

# ANNUAL REPORT AND ACCOUNTS

For the year ended  
31 December 2008

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**LV.com**



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# LV= by numbers

**£123,907**

Donated to  
Charities Aid Foundation

**13.4%**

Realistic Free Asset Ratio

**1.5m**

Visits to LV.com

**3,536**

Employees

**£7bn**

Funds under  
management

**4%**

Increase in employee  
engagement to

**3.4m**

Total members  
and customers

**95%**

Overall customer  
satisfaction

**79%**

With-profits returns

**-17.8%**

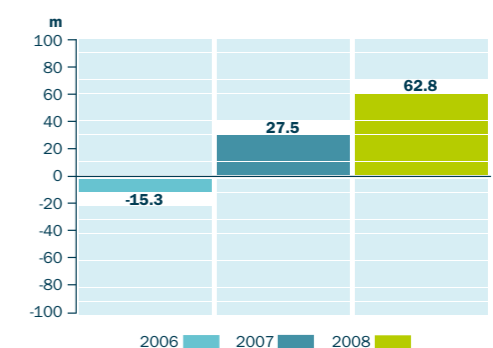
compared to FTSE fall of

**-32%**

Capital resources

**£1.1bn**

Group operating profit/loss – 2006-08



**10%**

More material  
recycled

**28**

Sites  
across  
the UK

**£917.3m**

Group gross premium

**1.1m**

Members

# CHAIRMAN'S statement

We have made good progress on delivering our strategy and transformation plans



Dennis Holt  
Chairman

## OUR MARKETS

2007 had been a challenging year for financial services providers, but 2008 saw a collapse into conditions that few of us will have experienced before. Global markets seized up in the face of failing banks and insurers, major economies slid into deep recession, stock markets collapsed, and governments were obliged to intervene deeply with capital and liquidity support to avoid even harsher outcomes. For individuals and families the previous assurances of high employment levels, ready credit, good investment returns and the prospect of a comfortable retirement have all been called into question, as confidence levels reach new lows. Few commentators are brave enough to suggest a recovery within the next two years.



LV= is not immune to such forces, but we are in a relatively strong position. Our total assets are £7 billion, the capital ratio in our Life Company is one of the strongest in the sector, and our total capital resources of £1,117m give us reassuring resilience in the face of market shocks.

## OUR MEMBERS

Members voted in the summer to transfer most of our Life Insurance business to the Friendly Society, and this process was completed by the end of 2008. One benefit was to add some 244,000 policyholders to membership of the Friendly Society, bringing total membership to 1.13m, which augurs well for the long-term health of LV=.

We continue to focus on the importance of clear communication with our members. During 2008 we refreshed the format of our Members' Panel, grew membership of our online Research Community to 3,657 people, and continued our popular regional members' meetings.

As outlined in the 2007 Report, as a mutual society owned by its members our commitment is to grow value for them. We measure this in terms of Enterprise Value (broadly the equivalent of market value for a quoted company). In 2008 Enterprise Value was impacted by the falls in value of our investment portfolio, and fell overall by 15%. This compares favourably to the 32% fall in quoted market values as measured by the FTSE All Share index. Other than investment returns, ongoing businesses added 10% to Enterprise Value during the year.

We also commit to growing our with-profits fund in line with our internal asset allocation benchmark. 2008 saw a small shortfall in this return in the face of abnormally volatile markets, only the fourth occasion in the past ten years that the benchmark has not been exceeded. Across long term measures (five and ten years) LV= has outperformed the with-profits benchmark in delivering value to policyholders.

## CHAIRMAN'S statement

### OUR AGENDA

Good progress was maintained in 2008 in delivering our strategic transformation programme. Life sales were reasonably robust in tough markets as the benefits of the Tomorrow acquisition in 2007 were embedded. General Insurance continued to drive good quality growth and improved underwriting disciplines, and will achieve further momentum from the acquisition of Highway Insurance in 2008. Major progress was made in transforming our Asset Management business whilst our Partnership activities remain a valued source of new and renewal business.

Run-off of the discontinued banking lines remains on target despite the hostile economic climate, although the FSA disciplinary action relating to legacy sales issues with Payment Protection Insurance was regrettable.

Underpinning all of this activity, the insourcing of key skills in IT, Operations and Human Resources was successfully completed in 2008, and significant benefits captured. Risk Management capabilities were materially upgraded, and we now have a business model that is fit for purpose as we face the challenges and opportunities of current markets.

“Growing the value of the business for our members remains our key objective”



Dennis Holt with Group Chief Investment Officer, Steven Daniels

## CHAIRMAN'S statement



Over  
**£1.1bn**  
Capital resources

### OUR PEOPLE

Total staff numbers continue to increase due to business growth, insourcing and acquisitions, and stood at 3,536 at the year end. Significant investment is maintained in training and development, and in harnessing the skills and competencies of our people. The positive results are confirmed by external surveys of Customer Satisfaction and Employee Engagement, which benchmark us very favourably against our competitor set. On your behalf, I am proud to commend them for their commitment to your best interests.

### YOUR BOARD

The retirement of Barry Rose after six years as a non-executive director was announced at the 2008 AGM and members thanked him for his commitment to LV=. Two new non-executive directors were appointed during the year – Ian Reynolds in January and Stuart Sinclair in September. Further details of the Board's activities are contained in the Corporate Governance section of this Report.

### THE FUTURE

We can take much encouragement from the progress achieved in 2008, but we have more to do in further consolidating these gains and in delivering consistently robust financial returns. We are clear in our short and medium term goals and well equipped to deliver them, despite the current hostile market environment. Our single-minded focus is to deliver value to you, our members, and on behalf of the Board I thank you for your continued support and encouragement.

# GROUP CHIEF EXECUTIVE'S statement

“Our aim is to help people look after what they love in life”



Mike Rogers  
Group Chief Executive

Further strong progress has been achieved in the delivery of our five year transformation plan, despite 2008 being one of the most turbulent years in living memory in the financial markets. Group operating profit before tax was £62.8m (2007: £27.5m) an improvement of over 125%. Group losses after tax were £202.0m (2007 profit after tax: £49.7m) reflecting the impact of short-term fluctuations on our capital resources. In a year when the FTSE All Share index fell by more than 32%, returns on our with-profits fund fell by only 17.8%.

## STRATEGY DELIVERY

We are a mutual company owned by our members and our core aim is to help people look after what they love in life. By providing the right insurance, investment and retirement solutions, we enable our members and customers to protect and provide for themselves and their families.



95%

Overall customer satisfaction

In a highly competitive market like financial services, particularly in troubled economic times, a strong brand is more important than ever. I am therefore pleased to report that awareness of our relatively new LV= brand increased strongly over the year, thanks in part to successful TV advertising campaigns for car, home and life insurance. How our members and customers view us is also key. During the year the proportion of customers who said they were either very, or extremely, satisfied remained around the 65% mark, and overall satisfaction finished the year at 95%.

It is the people in LV= who deliver the service to our members and customers, and we want them to feel increasingly engaged with the business and its values. I am therefore delighted that, according to an independent survey by ISR, our employee engagement improved from 75% to 79%, just a whisker behind the 80% figure that High Performing Organisations reach, and that we aspire to.

We have embedded the Treating Customers Fairly programme (TCF) across LV=, an industry-wide initiative designed to ensure that all financial providers adhere to basic principles of product information, suitability and performance.

We have taken this programme right to the heart of the business and to all our people, to ensure that we bring the TCF principles to life as part of what makes LV= tick, rather than just meeting the minimum standards.

During the year we completed the transfer of most of the life insurance business of Liverpool Victoria Life Company to Liverpool Victoria Friendly Society. This will achieve improvements in operational efficiency, a clearer membership structure, and financial management benefits for the LV= Group.

Other operational achievements in the year included the successful recapture of our outsourced IT, life administration and HR arrangements.

Among other strategic developments, we acquired Highway Insurance to strengthen our broker proposition in the general insurance market. We also secured major new distribution partnerships with Nationwide Building Society and with Standard Life Direct, and we completed the exit from our loss-making field sales business.

## GROUP CHIEF EXECUTIVE'S statement

### LIFE

The integration of our new retirement solutions business was a key focus for our life business, transforming life sales overall.

We also developed and launched an award-winning drawdown equity release solution – the Lifetime Flexible Mortgage – to enhance our overall retirement proposition.

Our strength in enhanced annuities is now well-established and increasingly recognised by financial advisers as an excellent solution for many of their clients. In pensions, whilst volumes of sales held up well, values of new business were below expectation due to the overall market decline in investment levels, which inevitably affects us as a pensions consolidator.

In protection, we developed and launched an innovative and flexible solution to many protection needs, called Mortgage & Lifestyle Protection. This new product was recognised by an industry award, and we also won Best Protection Service and Individual Income Protection awards during the year.

Our distribution was enhanced substantially with a new life insurance partnership with Standard Life Direct, launched in December 2008. The strength of our brand and proposition now make us a sought after partner for appropriate new distribution deals.

Despite LV= having attractive and well-performing Child Trust Funds, the market size and low financial margin of these products mean they could never make a significant financial contribution to our member value goal. Therefore we were pleased to agree a transfer of all our CTF business to Family Investments, a provider with scale in, and commitment to, that market.

The recapture of our previously outsourced life administration processing centre, in Exeter, has improved our efficiency and drive for operational excellence.

Priorities for 2009 include overhauling our legacy IT systems, improving the 'e-enablement' of our protection proposition for financial advisers, and building our product competitiveness and capabilities in the market, especially for SIPPs.



## GROUP CHIEF EXECUTIVE'S statement

### GENERAL INSURANCE

Sales in our general insurance business grew substantially and in line with our ambitious growth plans, on the back of successful TV advertising campaigns and enhanced marketing and sales processes overall. Business volumes grew by £64m compared with 2007 and we ended the year with a net gain of nearly 200,000 new policies.

A distribution partnership was secured with Nationwide Building Society and successfully launched in December. We are providing a full sales, underwriting and claims service for car, travel and business insurance products for Nationwide customers.

New travel and pet insurance products were launched during the year.

Sales in the broker distribution channel grew substantially over the year and our acquisition of Highway Insurance strengthened our proposition still further in this market. The acquisition was notable not just for its strategic contribution to our broker business, but also as a very rare example of a mutual company acquiring a plc.

We remain on target to reach our goal of becoming a top five insurer in our chosen personal lines market and the Highway acquisition has provided a significant step up towards this goal. Whilst 2009 is already proving to be a challenging year, our strength in products, marketing and service means that we are well placed to continue to progress in line with our plans.

In addition, the quality of new general insurance business written, and strong growth in its underlying profitability, give us a high degree of confidence in the future returns we can expect from the business.

“Our powerful brand helps us compete in a crowded market place”



Emma Harvey and Sarah Bulling from the marketing team

## GROUP CHIEF EXECUTIVE'S statement

### ASSET MANAGEMENT

Over the last five years the LV= with-profits fund made a cumulative investment return of 30.6%, with an average annualised investment return of 5.48% over that period.

However, extreme turbulence in the world's financial markets inevitably impacted our one year with-profits returns, which fell from 5.7% in 2007 to minus 17.8% in 2008. Relative to our internal asset allocation benchmark this return was marginally below expectation. Over the same period though, the FTSE All Share index fell by more than 32%.

2008 was a year of major transformation in our asset management business. We made a number of new senior hires, launched new funds to support our retirement business and improved our distribution capability, including the delivery of three new online Individual Savings Account (ISA) funds.

Several of our new funds last year received prestigious 'AA' or 'A' ratings from S&P. In addition, our property fund won an industry award for best performance and our with-profits bond was recognised by Moneyfacts as the top performer over ten years.

Our core aim is to deliver strong relative investment performance for our with-profits members, but we also plan to extend our investment management capability, both through developing more retail offerings and by seeking mandates to manage the assets of other organisations. Our first major win in the latter area was securing a mandate from Middlesbrough Council to look after their £100m property investment portfolio.

### PARTNERSHIPS

The Partnerships business played a major role in securing our new strategic relationships with Nationwide Building Society and Standard Life Direct. Our partnership with Intune (Help the Aged) is progressing well and travel insurance sales in particular were well ahead of plan.

Going forward, the key responsibility for new partner acquisition has transferred to our Life and General Insurance businesses, where the sales and service expertise for those product areas already resides.

We refocused our tied advice capability onto our telephone and internet based services, thereby stemming the financial losses that had persisted for many years previously in our field sales operation.



**30.6%**  
With-profits investment return over last five years

## GROUP CHIEF EXECUTIVE'S statement

### BANK

Banking losses were curtailed following our exit from consumer lending towards the end of 2007. Since then an orderly wind-down of our banking operations has been underway, in which fairness towards our customers and our staff in this process are prime considerations.

The fine of £840,000 that we received last year from the FSA for historical inadequacies in our Payment Protection Insurance (PPI) sales process was very disappointing. In fact, long before the fine was announced we had addressed the issues identified, and of course we had also already exited that market. We have also expended much energy in devising a fair and comprehensive redress programme for any customers who were adversely affected, and this programme is now being delivered.

### INTO 2009

We have continued to make good progress on delivering our strategy and our five year transformation plan. During 2009 we plan to further maximise the value from our recent acquisitions, continue to improve operational efficiency, maintain the momentum of growing brand awareness, whilst at the same time keeping a tight control on our costs.

There is no doubt that 2009 will be a very challenging year, but we have built strong foundations and are confident that our business is in good shape to ride out the current troubles and thrive, for the benefit of our members, in the years ahead.

“The Partnerships business played a major role in securing new strategic relationships”



Mike Newton, Managing Director of Partnerships and Banking, with Katherine Hart, Social Responsibility Manager

# BUSINESS review

“Despite the market turmoil, our capital position remains strong”



Keith Abercromby  
Group Finance Director

## OVERVIEW

Despite severe market falls as a result of the credit crunch, the Group continued to make good progress in its strategic transformation. It delivered an operating profit of £62.8m in 2008 compared to £27.5m in 2007, reflecting good growth in our key businesses and continued investment in our operational capabilities.

Short-term market fluctuations cost the Group £321.1m (2007: £6.8m benefit) and this reflects the extraordinary market movements experienced in 2008. These market falls have significantly reduced the investment returns attributed to with-profits policies.

Despite the market turmoil, our capital position remains strong, partly as a result of measures taken in recent times to reduce the risk inherent in our businesses, and to bolster the strength of our balance sheet.



# 13.4%

Realistic Free  
Asset Ratio

## GROUP OPERATING PROFITS

As noted opposite, the Group made good progress in increasing its underlying profitability during the year despite the adverse market conditions. The table below summarises the profits from our strategic business units:

Profit £m	2008	2007
Life	100.0	100.7
General Insurance	(31.9)	(46.3)
Asset Management	(6.7)	8.3
Partnership	3.1	2.0
Banking	(1.9)	(37.0)
Other	0.2	(0.2)
<b>Operating profit</b>	<b>62.8</b>	27.5
Short term investment fluctuations	(321.1)	6.8
<b>Group (loss)/profit before taxation</b>	<b>(258.3)</b>	34.3
Pension scheme actuarial (losses)/gains	(1.1)	22.1
Taxation	57.4	(6.7)
<b>Group (loss)/profit after taxation</b>	<b>(202.0)</b>	49.7

The strategy of developing businesses in which we can achieve a sustainable and profitable market presence is continuing to drive our development. The results demonstrate the early benefits of that strategy.

Life Operating Profit was flat at £100m. The key drivers for this were the significant increase in sales to £85.7m Annual Premium Equivalent, an increase of almost 80% on 2007 following the acquisition of the Tomorrow business which completed on 31 December 2007. This brought costs associated with new business that will produce profits in future years, offset by releases of actuarial provisions especially in relation to mortality within our Industrial Branch business, where experience has shown our previous provisioning policy to be too cautious.

The General Insurance loss in 2008 was reduced by a third, year-on-year, to £31.9m. This reflects the continued investment in building capability and significant growth in new business, up 18.5% to £445.1m Gross Written Premium in 2008. As the business matures, this places us in a strong position to deliver sustained and growing profits going forward.

Asset Management received a £10m one-off fee from the Society in 2007 to fund its investment in infrastructure. The majority of this build was completed in 2008 utilising over half this fee and leading to the loss of £6.7m in 2008.

Banking's £1.9m loss in 2008 is as a result of the accounting treatment of the hedges underlying the banking book and this will reverse in future years. As indicated last year, we believe that we have provided for the losses likely to emerge from our residual Bank lending business, including the costs associated with our redress programme around Payment Protection Insurance. This judgement is based on our present view of the likely future progress of the current recession, based on past experience of default emergence.

More broadly, we anticipate that the current recession will have a negative but limited impact on our immediate aspirations. Our core businesses (retirement solutions, long-term protection, personal lines insurance, partnerships and asset management) are less prone to the effects of a drop in consumer spending than some other sectors, but there will undoubtedly be an impact from a weak housing market, much lower short term interest rates and lower pension values.

We are therefore cautious about the prospects for growth in operating profits during 2009, but are comfortable that our strategy remains appropriate in the current environment.

## BALANCE SHEET STRENGTH

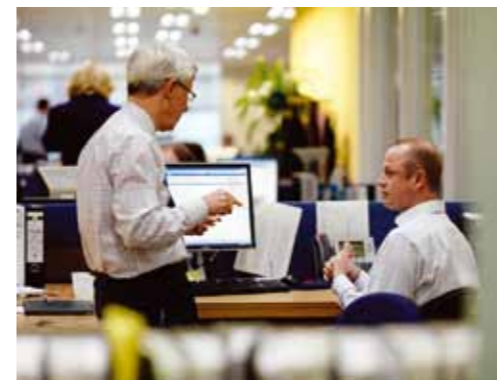
At the end of 2008, the Group had an Unallocated Divisible Surplus (effectively the capital available) of £1,117.3m down from £1,319.3m at the end of 2007. At the same time, the capital required to be held by the Group, has also reduced.

Our Group capital surplus was 2.1 times the required capital, up from 1.8 times at the end of 2007.

We remain strongly capitalised and we believe that we will maintain our ranking as one of the best capitalised with-profits offices in the UK<sup>1</sup>.

The reduction in capital is principally a direct result of the adverse investment market conditions experienced during the year, resulting in the net loss after tax of £202m, and our investment in Highway Insurance Group which utilised some £144m of surplus capital. These were partially offset by measures taken to reduce the capital requirement through risk reduction techniques.

Our capital management processes seek to maintain a continuous watch over our financial risks, allowing the Group to take action to adjust those risks appropriately for the anticipated economic and business conditions ahead. We do this by monitoring the value of our assets and liabilities and the financial risks these represent.



We model the effects of remedial actions so as to be as sure as we can that actions taken are both effective and cost efficient. Our aim is to be prudent in our management of financial risk and not to expose the Society to risks that it cannot afford to be realised.

