposure to persistency risk by undertaking various initiatives to promote customer loyalty. These initiatives are aimed both at the point of sale and through direct contact with existing policyholders, for example through annual statement information packs.

Further information on assumptions, changes in assumptions and sensitivities in respect of insurance and participating investment contracts is given in note 43.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2025**44. Risk management (continued)****(c) Credit risk**

The risk that parties with whom we have contracted, fail to meet their financial obligations (both on and off balance sheet).

The Group accepts credit risk with a variety of counterparties through invested assets which are primarily used to back annuity business, cash in liquidity funds and bank accounts, derivatives and reinsurance. These are managed through a credit control framework which uses a tiered approach to set credit limits:

- Tier 1: Credit limits are set by the Insurance Board as part of the overall Insurance Risk Appetite
- Tier 2: IP&I Investment Committee (IP&IIC) assists the Chief Investment Officer to set additional controls, sub limits and guidelines. These operate within the boundaries of the Board's Tier 1 Risk Appetite statements and are designed to assist the business with more efficient utilisation of higher level Board Risk Appetite statements in delivery of Insurance's investment strategy
- Tier 3: Insurance Credit approvers have individual personal delegated authorities from the Insurance Board to approve exposures to individual counterparties. Amounts above these delegated authorities require approval by the Insurance Board

Group exposure limits are set for the maximum single name concentration, industry sector, country of risk and portfolio quality. In addition, each individual counterparty exposure requires a counterparty limit or is within the criteria of an approved sanction matrix.

Group exposures are reported on a monthly basis to the IP&I Investment Committee. Any exceptions to limits must be approved in advance by the relevant authority that owns that limit, and any unapproved excesses notified to that authority as a breach.

A core part of the invested asset portfolio which backs the annuity business is invested in loan assets. Some of these have been purchased from Lloyds Banking Group although the Group has also started originating new business. All loan assets are assessed and monitored using established robust processes and controls.

Reinsurance is primarily used to reduce insurance risk. However, it is also sought for other reasons such as improving profitability, reducing capital requirements and obtaining technical support. In addition, reinsurance is also used to offer policyholders access to third-party funds via Investment Fund Links which we are unable to provide through other means. The Group's reinsurance strategy is to reduce the volatility of profits through the use of reinsurance whilst managing the insurance and credit risk within the constraints of the risk appetite limits.

The Group has reinsurance on all significant lines of business where mortality, morbidity or property risks exceed set retention limits. This does not, however, discharge the Group's liability as primary insurer. If a reinsurer fails to pay a claim for any reason, the Group remains liable for the payment to the policyholder. All new material reinsurance treaties are subject to Board approval and reinsurance arrangements are reviewed annually to ensure that the reinsurance strategy is being achieved. Reinsurance for Investment Fund Links is not assessed as a counterparty exposure for the Group since with invested assets matching liabilities, any loss to the Group would only be the result of operational failures of internal controls and as such it is outside of the credit control framework described above.

Shareholder funds are managed in line with the Insurance Credit Risk Policy and the wider Lloyds Banking Group Credit Risk Policy which set out the principles of the credit control framework outlined above.

Credit risk in respect of unit-linked funds and With Profits Funds is largely borne by the policyholders. Consequently, the Group has no significant exposure to credit risk for those funds.

The tables below analyse financial assets and reinsurance assets subject to credit risk exposure using S&P Global Ratings' rating or equivalent. For certain classes of assets, internally generated ratings have been used where external ratings are not available. This includes credit assets held in both shareholder and policyholder funds. No account is taken of any collateral held to mitigate the risk.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2025

44. Risk management (continued)

(c) Credit risk (continued)

Group As at 31 December 2025

	Total £m	AAA £m	AA £m	A £m	BBB or lower £m	Not rated £m
Stage 1 assets						
Cash and cash equivalents ¹	47	—	41	6	—	—
Loans and receivables at amortised cost	95	—	61	—	—	34
Loss allowance	(5)	—	—	—	—	(5)
Exposure to credit risk	137	—	102	6	—	29
Stage 3 assets						
Loans and receivables at amortised cost	34	—	—	—	—	34
Loss allowance	(8)	—	—	—	—	(8)
Exposure to credit risk	26	—	—	—	—	26
Simplified approach assets						
Loans and receivables at amortised cost	642	—	25	—	—	617
Loss allowance	(1)	—	—	—	—	(1)
Exposure to credit risk	641	—	25	—	—	616
Assets at FVTPL						
Contracts with reinsurers at fair value through profit or loss	8,168	—	8,168	—	—	—
Debt and other fixed/variable income securities	47,779	3,083	16,379	16,176	12,079	62
Derivative financial instruments	1,453	—	339	937	35	142
Loans and advances to customers	6,421	—	98	3,491	1,933	899
Loans and advances to banks	3,201	—	1,059	1,718	345	79
Other						
Reinsurance contracts	400	—	309	91	—	—
Total	68,225	3,083	26,479	22,419	14,392	1,852

¹Includes borrowings

Cash at bank, included with Stage 1 assets, is considered to have low credit risk.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2025

44. Risk management (continued)

(c) Credit risk (continued)

Group As at 31 December 2024

	Total £m	AAA £m	AA £m	A £m	BBB or lower £m	Not rated £m
Stage 1 assets						
Cash and cash equivalents ¹	53	—	—	53	—	—
Loans and receivables at amortised cost	79	—	—	54	—	25
Loss allowance ²	(5)	—	—	—	—	(5)
Exposure to credit risk	127	—	—	107	—	20
Stage 3 assets²						
Loans and receivables at amortised cost	34	—	—	—	—	34
Loss allowance	(8)	—	—	—	—	(8)
Exposure to credit risk	26	—	—	—	—	26
Simplified approach assets						
Loans and receivables at amortised cost	613	—	—	32	—	581
Loss allowance	(1)	—	—	—	—	(1)
Exposure to credit risk	612	—	—	32	—	580
Assets at FVTPL						
Contracts with reinsurers at fair value through profit or loss	10,527	—	10,527	—	—	—
Debt and other fixed/variable income securities	33,606	2,782	10,292	12,069	8,435	28
Derivative financial instruments	1,147	—	324	734	—	89
Loans and advances to customers	6,476	—	216	3,656	1,601	1,003
Loans and advances to banks	3,144	—	506	2,237	312	89
Other						
Reinsurance contracts ³	5,471	—	288	5,184	—	—
Total	61,137	2,782	22,153	24,018	10,348	1,835

¹Includes borrowings

²Analysis has been performed to re-present the prior year balances to split out Stage 3 assets, in line with the current year presentation.

³Includes reinsurance contract assets classified and presented as disposal group assets. Further information on the disposal group is provided in note 47.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2025

44. Risk management (continued)

(c) Credit risk (continued)

Company As at 31 December 2025

	Total £m	AAA £m	AA £m	A £m	BBB or lower £m	Not rated £m
Stage 1 assets						
Cash and cash equivalents ¹	16	—	19	(3)	—	—
Loans and receivables at amortised cost	23	—	23		—	—
Loss allowance	—	—	—	—	—	—
Exposure to credit risk	39	—	42	(3)	—	—
Simplified approach assets						
Loans and receivables at amortised cost	397	—	26		—	371
Loss allowance	(1)	—	—	—	—	(1)
Exposure to credit risk	396	—	26	—	—	370
Assets at FVTPL						
Contracts with reinsurers at fair value through profit or loss	8,168	—	8,168	—	—	—
Debt and other fixed/variable income securities	29,366	2,455	11,033	8,302	7,489	87
Derivative financial instruments	1,301	—	313	818	35	135
Loans and advances to customers	6,015	—	98	3,242	1,933	742
Loans and advances to banks	1,137	—	—	743	338	56
Other						
Reinsurance contracts	396	—	305	91	—	—
Total	46,819	2,455	19,985	13,193	9,795	1,390

¹Includes borrowings

Cash at bank, included with stage 1 assets, is considered to have low credit risk.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2025

44. Risk management (continued)

(c) Credit risk (continued)

Company As at 31 December 2024

	Total £m	AAA £m	AA £m	A £m	BBB or lower £m	Not rated £m
Stage 1 assets						
Cash and cash equivalents	18	—	—	18	—	—
Loans and receivables at amortised cost	42	—	—	42	—	—
Loss allowance	—	—	—	—	—	—
Exposure to credit risk	60	—	—	60	—	—
Simplified approach assets						
Loans and receivables at amortised cost	285	—	—	32	—	253
Loss allowance	(1)	—	—	—	—	(1)
Exposure to credit risk	284	—	—	32	—	252
Assets at FVTPL						
Contracts with reinsurers at fair value through profit or loss	10,527	—	10,527	—	—	—
Debt and other fixed/variable income securities	7,761	231	4,138	2,028	1,280	84
Derivative financial instruments	1,055	—	302	665	—	88
Loans and advances to customers	6,046	—	216	3,409	1,601	820
Loans and advances to banks	758	—	—	414	302	42
Other						
Reinsurance contracts ¹	5,467	—	284	5,184	—	—
Total	31,958	231	15,467	11,792	3,183	1,286

¹Includes reinsurance contract assets classified and presented as disposal group assets. Further information on the disposal group is provided in note 47.

Expected credit losses are calculated using three key input parameters: the probability of default (PD) (except for lifetime expected credit losses), the expected loss given default (LGD) and the exposure at default (EAD). The probability of default and expected loss given default are determined using internally generated credit ratings. For lease receivables, the past due information is used to determine the expected loss given default.

Expected credit losses are measured on a collective basis for certain Groups of financial assets, such as control accounts, trade receivables and intercompany receivables, which are considered to be homogenous in terms of their risk of default.

Maximum credit exposure

The maximum credit risk exposure of the Group in the event of other parties failing to perform their obligations is detailed below. No account is taken of any collateral held and the maximum exposure to loss, which includes amounts held to cover unit-linked and With Profits Funds liabilities, is considered to be the balance sheet carrying amount.

Net credit exposure represents the exposure net of offsetting, as defined in section 44(c)(iii). For both Group and Company, the maximum and net exposure of loans and receivables at amortised cost, investments at fair value through profit or loss, reinsurance contract assets and cash and cash equivalents is equal to the carrying value as per the Statement of Financial Position.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2025

44. Risk management (continued)

(c) Credit risk (continued)

Shareholder asset credit experience

The Group invests in a non-cyclical and high-quality portfolio of assets, and regarding shareholder assets, the majority of these are used to match against long term annuity liabilities. The bonds, loans and gilts in which the Group invests have an average rating of A and are well diversified. In 2025 there were no downgrades to sub-investment grade from investment grade (2024: one downgrade). A total of 1.4 per cent of shareholder assets are currently rated sub-investment grade (2024: 0.6 per cent).

(i) Concentration risk

Credit concentration risk

Credit concentration risk relates to the inadequate diversification of credit risk.

Credit risk is managed through the setting and regular review of counterparty credit and concentration limits on asset types which are considered more likely to lead to a concentration of credit risk. For other asset types, such as UK government securities or investments in funds falling under the Undertakings for Collective Investment in Transferable Securities (UCITS) Directive, no limits are prescribed as the risk of credit concentration is deemed to be immaterial. This policy supports the approach mandated by the PRA for regulatory reporting.

At 31 December 2024, following the reinsurance agreement in April 2024 for the bulk annuities business, the Group had a significant concentration of credit risk with Rothesay Life plc. This risk was mitigated via collateral arrangements, as set out in section (c)(ii) below. In June 2025, these reinsurance contracts and associated collateral were derecognised (see note 47). Regarding shareholder assets, the largest aggregated counterparty exposure is 0.04 per cent (2024: 2.6 per cent) of the Group's total assets.

The following table shows where the Group and Company has concentrations of credit risk with counterparties sharing similar features, specifically type of counterparty:

	2025		2024	
	£m	£m	£m	£m
	<i>Group</i>	<i>Company</i>	<i>Group</i>	<i>Company</i>
Trade and other receivables:				
Amounts due from brokers	171	139	142	57
Amounts due from Group undertakings	73	36	67	58
Other receivables	513	244	504	210
Cash and cash equivalents with financial institutions	47	16	53	18
Total	804	435	765	342

For other receivables, there is no material largest single counterparty balance (2024: £4 million with the immediate parent company) nor for Company (2024: £4 million with the immediate parent company).

Liquidity concentration risk

Liquidity concentration risk arises where the Group is unable to meet its obligations as they fall due or do so only at an excessive cost, due to over-concentration of investments in particular financial assets or classes of financial asset.