Actions taken during 2008 have included positioning our investment portfolio at the lower risk end of the credit exposure spectrum and seeking out better names even if this means reducing short-term returns. Our only direct losses from failures during the credit crunch have been a £5.4m exposure to Lehman Brothers and \$3.2m with Madoff that Highway had when we acquired that business.

We remain cautious in our approach to credit risk. Our proportion of UK Gilt-Edged securities and debt rated at least 'A' is 89% of our total credit exposure (2007: 83%). Our consumer lending business was closed to new business in 2007 and so the credit exposure to such lending is now capped. Note 3 ii to the accounts gives more detail on our credit exposure.

In addition we have taken out hedges to match our assets more closely to some of our pensions liabilities, building on the work done in 2007. We have also reduced the exposure of our capital to equity movements by reducing our holdings over time, at FTSE levels significantly higher than the closing level for 2008.

Another significant action was to move the bulk of the business of our subsidiary, Liverpool Victoria Life Company, into Liverpool Victoria Friendly Society.

This gives operational efficiencies and simplifies our membership arrangements while providing significant benefits for the financial management of the Group through more efficient use of capital.

Our capital remains sensitive to market movements and the following table shows the impact on the Unallocated Divisible Surplus of quite sharp changes in equity values and longer term interest rates.

Market movement	£m
Equity values fall by 20%	-153.3
Fixed interest yields reduce by 17.5% (ie from say 4.0% to 3.3%)	-26.1

## INVESTMENT RETURNS

The FTSE 100 fell by 31.3%<sup>2</sup> in 2008 – its biggest annual fall since its inception in 1984. Increasing worries about the wider economy and inflation replaced the earlier credit concerns stemming from the sub-prime mortgage problems.

At the beginning of the year inflation was the worry. The price for a barrel of oil exceeded US\$140 which, when combined with increasing food and commodity prices, saw consumer confidence decline as house prices started to fall and mortgage lending became increasingly tight. The UK Consumer Price Index – the standardised measurement for inflation – rose to 5.2% in the year to September, its highest level since 1997. The Bank of England's (BoE) Monetary Policy Committee kept interest rates unchanged, struggling to balance rising prices with an ailing economy.

<sup>1</sup> Source: Ernst & Young UK Life Insurance Companies 2007 Capital and Solvency Review

<sup>2</sup> Source: Bloomberg

In the second half of 2008, fears of a global recession started to affect demand. The price of oil fell from US\$147 per barrel to under US\$40 in December. Fears of inflation turned to concerns about deflation. Over the course of the year, the BoE slashed interest rates from 5.5% to a record-equalling low of 2%, with further cuts in the first quarter of 2009.

The Board measures investment performance based on actual returns compared to market

returns, using agreed asset allocation and currency matching criteria. In a year of almost unprecedented volatility, the change in value of policies from investment activities in 2008 was -17.8%, which is 1.5% below the return generated from the benchmark set by the Board. This resulted in LV= reducing with-profits policy asset shares by £353m (2007: adding £142m), reflecting market returns.

>Returns (%)	2008	2008	2007	2007
on investments	Actual	Market	Actual	Market
UK equities	(31.7%)	(29.9%)	7.5%	5.3%
International equities	(20.2%)	(15.6%)	11.2%	11.7%
Alternative investments	2.1%	10.0%	11.5%	11.1%
Property investments	(21.8%)	(23.1%)	(1.2%)	(5.5%)
Bonds	7.2%	8.7%	3.7%	3.5%
Cash & cash equivalents	4.8%	4.8%	5.2%	5.7%
<b>Total return</b>	<b>(17.8%)</b>	<b>(16.3%)</b>	5.7%	3.8%

“ We believe that we will maintain our ranking as one of the best capitalised with-profits offices in the UK ”

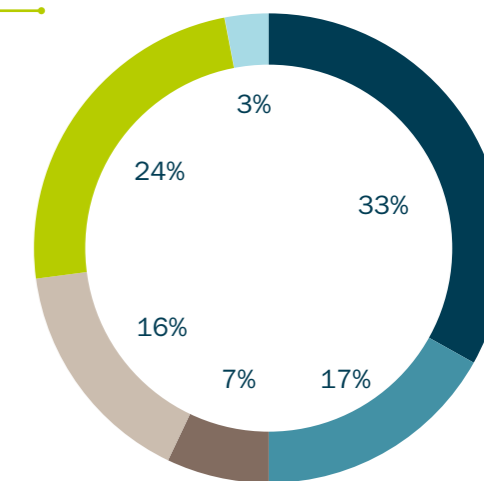


Keith Abercromby with Raymond Haines, Chief Investment Officer of LV= Asset Management

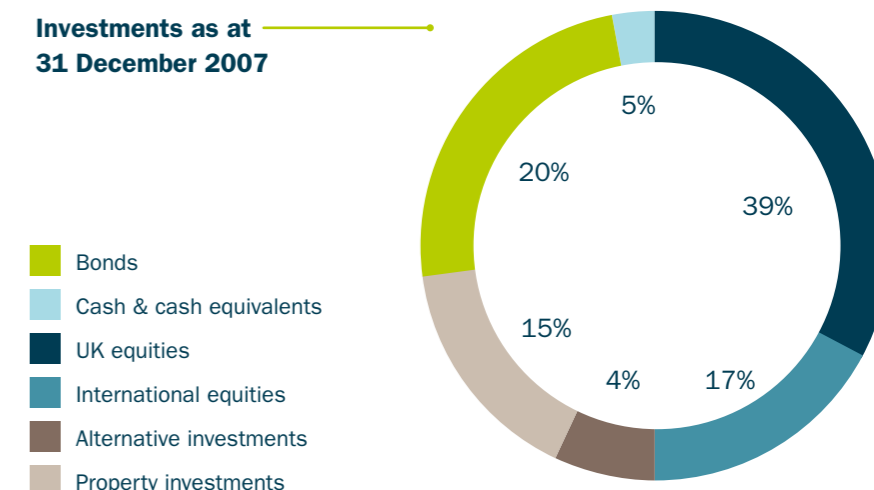


At the end of 2008 and 2007, the investments held on behalf of with-profits policyholders were as shown in the following charts.

Investments as at 31 December 2008



Investments as at 31 December 2007



- Bonds
- Cash & cash equivalents
- UK equities
- International equities
- Alternative investments
- Property investments

**GROUP AUDITORS**

During 2008, we reviewed the provision of audit services to the Group. Our key concerns were to achieve a proper balance between cost and service, while ensuring that our auditors remain totally independent at all times. After a preliminary assessment of firms that could undertake our audit, we asked the 'Big Four' firms of auditors to participate in a tender exercise for our audit work.

After a selection process against a set of pre-determined criteria, the Group Audit, Risk and Compliance Committee awarded the audit to PricewaterhouseCoopers, who have reported on the 2008 results.

The auditors of the Highway Group were KPMG and, in view of the short period from acquisition to the year end, we asked them to continue in that role for the 2008 Highway results.

# LIFE & PENSIONS business

**In 2008 we launched new products, enhanced existing propositions, and improved our pricing position**



Rodney Cook  
Managing Director of Life & Pensions

## STRATEGY

Our Life & Pensions business aims to establish LV= as a leading provider in the protection and retirement markets, with a reputation for true value and service excellence.

## 2008 PERFORMANCE

Following the successful acquisition of the new business operations of the former GE Life business called Tomorrow, we began 2008 with the launch of our new retirement solutions arm offering specialist pensions, enhanced annuities and equity release products. This represented a significant step towards establishing LV= as a retirement specialist.

We now offer a broader range of award-winning solutions, possess more expertise and have increased our capability to further improve customer service. And in 2008 we increased our new business income by 83% to £86m APE (Annual Premium Equivalent – annual premiums plus 10% of single premiums received).



Annual Premium  
Equivalent

**£86m**

Our continued investment and innovation have resulted in a year of launching new products, enhancing existing propositions, and improving our services and competitive pricing positions. We have stabilised our market share in most product areas and achieved increases in pension transfers, enhanced annuities and income protection.

We strengthened our servicing capability by completing the transfer back in-house of our previously outsourced new business and claims processing operations in Exeter. And to demonstrate our pride and confidence in servicing, we introduced a unique 'Money Where Our Mouth Is' service pledge for pensions transfer and annuity business. If we fail to meet our promise, we pay £1,000 to the customer. No other provider has made the same commitment. We also extended access to our dedicated protection service team to more IFAs and introduced a large case team to personally handle high value, complex cases.

We launched a service enhancement initiative in February and, using feedback from customers, identified and implemented a number of process improvements.

In May, and to some acclaim, we launched a revolutionary mortgage protection product. Initially sold exclusively through mortgage advisers, we are now testing distribution through direct advice and direct response channels. We believe our plan provides superior long term cover and is already proving an attractive alternative to traditional protection products.

We have extended the investment options available through our pension products and have worked closely with the LV= Asset Management team to provide new fund choices and innovative tools to help advisers and clients select and review their investment funds. We re-launched our annuity and equity release products, providing customers with added flexibility and keener prices.

## LIFE & PENSIONS business

Our specialist retirement services have enabled us to increase the volume of business generated through the IFA channel to 90% of total new business value.

In spite of economic conditions and an increase in the number of new competitors, our 50 Plus life insurance plan remains a strong seller through direct distribution. Our market share remained around 9.5%, but actual new business increased by 23% to £2.6m APE. We have worked with a number of external partners to test the suitability of other types of products for our customer base and will continue to test the market in the year ahead.

During the year, we reviewed and streamlined our heritage business of largely with-profits savings and investments. This led us to close our Child Trust Fund to new business and the decision to transfer this business to Family Investments.

“Customers can now buy our 50 Plus plan via LV.com”

With the current investment volatility and economic uncertainty, we believe that our expertise in with-profits can provide consumers with an important and attractive opportunity. This will be a renewed focus for 2009.

Our business development team is charged with expanding relationships with targeted IFA networks and third party distributors. We were delighted that LV= won the tender to provide selected protection products and servicing for Standard Life Direct. And in the year ahead, we will be exploring how we can lend our expertise and increase our distribution through more partnerships with other financial services providers, bancassurers and retailers.

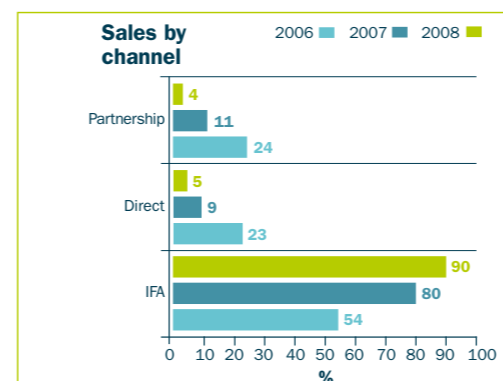
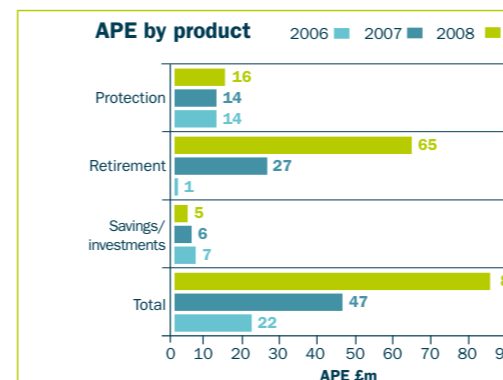
### MARKET OUTLOOK

We recognise that the economic and investment conditions in the UK and global markets will be very difficult in 2009. We expect further consolidation of financial services providers, challenges for the IFA sector and consumer reluctance to spend or invest.

As evidenced by our ratings from independent consultants AKG and Cazalet, LV= remains financially strong. This financial strength, complemented by strong cost control, will enable further investment in our business through continued product innovation and service improvement, and means we are confident of increasing new business levels in 2009 despite the difficult market conditions.

Alan Lay, Nina Ponzio and Jo Lidgely, from the eCommerce team

## LIFE & PENSIONS business



### SALES AND DISTRIBUTION

The first graph is Total APE analysed by product and the second graph represents the proportion of sales by channel. Pensions Term Assurance (PTA) APE has been excluded from 2006 and 2007 following the Government's decision to stop PTA business early in 2007. PTA sales of £3.2m and £1.4m were achieved in 2006 and 2007 respectively.

Total business has increased by 95% from 2006 to 2008 driven by the growth of our Retirement business following the acquisition of the new business capabilities of the former GE Life business called Tomorrow. These pension and annuity sales are also the key driver of the increase in business sold through our IFA channel.

### BUILDING AN ENVIABLE REPUTATION

In 2008, we won a number of prestigious awards and endorsements across our whole product range.

Defaqto, a leading independent financial research company, awarded LV= five stars for our mortgage payment protection, income protection, equity release and our pension SIPP products.

Independent judging panels, advisers and readers of financial publications also voted LV= as best service provider in protection, top individual income protection provider and best equity release provider.

Such accolades recognise our commitment to excellence and reflect our continuing investment in product design, people, technology and customer service.

### REUNITING ASSETS

We subscribe to the Unclaimed Assets Register, a unique database holding over 5m records of unclaimed Life insurance policy monies. It's a great example of how we're improving our service to members and their families, by reuniting unclaimed assets with their rightful owners and beneficiaries.

In 2008, we matched over 11,000 'lost' policies with their rightful owners, with a total value of over £34m.

# GENERAL INSURANCE business

“ In addition to relaunching our core motor and home insurance, we also launched travel and pet insurance ”



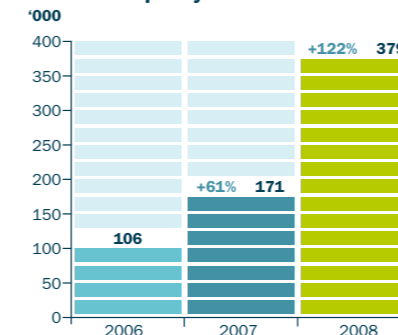
John O'Roarke  
Managing Director of General Insurance

## REVIEW OF 2008

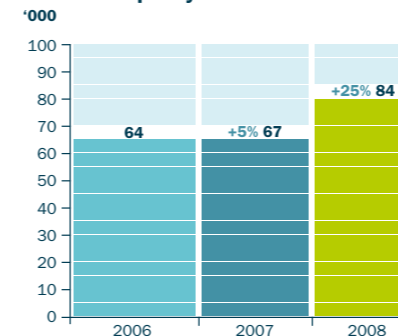
We have made very significant progress towards our medium term goal of becoming a top five UK car insurer. Our motor new business sales more than doubled, growing by 122% relative to 2007. This growth reflects the highly successful development of our multi-distribution model. We now source and underwrite business from all the key distribution channels: direct, aggregator, broker market, traditional affinity, and corporate partnerships.

In home insurance we were also able to grow new business policy sales despite an extraordinarily competitive trading environment. Home sales grew by 25% to 84,000 units.

Motor new policy sales – 2006-08



Home new policy sales – 2006-08



**122%**  
Growth in motor  
new business sales

In early 2008 we launched two completely new products for the travel and pet insurance markets.

In designing these new products, and launching them into very competitive markets, we sought to ensure that they were targeted at meeting specific customer needs. For example, our travel product differs from much of the market, in that we provide cover to thousands of people who might otherwise be unable to find travel insurance due to their medical conditions. We aim to cover the majority of common medical problems and we don't ask our customers to complete an in-depth medical questionnaire.

Despite only launching in May, our travel product is already award-winning. We were awarded 'Best Buy' status by a leading consumer magazine in December.

Our pet insurance product was launched in January and has been supported by a visually appealing marketing campaign in the national and specialist press.

We have also introduced a range of new risk-based products for our Britannia Rescue brand. By offering risk-based cover we can now offer extremely competitive prices with the basic level of road rescue cover starting from just £29.

Although home and motor insurance remain our key direct products, these new product developments mean we can now offer a full range of personal lines products to our customers.

## BROKER MARKET

It has been a year of very significant growth for our broker division. Our motor product, designed specifically for brokers and sold under the ABC Insurance brand, has been very well received and achieved over 100,000 new policy sales.

In the commercial lines sector we significantly broadened our product range with the launch of packaged policies to cover property owners, shops, offices and surgeries, plus a range of products for the licensed trade.

## GENERAL INSURANCE business

We also doubled the strength of our commercial branch network and during the course of 2008 we opened new offices in Manchester, Leeds, Bournemouth, Birmingham and Glasgow.

Finally and most significantly, we completed the acquisition of Highway Insurance in October. The acquisition of Highway has broadened the range of products we are able to offer to brokers and gives us strength and scale in the intermediated market.

In February 2009 we announced the sale of the Hero brokerage subsidiary of Highway to The Capita Group plc for £15m. Hero was the one part of the Highway business that was not core to our future business strategy. We were pleased to be able to secure a sale both for an acceptable price and one that values Hero as a going concern, offering future prospects to the business and its people.

“LV= is now the exclusive provider of car, travel and small business insurance to Nationwide’s 15 million customers”

### AFFINITY AND CORPORATE PARTNERSHIPS

Affinity partnerships have always been an important source of business for LV= and our Frizzell brand remains widely known and highly regarded in the not-for-profit sector.

Over the last two years we have sought to build upon this heritage by expanding our presence in the corporate partnership channel. We were therefore extremely pleased to announce in June 2008 that we had secured a six-year partnership with Nationwide Building Society. LV= is now the exclusive provider of car, travel and small business insurance to Nationwide’s 15 million customers.

### MARKETING AND BRAND DEVELOPMENT

2008 was another busy year for our marketing team. In addition to launching our first ever ‘prime-time’ car insurance TV commercial in July and the creation of a new home insurance TV commercial, we saw our brand awareness grow very strongly. Prompted awareness of the LV= brand jumped to 69% by the close of the year.

## GENERAL INSURANCE business



Equally importantly, we continued to build on the values that underpin our brand. Our aim as a mutual insurer is to do more than simply meet expectations when caring for our customers’ needs at the time of a claim. For example, in the event of a severe storm or flood, our claims advisers pro-actively make calls to all customers living in the affected areas to offer assistance and advice. Our teams are also instructed to prioritise vulnerable policyholders and ensure that their immediate needs are dealt with. Working together with our suppliers, this approach enables us to co-ordinate an immediate ‘on the ground’ response, saving time and cost and ensuring that our customers’ needs are met and their homes are protected from further damage.

### AWARDS

We have continued to win a wide range of industry accolades. Our motor and home products are now five star rated by Defaqto – underlining the fact that our price competitiveness is matched by excellent products and great service.



We also received a number of ‘Best Buy’ and ‘People’s Choice’ awards for our home and travel policies from the UK’s leading consumer research magazine. Not to be left out, in December our broker market division won the Insurance Times award for ‘New Entrant of the Year’ in respect of the ABC Insurance business.

### OUTLOOK

The outlook for the UK General Insurance market is a mixed one. The global deterioration in credit markets means that the investment return we can expect to earn has been sharply reduced. On the other hand, the fall in expected investment returns has caused insurers to focus on generating a positive underwriting result and we therefore expect to see car insurance rates increase in 2009.