As most of the Group's invested assets are diversified across a range of marketable equity and debt securities in line with the investment options offered to policyholders it is unlikely that a material concentration of liquidity concentration could arise.

This is supplemented by active liquidity management in the Group, to ensure that even under stress conditions the Group has sufficient liquidity as required to meet its obligations. This is delegated by the Board to and monitored through the IP&IC, the Insurance, Pensions & Investments Risk Committee (IP&IRC), ISAC (Insurance Shareholder Assets Committee) and Banking and Liquidity Operating Committee (BLOC).

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2025

44. Risk management (continued)

(c) Credit risk (continued)

(ii) Collateral management

Collateral in respect of derivatives

The requirement for collateralisation of OTC derivatives, including the levels at which collateral is required and the types of asset that are deemed to be acceptable collateral, are set out in a Credit Support Annex (CSA), which forms part of the International Swaps and Derivatives Association (ISDA) agreement between the Company and the counterparty.

The CSA will require collateralisation where any net exposure to a counterparty exceeds the OTC counterparty limit, which must be established in accordance with the Derivatives Risk Policy (DRP). The aggregate uncollateralised exposure to any one counterparty must not exceed limits specified in the DRP. Where derivative counterparties are related, the aggregate net exposure is considered for the purposes of applying these limits.

Acceptable collateral is defined in each instance and must take into account the quality and appropriateness of the proposed collateral as well as being acceptable to the entity receiving the collateral. Collateral may include cash, corporate bonds, supranational debt and government debt.

Assets with the following carrying amounts have been pledged in accordance with the terms of the relevant CSAs entered into in respect of various OTC and other derivative contracts:

	2025		2024	
	£m	£m	£m	£m
	<u>Group</u>	<u>Company</u>	<u>Group</u>	<u>Company</u>
Financial assets:				
Non-cash collateral	1,301	1,301	1,289	1,289
Cash collateral	681	431	780	533
Total	1,982	1,732	2,069	1,822

Collateral pledged in form of financial assets, is continued to be recognised in the balance sheet as the Group and Company retains all risks and rewards of the transferred assets. The Group and the Company has the right to recall any collateral pledged provided that this is replaced with alternative acceptable assets. The counterparty has right to repledge or sell the collateral in the absence of default by the Group and Company.

Cash collateral pledged where the counterparty retains the risks and rewards is derecognised from the balance sheet and a corresponding receivable is recognised for its return.

Where the Group and Company receives collateral in form of financial instruments for which the counterparty retains all risks and rewards, it is not recognised in the balance sheet. The fair value of financial assets accepted as collateral for OTC derivatives but not recognised in the balance sheet amounts to £103 million (2024: £197 million) by the Group and £103 million (2024: £197 million) by the Company, all of which is permitted to be sold or repledged in the absence of default. At 31 December 2025, the fair value of collateral repledged by the Group and Company was £14 million (2024: £17 million). The majority of non-cash collateral received during the year was made up of high quality national government bonds such as UK Gilts and Treasury Bills, the remaining non-cash collateral consisting of regional government, supranational, or corporate bonds.

Where the Group and Company receives collateral in form of cash, it is recognised in the balance sheet along with a corresponding liability to repay the amount of collateral received within other financial liabilities. The amount of cash collateral received by the Group and Company amounts to £67 million (2024: £61 million) and £32 million (2024: £19 million) respectively.

Collateral in respect of reinsurance

Acceptable collateral is defined in each instance and must take into account the quality and appropriateness of the proposed collateral as well as being acceptable to the entity receiving the collateral. Collateral may include cash, corporate bonds, supranational debt and government debt.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2025**44. Risk management (continued)****(c) Credit risk (continued)****(ii) Collateral management (continued)**

On 30 April 2024, the Group entered into a reinsurance agreement with Rothesay Life plc to reinsure the Group's bulk annuity portfolio, net of the Group's existing bulk annuity reinsurance arrangements. This agreement terminated when the Part VII process completed in June 2025 (see note 47). In 2024 in relation to this agreement, the Group and Company had £1,215 million of financial assets in a funds withheld account, and derecognised these financial assets from the balance sheet as it no longer retained the risk and rewards of ownership. Cash and liquidity funds in the funds withheld account of £35 million for Group and Company was not derecognised from the balance sheet during 2024. The Group and Company recognised a corresponding obligation to transfer the cash to the reinsurer as part of the measurement of the reinsurance contract asset. In addition to the £1,215 million of funds withheld, the Group and Company received collateral of £3,781 million in form of financial instruments for which Rothesay Life plc retained all risks and rewards and were not recognised in the balance sheet, none of which were permitted to be sold or repledged in the absence of default.

Excluding the reinsurance arrangement with Rothesay Life plc, which terminated in June 2025, collateral pledged in respect of reinsurance was nil for Group and Company (2024: £8 million for Group and Company).

During 2023, the Company entered into a reinsurance agreement with Scottish Widows Europe S.A to provide Annuity payments. To enter into the transaction the counterparty required collateral to cover the default scenario. Collateral pledged cumulatively in respect of Annuity business was £42 million (2024: £31 million) for Company only.

(iii) Offsetting

The Group and Company are not offsetting under master netting arrangements. Financial assets and liabilities are offset in the statement of financial position when the Group and/or Company has a legally enforceable right to offset and has the intention to settle the asset and liability on a net basis, or to realise the asset and settle the liability simultaneously.

a) Derivatives

The derivative assets and liabilities in the tables below consist of OTC and exchange traded (ET) derivatives. The value of gross/net amounts for derivatives in the table below comprises those that are subject to master netting arrangements. The right to set off balances under these master netting agreements or to set off cash and securities collateral only arises in the event of non payment or default and, as a result, these arrangements do not qualify for offsetting under IAS 32. As a result no amount has been set off in the balance sheet (2024: nil). Total derivatives presented in the balance sheet are shown in note 24.

The 'financial instruments' amounts in the tables below show the values that can be set off against the relevant derivatives asset and liabilities in the event of default under master netting agreements. In addition, the Group and the Company holds and provides cash and securities collateral in respect of derivative transactions to mitigate credit risks.