Despite the general economic difficulties, we are confident that our multi-channel, multi-product strategy has positioned us very well to take advantage of the opportunities that lie ahead.

John O’Roarke with  
Group Chief Executive, Mike Rogers

# PARTNERSHIPS business

“We’ve been working closely with our partners for more than 85 years”



**Mike Newton**  
Managing Director of Partnerships and Banking

## STRATEGY

The primary purpose of the Partnerships business is to market LV= products to the members and customers of our affinity partners. In addition, we operate a direct to consumer distribution business selling life, savings and investment products – both to our existing partners and also into the open market.

## MARKET

The nature of affinity business is changing, with some of the traditional business drivers becoming less relevant as new technology brings greatly improved product accessibility for customers. We have responded to these trends by adapting our approach in the sector, safeguarding our existing accounts whilst seeking fewer but higher profile new partners.

For our long-standing accounts, primarily trade unions and leisure organisations, our focus is very much on enhancing and developing the established customer base. We have extended our offering to include new value for money



products from LV= including enhanced annuities, mortgage life protection, travel and pet insurance and road rescue.

## OUTLOOK

In these challenging market conditions, we have focused on developing an operating model that is resilient in the downturn, but agile enough to take advantage in the upturn. Costs have been shed as we took action to:

- outsource the provision of IFA services
- close our field sales force selling only LV= products
- close our banking subsidiary to new business
- exit from worksite marketing

## AWARDS

Having only launched our internet-based ‘Straightforward Advice’ service in 2008, we were delighted to win the ‘Best Online Life Insurance’ award from Your Money magazine. This followed earlier success for our Dynamic Database project which won the Data Strategy award for ‘Best Use of Data for a Financial Institution’, and was highly commended by the Financial Services Forum for ‘Most Effective Direct Marketing Campaign’.

We were also pleased to be one of the first to be awarded the new Approved Partner status by our longest standing partner, CSMA Club.

## STRATEGIC CHANGE

LV= has a long tradition of providing financial advice to members. For many years, this was a face-to-face service in our members’ homes but, in common with many other providers, it is no longer economic to provide such a service. In recent years, we have seen an upward trend in customers wanting to seek advice and transact business via the telephone and internet. Successfully developing these advice channels has enabled us to focus resources onto these emerging direct distribution opportunities, whilst also being able to offer a continuing service to all our existing LV= customers.

## OUR PEOPLE

A key strength of the Partnerships team is our people, and the relationships they have established with our partners over many years. So we were delighted that LV= was one of the first businesses to be awarded the new Approved Partner status, by our longest standing partner, CSMA Club.

# ASSET management

“We are a growing business with a straightforward product range, fair pricing policy and excellent customer service”



Ann Roughead  
Managing Director of LV= Asset Management

## OVERVIEW

The worst year on record for the FTSE 100 index, against a backdrop of headlines proclaiming a return to the Great Depression, were hardly the best conditions in which any asset management business could flourish. Indeed, many high profile asset management companies either closed or significantly scaled back their operations during 2008. It has been doubly pleasing, therefore, that LV= Asset Management has bucked the trend – continuing to deliver solid relative investment performance for our members and customers, and continuing the programme of business expansion that was started in 2007.

Our fund managers cannot recall an investment environment as challenging as that seen during 2008, where volatility increased significantly and the usual drivers of market performance were subordinated to fear and short-termism. In such conditions, many investors were caught out by sticking to aggressive investment strategies or failing to properly balance their portfolios.



At LV= Asset Management, although absolute returns were disappointing, our risk-aware investment approach delivered investment returns broadly in line with our benchmark index. This may be cold comfort to those who have seen the value of their investments fall, but it remains a creditable performance given the prevailing market conditions.

It has also been gratifying that, for the first time, our investment approach has enjoyed external recognition. Standard & Poor's awarded Fund Management Ratings to three of our retail funds: LV= European ex-UK Growth Fund ('AA' rating), LV= Balanced Managed Fund and LV= Stockmarket Fund ('A' ratings).



The ratings are based upon a combination of strong performance within the funds' competitive sectors, but also a robust and repeatable investment process.

Our property investment team also enjoyed success, winning the Estates Gazette/IPF UK Property Investment Award for the best performing fund over three years to the end of 2007. This success was built upon in late 2008 with the award of a £100m institutional property mandate, again giving us confidence in our approach.

## OUTLOOK

Looking ahead, it is likely that economic conditions will remain weak for some time, with a corresponding effect on investment markets. Our fund managers do not expect a meaningful improvement until late 2009 or early 2010. Nonetheless, LV= Asset Management is a growing business and we expect to continue to attract investors thanks to our conservative investment approach, straightforward product range, fair pricing policy and excellent customer service.

# COMMUNITY support

Ella's school arranged a trip to LV= Streetwise. As well as enjoying a day away from the classroom, Ella is now much more aware of safety inside and outside the home

Natalie Finlayson



Natalie with her daughter Ella



“ Our social responsibility strategy is about protecting children and their future ”

## LV= AT THE HEART OF THE COMMUNITY

LV= has a long history of supporting the communities in which our members and our employees live, regularly contributing to charities and other worthwhile causes that are 'close to home'.

Our activities are focused primarily on our corporate social responsibility strategy of 'protecting children and their future'.

- We continue our long-standing sponsorship of LV= Streetwise, an award winning interactive education centre. It uses real life street, transport and home situations to teach children basic safety skills.

Since LV= Streetwise first opened in 1998, over 115,000 children have visited the centre and learnt important issues about safety and good citizenship.

- LV= KidZone is now in its 11th year. This pioneering beach safety scheme helps families who visit Bournemouth's beaches to keep track of their children by using colour-coded wristbands which correspond to clearly marked zones of the beach. Since it was first introduced, the scheme has helped to reduce the number of lost children by 65%.
- In 2008 we supported the Croydon Opportunity Pre-School Group, which was facing closure. This voluntary organisation runs two pre-school groups in the area for children with special needs.
- To promote the launch of the LV= retirement solutions business, in the first quarter of 2008 we ran a competition for financial advisers called 'Heart of Business', linked to life and pension applications. At the end of the period the prize fund of £61,662 was donated to the chosen charities of six randomly selected advisers who had written business with us.

## COMMUNITY support

“The Lord’s Taverners receives £6 for every six hit in the LV= County Championship”

- In March and November 2008 we opened our call centre to take pledges on behalf of the Sport Relief and Children in Need appeals. Our staff volunteered to ‘man the phones’, and took over 5,000 calls on behalf of the charities, collecting almost £200,000 in donations.
- Through our sponsorship of cricket’s most prestigious domestic competition, the LV= County Championship, we donate £6 for every six hit in the championship to The Lord’s Taverners. This famous sporting charity gives young people, particularly those with special needs, a sporting chance.  
  
We have donated nearly £40,000 over the past few seasons which goes towards specially-adapted minibuses for special needs schools.
- We pledged to donate 50p for every valid vote we received for the 2008 AGM, raising £15,000, which was split between three children’s charities.



## COMMUNITY support



- Through our sponsorship of the Chartered Management Institute Introductory Certificate in Team Leading, we hope to provide students with the necessary skills and experience to get a head start in their business career. Starting with four schools close to some of our main offices, our support also extends to business mentoring, input into the curriculum and offering work experience for students. We intend to expand this programme in 2009 and increase the number of schools we sponsor.
- For every LV= corporate Christmas card we sent, we donated £1 to Great Ormond Street Children’s Hospital, raising a total of £6,059 for their ‘Kiss it Better’ appeal.

As well as providing financial support, we also offer our expertise, skills and resources, thereby creating long-term mutual partnerships with charities and good causes. In 2008 our employees spent over 3,000 hours volunteering in the community and supporting charities. This ranges from initiatives like Young Enterprise, to providing support to national appeals such as Children in Need.

Our employees also gave up their own time to one-off local projects such as refurbishing community halls and painting children’s wards in hospitals, hospices and school playgrounds.

We encourage our staff to undertake their own charity related activities, by operating an ‘employee matching’ scheme. We match £ for £ (up to £500 per case) the amount employees raise through their own personal charitable endeavours.

In 2008, our people raised approximately £50,000 through their own efforts and LV= added a further £41,000 in matched donations, benefiting over 20 different charities.

# CORPORATE governance

Liverpool Victoria Friendly Society (“the Society”) seeks to observe the requirements of the annotated version of the Combined Code on Corporate Governance (“the Annotated Code”) and the best practice guidance prepared by the Association of Mutual Insurers (AMI) and Association of Friendly Societies (AFS), even though we are not formally bound by the Combined Code on Corporate Governance



Ian Reynolds



Stuart Sinclair

## COMPLIANCE WITH THE ANNOTATED CODE FOR THE YEAR ENDED 31 DECEMBER 2008

It is the Board's view that the Society now fully complies with the Annotated Code and has done since March 2008 when an independent non-executive assumed the chair of the Remuneration and Nominations Committee.

## THE BOARD

The Board is responsible for strategy, the monitoring of performance, approval of major projects and the framework of internal controls. It has ultimate responsibility for the management of the Society and the interests of the various stakeholders, particularly its members, other policyholders and customers. It has a schedule of matters reserved to it, delegating operational matters to the Group Chief Executive.

The Board met nine times in 2008 for formal board meetings, a further six times on an ad hoc basis to discuss specific issues and additionally held two strategy sessions.

In 2009 the Board is expected to meet at least eight times and to have two strategy sessions.

Under the Society's Rules all directors are required to submit themselves for re-election at least once every three years.

A number of Board changes took place during 2008. After serving two three year terms as a non-executive director, Barry Rose retired as a director on 19 June 2008. As recorded in last year's report, Ian Reynolds was appointed as an additional non-executive director on 3 January 2008 and Stuart Sinclair was appointed as a non-executive director on 24 September 2008 to fill the vacancy created by the resignation of Barry Rose.

The Board now comprises five non-executive and four executive directors. All of the non-executive directors are regarded as independent (save for Dennis Holt to whom, as Chairman, the test of independence is not applicable). The Society therefore satisfies the recommendation of the Code that, excluding the Chairman, at least half the Board should consist of independent non-executive directors.

## BOARD MEMBERS

### **Dennis Holt,** **Chairman, age 60**

Dennis Holt was appointed as a non-executive director of LV= on 20 September 2006 and chairman on 1 July 2007. Dennis is an associate of the Chartered Institute of Bankers and worked for Lloyds TSB plc for over 30 years, latterly as a main Board executive director. In 2001 he became Group CEO of AXA UK plc and a member of the global AXA Executive Committee before his retirement in 2006. He is a non-executive director of the Bank of Ireland and Principle Insurance Holdings (formerly BIH), having previously been vice-chairman of the Association of British Insurers and chairman of its General Insurance Council.

### **Gillian (Gill) Nott OBE,** **Non-Executive Director and Senior Independent Director, age 63**

Gill Nott was appointed as a non-executive director of LV= on 25 May 2005. Gill was formerly a director of the FSA and is currently chairman of Baronsmead VCT and Witan Pacific Investment Trust plc. She is also a board member of a number of other venture capital trusts and investment trusts. Gill has chaired the LV= investment committee since September 2007.

### **Stuart Sinclair,** **Non-Executive Director, age 55**

Stuart Sinclair was appointed as a non-executive director of LV= on 24 September 2008, having formerly been chief operating officer at Aspen Re and holding chief executive positions within GE Financial Services and Tesco Personal Finance. He is also a non-executive director of Prudential Health Limited. Stuart has chaired our remuneration and nominations committee since October 2008.



### **Ian Reynolds,** **Non-Executive Director, age 65**

Ian Reynolds is an actuary and chartered director and was appointed as a non-executive director of LV= on 3 January 2008. Ian has had many years' experience in the insurance industry, including directorships with HSBC Life, Marks & Spencer Life Assurance and Equitable Life. He has also served as an insurance adviser to the FSA and is a member of the Council of the Institute of Actuaries. Ian chaired the remuneration and nominations committee between April and September 2008.

### **Steven Daniels,** **Group Chief Investment Officer, age 49**

Steven Daniels joined LV= in 1988 and was appointed as group director, investment in 1996. He was appointed to the Board on 27 March 1996 and held the position of group director, asset management and acquisitions from October 2001 until March 2009, when he took the new position of group chief investment officer. He also became a member of the investment committee in March 2009.

### **Michael (Mike) Rogers,** **Group Chief Executive, age 44**

Mike Rogers was appointed as a director of LV= and group chief executive on 5 June 2006. Mike worked for Barclays Bank for 20 years, holding a variety of roles in business banking, wealth management and retail banking. Latterly he was managing director of Barclays UK Retail Banking.

### **Richard Rowney,** **Group Chief Operating Officer, age 38**

Richard Rowney joined LV= in February 2007 as chief operating officer and was appointed to the Board in August 2007. Richard worked for Barclays Bank for 14 years where he was risk director of small business, chief operating officer of premier banking and integration director for the Woolwich and Barclays retail bank.

### **Mark Austen,** **Non-Executive Director, age 59**

Mark Austen was appointed as a non-executive director of LV= on 20 September 2006. Mark is a chartered management accountant and worked for PricewaterhouseCoopers for over 25 years, during which time he became managing partner of the Global Financial Services Consulting Practice, and for three years he was senior executive for the financial services consulting practice of IBM. Mark is a non-executive director of Standard Bank plc, Temenos Group AG and Smartstream Technologies Ltd. Since September 2007 Mark has chaired the audit, risk and compliance committee.

### **Keith Abercromby,** **Group Finance Director, age 45**

Keith Abercromby joined LV= in July 2007 as group finance director and was appointed to the Board in December 2007. Keith previously held a number of roles within HBOS, including managing director of Halifax Life and finance director of HBOS Financial Services. More recently, he was finance director of Norwich Union's life division.

### **BALANCE OF THE BOARD**

The Board contains a balance of management, investment, administrative and financial services expertise which, it has concluded, makes it appropriate to the requirements of the Society's business.

### **BOARD PERFORMANCE APPRAISAL**

A process of annual appraisal is in place for the Board and the directors with a view to optimising both individual contributions and group achievement. This appraisal process is conducted by the chairman and involves consultation and interviews with the directors. The senior independent director conducts the appraisal process for the chairman.

### **BOARD COMMITTEES**

The Group Audit Risk and Compliance Committee, the Remuneration and Nomination Committee, the Investment Committee, and the With-profits Committee were standing committees of the Board in 2008. The Terms of Reference of the Board Committees are reviewed annually and are now published on the Society's website at LV.com.

### **GROUP AUDIT, RISK AND COMPLIANCE COMMITTEE**

The Group Audit, Risk and Compliance Committee comprises three of the Society's independent non-executive directors, currently Mark Austen (chairman), Ian Reynolds and Stuart Sinclair.

The Committee meets at least quarterly with the group's chief executive and senior management in finance, internal audit, risk and compliance, with the external auditors also in attendance.

The key objectives of the Committee are to assist the Board in the discharge of its responsibilities in respect of external financial reporting, the independence of the Group's external auditors, the efficacy of the Group's control systems and the appropriateness and adequacy of the plans and resourcing of the Group's internal audit function.

The Committee reviews and monitors the effectiveness of the internal audit activities.

The Committee plays a key role in respect of the Group's regulatory compliance, receiving reports from the group risk director on a wide range of issues including regulatory change. During 2008, the Committee continued to oversee the development of the Group's response to the Financial Services Authority's initiative on Treating Customers Fairly and the embedding of the appropriate processes into the day to day operations of the business.

It also monitored the embedding of an enhanced risk management capability across the Group following the appointment in 2007 of a specialist group risk director. The Committee also conducts reviews of the arrangements by which staff may raise concerns about possible improprieties in matters of financial reporting or other matters.

The Committee reviews the actuarial assumptions and accounting policies for the Annual Report and recommends to the Board that the report be adopted. The Committee is also responsible for making recommendations on the appointment, re-appointment and removal of the external auditors. In that capacity the Committee oversaw a tender process during the year for the external auditor position, as a result of which PricewaterhouseCoopers LLP was appointed in place of Ernst & Young LLP.

As part of its Terms of Reference, the Committee has also agreed guidelines on the non-audit use of the Society's external auditor to ensure that their continued independence is not prejudiced.

### **REMUNERATION AND NOMINATION COMMITTEE**

Sitting as the Remuneration Committee, the Committee met four times during 2008 and from 2009 will meet at least three times per year. The Committee is composed of three of the Society's independent non-executive directors, currently Stuart Sinclair, Gill Nott and Dennis Holt. The Committee was chaired by Ian Reynolds between April and September and thereafter by Stuart Sinclair. On behalf of the Board, the Committee determines the Society's broad policy on executive remuneration, the specific remuneration packages for each of the executive directors and the remuneration of certain senior managers. Further details of the Group's policy on executive and senior management remuneration are set out in the Directors' Report on Remuneration.

In its capacity as Nomination Committee, the Committee evaluates the balance of skills, knowledge and experience on, and required by, the Board. In the light of the evaluation, the Committee prepares a description of the role and capabilities required for any particular appointment.

Recruitment consultants will usually be instructed to help compile a shortlist of candidates for interview for board vacancies; this is the process that was used in 2008 for the recruitment of Ian Reynolds and Stuart Sinclair. The Committee then recommends appointments to the Board for approval. The Committee's members are the same as the Remuneration Committee with the addition of Mike Rogers.

### INVESTMENT COMMITTEE

The Investment Committee comprises three non executive directors, currently Gill Nott, Dennis Holt and Mark Austen, together with the group chief executive, the group chief investment officer, the group finance director and the managing director of the Life & Pensions business. The Committee is always chaired by a non-executive director; Gill Nott currently assumes this position.

The Committee normally meets at least quarterly to monitor and review the management of the Group's investments by Liverpool Victoria Asset Management (LVAM) on behalf of Group clients. The Committee is responsible for confirming to the Board on an annual basis that the continued appointment of LVAM remains appropriate, having regard to its performance and charges relative to external alternatives.

### WITH-PROFITS COMMITTEE

The With-profits Committee meets at least three times a year in order to bring independent judgement to the assessment of compliance with the Society's statement of Principles and Practice of Financial Management and to monitor how any competing or conflicting interests between different groups of policyholders are resolved. During 2008 the Committee held special meetings to consider the impact on the interests of with-profits members of the acquisition of Highway Insurance Group, other possible acquisitions which did not proceed, and the Part VII transfer of business from Liverpool Victoria Life Company to the Society. The Committee is entitled to draw on such external professional advice as it sees fit in order to discharge its duties effectively.

In order to strengthen the independence of the With-profits Committee, Peter Nowell was recruited in 2008 to act as a wholly independent chairman. Peter has extensive relevant industry experience and also acts as the chairman of the Royal National Pension Fund for Nurses Supervisory Board. The Committee consists of the independent chairman and one other non-executive director, currently Ian Reynolds, together with the managing director of the Life Business, Rodney Cook.