In the tables below, the amounts of derivative assets or liabilities presented are offset first by financial instruments that have the right of offset under master netting with any remaining amount reduced by the amount collateral.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2025

44. Risk management (continued)

(c) Credit risk (continued)

(iii) Offsetting (continued)

a) Derivatives (continued)

Group as at 31 December 2025

	Gross amounts of assets / liabilities £m	Amounts set off in the balance sheet £m	Net amounts presented in the balance sheet (sub note 1) £m	Related amounts where set off not permitted in the balance sheet (sub note 2)		Potential net amounts if offset of related amounts permitted £m
				Financial instruments £m	Collateral £m	
Financial assets						
OTC Derivatives	1,405	—	1,405	(497)	(219)	689
ET Derivatives	48	—	48	(11)	(37)	—
Total Derivative Assets	1,453	—	1,453	(508)	(256)	689
Financial liabilities						
OTC Derivatives	(2,419)	—	(2,419)	497	1,905	(17)
ET Derivatives	(16)	—	(16)	10	6	—
Total Derivative Liabilities	(2,435)	—	(2,435)	507	1,911	(17)

Group as at 31 December 2024

	Gross amounts of assets / liabilities £m	Amounts set off in the balance sheet £m	Net amounts presented in the balance sheet (sub note 1) £m	Related amounts where set off not permitted in the balance sheet (sub note 2)		Potential net amounts if offset of related amounts permitted £m
				Financial instruments £m	Collateral £m	
Financial assets						
OTC Derivatives	1,060	—	1,060	(533)	(230)	297
ET Derivatives	87	—	87	(9)	(78)	—
Total Derivative Assets	1,147	—	1,147	(542)	(308)	297
Financial liabilities						
OTC Derivatives	(2,554)	—	(2,554)	533	1,997	(24)
ET Derivatives	(59)	—	(59)	11	49	1
Total Derivative Liabilities	(2,613)	—	(2,613)	544	2,046	(23)

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2025

44. Risk management (continued)

(c) Credit risk (continued)

(iii) Offsetting (continued)

a) Derivatives (continued)

Company as at 31 December 2025

	Gross amounts of assets / liabilities	Amounts set off in the balance sheet	Net amounts presented in the balance sheet (sub note 1)	Related amounts where set off not permitted in the balance sheet (sub note 2)		Potential net amounts if offset of related amounts permitted
				Financial instruments	Collateral	
				£m	£m	
Financial assets						
OTC Derivatives	1,268	—	1,268	(468)	(179)	621
ET Derivatives	33	—	33	(7)	(26)	—
Total Derivative Assets	1,301	—	1,301	(475)	(205)	621
Financial liabilities						
OTC Derivatives	(2,156)	—	(2,156)	468	1,674	(13)
ET Derivatives	(12)	—	(12)	7	6	1
Total Derivative Liabilities	(2,168)	—	(2,168)	475	1,680	(12)

Company as at 31 December 2024

	Gross amounts of assets / liabilities	Amounts set off in the balance sheet	Net amounts presented in the balance sheet (sub note 1)	Related amounts where set off not permitted in the balance sheet (sub note 2)		Potential net amounts if offset of related amounts permitted
				Financial instruments	Collateral	
				£m	£m	
Financial assets						
OTC Derivatives	980	—	980	(510)	(187)	283
ET Derivatives	75	—	75	(2)	(73)	—
Total Derivative Assets	1,055	—	1,055	(512)	(260)	283
Financial liabilities						
OTC Derivatives	(2,257)	—	(2,257)	510	1,756	10
ET Derivatives	(36)	—	(36)	2	34	—
Total Derivative Liabilities	(2,293)	—	(2,293)	512	1,790	10

The following sub notes are relevant to the tables on this and the preceding page:

1. The value of net amounts presented in the balance sheet for derivatives comprises those derivatives held by the Group and the Company that are subject to master netting arrangements. Total derivatives presented in the balance sheet are shown in note 24.
2. The Group and the Company enters into derivative transactions with various counterparties which are governed by industry standard master netting agreements. The Group and the Company holds and provides cash and securities collateral in respective of derivative transactions covered by these agreements. The right to set off balances under these master netting agreements or to set off cash and securities collateral only arises in the event of non-payment or default and, as a result, these arrangements do not qualify for offsetting under IAS 32.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2025**44. Risk management (continued)****(d) Capital Risk**

Capital risk is defined as the risk that an insufficient quantity or quality of capital is held to meet regulatory requirements or to support business strategy, an inefficient level of capital is held, or that capital is inefficiently deployed across the Group.

The business of several of the companies within the Group is regulated by the PRA and the FCA. The Prudential Regulation Authority (PRA) Rulebook and the Solvency II Regulations as amended by the Solvency UK reforms, specify the minimum amount of capital that must be held by the regulated companies within the Group in addition to their insurance liabilities. Under the Solvency II UK rules (and Solvency II rules for our European business), each insurance company within the Group must hold assets in excess of this minimum amount, which is derived from an economic capital assessment undertaken by each regulated company and the quality of capital held must also satisfy Solvency II tiering rules.

The Solvency II minimum required capital must be maintained at all times throughout the year. These capital requirements and the capital available to meet them are regularly estimated in order to ensure that capital maintenance requirements are being met.

The Group's objectives when managing capital are:

- to have sufficient capital to safeguard the Group's ability to continue as a going concern so that it can continue to provide returns for the shareholder and benefits for other stakeholders
- to comply with the insurance capital requirements set out by the PRA in the UK
- when capital is needed, to require an adequate return to the shareholder by pricing insurance and investment contracts according to the level of risk associated with the business written
- to meet the requirements of the Schemes of Transfer

The capital management strategy is such that the integrated insurance business (comprising SWG and its subsidiaries, including the Group) will hold capital in line with the stated risk appetite for the business, which is to be able to withstand high-severity stress events without breaching the capital requirements. At SWG level it is intended that all surplus capital above that required to absorb a one in ten year stress event will be distributed to Lloyds Banking Group.

Capital support arrangements are in place for SWUTM and SWAS, which are provided by the Company. These irrevocable guarantees will come into effect on the occurrence of a material operational risk event impacting their respective capital positions. In addition for SWAS only, these arrangements will also come into effect on the occurrence of a material reinsured fund default event impacting its capital position. The Company has made these arrangements to provide sufficient capital to meet the regulatory capital adequacy and internal capital surplus requirements of these subsidiaries if such events occur.

The Company's capital comprises all components of equity, movements in which are set out in the statement of changes in equity and includes subordinated debt (note 38).

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2025**44. Risk management (continued)****(d) Capital Risk (continued)**

The table below sets out the regulatory capital held (specifically, eligible own funds, allowing for any year-end foreseeable dividend, available to cover the solvency capital requirement) at 31 December in each year for the Company on a Solvency II basis.

Company	2025	2024
	£m	£m
Regulatory Capital held	4,225	4,738
SCR (unaudited)	2,978	3,291
Net Regulatory Surplus	1,247	1,447
Solvency II Ratio (unaudited)	142 %	144 %

The solvency ratio decreased over 2025 primarily due to dividends, recognition of policyholder tax following utilisation of historic excess expenses and market volatility, offset by earnings from in-force business. The solvency ratio remains above risk appetite at 31 December 2025. Exposure of the solvency position to market volatility continues to be actively monitored, in particular relating to interest rates and credit assets. The annuity investment portfolio is high quality and well diversified, with an average 'A' rating and less than 2 per cent sub investment grade.

All minimum regulatory requirements were met during the year.

(e) Liquidity risk

Liquidity risk is defined as the risk that the Group does not have sufficient financial resources to meet its commitments as they fall due, or can only secure them at excessive cost.

Liquidity risk may result from either the inability to sell financial assets quickly at their fair values; or from an insurance liability falling due for payment earlier than expected; or from the inability to generate cash inflows as anticipated.

Liquidity risk has been analysed as arising from payments to policyholders (including those where payment is at the discretion of the policyholder) and non policyholder related activity (such as investment purchases and the payment of shareholder expenses).

In order to measure liquidity risk exposure the Group's liquidity is assessed in a stress scenario. Liquidity risk is actively managed and monitored to ensure that, even under stress conditions, the Company and Group has sufficient liquidity to meet its obligations and remains within approved risk appetite. Liquidity risk appetite considers two time periods; three month stressed outflows are required to be covered by primary liquid assets; and one-year stressed outflows are required to be covered by primary and secondary liquid assets. Primary liquid assets are gilts or cash, and secondary liquid assets are corporate bonds. The stressed outflows also make allowance for the increased collateral that needs to be posted under derivative contracts in stressed conditions. Liquidity risk is actively managed and monitored to ensure that, even under stress conditions, the Group has sufficient liquidity to meet its obligations and remains within approved risk appetite.

Liquidity risk is managed in line with the Insurance Liquidity Risk Policy and the wider Lloyds Banking Group Funding and Liquidity Policy. Liquidity risk in respect of each of the major product areas is primarily mitigated as follows:

Annuity contracts

Assets are held which are specifically chosen to correspond to the expectation of timing of annuity payments. Gilts, corporate bonds, loans and, where required, derivatives are selected to reflect the expected annuity payments as closely as possible and are regularly rebalanced to ensure that this remains the case in future.

With Profits contracts

For With Profits business, a portfolio of assets is held in line with investment mandates which will reflect policyholders' reasonable expectations.

Liquidity is maintained within the portfolio via the holding of cash balances and a substantial number of highly liquid assets, principally gilts, bonds and listed equities.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2025

44. Risk management (continued)

(e) Liquidity risk (continued)

Non-participating contracts

For unit-linked products, portfolios are managed through mandates which ensure that they are run within defined tolerances, maintaining sufficient liquidity to carry out operations of the portfolio without material disruption. Deferral clauses are included in policyholder contracts to give time, when necessary, to realise linked assets without being a forced seller.

For non-linked products other than annuity contracts, backing investments are mostly held in gilts with minimal liquidity risk. Investments are arranged to minimise the possibility of being a distressed seller whilst at the same time investing to meet policyholder obligations. This is achieved by anticipating policyholder behaviour and sales of underlying assets within funds.

Shareholder funds

For shareholder funds, liquidity is maintained within the portfolio via the holding of cash balances and a substantial number of highly liquid assets, principally gilts and bonds.

The following tables indicate the timing of the contractual cash flows arising from the Group and Company's financial liabilities, as required by IFRS 7. The table is based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group and Company are obliged to pay, regardless of the surrender penalties that might apply and has not been adjusted to take account of such penalties. The table includes both interest and principal cash flows.

Liquidity risk in respect of liabilities arising from insurance contracts and participating investment contracts has been analysed based on the expected pattern of maturities rather than by contractual maturity. A maturity analysis of liabilities arising from non-participating investment contracts based on expected contract maturities is also given as it is considered that this analysis provides additional useful information in respect of the liquidity risk relating to contracts written by the Group and Company.

Liabilities	Contractual cash flows						
	Carrying amount	No stated maturity	Less than 1 month	1-3 months	3-12 months	1-5 years	More than 5 years
	£m	£m	£m	£m	£m	£m	£m
Non-participating investment contract liabilities	61,640	—	61,640	—	—	—	—
External interests in collective investment vehicles	14,033	14,033	—	—	—	—	—
Derivatives financial instruments	2,435	—	70	58	50	335	3,675
Subordinated debt	509	—	—	—	46	182	1,213
Borrowings	182	—	182	—	—	—	—
Lease liabilities	5	—	—	—	—	1	69
Other financial liabilities	1,321	164	1,158	—	—	—	—
Total	80,125	14,197	63,050	58	96	518	4,957

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2025

44. Risk management (continued)

(e) Liquidity risk (continued)

Liabilities	Contractual cash flows						
	Carrying amount	No stated maturity	Less than 1 month	1-3 months	3-12 months	1-5 years	More than 5 years
	£m	£m	£m	£m	£m	£m	£m
Group As at 31 December 2024							
Non-participating investment contract liabilities	51,225	—	51,225	—	—	—	—
External interests in collective investment vehicles	12,149	12,135	—	—	—	—	—
Derivatives financial instruments	2,613	—	70	160	110	506	3,178
Subordinated debt	508	—	—	—	46	176	1,251
Borrowings	161	—	161	—	—	—	—
Lease liabilities	5	—	—	—	—	1	69
Other financial liabilities	1,976	121	1,855	—	—	—	—
Total	68,637	12,256	53,311	160	156	683	4,498

Liabilities	Contractual cash flows						
	Carrying amount	No stated maturity	Less than 1 month	1-3 months	3-12 months	1-5 years	More than 5 years
	£m	£m	£m	£m	£m	£m	£m
Company As at 31 December 2025							
Non-participating investment contract liabilities	61,616	—	61,616	—	—	—	—
Derivatives financial instruments	2,168	—	59	48	37	275	3,351
Subordinated debt	538	—	—	—	46	182	1,242
Borrowings	182	—	182	—	—	—	—
Other financial liabilities	906	159	747	—	—	—	—
Total	65,410	159	62,604	48	83	457	4,593