### GROUP EXECUTIVE COMMITTEE

The Group Executive Committee meets, under the chairmanship of the group chief executive, Mike Rogers, on a weekly basis to monitor business performance and monthly in order to assist him in the discharge of his responsibilities to the Board.

### RELATIONS WITH MEMBERS

The Board regards communication with the Society's members as of high importance. The Society hosts two Member Panel meetings each year and has developed a programme of Regional Member Events to encourage members to participate on a nationwide basis.

As presaged in the 2007 report, during 2008 the Society reconstituted the Member Panel to draw in new members with a view to achieving a wider coverage of the Group's products and to enable more focused discussions by panel members, in small groups, of specific issues of current relevance to the Society's development. To date one meeting has taken place in the new format and the Board will continue to monitor its effectiveness and make further changes as appropriate. In addition the Society uses internet based communications to solicit feedback from members.

## BOARD AND COMMITTEE MEMBERSHIP AND ATTENDANCE IN 2008

Director	Liverpool Victoria Friendly Society Board	Group Audit, Risk & Compliance Committee	Remuneration and Nomination Committee (sitting as the Remuneration Committee)	Remuneration and Nomination Committee (sitting as the Nomination Committee)	With-Profits Committee	Investment Committee
	9 meetings	4 meetings	4 meetings	1 meeting	6 meetings	4 meetings
D Holt	9	N/A	4	1	N/A	4
M Austen	8	4	N/A	N/A	3/3	1/1
G Nott	9	N/A	4	1	N/A	4
B Rose <sup>1</sup>	3/4	1/2	1/2	N/A	2/2	2/2
I Reynolds	7/8	4/4	1/1	1	3/3	N/A
S Sinclair <sup>2</sup>	3/3	1/1	1/1	N/A	N/A	N/A
M Rogers	9	N/A	N/A	1	3/3	4
K Abercromby	9	N/A	N/A	N/A	N/A	4
S Daniels	8	N/A	N/A	N/A	N/A	n/a
R Rowney	9	N/A	N/A	N/A	N/A	N/A
P Nowell <sup>3</sup>	N/A	N/A	N/A	N/A	3/3	N/A

<sup>1</sup> Barry Rose resigned on 19 June 2008

<sup>2</sup> Stuart Sinclair was appointed on 24 September 2008

<sup>3</sup> Peter Nowell was appointed as the independent chairman of the With-Profits Committee on 1 October 2008; he does not sit on the Board.

The Society is committed to clear and easy to understand communication with its members and customers. During 2008 the policy documentation for all new sales of our life products was rewritten and tested with customers and a crystal mark for clarity was obtained for the 50 Plus product. Within the General Insurance division, a project is underway to review and challenge all policy documents and letters and then to rewrite them as appropriate in plain English. The LV= website has also been updated taking into account the feedback received from users via online surveys.

### COMPLAINTS POLICY

The Society aims to provide an excellent standard of service to members and customers but recognises that there may be occasions where service falls below expectations. The Society's policy is to deal promptly, fairly and honestly with any complaint received. In addition, systems and processes are in place to ensure any necessary preventative action is swiftly taken. Where regulation or guidance govern complaint procedures, the Society has taken steps to ensure compliance. In the event that the Society is unable to resolve the matter satisfactorily, the complainant will be advised they can refer the matter to the Financial Ombudsman Service.

### THE ENVIRONMENT

We believe a strong commitment to protecting the environment goes hand in hand with being a responsible business and also complements our corporate social responsibility strategy of 'protecting our children and their future'. Our environmental strategy provides a structured approach across all areas of our business to manage, monitor and minimise our environmental impacts. This includes the following initiatives:

- Reducing the volume of direct mail we print through more targeted profiling and the increasing use of email communications. As a result, since 2005 we have reduced our annual direct mail volumes by nearly 70%, equivalent to 38 million fewer direct mail packs per year.
- Increasing the number of printed items produced to full FSC (Forestry Stewardship Council) Chain of Custody standard by over 300% in 2008. We have also more than doubled our use of paper stocks with a significant proportion of recycled fibre.
- Introducing a 'binless' office environment across all our major sites, removing under-the-desk bins and replacing them with central recycling stations for all recyclable waste. This increased recyclable waste by 10% in the two months following its introduction.

- Creating more flexible meeting and training rooms at our Bournemouth head office to reduce the need for travelling to offsite venues.
- Introducing 'intelligent' lighting to save energy, replacing paper towels with energy efficient hand dryers, and installing automatic taps in washrooms to save water.
- Donating unwanted items of furniture, equipment and merchandise to charity. Items donated included 150 personal CD players to Poole Hospital, which enabled them to introduce an audio restaurant menu facility for blind and partially sighted patients.
- Promoting national green travel initiatives such as National Bike Week and local liftshare schemes, and encouraging our employees to use alternative modes of transport by offering interest free loans for season tickets.
- Introducing new online purchasing for life insurance through our online advice service allowing documentation to be sent by email.

We want to grow our business in a sustainable way, and it is important that we manage our impact on the environment and the use of natural resources in a way that will not compromise future generations.

### EXTERNAL CONSULTANCY SERVICES

Watson Wyatt Limited provides actuarial consultancy services to the Group, including, until 28 May 2008 the services of Richard Waller as the Society's Actuarial Function Holder. This position is now filled by an internal appointment.

Ernst & Young LLP, the Group's former external auditor, also provided advisory services to the Group in 2008, providing advice in relation to matters such as taxation, acquisitions and system reviews. PricewaterhouseCoopers LLP, the Group's new external auditor, has, where audit independence rules permit, provided non audit services to the Group; these included a PPI regulatory review, and IT cost and executive remuneration benchmarking reviews. Deloitte LLP was also engaged during 2008 to conduct an independent systems and controls review and to make recommendations.

In all cases where the external auditor provides advisory services, steps are taken to ensure that objectivity and independence are maintained.

# DIRECTORS' REPORT ON remuneration

This report has been prepared with reference to the requirements of the Directors' Remuneration Report Regulations 2002

## REMUNERATION COMMITTEE

The responsibilities of the Remuneration Committee include determining the broad policy for remunerating the executive directors and determining the remuneration for each of the executive directors and the senior managers of the Group.

Stuart Sinclair now chairs the Remuneration Committee. In 2008 the other members were Gill Nott, Dennis Holt, Ian Reynolds and Barry Rose. The group chief executive also attends meetings by invitation except when his own remuneration is being considered. The Committee reviews the remuneration policy and strategy at least annually. All incentive and bonus schemes are established and monitored by the Committee.



Remuneration reflects individual experience and responsibility

## REMUNERATION POLICY

The LV= approach to remuneration policy is designed to support recruitment, motivation and retention. Remuneration is considered in the context of the financial services sector and the individual LV= businesses. The objective continues to be to provide total remuneration packages at the relevant mid-market level, with a significant proportion of total remuneration dependent upon performance so that upper quartile remuneration is available for top quartile performance. This policy is described in more detail below for executive directors.

## REMUNERATION POLICY FOR NON-EXECUTIVE DIRECTORS

Non-executive directors are appointed for a period of three years. Their performance is reviewed annually and they may be re-appointed for further periods. Their original dates of appointment are shown in the list of directors on pages 36 and 37.

Fees for the non-executive directors are determined by the Society's Board, based on the responsibility and time committed to the Group's affairs and appropriate market comparisons. Individual non-executive directors do not participate in discussions regarding their own fees.

No other remuneration is paid apart from these non-pensionable fees, except where the Company meets authorised expenses of non-executive directors incurred while undertaking LV= activities. Non-executive directors' contracts provide that either party can give three months' notice of termination of the contract.

## REMUNERATION POLICY FOR EXECUTIVE DIRECTORS

The remuneration of the Society's executive directors comprises salary, an annual performance bonus, participation in long term incentive plans with returns based on group performance, together with a contributory pension and other benefits. Bonus and incentive schemes are structured to provide a strong alignment of interest between the individual and the members of the Society.

## DIRECTORS' REPORT ON remuneration

The Remuneration Committee is satisfied that all incentive arrangements meet this requirement and will undertake a further review to ensure that best practice continues to be followed as it evolves, and once the FSA's current review of executive incentive arrangements has been published.

Remuneration reflects individual experience and responsibility. It is based on relevant individual market comparators, related to job size, function and sector, and individual and company performance, and is reviewed annually. Judgements are based on a range of external information, provided by external consultants.

### SALARY

The Society's policy is to pay salaries at the mid-market level for satisfactory individual performance, in line with the relevant market for the job. This is the only pensionable remuneration. Salaries are reviewed annually with effect from April.

### GROUP ANNUAL PERFORMANCE BONUS

The Society's executive directors are eligible to receive an annual non-pensionable performance bonus through the achievement of a number of financial, business and personal objectives, all linked to the achievement of the Society's strategic objectives.

For the executive directors other than Steven Daniels, the Scheme for 2008 could pay a maximum of 80% of salary (110% in the case of the chief executive).

The maximum payment would only be attracted in the case of exceptional individual performance and significant divisional out-performance; an on-target divisional performance and good individual performance would attract a bonus of approximately half of the maximum award (70% in the case of the chief executive).

Steven Daniels participates in the Investment Bonus Scheme only, which is based partly on the total performance of relevant funds compared to benchmark performance and the contribution made by asset allocation, and partly on his performance in achieving specific business and personal objectives. Under this arrangement he can receive up to 280% of salary.

The Group Annual Performance Bonus Scheme rewards other employees on the basis of Group results, divisional results and personal contribution.

### LONG TERM INCENTIVE SCHEME

The Long Term Incentive Scheme was reviewed in 2007 and restructured to ensure it rewards performance in a manner aligned to members' interests in line with the Group's medium and long term targets for growth in Enterprise Value. Enterprise Value, being the best estimate of the external market value of the Group, is the benchmark by which the Group now measures its long term performance.

## DIRECTORS' REPORT ON remuneration

Each year, starting from 1 January 2007, a new three year Long Term Incentive Scheme commences, based on the Enterprise Value of the Group at its start date. For payments to be made under the scheme, Enterprise Value is required to grow at a rate in excess of a risk weighted return on the Group's capital;

- 7.8% pa net of tax for the 2007–09 scheme
- 7.5% pa net of tax for the 2008–10 scheme
- 6.6% pa net of tax for the 2009–11 scheme

Participation in the scheme is determined by reference to an amount awarded ('award') at the date of joining the scheme, which is calculated as a percentage of salary (up to a maximum of 80% in the case of the group chief executive). The amount received is dependent on the Group's performance against its Enterprise Value targets and on target investment performance, with a maximum achievable payout of 2.5 times the award.

Membership of the Long Term Incentive Scheme is by invitation of the Board and restricted to those key individuals who, by their roles and position within the Group, are best placed to influence or directly contribute to the longer-term growth of the Group. For the purposes of the Long Term Incentive Scheme, the Enterprise Value of the Group will be assessed with reference to clearly defined valuation bases. These valuation bases are reviewed every three years by independent advisers and adjusted accordingly for future scheme cycles.

Neither the Annual nor the Long Term Incentive Schemes are contractual entitlements of those potentially eligible to participate in them.

Other benefits provided by the Group are:

- contributory final salary pension scheme
- car allowance
- medical insurance
- employee discounts, directors can acquire group products on the terms applicable to other employees

Details of the directors' remuneration, pension entitlements, long term incentive scheme payments and other benefits can be found in note 15 to the accounts.

### DIRECTORS' LOANS

At 31 December 2008 and 31 December 2007 there were no loans outstanding to directors.

### SERVICE CONTRACTS

The Society's executive directors are subject to a notice period of 12 months.

The directors approved the Directors' Report on Remuneration on 25 March 2009.

Stuart Sinclair  
Chairman of the Remuneration Committee

# BOARD OF DIRECTORS' report

The directors of Liverpool Victoria Friendly Society Limited (the Society) present their annual report together with the accounts of the Society for the year ended 31 December 2008

## BUSINESS ACTIVITIES AND FUTURE PROSPECTS

The Society is an incorporated friendly society that, together with its subsidiaries, carries on insurance and financial services business in the United Kingdom. A review of the business for the year ended 31 December 2008, of recent events and of likely future developments is contained in the Chairman's Statement, the Group Chief Executive's Statement and the Business Review.

The Board sets key performance indicators (KPIs) and targets, which it monitors on a regular basis throughout the year. These KPIs change from time to time as objectives and priorities change. During 2008, the KPIs were focused on trading results, business growth, investment performance, customer satisfaction and awareness metrics, and employee metrics, as well as significant change objectives. These are discussed elsewhere in this Annual Report and Accounts.

The directors are of the opinion that no activities were carried on by the Society or any of its subsidiaries that were outside its powers.



During 2008, the KPIs were focused on financial results and significant change objectives

## BOARD DIRECTORS AND INTERESTS

The current members of the Board and Board Committees are shown on pages 36 and 37, together with their dates of appointment.

Barry Rose served as a director until his resignation on 18 June 2008.

The Society maintained liability insurance cover for its directors and officers during the year.

## WITH-PROFITS BONUS DECLARATION

The Society is declaring annual bonus rates for the year ended 31 December 2008 at 1% of the sum assured for Industrial Branch business and at 2% of the sum assured for conventional Ordinary Branch life business. Interim bonus rates will also be at these levels. Terminal bonus rate changes in 2008 maintained the Society's position near the top of the market for long-term performance on most products.

## BASIS OF ACCOUNTING

The accounts for the Society and the Group are presented using IFRS as adopted by the EU, drawn up on a going concern basis. The directors are satisfied that the Group has adequate resources to continue in business for the foreseeable future and that accordingly the going concern basis is appropriate.

## FIXED ASSETS

Changes in the fixed assets of the Society are disclosed in note 18 to the accounts.

## MARGIN OF SOLVENCY

The Society had, at 31 December 2008, the required capital resource requirement as prescribed by the Financial Services Authority, for each class of business.

## AUDITOR

During the year Ernst & Young LLP resigned, and PricewaterhouseCoopers LLP was appointed, as auditor of the Society.

## BOARD OF DIRECTORS' report

### MANAGEMENT OF RISK

The Society seeks to create value for its members by maintaining an appropriate balance between the returns that it seeks and the level and type of risk it takes on in order to achieve these returns.

The principal types of risk have been identified and risk appetite for each of these has been defined as the amount of regulatory capital required to meet the capital requirements under the Financial Services Authority's Individual Capital Assessment. A review of the definition of risk appetite is underway under the stewardship of the group finance director and group risk director with a view to achieving a more sophisticated measure of the risks which the Group is prepared to run. Further information on these risks can be found at note 3 to the accounts.

LV= recognises the critical importance of having efficient and effective risk management systems in place and these take the form of:

- Board and Executive committees with clear terms of reference
- a clear organisation structure with documented apportionment of responsibilities
- a uniform methodology of risk assessment, which is embedded within all companies in the LV= Group so that they operate within agreed tolerances and with appropriate controls in place
- regular reviews of risks by senior managers, where frequency of review is determined by the potential impact of the risk and its likelihood.

### INTERNAL CONTROL

The Society has implemented a system of internal controls designed to respond effectively to significant risks to achieving the Group's business objectives. The system is designed to manage, rather than eliminate, risk and can only provide reasonable rather than absolute assurance against material misstatement or loss.

The Board has gained reassurance from the work of the Audit Risk and Compliance Committee in receiving and challenging reports from the internal audit, risk management and compliance functions that an effective control environment has been operative throughout 2008. This committee will also from 2009 be undertaking a full annual review of the effectiveness of all material controls operating in the Group as recommended by the Annotated Code. No such review was conducted in 2008.

### CHARITABLE CONTRIBUTIONS

The Society makes charitable donations by periodic lump sum deposits to its Charities Aid Foundation account, from which payments are subsequently made to charities; the amounts disbursed from this account in 2008 amounted to almost £123,907. In addition in 2008, payments of £15,000 were made to three charities based on proxy votes received for the AGM. Payments for the benefit of members from the Member Support Fund amounted to £20,904 and the Society provided the Member Care Line at a cost of £40,000. No political donations were made.

## BOARD OF DIRECTORS' report

### EQUAL OPPORTUNITIES

LV= is committed to equality of opportunity and treatment of all those who work for the Society. In line with our corporate values, the Society undertakes to treat all its employees with dignity, respect, and consideration.

The Society recognises its commitments under the law, and is committed to providing equality of opportunity by aiming to ensure that its practices and procedures follow legal requirements and good practice as recommended by the Commission for Racial Equality, the Equal Opportunities Commission, and the Disability Rights Commission.

The Society's policy is to treat all its employees and applicants fairly and equitably regardless of gender, racial or cultural grounds, disability, age, marital status, religious beliefs, sexual orientation, trade union activity or any other category where discrimination cannot be reasonably justified. The Society will ensure that no requirement or condition will be imposed without justification that could disadvantage individuals on any of the above grounds.

The Society provides employees with information on issues relevant to their employment and the Society's performance through meetings, internal magazines and the intranet.

The implementation of a new corporate intranet has made a big impact on achieving swift and effective communication with, and receiving feedback from, employees.

The Society's management also engages actively with the Employee Consultative Forum on issues of importance to employees, including the working environment, employee facilities, terms of employment and employee safety.

### PERSONS EMPLOYED BY THE SOCIETY AND ITS SUBSIDIARIES

The average number of persons employed by the Society and its subsidiaries and the aggregate employee costs are shown in note 14 to the accounts.

## BOARD OF DIRECTORS' report

### MEMBERSHIP

As at 31 December 2008, the Society had 1,137,000 (2007: 937,000) members. This includes 244,000 new members added on 31 December 2008, as a result of a transfer of policies from Liverpool Victoria Life Company Limited to the Society, under the provisions of Part VII of the Financial Services and Markets Act 2000.

### CONTACT WITH MEMBERS

The Society is proactive and makes all reasonable and cost-effective attempts to trace and contact members whose address details are known to be incorrect. When all reminder or tracing techniques have been exhausted, a record is maintained of the member in question and, where there is an unpaid claim, the policy remains open for payment upon any subsequent contact with the member.

### STATEMENT OF DISCLOSURE OF INFORMATION TO AUDITORS

Each of the persons who is a director at the date of this report confirms that:

- 1) so far as each of them is aware, there is no information relevant to the audit of the Company's financial statements for the year ended 31 December 2008 of which the auditors are unaware; and
- 2) they have taken all steps that they ought to have taken in their duty as a director, to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

## BOARD OF DIRECTORS' report

### RESPONSIBILITIES OF THE BOARD OF DIRECTORS FOR THE ACCOUNTS

The Friendly Societies Act 1992 (the 1992 Act) requires the Committee of Management to prepare accounts for each accounting period that comply with the relevant provisions of the 1992 Act and present fairly the financial position, financial performance and cash flows of the Society and the Group at the end of the accounting period. In discharging these obligations the Society has adopted International Financial Reporting Standards (IFRS) as adopted by the European Union.

As the Society is incorporated under the Friendly Societies Act 1992, the Society's Board of Directors has assumed the responsibilities and duties of the Committee of Management in relation to these accounts.