Liabilities	Contractual cash flows						
	Carrying amount	No stated maturity	Less than 1 month	1-3 months	3-12 months	1-5 years	More than 5 years
	£m	£m	£m	£m	£m	£m	£m
Company as at 31 December 2024							
Non-participating investment contract liabilities	51,221	—	51,221	—	—	—	—
Derivative financial instruments	2,292	—	29	121	94	434	2,879
Subordinated debt	545	—	—	—	46	182	1,287
Borrowings	161	—	161	—	—	—	—
Other financial liabilities	781	127	654	—	—	—	—
Total	55,000	127	52,065	121	140	616	4,166

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2025

44. Risk management

(e) Liquidity risk (continued)

An analysis of the contractual cash flows in respect of insurance and participating investment contract liabilities by expected contract maturity, on a discounted basis, is shown below:

Group as at 31 December 2025

	Estimates of present value of future cash flows						Total £m
	Less than 1 year	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	More than 5 years	
	£m	£m	£m	£m	£m	£m	
Insurance and participating investment contracts							
Liabilities	(1,812)	(1,943)	(2,318)	(2,777)	(3,150)	(117,823)	(129,823)
Total	(1,812)	(1,943)	(2,318)	(2,777)	(3,150)	(117,823)	(129,823)
Reinsurance contracts							
Liabilities	2	2	2	2	2	9	19
Total	2	2	2	2	2	9	19

Group as at 31 December 2024

	Estimates of present value of future cash flows						Total £m
	Less than 1 year	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	More than 5 years	
	£m	£m	£m	£m	£m	£m	
Insurance and participating investment contracts							
Liabilities	(825)	(1,238)	(1,925)	(2,438)	(2,982)	(112,142)	(121,550)
Total	(825)	(1,238)	(1,925)	(2,438)	(2,982)	(112,142)	(121,550)
Reinsurance contracts							
Liabilities	2	2	2	2	2	10	20
Total	2	2	2	2	2	10	20

Company as at 31 December 2025

	Estimates of present value of future cash flows						Total £m
	Less than 1 year	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	More than 5 years	
	£m	£m	£m	£m	£m	£m	
Insurance and participating investment contracts							
Liabilities	(1,736)	(1,865)	(2,251)	(2,697)	(3,074)	(116,557)	(128,179)
Total	(1,736)	(1,865)	(2,251)	(2,697)	(3,074)	(116,557)	(128,179)
Reinsurance contracts							
Liabilities	3	3	3	2	2	14	27
Total	3	3	3	2	2	14	27

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2025

44. Risk management (continued)

(e) Liquidity risk (continued)

Company as at 31 December 2024

	Estimates of present value of future cash flows						Total £m
	Less than 1 year	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	More than 5 years	
	£m	£m	£m	£m	£m	£m	
Insurance and participating investment contracts							
Liabilities	(749)	(1,169)	(1,853)	(2,373)	(2,904)	(111,011)	(120,059)
Total	(749)	(1,169)	(1,853)	(2,373)	(2,904)	(111,011)	(120,059)
Reinsurance contracts							
Liabilities	3	3	3	3	2	17	31
Total	3	3	3	3	2	17	31

The above tables relating to 2024 include £5,268 million of insurance contracts for Group and Company that are classified and presented within disposal group liabilities. These contracts were analysed by expected contract maturity, however the Group and Company disposed of these contracts in less than 1 year. Further information on the disposal group is provided in note 47.

An analysis of liabilities arising from insurance and participating investment contracts that are payable on demand, is shown below:

Group	2025		2024	
	Amounts payable on demand	Carrying amount	Amounts payable on demand	Carrying amount
	£m	£m	£m	£m
Annuities ¹	(210)	(617)	(540)	(1,524)
Pensions and Investments	(122,157)	(117,998)	(109,589)	(106,092)
Protection and Other	(330)	(385)	(286)	(338)
Total	(122,697)	(119,000)	(110,415)	(107,954)

¹Includes annuities that are classified and presented within disposal group liabilities in 2024. Further information on the disposal group is provided in note 47.

Company	2025		2024	
	Amounts payable on demand	Carrying amount	Amounts payable on demand	Carrying amount
	£m	£m	£m	£m
Annuities ¹	(210)	(617)	(540)	(1,524)
Pensions and Investments	(120,637)	(116,380)	(108,182)	(104,597)
Protection and Other	(330)	(385)	(286)	(338)
Total	(121,177)	(117,382)	(109,008)	(106,459)

¹Includes annuities that are classified and presented within disposal group liabilities in 2024. Further information on the disposal group is provided in note 47.

The amounts payable on demand represent contract surrender values (such as policyholder units) and incurred claims.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2025

45. Related party transactions

(a) Ultimate parent and shareholding

The Group's immediate parent undertaking is SWG, a Company registered in the United Kingdom. SWG has taken advantage of the provisions of the Companies Act 2006 and has not produced consolidated financial statements.

The ultimate parent undertaking and controlling party is Lloyds Banking Group which is the parent undertaking of the only group to consolidate these financial statements. Copies of the consolidated Annual Report and Accounts of Lloyds Banking Group may be obtained from Lloyds Banking Group's head office at 33 Old Broad Street, London, EC2N 1HZ or download via www.lloydsbankinggroup.com.

(b) Transactions with other Lloyds Banking Group companies

In accordance with IAS 24 'Related Party Disclosures', transactions and balances between Group companies have been eliminated on consolidation and have not been reported as part of the consolidated financial statements.

The Group has entered into transactions with related parties in the normal course of business during the year.

Group as at 31 December 2025

Relationship	2025			
	Income during period	Expenses during period	Payable at period end	Receivable at period end
	£m	£m	£m	£m
Parent	—	(215)	—	—
Other related parties	32	(868)	(1,475)	776

Group as at 31 December 2024

Relationship	2024			
	Income during period	Expenses during period	Payable at period end	Receivable at period end
	£m	£m	£m	£m
Parent	—	(917)	—	—
Other related parties	28	(1,294)	(1,509)	869

The Company has entered into transactions with related parties in the normal course of business during the year. Holdings by the Group, including consolidated OEIC investments, give rise to £276 million (2024: £187 million) of shares in the ultimate parent undertaking on the balance sheet, with associated transactions of £(35) million (2024: £79 million) during the year.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2025

45. Related party transactions (continued)

(b) Transactions with other Lloyds Banking Group companies (continued)

Company as at 31 December 2025

Relationship	2025			
	Income during period	Expenses during period	Payable at period end	Receivable at period end
	£m	£m	£m	£m
Parent	—	(215)	—	—
Subsidiary	35	(56)	(66)	303
Other related parties	24	(754)	(1,407)	725

Company as at 31 December 2024

Relationship	2024			
	Income during period	Expenses during period	Payable at period end	Receivable at period end
	£m	£m	£m	£m
Parent	—	(917)	—	—
Subsidiary	83	(74)	(215)	375
Other related parties	23	(1,153)	(1,476)	808

Amounts of £47,152 million due from the company's investments in consolidated OEICs were outstanding at 31 December 2025 (2024: £48,874 million). The above balances are unsecured in nature and are expected to be settled in cash.

The Company recognised income during the period of £6,358 million from consolidated OEICs (2024: income during the period of £4,408 million).

Further, amounts of £1,324 million due from investments in unconsolidated OEICs managed by related parties were outstanding at 31 December 2025 (2024: £2,026 million). The above balances are unsecured in nature and are expected to be settled in cash.

Included within the consolidated statement of comprehensive income were net income/(expense) amounts related to other parties of £115 million (2024: £103 million) from unconsolidated OEIC investments.

Parent undertaking transactions relate to all reported transactions and balances with SWG, the Group's immediate parent. Such transactions with the parent Company are primarily financing (through capital and subordinated debt), provision of loans and payment of dividends.

Transactions with other related parties (which includes Subsidiary and Other categories above) are primarily in relation to operating and employee expenses.

There are no loss allowances on intercompany balances as the risk of default is minimal.

(c) Transactions between the Group and entity employing key management

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Company which, for the Company, are all Directors and IP&IExCo members. Key management personnel, as defined by IAS 24, are employed by a management entity, transactions with this entity are as follows:

Key management compensation:

	2025	2025	2024	2024
	£m	£m	£m	£m
	<u>Group</u>	<u>Company</u>	<u>Group</u>	<u>Company</u>
Short-term employee benefits	13	12	11	10
Share-based payments	4	4	4	4
Total	17	16	15	14

Included in short-term employee benefits is the aggregate amount of emoluments paid to or receivable by Directors in respect of qualifying services of £5 million (2024: £5 million).

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2025**45. Related party transactions (continued)****(c) Transactions between the Group and entity employing key management (continued)****Key management compensation (continued)**

There were no retirement benefits accruing to Directors (2024: nil) under defined benefit pension schemes. One Director (2024: two Directors) is paying into a defined contribution scheme. There were £0.1 million contributions paid to a pension scheme for qualifying services (2024: £0.1 million) for Group and Company.

Certain members of key management in the Group, including the highest paid Director, provide services to other companies within Lloyds Banking Group. In such cases, for the purposes of this note, figures have been included based on an apportionment to the Group of the total compensation earned.

The aggregate amount of money receivable and the net value of assets received/receivable under Lloyds Banking Group share-based incentive schemes in respect of Directors' qualifying services was £3 million (2024: £3 million). During the year, no Directors exercised share options (2024: no Directors) and two Directors received qualifying service shares under long-term incentive schemes (2024: two Directors). Movements in share options are as follows:

	2025 million Options	2024 million Options
Outstanding at 1 January	31	20
Outstanding balance of Directors newly appointed in the year	1	2
Granted	14	22
Exercised / Vested	(9)	(10)
Forfeited	—	—
Outstanding balance of Directors resigned in the year	(9)	(2)
Outstanding at 31 December	28	31

Detail regarding the highest paid Director is as follows:

	2025 £m	2025 £m	2024 £m	2024 £m
	<i>Group</i>	<i>Company</i>	<i>Group</i>	<i>Company</i>
Apportioned aggregate emoluments	2	2	1	1
Apportioned share-based payments	2	2	2	2

The highest paid Director did not exercise share options during the year. (2024: The highest paid Director did not exercise share options during the year).

46. Lease liabilities

The Group has lease liabilities arising from ground rent commitments on its investment properties. The lease liabilities and related right-of-use assets are included in the balance sheet as follows:

	2025 £m	2025 £m	2024 £m	2024 £m
	<i>Group</i>	<i>Company</i>	<i>Group</i>	<i>Company</i>
Lease liabilities:				
Current	—	—	—	—
Non-current	5	—	5	—
Total	5	—	5	—

A maturity analysis of lease liabilities is provided in note 44(e) Liquidity Risk.

Operating lease receipts and payments represent rental receivable and payable by the Group for certain of its properties. Generally the Group's operating leases are for terms of 15 years or more.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2025

47. Disposal group

	2025 £m	2025 £m	2024 £m	2024 £m
	<i>Group</i>	<i>Company</i>	<i>Group</i>	<i>Company</i>
Deferred tax assets	—	—	13	13
Reinsurance contract assets	—			
- Present value of future cash flows	—	—	4,596	4,596
- Risk Adjustment	—	—	36	36
- Contractual Service Margin	—	—	427	427
Reinsurance contract assets total	—	—	5,059	5,059
Disposal group assets	—	—	5,072	5,072
Insurance contract liabilities	—			
- Present value of future cash flows	—	—	4,689	4,689
- Risk Adjustment	—	—	36	36
- Contractual Service Margin	—	—	544	544
Insurance contract liabilities total	—	—	5,268	5,268
Disposal group liabilities	—	—	5,268	5,268

On 13 March 2024, the Group entered into a business transfer agreement with Rothesay Life plc for the sale of the Group's bulk annuity business and to pursue the transfer of associated business assets and assumed liabilities under Part VII of the Financial Services and Markets Act 2000.

A reinsurance agreement between the Group and Rothesay Life plc was signed on 30 April 2024 to materially de-risk the Group's bulk annuity portfolio. The Part VII process was subject to approval by the High Court, through a process in which regulators and policyholders are given the opportunity to object.

During 2024, the assets and liabilities the Group expected to derecognise as a result of the Part VII transfer were reclassified as held for sale to disposal group assets and disposal group liabilities. No gain or loss was recognised on initial reclassification or subsequently as no re-measurement of the disposal group assets and liabilities was required.