A fair presentation of the accounts in accordance with IFRS requires the directors to undertake the following:

- Select suitable accounting policies and verify they are applied consistently in preparing the accounts, on a going concern basis unless it is inappropriate to presume that the Society and the Group will continue in business.
- Present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information.

- Provide additional disclosures when compliance with the specific requirements in IFRS is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Society and the Group's financial position and financial performance.
- State that the Society and the Group have complied with applicable generally accepted accounting principles, subject to any material departures disclosed and explained in the accounts.

The directors are responsible for maintaining proper accounting records which are intended to disclose with reasonable accuracy, at any time, the financial position of the Society and the Group. They are also ultimately responsible for the systems of internal control maintained by the Group for safeguarding the assets of the Society and the Group and for the prevention and detection of fraud and other irregularities. Further details of the systems of internal controls maintained by the Group are more fully described within the annual report and accounts.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company website. Legislation in the United Kingdom governing the preparation and dissemination of accounts may differ from legislation in other jurisdictions.

By order of the Board of Directors  
P B Cassidy, Company Secretary  
25 March 2009

# JARGON buster

**AFS:** Association of Friendly Societies is the trade body for Friendly Societies. It exists to provide representation and a public voice on behalf of the Friendly Society movement.

**AMI:** Association of Mutual Insurers is the trade body that represents UK mutual insurers.

**APE:** Annual Premium Equivalent. A common way of measuring the value of a life company's turnover. This is calculated as the total annual premiums received plus 10% of all single premiums received in the year.

**Asset shares:** Asset shares reflect the amount of money paid into with-profits policies by way of premiums and investment returns, less the costs of administering those policies.

**Combined Code on Corporate Governance:** The code sets out standards of good practice for listed companies. It covers, amongst other things, the board composition and its accountability and relations with business owners. Mutual organisations such as LV= do not have to adhere to the code, but we choose to do so.

**Dynamic database:** The database enables us to more accurately direct our marketing activities. It is used within the Partnerships

business to provide a consolidated view of both selected partners' member data and our own LV= customer file.

**Enterprise Value:** As LV= is not quoted on the stockmarket, we need a robust basis by which we can measure the size and value of the business and therefore if we are growing member value. Enterprise Value is a complex formula that enables us to do this and the figure is independently verified every three years.

**FSA:** The Financial Services Authority regulates the financial services industry in the UK.

**FTSE:** FTSE is an independent company that provides indices to measure how stockmarkets and other financial markets perform. In the UK, the FTSE 100 index is widely used by the media to report on the growth of the largest 100 quoted companies on the UK Stock Exchange.

**Free Asset Ratio:** A measure used by the FSA and analysts to measure the financial strength of life assurance companies. Free assets represent any assets that a business holds in excess of the amount required to meet its minimum regulatory capital requirements.

**Funds under management:** Investments managed on behalf of policyholders and other clients.

**Group Operating Profit:** Profit before any investment returns that are above or below our long term investment assumptions.

**Heritage business:** These products are the foundation of LV= as a Friendly Society. It includes our traditional pensions, investment and savings products.

**IFRS:** International Financial Reporting Standards used to ensure accounts are prepared to common standards across the world.

**Industrial Branch:** Part of our heritage business, and typically contains small premium whole of life and endowment policies.

**KPIs:** Key performance indicators used to measure our progress.

**Multi-distribution:** Consumers don't all like to buy things in the same way – some buy products in a shop, while others buy over the internet or telephone. At LV=, we offer customers more than one way to buy our products.

**Mutual:** A business that is owned by its members rather than by shareholders.

**Ordinary Branch:** Part of our heritage business, and typically consists of traditional with-profits endowment, whole of life policies, annuities and pensions.

**PPFM:** The Principles and Practice of Financial Management explains how we manage our with-profits investments, liabilities within the fund, and payouts from it.

**PPI:** Payment Protection Insurance provides money to cover a borrower's monthly loan repayments if they cannot work due to an accident, sickness or unemployment.

**Risk appetite:** Relates to the amount of risk that a business is prepared to accept/retain when carrying out its everyday activities.

**SBU:** Strategic Business Unit. LV= has five business units (Life, General Insurance, Partnerships, Asset Management, Bank), each of which focuses on profitably delivering a specific part of our business plan.

**SSU:** Strategic Support Unit. Provides group wide support services that enable the business to operate. SSUs include Marketing, e-commerce, HR, IT and facilities management.

**Straightforward Advice:** An innovative LV= service that provides people with financial advice over the internet.

**TCF:** Treating Customers Fairly is an industry-wide initiative designed to ensure financial providers meet basic principles of product information, suitability and performance.

**With-profits fund:** An investment fund where we combine all of our with-profits investors money and manage it on their behalf. The fund normally invests in UK and overseas shares; fixed interest securities including Government stocks and bonds; property; cash; and our own business activities. We regularly monitor where we invest the fund to take account of future liabilities.

**Worksite marketing:** Distributing and selling financial products to employees via their employer.

# INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF LIVERPOOL VICTORIA FRIENDLY SOCIETY LIMITED

We have audited the financial statements of Liverpool Victoria Friendly Society Limited for the year ended 31 December 2008, which comprise the Income Statement, Balance Sheet, the Cashflow Statement and the related notes for the Society and the Group. These financial statements have been prepared under the accounting policies set out therein. We are also required to report on the Director's Report for the year ended 31 December 2008.

## RESPECTIVE RESPONSIBILITIES OF THE BOARD OF DIRECTORS AND AUDITORS

The Board of directors' responsibilities for preparing the Annual Report and the financial statements in accordance with applicable law and International Financial Reporting Standards (IFRS) as adopted by the European Union are set out in the Statement of Responsibilities of the Board of directors. The Society has chosen to comply with the Annotated Combined Code issued by the Association of Mutual Insurers and the Association of Friendly Societies. This code is intended to assist mutual insurers in having regard to the 2003 Combined Code.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland). This report, including the opinion, has been prepared for and only for the Society's members as a body in accordance with the Friendly Societies Act 1992 and the Regulations made under it and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Friendly Societies Act 1992 and the Regulations made under it. We also report to you if, in our opinion, the Society has not kept proper accounting records, or if we have not received all the information, explanations and access to documents that we require for our audit.

The Society has also instructed us to review the Society's compliance with provisions C1.1, C2.1, C3.1, C3.2, C3.3, C3.4, C3.5 and C3.6 of the Annotated Combined Code.

We review whether the statement of compliance appropriately reflects the Group's compliance with the specific provisions of the Combined Code we have reviewed and we report if it does not. We are not required to form or express an opinion on the Group's corporate governance procedures or the effectiveness of the Society's or Group's corporate governance or risk and control procedures. Nor are we specifically required to form an opinion that the company is able to continue in operational existence.

We also report to you our opinion as to whether the Director's Report has been prepared in accordance with the Friendly Societies Act 1992 and the Regulations made under it, and as to whether the information given therein is consistent with the accounting records and financial statements.

We read the other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. This other information comprises only the Chairman's Statement, the Group Chief Executive's Statement, Business Review (on pages 12 to 33), the Corporate Governance Statement, Directors' Report on Remuneration and the Board of Directors' Report. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

The maintenance and integrity of the Liverpool Victoria Friendly Society website is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.

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

# AUDITORS' REPORT

## BASIS OF AUDIT OPINION

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the Board of directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Society's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

## OPINION

In our opinion

- the financial statements give a true and fair view, in accordance with IFRS as adopted by the European Union, of the state of the Society's and the Group's affairs as at 31 December 2008 and of the results and cashflows of the Society and the Group for the year then ended, and have been properly prepared in accordance with the Friendly Societies Act 1992 and the Regulations made under it.
- the Board of Directors' Report has been prepared in accordance with the Friendly Societies Act 1992 and the Regulations made under it and the information given therein is consistent with the accounting records and the financial statements for the financial year.

### PricewaterhouseCoopers LLP

Chartered Accountants and Registered Auditors  
Hay's Galleria  
1 Hays Lane  
London SE1 2RD  
25th March 2009

## INCOME STATEMENTS

year ended 31 December 2008

	Notes	Group		Society	
		2008 £m	2007 £m	2008 £m	2007 £m
Gross premiums	4	917.3	665.5	317.5	136.7
Reinsurers share of gross premiums	4	(45.6)	(39.8)	(113.6)	(0.1)
<b>Net premiums</b>	4	<b>871.7</b>	625.7	<b>203.9</b>	136.6
Fee and commission income	6	37.1	5.7	5.2	1.3
Investment income	7	301.4	325.6	167.7	158.9
(Losses)/gains on investments	8	(728.0)	133.0	(503.6)	77.2
Other income		11.7	4.7	5.9	-
<b>Total income</b>		<b>493.9</b>	1,094.7	<b>(120.9)</b>	374.0
Gross benefits and claims	9	(1,050.8)	(1,205.2)	(429.7)	(608.4)
Reinsurers share of gross benefits and claims	9	27.5	33.4	42.1	64.8
<b>Net benefits and claims</b>	9	<b>(1,023.3)</b>	(1,171.8)	<b>(387.6)</b>	(543.6)
Gross change in contract liabilities	10	676.6	399.5	417.8	283.0
Reinsurers share of gross change in contract liabilities	10	(21.5)	2.9	(1.1)	(46.5)
<b>Net change in contract liabilities</b>	10	<b>655.1</b>	402.4	<b>416.7</b>	236.5
Finance costs	11	(3.4)	(3.5)	(0.3)	(0.9)
Investment return allocated to external unit holders		46.4	(8.6)	-	-
Other operating and administrative expenses	12	(427.0)	(278.9)	(75.8)	(44.8)
<b>Other expenses</b>		<b>(384.0)</b>	(291.0)	<b>(75.8)</b>	(45.7)
<b>Total benefits, claims and expenses</b>		<b>(752.2)</b>	(1,060.4)	<b>(46.7)</b>	(352.8)
<b>(Loss)/profit before tax</b>		<b>(258.3)</b>	34.3	<b>(167.6)</b>	21.2
Pension scheme actuarial gains (losses)/gains	36	(1.1)	22.1	(8.9)	22.1
Income tax credit/(expense)	16	57.4	(6.7)	40.5	(5.0)
<b>(Loss)/profit for the year</b>	31	<b>(202.0)</b>	49.7	<b>(136.0)</b>	38.3
<b>Balance transferred from/(to) the unallocated divisible surplus</b>		<b>202.0</b>	(49.7)	<b>136.0</b>	(38.3)
<b>Balance retained in the income statement</b>		<b>-</b>	-	<b>-</b>	-

The Group and the Society have not presented a statement of changes in equity or a statement of recognised income and expense as:

- all income and expense for the current and preceding financial years are shown in the income statements
- there are no equity holders in either the Group or Society as the Society is a mutual organisation
- as a Friendly Society, all earnings are retained for the benefit of participating policyholders and are carried forward within the unallocated divisible surplus.

The notes on pages from 61 to 121 are an integral part of these financial statements.

## BALANCE SHEETS

as at 31 December 2008

	Notes	Group		Society	
		2008 £m	2007 £m	2008 £m	2007 £m
<b>Assets</b>					
Intangible assets	17	328.1	161.3	18.5	23.2
Property and equipment	18	16.6	23.7	2.6	1.4
Investment properties	19	377.2	474.2	360.2	452.2
Investments in group undertakings	20	-	-	1,083.4	869.8
Financial assets					
- Derivative financial instruments	21	198.2	19.0	194.2	12.4
- Fair value through profit or loss	22	4,903.7	5,444.3	3,849.7	2,987.6
- Loans and other receivables	22	646.6	700.0	187.5	72.3
Reinsurance assets	23	136.0	87.6	289.3	244.7
Tax receivable	24	29.2	-	-	-
Pension benefit asset	36	4.6	19.9	4.6	19.9
Insurance receivables	25	138.1	93.5	12.3	0.5
Deferred acquisition costs	26	94.4	131.5	0.4	1.8
Prepayments and accrued income	27	67.2	65.7	39.7	26.1
Cash and cash equivalents	28	749.6	789.3	238.4	366.9
<b>Total assets</b>		<b>7,689.5</b>	8,010.0	<b>6,280.8</b>	5,078.8
<b>Liabilities</b>					
Insurance contract liabilities	29	5,432.3	5,628.6	4,317.7	3,311.9
Investment contract liabilities	30	396.0	253.9	396.0	83.2
Unallocated divisible surplus	31	1,117.3	1,319.3	1,311.7	1,447.7
Net asset value attributable to unit holders		132.1	111.0	-	-
Financial liabilities					
- Derivative financial instruments	21	15.3	0.6	3.5	-
- Borrowings	33	150.6	235.6	-	-
- Other financial liabilities	34	82.6	104.8	-	9.5
Provisions	35	109.5	83.0	51.6	15.0
Deferred tax liability	37	-	64.1	1.9	55.5
Insurance payables	38	50.9	23.2	39.3	12.4
Trade and other payables	39	202.9	185.9	159.1	143.6
<b>Total liabilities</b>		<b>7,689.5</b>	8,010.0	<b>6,280.8</b>	5,078.8

The accounts were approved by the Board of directors and authorised for issue on 25 March 2009. They were signed on its behalf by:

**P.B. Cassidy**  
Secretary

# CASH FLOW STATEMENTS

as at 31 December 2008

	Notes	Group		Society	
		2008 £m	2007 £m	2008 £m	2007 £m
<b>Cash and cash equivalents at 1 January</b>	28	<b>766.4</b>	294.6	<b>360.7</b>	76.3
<b>Cash flows arising from:</b>					
<b>Operating activities</b>					
Cash generated from operating activities	40	<b>(109.2)</b>	218.3	<b>(38.5)</b>	427.7
Dividend income received		<b>97.9</b>	96.9	<b>80.7</b>	71.6
Interest income received		<b>170.5</b>	189.7	<b>43.6</b>	55.5
Rental income on investment properties		<b>26.8</b>	36.5	<b>24.2</b>	34.7
Purchase of investment properties		<b>(39.7)</b>	(19.6)	<b>(36.8)</b>	(19.6)
Proceeds from sale of investment properties		<b>36.0</b>	89.7	<b>19.7</b>	54.8
Finance cost paid		<b>3.4</b>	(3.5)	<b>0.3</b>	(0.9)
Income tax paid		<b>(35.9)</b>	(33.4)	<b>(13.1)</b>	(32.8)
Net cash flows from operating activities		<b>143.0</b>	574.6	<b>79.5</b>	591.0
<b>Investing activities</b>					
Proceeds from sale of property and equipment		-	0.1	-	0.1
Intangible assets cost capitalised		<b>(180.8)</b>	(97.1)	-	-
Increase in investment in subsidiaries		-	-	<b>(213.6)</b>	(305.7)
Purchase of property and equipment		<b>(2.0)</b>	(5.8)	<b>(1.4)</b>	(1.0)
Net cash flows from investing activities		<b>(182.8)</b>	(102.8)	<b>(215.0)</b>	(306.6)
<b>Net (decrease)/increase in cash and cash equivalents</b>		<b>(39.8)</b>	471.8	<b>(135.5)</b>	284.4
<b>Cash and cash equivalents at 31 December</b>	28	<b>726.6</b>	766.4	<b>225.2</b>	360.7

# NOTES TO THE ACCOUNTS

31 December 2008

## 1. ACCOUNTING POLICIES

### Basis of presentation

The Group accounts consolidate the results of the Society and its subsidiary companies. The Group's and Society's accounts conform with International Financial Reporting Standards (IFRS). In addition the Society's accounts comply with the Friendly Societies (Accounts & Related Provisions) Regulations 1994 (the Regulations).

In accordance with IFRS 4 on Insurance Contracts, the Group has applied existing accounting practices for insurance and participating investment contracts (ie with-profits contracts) modified as appropriate to comply with the IFRS framework and applicable standards. Further details are given in policy b below.

The financial statements have been prepared under the historical cost convention as modified by the revaluation of land and buildings, available for sale investments, financial assets and liabilities (including derivatives) at fair value through profit and loss. The preparation of financial statements in conformity with IFRS requires Management to exercise its judgement in the process of applying accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed below.

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all years presented, unless otherwise stated.

### SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

In applying the Group's accounting policies, Management has made the following judgements, estimations and assumptions which have the most significant effect on the accounts.

#### Impairment losses on loans and advances.

The Group reviews its loan portfolio to assess impairment on a monthly basis. In determining whether an impairment loss should be recorded in the income statement, the Group makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in the portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

#### Valuation of life and pension insurance contract liabilities

The liability is based on current assumptions reflecting the best estimate at the time allowing for a margin of risk and adverse deviation. All contracts are subject to a liability adequacy test, which reflects Management's best current estimate of future cash flows.

The assumptions used for mortality, morbidity and longevity are based on standard industry tables, adjusted where appropriate to reflect the Group's own experience. The assumptions used for investment returns, expenses, lapse and surrender rates, and discount rates are based on historic market returns, product characteristics, claims experience and industry risk rates.

#### Valuation of general insurance contract liabilities

For general insurance contracts, estimates are made for the expected ultimate cost of claims as at the balance sheet date and the cost of claims incurred but not yet reported to the Group. It can take a significant period of time before the ultimate cost of claims can be established with certainty, and the final outcome may be better or worse than that provided. The estimation of these claims is based on historical experience projected forward.

#### Fair value of financial assets and investment properties

In view of recent market dislocation, the markets for some assets have become less liquid and therefore the valuations are less certain than in previous years. In the absence of an active market, estimation of fair value is achieved by using valuation techniques such as recent arm's length transactions, discounted cash flow analysis, the application of suitable indices to earlier valuations and option pricing models. This valuation will also take into account the marketability of the assets being valued.

#### Valuation of pension benefit obligation

The valuation of the pension benefit obligation is determined using actuarial valuations. The actuarial valuation involves making assumptions about discount rates, expected future returns on assets, future salary increases, longevity and future pension increases. Due to the long term nature of these obligations, the estimates are subject to significant uncertainty.

## PRINCIPAL ACCOUNTING POLICIES

### a. Consolidation

#### Subsidiaries

Subsidiaries are all entities, including Open Ended Investment Companies (OEICs) over which the Group (directly or indirectly) has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are excluded from consolidation from the date on which control ceases.

The Group uses the purchase method of accounting to account for the acquisition of subsidiaries. Accordingly, the cost of an acquisition is measured as the fair value of the cash or other assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired, liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement for the period.

# NOTES TO THE ACCOUNTS CONTINUED

31 December 2008

Intra-group transactions, balances and unrealised gains on intra-group transactions are eliminated on consolidation. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Subsidiaries' accounting policies have been changed where necessary to ensure consistency with the policies adopted by the Group.

Where the Group invests in specialised investment vehicles (such as OEICs) and owns greater than 50% they are consolidated. The interests of other parties in these vehicles will be classified as liabilities and appears as 'Net asset value attributable to external unit holders' because they are puttable instruments. External unit holders' share of the net investment return on the OEICs is charged or credited to the income statement as investment return allocated to external unit holders.