The Part VII process completed in June 2025, and the Group derecognised the disposal group assets and liabilities. A gain on sale of £179m was recognised in insurance revenue, and an expense of £9m in other operating income.

48. Dividends paid

	2025 £m	2024 £m
Total dividends paid on equity shares	215	917

The Company paid interim dividends of £60 million in February 2025, £20 million in March 2025 and £135 million in July 2025 (2024: £350 million in February, £497 million in June and £70 million in November). The dividends paid in the year amounted to £3.07 per share (2024: £13.10 per share), based on the number of shares in issue when the dividends were declared. See note 28 for details of the share capital reduction that took place in September 2025.

49. Capital commitments

The Group and Company has given an undertaking to provide up to £469 million (2024: £469 million) of capital to Private Credit Funds and at 31 December 2025, £455 million had been drawn down (2024: £448 million). The Group has also agreed £188 million of undrawn loan commitments in 2025 (2024: £64 million). £17 million of this undrawn balance is to be drawn within one year (2024: £17 million).

The Group has total undrawn lending commitments of £234 million (2024: £154 million). £18 million of this undrawn balance is to be drawn within one year (2024: £102 million). The commitments are irrevocable if the borrowers meet the terms of the agreements.

The Group has contracted for, but not paid for, £3 million (2024: £7 million) of development expenses for investment property. Of this amount, the Company has contracted for, but not paid for, nil (2024: nil).

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2025**50. Future accounting developments**

The following pronouncements are not applicable for the year ending 31 December 2025 and have not been applied in preparing these financial statements. Save as disclosed below, the full impact of these accounting changes is being assessed by the Group, and reliable estimates cannot be made at this stage.

There are a number of new accounting pronouncements issued by the IASB with an effective date of 1 January 2027, including IFRS 18 Presentation and Disclosure in Financial Statements which replaces IAS 1 Presentation of Financial Statements. While many of the existing requirements of IAS 1 Presentation of Financial Statements are retained, IFRS 18 Presentation and Disclosure in Financial Statements introduces additional disclosure obligations in relation to the structure of the income statement, management-defined performance measures, and the aggregation and disaggregation of financial information. IFRS 18 will have no impact on the Company's net profit as it impacts neither recognition nor measurement. The new standard will impact the presentation of the Company's results as it requires that operating, investing and financing activities are presented separately. There will also be a change in the Group's cash flow statement as IFRS 18 requires that the first line of the cash flow statement is operating profit rather than profit before tax.

IFRS 19 Subsidiaries without Public Accountability: Disclosures is being assessed and is not expected to have a significant impact on the Group or Company. IFRS 19 has yet to be endorsed for use in the UK.

The IASB has issued its annual improvements and a number of amendments to the IFRS Accounting Standards effective 1 January 2026, including Amendments to IFRS 9 Financial Instruments and Amendments to IFRS 7 Financial Instruments Disclosures. These improvements and amendments are not expected to have a significant impact on the Group or Company.

There are no other standards or interpretations that are not yet effective and that would be expected to have a material impact on the Group or Company.

51. Post balance sheet events

In February 2026, the Company entered into a Sale and Purchase Agreement (SPA) to sell the entire issued share capital of Scottish Widows Europe S.A. (SWE) to Chesnara plc for a consideration of €110 million, subject to certain adjustments set out in the SPA. The sale is subject to regulatory approval, with completion expected in the second half of 2026.

The Company has two existing reinsurance contracts issued to SWE. These contracts relate to insurance and participating investment contract liabilities that were historically issued by the Company and subsequently transferred to SWE. Participating investment contract liabilities sharing in the CMIG with-profits fund, were reinsured back to that fund at the time of the historical transfer. Contracts with guaranteed annuities are reinsured to the Company at the point of vesting. These reinsurance arrangements are expected to continue following the completion of the sale, subject to certain amendments that have been agreed between the Company and Chesnara plc that take effect at completion of the sale.

SWE continues to receive claims in Germany and Austria relating to policies historically issued by the Company, and subsequently transferred to SWE. There is an existing indemnity the Company has provided to indemnify SWE for 90 percent of the costs arising on these matters. Further information on these claims is provided in note 36. The existing deed of indemnity, will be superseded by a replacement deed of indemnity with effect from completion, where the Company will continue to indemnify SWE for costs arising from these claims, providing a 90% indemnity up to an aggregate cap of €60 million (including relevant claims under the previous indemnity) and a 100% indemnity for costs in excess of that cap. The Company and Chesnara plc have also agreed an indemnity capped at €20 million for the costs of rectifying certain errors in the administration of SWE's policies, some of which were covered by the existing indemnity. Additionally, the Company has agreed to indemnify Chesnara plc for certain losses that may arise from a customary audit being conducted by the Luxembourg regulatory authority, the Commissariat aux Assurances (CAA). This indemnity is limited to 20% of the base consideration, and to losses incurred in the two years following completion of the sale.

In February 2026, the assets and liabilities the Group and Company expects to derecognise as a result of the sale of SWE were reclassified as held for sale. SWE holds investment in, and controls, certain collective investment vehicles that were consolidated into the Group. Upon completion of the sale, the Group will lose control and cease to consolidate these collective investment vehicles. The collective investment vehicles that are expected to be deconsolidated upon completion of the sale of SWE were included within disposal group assets and liabilities that were reclassified as held for sale.

At 31 December 2025, the Group had consolidated net assets of £49 million in relation to SWE and related consolidated collective investment vehicles. In February 2026, the Group recognised no gain or loss on initial reclassification as held for sale to disposal group assets and liabilities as no re-measurement of the disposal group assets and liabilities was required.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2025**51. Post balance sheet events (continued)**

At 31 December 2025, the book cost of the Company's investment in SWE was £79m after recognising an impairment loss of £64m. Further details are given in note 18. In February 2026, the Company recognised no gain or loss on initial reclassification as held for sale as no re-measurement of its investment in SWE was required. Immediately prior to reclassifying as held for sale, the Company recognised a reversal of impairment loss of £3m due to changes in the estimates of value-in-use.

The gain or loss that will arise in the Company and Group on completion of the sale is not certain and will depend on factors including exchange rates prevailing on the completion date, changes to the sales consideration in accordance with the SPA, changes in estimates of remaining transaction costs, and for the Group, changes in the net assets of SWE.