## **Associates and joint ventures in property holding companies**

The Group invests in associate companies and jointly controlled entities that hold investment properties, with holdings ranging between 20-98%.

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights.

These investments and the Group's interests in jointly controlled entities have not been consolidated under the equity method but are designated as investments at fair value through profit or loss under UK unlisted investments. These are recorded at their fair value of the holding through profit or loss, with changes in fair value recognised in profit or loss in the period of the change in accordance with the exemptions permitted under IAS28 and IAS31 applicable to investment-linked insurance funds.

## **b. Product classification**

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

Insurance contracts are those contracts that transfer significant insurance risk. Such contracts may also transfer financial risk. As a general guideline, the Group defines as significant insurance risk the possibility of having to pay benefits on the occurrence of an insured event that are at least 10% more than the benefits payable if the insured event did not occur.

Investment contracts are those contracts that transfer financial risk with no significant insurance risk.

All with-profits contracts have been classified as insurance contracts as these contracts entitle the holder to receive, as a supplement to guaranteed benefits, additional benefits or bonuses:

- that are likely to be a significant portion of the total contractual benefits;
- whose amount or timing is contractually at the discretion of the Group; and
- that are contractually based on:
  - i) the performance of a specified pool of contracts or a specified type of contract;
  - ii) realised and/or unrealised investment returns on a specified pool of assets held by the fund; or
  - iii) the unallocated surplus of the fund that issues the contract.

Insurance contracts and participating investment contracts are accounted for in accordance with the Statement of Recommended Practice issued by the Association of British Insurers in December 2005, and amended in December 2006. However, in certain businesses, the accounting policies or accounting estimates have been changed, as permitted by IFRS 4 and IAS 8 respectively, to measure designated insurance liabilities using current market interest rates and allowing for other changes to regulatory reporting practices. In other words, the Group measures the liability on insurance and with-profits contracts in line with the 'realistic' reporting regime of the Financial Services Authority (FSA). More detail on the valuation of insurance and investment contracts is given in accounting policies t and u.

## **c. Earned premiums**

### **Life and pensions business**

Regular premiums on life and pensions insurance contracts are recognised as income when due for payment. For single premium business, recognition occurs on the date from which the policy is effective. Reinsurance premiums payable are accounted for when due for payment.

### **General business**

General insurance premiums written reflect business coming into force during the year. Earned premium is written premium adjusted for unearned premium. Unearned premium is that proportion of a premium written in a year that relates to periods of risk after the balance sheet date. Unearned premiums are calculated on a time apportionment basis. The proportion attributable to subsequent periods is deferred as a provision for unearned premiums.

### **Investment contracts**

Premiums and claims relating to investment contracts are not recognised in the income statement but are recorded as contributions and deductions to the investment contract provisions recorded in the balance sheet.

## **d. Reinsurance contracts**

The Group cedes reinsurance risk in the normal course of business for its life, pensions and general insurance business. Reinsurance asset represent balances due from reinsurance companies. Recoverable amounts are estimated in a manner consistent with the outstanding claims provision and in accordance with the reinsurance contracts.

An impairment review is performed at the balance sheet date. Impairment occurs when there is evidence that the Group will not recover outstanding amounts under the contract, such losses being recorded immediately in the income statement.

Ceded reinsurance arrangements do not relieve the Group from its obligation to pay policyholders.

## **e. Claims**

### **Life and pensions business**

Maturity claims and regular annuity payments are accounted for when due for payment. Surrenders are accounted for on the earlier of the date when paid or when the policy ceases to be included within the long term business provision. Death claims and other claims are accounted for when the Group is notified. The value of claims on with-profits business include bonuses paid or payable. Claims values include related internal and external claims handling costs.

# NOTES TO THE ACCOUNTS CONTINUED

31 December 2008

Reinsurance recoveries are accounted for in the same period as the related claim.

### **General business**

Claims incurred comprise claims and related internal and external claims handling costs paid in the year and changes in the provisions for outstanding claims, including provisions for claims incurred but not reported and related claims handling costs, together with any other adjustments to claims from previous years. Where applicable, deductions are made for recoveries from other parties and reinsurers.

Provision is made for the estimated cost of claims incurred but not settled, including the cost of claims incurred but not reported. The estimated cost of claims includes expenses to be incurred in settling claims and a deduction for the expected value of recoveries. However, given the inevitable uncertainty in establishing claims provisions, it is likely that the final outcome will prove to be different from the original liability established. Provisions are adjusted at the balance sheet date to represent a best estimate of the expected outcome.

Standard actuarial claims projection techniques are used to estimate outstanding claims. Such methods extrapolate the development of paid and incurred claims, recoveries from third parties, average cost per claim and ultimate claim numbers for each accident year, based upon the observed development of earlier years and expected loss ratios. The main assumption underlying these techniques is that past claims development experience can be used to project ultimate claims costs. Allowance for one off occurrences or changes in legislation, policy conditions or portfolio mix, is also made in arriving at the estimated ultimate cost of claims, in order that it represents the most likely outcome, taking account of all the uncertainties involved. To the extent that the ultimate cost is different from the estimate, where experience is better or worse than that assumed, the surplus or deficit will be credited or charged to the income statement in future years.

Provisions are calculated allowing for reinsurance recoveries and a separate asset is recorded for the reinsurers share of the provision.

## **f. Fee and commission income**

Fees from investment contracts for investment management, other policy administration charges and fund management fees are recognised as income when due for payment. Commission earned from financial intermediary services is taken to income when receivable.

## **g. Investment income**

Investment income includes dividends, interest on deposits, interest on loan advances to customers and rents. Dividends are included on an ex-dividend basis. Interest receivable on loan advances to customers is calculated on an effective interest rate basis. Interest on deposits, rents and expenses are included on an accruals basis. Interest income for financial assets that are not classified as "fair value through profit or loss" is recognised using the effective interest method. The effective interest rate is calculated at outset by discounting the asset's estimated cash flows back to its net carrying amount.

## **h. Realised gains or losses**

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

## **i. Fair value gains or losses on investments**

Unrealised gains and losses on investments represent the difference between the valuation of fair value investments at the balance sheet date and their purchase price or, if they have been previously revalued, their valuation at the last balance sheet date. An adjustment is made to unrealised gains and losses for the prior year's unrealised element included in the current year's realised gains and losses.

## **j. Operating lease payments**

Operating lease payments are accounted for on a straight line basis over the term of the lease.

## **k. Income taxes**

The income tax expense reflects the movement in current and deferred income tax in respect of income, gains, losses and expenses.

### **Current income tax**

Current income tax liabilities and assets are measured at the amount expected to be paid or recovered to or from the taxation authorities.

The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the balance sheet date.

### **Deferred income tax**

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, if the deferred income tax arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss, it is not accounted for. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled. Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries and associates, except where the Group controls the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

# NOTES TO THE ACCOUNTS CONTINUED

31 December 2008

## I. Foreign currencies

Monetary assets and liabilities denominated in foreign currencies are translated to sterling at rates of exchange ruling at the end of the year. Purchases and sales of investments denominated in foreign currencies are translated at the rates prevailing at the dates of the respective transactions. Exchange gains and losses are dealt with in the income statement.

## m. Intangible assets

### Deferred acquisition costs - Life and pensions business

The method of calculating the life and pension claims liabilities assumes that acquisition costs, comprising all direct and indirect costs arising from the acquisition of non-participating insurance contracts, will be recovered from future premiums payable. For investment contracts, the deferral of costs is limited to the direct transactions costs associated with the acquisition of that business. The balance of acquisition costs to be recovered from margins in future premiums is shown as deferred acquisition costs in these accounts.

When a deferred acquisition cost asset is created, the rate of amortisation of that asset is consistent with a prudent assessment of the expected pattern of receipt of the relevant future margins over the period in which the contracts concerned are expected to remain in force.

The balance of deferred acquisition costs is measured against the value of future margins at the balance sheet date to test recoverability. In the event of a shortfall, the balance of deferred acquisition costs is written down to the recoverable amount.

### - General business

Deferred acquisition costs are written off in line with the recognition of premiums.

## Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary/associate at the acquisition date and is included in intangible assets. Goodwill is reviewed for impairment at the end of the first full year of acquisition. Thereafter, it is tested at each balance sheet date for impairment against the value of the relevant cash generating unit and carried in the balance sheet at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill arising on acquisitions prior to 1998 has been eliminated against the unallocated divisible surplus. This goodwill would be charged in the income statement should there be a subsequent disposal of the business to which it relates.

## Other intangibles

Where an acquisition takes place that gives access to existing customers, distribution channels or the right to charge for investment or policy administration services, the present value of these is recognised as an intangible asset.

The carrying value of the asset is amortised over its expected economic life, and is assessed as and when impairment may be indicated.

The expected economic life of other intangibles carried by the Group are determined with reference to acquired business and lie within the range of 10 to 20 years.

## Present value of acquired in-force business

On acquisition of a portfolio of life and pension insurance contracts, the net present value of the Group's interest in the expected cashflows of the in-force business is capitalised on the balance sheet as an asset and is amortised over the anticipated lives of the related contracts.

The carrying value of the asset is assessed annually using current assumptions in order to determine whether any impairment has arisen, compared to the amortised acquired value, based on assumptions made at the time of the acquisition.

Any amortisation or impairment charge is recorded in the income statement within other operating and administrative expenses.

## n. Property and equipment

Operational property and equipment is held at accumulated cost less depreciation. Both are depreciated on a straight line basis over their estimated useful lives. The periods used are as follows:

Land*	Not depreciated
Freehold buildings*	50 years
Leasehold property*	10 years or lease term if shorter
Fixtures, fittings and motor vehicles	4 to 10 years

Provision is made for any impairments in property and equipment.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

\*These are properties used by the Group for operational purposes and are not investment properties which are dealt with below.

## o. Investment properties

Investment properties are freehold and leasehold land and building held for long term rental yields and capital growth. They are held at fair value and changes in fair value are recorded as fair value gains or losses in the income statement.

## p. Investments in group undertakings

The subsidiaries are held in the Society's balance sheet at cost less any provision for permanent diminution in value. An assessment of the realisable value is made at the year end and, if the directors assess that there has been a permanent fall in that value below the carrying value, a provision is made to bring the carrying value down to the assessed realisable value.

In the Group balance sheet, the subsidiaries are fully consolidated so that, in effect, they are included at their net asset value to the Group, including intangible assets, at the balance sheet date.

## q. Financial assets

The Group classifies its investments into the following categories:

- derivative financial instruments;
- financial assets at fair value through profit or loss; and
- loans and receivables.

# NOTES TO THE ACCOUNTS CONTINUED

31 December 2008

The classification will depend upon the purpose for which the investments were acquired.

## Derivative financial instruments

Derivatives are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently re-measured at their fair value. These include forward foreign exchange contracts, financial futures, swap options, interest rate swap and cap contracts. There are no designated hedging relationships within the Group that qualify for hedge accounting.

Changes in the fair value of derivative instruments are recognised immediately in gains or losses on investments in the income statement for the period. Realised gains or losses are similarly taken to the income statement on occurrence.

## Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss has two sub categories:

- financial assets held for trading; and
- those designated at fair value through profit or loss at inception.

All investments of the Group classified as fair value are designated as fair value through profit or loss at inception. This is in accordance with the Group's documented investment strategy and consistent with investment risk being assessed on a portfolio basis. Such assets are valued at market prices, or prices consistent with market ratings should no price be available.

Financial assets at fair value through profit or loss include listed and unlisted investments, units in authorised unit trusts, open ended investment companies (OEICs), and other investments. Listed investments, units in authorised unit trusts and OEICs are included at bid value. Unlisted investments and other investments are shown at the latest estimated market value, based on relevant market value indicators, supplied by external fund managers and validated by Management. Where valuations from third parties are not available at year end, the Group establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, with reference to other instruments that are substantially the same, discounted cashflow analysis and option pricing models making maximum use of market inputs and relying as little as possible on entity-specific inputs.

## Loans and receivables

Loans and receivables are measured at amortised cost using the effective interest rate method. Loans and receivables include deposits with credit institutions, policy loans, loans and advances to customers (including those that are securitised), loans and advances to banks, other loans, amounts due from other group companies and other receivables.

Loans subject to securitisation include unsecured personal loans, which are subject to non-recourse finance arrangements. These loans have been purchased by a special purpose securitisation company, which is itself funded by the issue of loan notes. The equity of this vehicle is not owned by the Group, however, in accordance with IFRS guidance the Group is deemed to have control over the vehicle and it is therefore treated as a subsidiary. Accordingly, the loans subject to securitisation are included in loans and receivables with the non-recourse funding disclosed under borrowings, with the accompanying income and expense being reflected within the income statement.

The Group assess at each balance sheet date whether a loan or receivable, or a group of loans or receivables, is impaired. For loans and receivables, the amount of any impairment loss is measured as the difference between the carrying amount and the present value of future cash flows. The carrying amount of the asset is reduced by the impairment loss and the loss is recorded in the income statement.

## Derecognition of financial assets

A financial asset is derecognised when:

- the rights to receive cash flows from the asset have expired; or
- the Group has transferred its rights to receive cash flows from the asset and has either:
  - transferred the risks and rewards of the asset; or
  - has transferred control of the asset.

## r. Insurance receivables and payables

Insurance receivables and payables are recognised when due and include amounts due from or to agents, brokers and insurance/investment contract holders. Where there is objective evidence that the carrying value is impaired then the impairment loss will be recognised in the income statement.

## s. Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and in hand, and short term deposits with an original maturity of three months or less.

For the purpose of the consolidated cash flow statement, cash and cash equivalents are as defined above but are shown net of outstanding bank overdrafts.

## t. Life and pensions insurance contract liabilities

### Participating business

For with-profits contracts, the liability is calculated in accordance with the FSA's 'realistic' liability regime. In particular, provision is made for all bonus payments (declared and future, reversionary and terminal) estimated, where necessary, in a manner consistent with the relevant fund's Principles and Practices of Financial Management (PPFM). The liability includes an allowance for the time and intrinsic value of options and guarantees granted to policyholders and for possible future management actions.

The realistic liabilities are based on the aggregate value of policy asset shares reflecting past premiums, investment return, expenses and charges applied to each policy. Allowance is also made for policy-related liabilities such as guarantees, options and future bonuses calculated using a stochastic model simulating future premiums, investment returns, asset mix, expense charges and bonuses.

Since the realistic liabilities include an allowance for future bonuses to with-profits policyholders that will be payable out of returns on non participating business, an amount within the with-profits fund is recognised representing the value of non participating business. Such an amount is not recognised for business written outside with-profits funds.

In determining the realistic value of liabilities for with-profits contracts, indirect account is taken of the value of future profits on non participating business written out of with-profits funds. This is separately identifiable and is all in respect of policyholder liabilities.

# NOTES TO THE ACCOUNTS CONTINUED

31 December 2008

As such the excess of the value of those future profits has been deducted from the realistic liabilities rather than recognising the present value of future profits on this business as an asset.

## Non participating business

The provision is calculated to comply with the reporting requirements under the FSA's Integrated Prudential Sourcebook using a gross premium valuation method or a method at least as prudent as the gross premium method. The principal assumptions are given in the notes to the accounts. The Society and relevant subsidiaries have adopted the modified statutory solvency basis approach in the valuation of liabilities for non participating business.

Liabilities for non participating business will be either included within the life and pensions insurance contract liabilities or the investment contract liabilities, depending upon the product classification.

## u. Investment contract liabilities

Investment contracts are classified between contracts with and without discretionary participation features (DPF). The accounting policies for investment contract liabilities with DPF are the same as those for life and pensions insurance contracts. Investment contract liabilities without DPF are recognised when contracts are entered into and premiums are charged. These liabilities are initially recognised at transaction price excluding any transaction costs directly attributable to the issue of the contract.

Deposits and withdrawals are recorded directly as an adjustment to the liability in the balance sheet, a method known as deposit accounting. Fees charged and investment income received are recognised in the income statement when earned.

Fair value adjustments are measured at each reporting date and are recorded in the income statement. Fair value is calculated as the number of units allocated to the policyholder in each unit-linked fund multiplied by the unit price of those funds at the balance sheet date. The fund assets and liabilities are valued on a basis consistent with that used to measure the equivalent assets and liabilities in the balance sheets, adjusted for the discounted effect of future tax arising from any unrealised gains or losses. This avoids a mismatch between the relevant assets and liabilities. For a contract that can be cancelled by the policyholder, the fair value cannot be less than the surrender value.

The liability is derecognised when the contract expires, is discharged or is cancelled.

When contracts contain both a financial risk component and a significant insurance risk component, and the cash flows are distinct and can be measured reliably, the underlying amounts are unbundled. Any premiums relating to the insurance risk component are accounted for on the same basis as insurance contracts and the remaining element is accounted for as a deposit, as described above.

## v. Unexpired risks

Provision is made, if required, for any anticipated claims and claims handling costs that are anticipated to exceed the unearned premiums, net of deferred acquisition costs. An estimate is made for future investment income arising from the unearned premiums, and used to reduce the unexpired risk provision.

Unexpired risk surpluses and deficits are offset where business classes are managed together and a provision is made if an aggregate deficit arises.

## w. Unallocated divisible surplus

The unallocated divisible surplus represents the excess of assets over and above the life and pension insurance contract liabilities and other liabilities. It represents amounts that have yet to be formally declared as bonuses for the policyholders together with the free assets of the Society and Group. Any retained profit or loss arising through the income statement (for the Society and for the Group) is transferred to or from the unallocated divisible surplus.

UK regulations, the Group's PPFM and the terms and conditions of contracts set out the bases for the determination of the amounts on which the with-profits additional discretionary benefits are based and within which the Group may exercise its discretion as to the quantum and timing of their payment to contract holders.

## x. Borrowings

Borrowings represent the non-recourse funding received as part of the securitisation of unsecured personal loans and overdrafts. Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

## y. Provisions

### General

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is more likely than not that an outflow of resources will be required to settle the obligation and the amount has been reliably estimated. Where the Group expects some or all of a provision to be reimbursed it is recognised as a separate asset when the reimbursement is certain.

Provisions are measured at the present value of the expenditure required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation.

The expense relating to provisions is presented in the income statement.

### Onerous contracts

A provision is made for onerous contracts in which the unavoidable costs of meeting the obligation exceed the expected future economic benefits.

### Provision for bad and doubtful debts

Provisions for bad and doubtful debts are based on appraisals of loans and advances. Bad debts are written down to an estimated net realisable amount taking into account potential future recoveries. Balances are written off in full when the debt is considered irrecoverable.

Specific provisions have been made in respect of all identified impaired advances. In calculating the required provision an appropriate factor is applied based on the number of overdue payments, which is subject to periodic review to ensure its continuing applicability based on current experience, to reflect the probability that not all such loans will result in eventual loss. Unallocated provisions have been made in respect of losses which, although not yet specifically identified, are expected from experience to arise.

# NOTES TO THE ACCOUNTS CONTINUED

31 December 2008

## z. Pensions

The Group operates two defined benefit pension schemes. The net surplus or deficit within the schemes is calculated annually with the assets measured at the fair value at the balance sheet date and the liabilities discounted at the rate of return available on high quality corporate bonds. The net surplus or deficit is recognised as an asset or liability in the balance sheet of the Society and the Group.

The pension cost for the schemes is analysed between current service cost, past service cost and net return on pension scheme assets. Current service cost is the actuarially calculated present value of the benefits earned by the active employees in each period. Past service costs, relating to employee service in prior periods arising in the current period as a result of the introduction of, or improvement to, retirement benefits, are recognised in administrative expenses on a straight-line basis over the period in which the increase in benefits vest.

All movements other than actuarial gains and losses in respect of the pension benefit obligation are recognised in other operating and administrative expenses in the income statement.

Actuarial gains and losses are shown in the income segment after (loss)/profit before tax.

## aa. Assets held under leases

Where assets are financed by leasing arrangements where the risks and rewards are substantially transferred to the Group, such finance leases are treated as if the assets had been purchased outright and the corresponding liability to the lessor is included as an obligation under finance leases. Depreciation on leased assets is charged to the income statement on the same basis as owned assets.

Leasing payments are treated as consisting of capital and interest elements and the interest is charged to the income statement.

All other leases are operating leases and the costs in respect of operating leases are charged on a straight line basis over the lease term. The value of any lease incentive received to take on an operating lease (for example, rent free periods) is recognised as deferred income and is released over the life of the lease.

## Changes in accounting policies

### (i) Amendments to published standards effective in 2008

The following amendments to published standards are mandatory for the Group's accounting periods beginning on or after 1 January 2008:

IAS 39 (Amendment), 'Reclassification of financial assets'. An amendment to the standard, issued in October 2008, permits an entity to reclassify non-derivative financial assets (other than those designated at fair value through profit or loss by the entity upon initial recognition) out of the fair value through profit or loss category in particular circumstances. The amendment also permits an entity to transfer from the available-for-sale category to the loans and receivables category a financial asset that would have met the definition of loans and receivables (if the financial asset had not been designated as available for sale), if the entity has the intention and ability to hold that financial asset for the foreseeable future. The Group has elected not to reclassify such financial assets; as such, this amendment has no impact on the Group's financial statements.

IFRIC 14, 'IAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interaction', provides guidance on assessing the limit in IAS 19 on the amount of the surplus that can be recognised as an asset. It also explains how the pension asset or liability may be affected by a statutory or contractual minimum funding requirement. This interpretation does not have any impact on the Group's financial statements, as the level of surplus recognised as an asset is not significant.

### (ii) Interpretations effective in 2008 but not relevant to the Group's operations

IFRIC 11, 'IFRS 2 – Group and treasury share transactions' – not applicable

IFRIC 12, 'Service concession arrangements' – not applicable.

IFRIC 13, 'Customer loyalty programmes' – not applicable

### (iii) Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Group

The following standards and amendments to existing standards have been published and are mandatory for the Group's accounting periods beginning on or after 1 January 2009 or later periods, but the Group has not early adopted them:

IAS 1 (Revised), 'Presentation of financial statements' (effective from 1 January 2009). The revised standard will prohibit the presentation of items of income and expenses (that is, 'non-owner changes in equity') in the statement of changes in equity, requiring 'non-owner changes in equity' to be presented separately from owner changes in equity. All non-owner changes in equity will be required to be shown in a performance statement, but entities can choose whether to present one performance statement (the statement of comprehensive income) or two statements (the income statement and statement of comprehensive income). The Group will apply IAS 1 (Revised) from 1 January 2009. It is likely to have one performance statement.

IAS 1 (Amendment), 'Presentation of financial statements' (effective from 1 January 2009). The amendment is part of the IASB's annual improvement project published in May 2008. The amendment clarifies that some rather than all financial assets and liabilities classified as held for trading in accordance with IAS 39, 'Financial instruments: Recognition and measurement' are examples of current assets and liabilities respectively. This is not expected to impact on the Group as it currently carries no assets and liabilities held for trading.

IAS 19 (Amendment), 'Employee benefits' (effective from 1 January 2009). The amendment clarifies that a plan amendment that results in a change in the extent to which benefit promises are affected by future salary increases is a curtailment; an amendment that changes benefits attributable to past service gives rise to a negative past service cost if it results in a reduction in the present value of the defined benefit obligation. The definition of return on plan assets has been amended to state that plan administration costs are deducted in the calculation of return on plan assets only to the extent that such costs have been excluded from measurement of the defined benefit obligation. The distinction between short-term and long-term employee benefits is based on whether benefits are due to be settled within or after 12 months of employee service being rendered. IAS 37, 'Provisions, contingent liabilities and contingent assets' requires contingent liabilities to be disclosed and not recognised. IAS 19 has

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been amended to be consistent in this regard. The Group will apply the IAS 19 (Amendment) from 1 January 2009.

IAS 23 (Revised), 'Borrowing costs' (effective from 1 January 2009). The new standard requires an entity to capitalise borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset (one that takes a substantial period of time to get ready for use or sale) as part of the cost of that asset. The option of immediately expensing those borrowing costs will be removed. The Group will apply IAS 23 (Revised) retrospectively from 1 January 2009; it is currently not applicable to the Group as there are no qualifying assets.

IAS 23 (Amendment), 'Borrowing costs' (effective from 1 January 2009). The definition of borrowing costs has been amended so that interest expense is calculated using the effective interest method defined in IAS 39 'Financial Instruments: Recognition and measurement'. This eliminates the inconsistency of terms between IAS 39 and IAS 23. The Group will apply the IAS 23 (Amendment) prospectively to the capitalisation of borrowing costs on any qualifying assets from 1 January 2009.

IAS 27 (Revised), 'Consolidated and separate financial statements' (effective from 1 July 2009). The revised standard requires the effects of all transactions with non-controlling interests to be recorded in equity if there is no change in control and these transactions will no longer result in goodwill or gains and losses. The standard also specifies the accounting when control is lost. Any remaining interest in the entity is re-measured to fair value, and a gain or loss is recognised in profit or loss. The Group will apply IAS 27 (Revised) prospectively to transactions with non-controlling interests from 1 January 2010.

IAS 27 (Amendment), 'Consolidated and separate financial statements' (effective from 1 January 2009). Where an investment in a subsidiary that is accounted for under IAS 39, 'Financial instruments: Recognition and measurement' is classified as held for sale under IFRS 5, 'Non-current assets held for sale and discontinued operations', IAS 39 would continue to be applied. The amendment will not have an impact on the Group's operations because it is the Group's policy for an investment in a subsidiary to be recorded at cost in the standalone accounts of each entity.

IAS 28 (Amendment), 'Investments in associates' (and consequential amendments to IAS 32, 'Financial instruments: Presentation' and IFRS 7, 'Financial instruments: Disclosures') (effective from 1 January 2009). An investment in an associate is treated as a single asset for the purposes of impairment testing, and any impairment loss is not allocated to specific assets included within the investment, for example, goodwill. Reversals of impairment are recorded as an adjustment to the investment balance to the extent that the recoverable amount of the associate increases. The Group will apply the IAS 28 (Amendment) to impairment tests related to investment in associates and any related impairment losses from 1 January 2009.

IAS 28 (Amendment), 'Investments in associates' (and consequential amendments to IAS 32, 'Financial instruments: Presentation' and IFRS 7, 'Financial instruments: Disclosures') (effective from 1 January 2009). Where an investment in associate is accounted for in accordance with IAS 39 'Financial instruments: Recognition and measurement' only certain, rather than all, disclosure requirements in IAS 28 need to be made in addition to disclosures required by IAS 32, 'Financial instruments: Presentation' and IFRS 7 'Financial instruments: Disclosures'. The Group will apply the IAS 28 (Amendment) from 1 January 2009.

IAS 36 (Amendment), 'Impairment of assets' (effective from 1 January 2009). The amendment is part of the IASB's annual improvement project published in May 2008. Where fair value less costs to sell is calculated on the basis of discounted cash flows, disclosures equivalent to those for value-in-use calculation should be made. The Group will apply the IAS 28 (Amendment) and provide the required disclosure where applicable for impairment tests from 1 January 2009.

IAS 38 (Amendment), 'Intangible assets' (effective from 1 January 2009). The amendment is part of the IASB's annual improvement project published in May 2008. A pre-payment may only be recognised in the event that payment has been made in advance of obtaining right of access to goods or receipt of services. The Group will apply the IAS 38 (Amendment) from 1 January 2009. This standard is not expected to have a significant impact on the group results.

IAS 39 (Amendment), 'Financial instruments: Recognition and measurement' (effective from 1 January 2009). The amendment is part of the IASB's annual improvement project published in May 2008. It clarifies that it is possible for there to be movements into and out of the fair value through profit or loss category where a derivative commences or ceases to qualify as a hedging instrument in cash flow or net investment hedge. This standard is not expected to have a significant impact on the group results.

IFRS 3 (Revised), 'Business combinations' (effective from 1 July 2009). The revised standard continues to apply the acquisition method to business combinations, with some significant changes. For example, all payments to purchase a business are to be recorded at fair value at the acquisition date, with contingent payments classified as debt subsequently re-measured through the income statement. There is a choice on an acquisition-by-acquisition basis to measure the non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets. All acquisition-related costs should be expensed. The Group will apply IFRS 3 (Revised) prospectively to all business combinations from 1 January 2010

There are a number of minor amendments to IFRS 7, 'Financial instruments: Disclosures', IAS 8, 'Accounting policies, changes in accounting estimates and errors', IAS 10, 'Events after the reporting period', IAS 18, 'Revenue' and IAS 34, 'Interim financial reporting', which are part of the IASB's annual improvement project published in May 2008 (not addressed above). These amendments are unlikely to have an impact on the Group's accounts and have therefore not been analysed in detail.

IFRS 5 (Amendment), 'Non-current assets held for sale and discontinued operations' (and consequential amendment to IFRS 1, 'First-time adoption of IFRS') (effective from 1 July 2009). The amendment is part of the IASB's annual improvement project published in May 2008. The amendment clarifies that all of a subsidiary's assets and liabilities are classified as held for sale if a partial disposal sale plan results in loss of control, and relevant disclosure should be made for this subsidiary if the definition of a discontinued operation is met. A consequential amendment to IFRS 1 states that these amendments are applied prospectively from the date of transition to IFRS. The Group will apply the IFRS 5 (Amendment) prospectively to all partial disposals of subsidiaries from 1 January 2010.

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IFRIC 17, 'Distributions of non-cash assets to owners' (effective from 1 July 2009). IFRIC 17 clarifies the accounting treatment for non-cash distributions of non-cash assets to owners. The Group will apply IFRIC 17 from 1 January 2010, but it is not expected to have an impact on the group's financial statements.

IAS 31 (Amendment), 'Interests in joint ventures (and consequential amendments to IAS 32 and IFRS 7) (effective from 1 January 2009). The amendment is part of the IASB's annual improvement project published in May 2008. Where an investment in a joint venture is accounted for in accordance with IAS 39, only certain, rather than all, disclosure requirements in IAS 31 need to be made in addition to disclosures required by IAS 32, 'Financial instruments: Presentation' and IFRS 7, 'Financial instruments: Disclosures'. The amendment will not currently have a significant impact on the Group's operations.

### **(iv) Interpretations and amendments to existing standards that are not yet effective and not relevant for the Group's operations**

The following interpretations and amendments to existing standards have been published and are mandatory for the Group's accounting periods beginning on or after 1 January 2009 or later periods but are not relevant for the Group's operations:

IFRS 1 (Amendment), 'First-time adoption of IFRS' and IAS 27, 'Consolidated and separate financial statements' (effective from 1 January 2009) – not applicable

IFRS 2 (Amendment), 'Share-based payment' (effective from 1 January 2009) – not applicable

IFRIC 16, 'Hedges of a net investment in a foreign operation' (effective from 1 October 2008) – not applicable

IAS 16 (Amendment), 'Property, plant and equipment' (and consequential amendment to IAS 7, 'Statement of cash flows') (effective from 1 January 2009) – not applicable

IAS 20 (Amendment), 'Accounting for government grants and disclosure of government assistance' (effective from 1 January 2009) – not applicable

The minor amendments to IAS 20, 'Accounting for government grants and disclosure of government assistance' and IAS 29, 'Financial reporting in hyperinflationary economies', IAS 40, 'Investment property' and IAS 41, 'Agriculture' – not applicable

IAS 29 (Amendment), 'Financial reporting in hyperinflationary economies' (effective from 1 January 2009) – not applicable.

IAS 32 (Amendment), 'Financial instruments: Presentation', and IAS 1 (Amendment), 'Presentation of financial statements' – 'Puttable financial instruments and obligations arising on liquidation' (effective from 1 January 2009) – not applicable

IAS 38 (Amendment), 'Intangible assets' (effective from 1 January 2009) – not applicable

IAS 39 (amendment) 'Eligible hedged items' (effective from 1 July 2009). This standard will not have an impact on the Group results.

IAS 40 (Amendment), 'Investment property' (and consequential amendments to IAS 16) (effective from 1 January 2009) – not applicable

IAS 41 (Amendment), 'Agriculture' (effective from 1 January 2009) – not applicable

IFRIC 15, 'Agreements for construction of real estates' (effective from 1 January 2009) – not applicable

The Directors do not anticipate that the adoption of these standards and interpretations will have a material impact on the Group's financial statements in the period of initial application.

## NOTES TO THE ACCOUNTS CONTINUED

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### 2. Capital management

The Society retains capital within its Unallocated Divisible Surplus to meet three key objectives:

- (i) To ensure financial stability;
- (ii) To enable the Group's strategy to be developed; and
- (iii) To give confidence to consumers and other stakeholders who have relationships with the Group.

At least annually, these objectives are reviewed and benchmarks are set by which to judge the adequacy of the Group's capital. The capital position is monitored against those benchmarks to ensure that sufficient capital is available to the Group. In the event that sufficient capital is not available, plans would be developed either to raise additional capital through, for example, subordinated loans, or to reduce the quantum of risk accepted thereby reducing the capital requirement through, for example, reinsurance or a change in investment strategy. If it becomes apparent that excess capital is available to the Group above its potential needs, plans would be developed to return such excess to with-profits policyholders.

#### Capital statement

The tables below set out the capital resources available to, and technical provisions of, the individual life funds and other activities of the Group. All funds are UK funds.

	Society's With-profits business (1) £m	RNPFN With-profits business (3) £m	RNPFN non participating £m	Other UK non participating (2) £m	Total Life Business £m	Other Activities £m	Consolidation Adjustments £m	Group Total £m
<b>Available capital resources 2008</b>								
Unallocated divisible surplus	1,311.7	-	-	-	1,311.7	-	(194.4)	<b>1,117.3</b>
Shareholder funds	-	-	-	622.6	622.6	1,032.6	(1,655.2)	-
Unallocated divisible surplus adjustment	5.4	88.6	-	-	94.0	-	-	<b>94.0</b>
Adjustments to assets	(18.5)	(0.4)	-	(49.3)	(68.2)	(68.0)	-	<b>(136.2)</b>
Adjustment for subsidiary values	(501.8)	-	-	(102.0)	(603.8)	-	590.1	<b>(13.7)</b>
Other adjustments	(25.2)	-	-	-	(25.2)	-	-	<b>(25.2)</b>
Internal Loans	-	-	-	82.3	82.3	-	(82.3)	-
RNPFN Fund not available to the Group	-	(88.2)	-	-	(88.2)	-	-	<b>(88.2)</b>
<b>Total available capital resources</b>	<b>771.6</b>	<b>-</b>	<b>-</b>	<b>553.6</b>	<b>1,325.2</b>	<b>964.6</b>	<b>(1,341.8)</b>	<b>948.0</b>

#### With-profits liabilities on a Realistic Basis 2008

Options and guarantees	572.5	133.8	-	-	706.3	-	-	<b>706.3</b>
Other policyholder obligations	1,896.5	689.9	-	129.8	2,716.2	-	-	<b>2,716.2</b>
Total with-profits liabilities	2,469.0	823.7	-	129.8	3,422.5	-	-	<b>3,422.5</b>
Unit linked liabilities	273.5	-	182.0	43.8	499.3	-	-	<b>499.3</b>
Non participating life assurance	293.9	-	332.3	99.7	725.9	-	-	<b>725.9</b>
<b>Technical provision in the balance sheet</b>	<b>3,036.4</b>	<b>823.7</b>	<b>514.3</b>	<b>273.3</b>	<b>4,647.7</b>	<b>-</b>	<b>-</b>	<b>4,647.7</b>

#### Available capital resources 2007

Unallocated divisible surplus	1,447.7	-	-	-	1,447.7	-	(128.4)	1,319.3
Shareholder funds	-	-	-	657.1	657.1	758.5	(1,415.6)	-
Adjustments onto regulatory basis:								
Unallocated divisible surplus adjustment	398.4	173.8	-	0.1	572.3	-	-	572.3
Adjustments to assets	(140.2)	(0.8)	-	(114.5)	(255.5)	(37.8)	-	(293.3)
Adjustment for subsidiary values	(136.0)	-	-	(218.9)	(354.9)	-	341.2	(13.7)
Other adjustments	(27.1)	-	-	-	(27.1)	-	-	(27.1)
Internal Loans	-	-	-	82.3	82.3	-	(82.3)	-
RNPFN Fund not available to the Group	-	(173.0)	-	-	(173.0)	-	-	(173.0)
Total available capital resources	1,542.8	-	-	406.1	1,948.9	720.7	(1,285.1)	1,384.5

#### With-profits liabilities on a Realistic Basis 2007

Options and guarantees	622.8	100.5	-	-	723.3	-	-	723.3
Other policyholder obligations	2,412.5	886.0	-	244.6	3,543.1	-	-	3,543.1
Total with-profits liabilities	3,035.3	986.5	-	244.6	4,266.4	-	-	4,266.4
Unit linked liabilities	83.2	-	271.2	53.1	407.5	-	-	407.5
Non participating life assurance	7.1	-	313.3	149.6	470.0	-	-	470.0
Technical provision in the balance sheet	3,125.6	986.5	584.5	447.3	5,143.9	-	-	5,143.9

Notes:

- 1) Included within the Society's with-profits fund are the non participating policies written within this fund.
- 2) Included within the Other non participating fund is the reinsured business from Society to its subsidiary company Liverpool Victoria Life Company Limited.
- 3) RNPFN denotes Royal National Pension Fund for Nurses.

## NOTES TO THE ACCOUNTS CONTINUED

31 December 2008

### 2. Capital management (continued)

Movements in capital during the year are analysed below.

	Society's With-profits business £m	RNPFN With-profits business £m	RNPFN non participating £m	Other UK non participating £m	Total Life Business £m	Other Activities £m	Consolidation Adjustments £m	Group Total £m
<b>Movements in capital 2008</b>								
Capital at 1 January 2008	1,542.8	-	-	406.1	1,948.9	720.7	(1,285.1)	1,384.5
Effect of investment variations	(573.5)	-	-	5.3	(568.2)	-	-	(568.2)
Effect of changes in assumptions	150.7	-	-	(2.5)	148.2	-	-	148.2
Effect of changes in regulatory requirements	123.7	0.4	-	-	124.1	(30.2)	43.2	137.1
New business	(75.5)	-	-	(31.0)	(106.5)	-	-	(106.5)
Other	(3.6)	-	-	175.7	172.1	274.1	(99.9)	346.3
Adjustment from regulatory to realistic peak	(393.0)	(85.2)	-	-	(478.2)	-	-	(478.2)
Removal of RNPFN fund	-	84.8	-	-	84.8	-	-	84.8
<b>Capital at 31 December 2008</b>	<b>771.6</b>	<b>-</b>	<b>-</b>	<b>553.6</b>	<b>1,325.2</b>	<b>964.6</b>	<b>(1,341.8)</b>	<b>948.0</b>

	Society's With-profits business £m	RNPFN With-profits business £m	RNPFN non participating £m	Other UK non participating £m	Total Life Business £m	Other Activities £m	Consolidation Adjustments £m	Group Total £m
<b>Movements in capital 2007</b>								
Capital at 1 January 2007	1,620.8	-	-	228.9	1,849.7	253.3	(606.8)	1,496.2
Effect of investment variations	7.2	-	-	12.5	19.7	-	-	19.7
Effect of changes in assumptions	0.8	-	-	50.0	50.8	-	-	50.8
Effect of changes in regulatory requirements	(130.1)	0.5	-	-	(129.6)	(26.5)	(41.9)	(198.0)
New business	(6.9)	-	-	(32.9)	(39.8)	-	-	(39.8)
Other	77.1	-	-	147.6	224.7	493.9	(636.4)	82.2
Adjustment from regulatory to realistic peak	(26.1)	(5.8)	-	-	(31.9)	-	-	(31.9)
Removal of RNPFN fund	-	5.3	-	-	5.3	-	-	5.3
Capital at 31 December 2007	1,542.8	-	-	406.1	1,948.9	720.7	(1,285.1)	1,384.5

In aggregate the Group has at its disposal total available capital of £948.0m (2007: £1,384.5m), representing the aggregation of the solvency capital of all Group businesses. This capital is available to meet risks and regulatory requirements set by reference to regulatory guidance as prescribed by the FSA.

For the Group's with-profits funds the available capital is determined in accordance with the 'realistic balance sheet' regime prescribed by the FSA's regulations, under which liabilities to policyholders include both declared bonuses and the constructive obligation for future bonuses not yet declared. The available capital resources include an estimate of the value of their respective estates, that is the surplus in the fund in excess of any constructive obligations to policyholders. The unallocated capital represents capital resources of the individual with-profits fund to which it relates and is available to meet regulatory and other solvency requirements of the fund. For these with-profits funds the liabilities included in the balance sheet comprise only amounts relating to policyholders.

The other activities of the Group have total available capital which is significantly higher than the minimum requirements established by the FSA for those businesses and, in principle, the excess is available to the Society. In practice, higher levels of capital are held within each business operation to provide appropriate cover for risk.

All available capital is ultimately available to support the Society with-profits fund, however the available capital resources of each regulated entity are generally subject to restrictions as to their availability to meet requirements that may arise elsewhere in the Group. The principal restrictions are:

- a) The RNPFN with-profits and non participating funds available capital is generally available to support the RNPFN with-profits fund only, it is comfortably in excess of the required capital margin and, therefore, the Society is not required to provide further capital support to this business.
- b) For other non participating funds, the available surplus held in the fund is attributable to Society policyholders and, subject to meeting the regulatory requirements of these businesses, this capital is available to meet requirements elsewhere in the Group.

# NOTES TO THE ACCOUNTS CONTINUED

31 December 2008

## 2. Capital management (continued)

### Available capital

#### i) With-profits business

For the life funds, the group is required to hold sufficient capital to meet the FSA capital requirements based on the risk capital margin (RCM) determined in accordance with the FSA's regulatory rules under its realistic capital regime, together with the Individual Capital Assessment (ICA) which takes into account certain business risks not reflected in the RCM. The determination of the RCM depends on various actuarial and other assumptions about potential changes in market prices and the actions management would take in the event of particular adverse changes in market conditions.

Management intends to maintain surplus capital in excess of the RCM and ICA to meet the FSA's total requirements and to maintain an appropriate additional margin over this to absorb changes in both capital and capital requirements.

#### ii) Non participating business

For non participating business the relevant capital requirement is the minimum solvency requirement determined in accordance with FSA regulations. For this business a lower capital surplus is targeted by management since the capital requirement is less subject to fluctuation and the capital amount is after deducting liabilities that include additional prudential margins.

### Sensitivity analysis

#### i) Sensitivity of Society funds

The sensitivity of the Society's with-profits liabilities at 31 December 2008 to a 20% fall in global equity markets or a fall in fixed interest yields of 17.5% is as follows:

	2008	Equities down 20%	Fixed interest yields down 17.5%	2007	Equities down 20%	Fixed interest yields down 17.5%
	£m	£m	£m	£m	£m	£m
<b>Contract liabilities (excluding linked)</b>	<b>2,762.9</b>	<b>2,532.6</b>	<b>2,779.4</b>	3,042.4	2,967.3	3,230.5

These sensitivities assume a tax charge or credit on market value appreciation or falls.

#### ii) Sensitivity of insurance liabilities

Insurance liabilities are sensitive to changes in market conditions and other assumptions which have been factored into their calculation, such as mortality or persistency rates. In some cases allowance is also made when calculating liabilities for the effect of management and/or policyholder actions in different economic conditions on future assumptions such as asset mix, bonus rates and surrender values.

Market conditions – assumptions are made about investment returns and interest rates. Any adverse change in either variable will increase liabilities with the effect of reducing available capital. However such changes will also impact corresponding asset valuations, changes in which may result in further decreases in available capital, or in certain cases may offset the impact of liability movements.

Assumptions – long-term trend differences in mortality, morbidity or persistency rates will result in the need to change assumptions. This may require a strengthening or release of reserves. Depending on policy type this sensitivity will differ, for example a change in mortality rates will have a different impact for annuity contract liabilities when compared to term assurance liabilities. In addition to persistency, assumptions are made about policyholders' behaviour in relation to guarantees and options. In turn these assumptions are sensitive to both investment return and interest rates.

### Financial guarantees and options

#### a) With-profits business

As a normal part of operating activities, various Group companies have given guarantees and options, including interest rate guarantees, in respect of certain long-term insurance and fund management products.

In the calculation of FSA liabilities for the with-profits funds the Group is required to apply the FSA's realistic reporting regime. Provision is made for such guarantees and options within the FSA realistic liabilities of the Group's with-profits funds. Under the FSA's rules these must be measured at fair value using market consistent stochastic models. A stochastic approach includes measuring the time value of guarantees and options, which represents the additional cost arising from uncertainty surrounding future economic conditions. The time value is evaluated by projecting a large number of possible future outcomes under a wide range of economic scenarios, for example possible outcomes for interest rates and equity returns. These realistic liabilities have been included within the balance sheet for the Group and all Group companies.

The material guarantees and options in the with-profits funds are:

- i) Guaranteed annuity options – the RNPFN with-profits fund has written individual pensions which contain guaranteed annuity rate options (GAOs), where the policyholder has the option to take the benefits from a policy in the form of annuity based on guaranteed conversion rates. The RNPFN fund also has exposure to GAOs and similar options on deferred annuities.

# NOTES TO THE ACCOUNTS CONTINUED

31 December 2008

## 2. Capital management (continued)

- ii) Maturity value guarantees – many of the Group's with-profits policies have minimum maturity values reflecting the sums assured plus declared annual bonus.
- iii) Money-back guarantees – some of the policies written within the Group provide a guarantee or option to pay out all the premiums paid in (at a certain point in time).
- iv) In addition, while these do not constitute contractual guarantees, the Group has made promises to certain policyholders in relation to mortgage endowments that payments on these policies will meet the mortgage value covered.

#### b) Non participating business

The Group's life business has also written contracts which include guarantees and options within its non participating funds. The Group's non participating funds are not subject to the requirements of the FSA's realistic reporting regime and liabilities are evaluated by reference to statutory reserving rules. Provision for guarantees and options in the non participating funds has been included within liabilities.

The material guarantees and options in the non participating funds are:

- i) Guaranteed annuity options – similar options to those written in the with-profits fund have been written in relation to non-profit products. Provision for these guarantees does not materially differ from a provision based on a market consistent stochastic model.

## 3. Risk management and control

The LV= Group seeks to create value for its members by maintaining an appropriate balance between the capital available to support risk, and the level and type of risk it takes on in order to achieve returns for policyholders. The principal types of risk, which are detailed below, have been identified and risk appetite for each of these has been set based on the amount necessary to meet the Financial Services Authority's Individual Capital Assessment (ICA) capital requirements. The LV= Group recognises the critical importance of having efficient and effective risk management systems in place and these take the form of:

- Board and Executive committees with clear terms of reference.
- A clear organisation structure with documented apportionment of responsibilities.
- A uniform methodology of risk assessment, which is embedded within all companies in the LV= Group so that they operate within agreed tolerances and with appropriate controls in place.
- Regular reviews of risks by senior managers, where frequency of review is determined by the potential impact of the risk and its likelihood.

#### a) Insurance risk

Insurance risk is the risk that arises from the inherent uncertainties as to the occurrence, amount and timing of insurance liabilities. Life insurance risk arises from risks in life insurance contracts such as mortality, morbidity, persistency and expense variances. General insurance risk arises from risks in general insurance contracts which lead to significant claims in terms of quantity or value. These would include significant weather events, subsidence, substantial medical claims and major accidents on a single policy. Systems are in place to measure, monitor and control exposure to all these risks. These are documented in policies for underwriting, pricing, claims and reinsurance.

#### Life and pensions

Protection and annuity business is at risk from adverse changes in mortality experience from the time when the policies were underwritten. In the case of policies that pay out on death, the risk is that mortality experience worsens whereas, for annuities, the risk is that mortality experience improves. These two types of business therefore to some extent offset each other in a risk sense. On protection business, the Group uses underwriting procedures, backed up with medical screening if appropriate, designed to price accurately for such risks and reinsurance is in place to limit the quantum of risk retained on each policy. The Group's annuity business is not generally reassured.

Income protection and critical illness business is at risk from morbidity rates. Where there is an increased incidence of ill health or an increase in the duration of such ill health, the Group is exposed to higher claims than expected. The Group has underwriting procedures, including medical and financial screening if appropriate, to price accurately for such risks and reinsurance is in place to limit the quantum of risk retained on each policy.

Persistency risk is influenced by the ability to recover acquisition costs from margins within the products. The risk is greater in early years but reduces significantly as time passes. For with-profits liabilities there is an allowance built in to allow for future withdrawals. Exposure in future years occurs where withdrawals are lower than assumed resulting in higher future guaranteed payouts.

Higher than expected expense costs will increase the value of reserves required. The Group is exposed to the risk that the charges it deducts from policyholder benefits are not sufficient to cover future expenses.

## NOTES TO THE ACCOUNTS CONTINUED

31 December 2008

### 3. Risk management and control (continued)

#### Life and pensions (continued)

The table below sets out the concentration of life insurance contract liability by type of contract. All business is written in the UK.

Group	2008			2007		
	Gross £m	Reinsurance £m	Net £m	Gross £m	Reinsurance £m	Net £m
Whole life	1,260.2	-	1,260.2	1,600.6	-	1,600.6
Endowment	933.2	-	933.2	1,113.3	-	1,113.3
Term assurance	43.5	(23.7)	19.8	43.7	(29.2)	14.5
Guaranteed annuity pension	1,063.1	-	1,063.1	930.4	-	930.4
Pure endowment pensions	665.9	-	665.9	517.3	-	517.3
Critical illness	38.8	(13.2)	25.6	41.4	(14.6)	26.8
Income protection	57.6	(7.3)	50.3	132.8	(21.4)	111.4
ISA	68.2	-	68.2	66.1	-	66.1
Other	65.0	(2.9)	62.1	411.4	(2.6)	408.8
	4,195.5	(47.1)	4,148.4	4,857.0	(67.8)	4,789.2
Unit linked	498.5	0.8	499.3	354.7	-	354.7
	4,694.0	(46.3)	4,647.7	5,211.7	(67.8)	5,143.9

The table below sets out the impact on life and pension insurance contract liabilities, the unallocated divisible surplus and profit before tax for movements in key assumptions.

Sensitivity analysis for the change in assumptions used in life and pension insurance contract liabilities	Impact on profit before tax £m	Impact on the unallocated divisible surplus £m	Impact on gross liabilities £m
Increase in mortality rates by 5%	(103.8)	(111.1)	114.7
Increase in morbidity rates by 5%	(2.2)	(8.6)	20.2
Reduction in persistency by 5%	(113.8)	(115.6)	121.5
Increase in expenses by 10%	(95.2)	(101.7)	106.3

#### General insurance

Property business suffers from the risk of significant weather events or subsidence which can result in large claims in a single area.

The Group has entered into reinsurance contracts to reduce exposure to catastrophe claims.

Motor business suffers from risks of substantial medical claims and major accidents on a single policy which can result in a large claim against one policy. The Group has entered into reinsurance contracts which limits the payout on large claims.

The table below sets out the concentration of general insurance claims liabilities by type of contract.

Group	2008			2007		
	Gross £m	Reinsurance £m	Net £m	Gross £m	Reinsurance £m	Net £m
Motor	663.2	(79.0)	584.2	345.8	(14.5)	331.3
Household	69.6	(0.1)	69.5	78.9	(0.1)	78.8
Other	30.0	(1.0)	29.0	12.4	-	12.4
	762.8	(80.1)	682.7	437.1	(14.6)	422.5

The table below sets out the impact on the General Insurance claims provision, the unallocated divisible surplus and profit before tax for movements in key assumptions.

Sensitivity analysis for the change in assumptions used in the general insurance claims provision	Impact on profit before tax £m	Impact on the unallocated divisible surplus £m	Impact on general insurance claims provision £m
Single storm event (1 in 200 year probability)	(35.0)	(35.0)	35.0
Subsidence event (based on worst year to date)	(5.0)	(5.0)	5.0
Increase in substantial personal injury claims by 10%	(19.0)	(19.0)	19.0
Increase in major accidents on a single policy	(7.0)	(7.0)	7.0

## NOTES TO THE ACCOUNTS CONTINUED

31 December 2008

### 3. Risk management and control (continued)

#### General insurance (continued)

The tables below reflect the cumulative incurred claims, including both claims notified and IBNR for each successive accident year at each balance sheet date, together with cumulative payments to date. The Group aims to maintain strong reserves in order to protect against adverse future claims experience and developments. As claims develop and the ultimate cost becomes more certain, adverse claims experiences are eliminated which results in a release of reserves from earlier accident years.

Analysis of claims development – gross of reinsurance	2002 £m	2003 £m	2004 £m	2005 £m	2006 £m	2007 £m	2008 £m	Total £m
Initial estimate of net provision	273.0	397.6	401.3	522.0	551.0	560.5	560.6	-
One year later	279.0	403.4	387.6	524.2	527.5	534.5	-	-
Two years later	260.0	386.0	366.7	495.0	518.7	-	-	-
Three years later	252.3	357.0	350.4	477.5	-	-	-	-
Four years later	240.9	347.0	341.3	-	-	-	-	-
Five years later	241.9	346.5	-	-	-	-	-	-
Six years later	242.4	-	-	-	-	-	-	-
Current estimate of cumulative claims	242.4	346.5	341.3	477.5	518.7	534.5	560.6	3,021.5
Cumulative payments to date	(236.4)	(328.4)	(305.2)	(415.0)	(411.6)	(370.8)	(251.6)	(2,319.0)
Liability recognised in the balance sheet for 2002 to 2008 accident years	6.0	18.1	36.1	62.5	107.1	163.7	309.0	702.5
Liability recognised in the balance sheet in respect of prior accident years								32.8
Claims handling provision								16.0
Unexpired risk provision								11.5
<b>Provision as at 31 December 2008</b>								<b>762.8</b>

Analysis of claims development – net of reinsurance	2002 £m	2003 £m	2004 £m	2005 £m	2006 £m	2007 £m	2008 £m	Total £m
Initial estimate of net provision	271.3	362.9	353.7	489.7	518.9	513.1	516.8	-
One year later	272.9	369.9	345.3	479.4	480.2	491.8	-	-
Two years later	253.9	358.4	323.9	444.7	486.0	-	-	-
Three years later	248.2	333.8	315.1	439.9	-	-	-	-
Four years later	237.6	333.1	304.4	-	-	-	-	-
Five years later	236.0	324.5	-	-	-	-	-	-
Six years later	237.0	-	-	-	-	-	-	-
Current estimate of cumulative claims	237.0	324.5	304.4	439.9	486.0	491.8	516.8	2,800.4
Cumulative payments to date	(231.8)	(306.6)	(272.8)	(387.4)	(383.3)	(344.3)	(236.0)	(2,162.2)
Liability recognised in the balance sheet for 2002 to 2008 accident years	5.2	17.9	31.6	52.5	102.7	147.5	280.8	638.2
Liability recognised in the balance sheet in respect of prior accident years								17.0
Claims handling provision								16.0
Unexpired risk provision								11.5
<b>Provision as at 31 December 2008</b>								<b>682.7</b>

#### b) Financial risk

##### i. Market risk

Market risk is the risk of adverse impact due to fluctuations in equity prices, interest rates, exchange rates or property prices. It arises due to fluctuations in liabilities arising from products sold and the value of investments held. The Group has defined policies and procedures in place to control the major components of market risk. Exposures to individual companies and to equity shares in aggregate are monitored in order to ensure compliance with the relevant regulatory limits for solvency purposes and with guidelines set for each fund. Investments held are primarily listed and traded on the UK and other recognised stock exchanges.

Limits on the Group's exposure to equities are defined both in aggregate terms and by geography, industry and counterparty. Tactical asset allocation meetings are held weekly, and strategic asset allocation meetings quarterly, to discuss investment return and concentration and to agree any changes required.

##### Equity price risk

The Group is exposed to equity price risk from daily fluctuations in the market values of the equity portfolio. These assets are used to support contractual liabilities arising from unit-linked contracts and with-profits contracts. For unit-linked contracts the price movements are matched with corresponding movements in contractual obligations. For with-profits contracts the aim is to achieve growth in excess of its obligations.

# NOTES TO THE ACCOUNTS CONTINUED

31 December 2008

## 3. Risk management and control (continued)

### Property price risk

The Group is exposed to property price risk on the commercial properties it holds as investments. Values of properties are determined from future value of cash flows and the Group enters into leases following an assessment of the tenants ability to pay the rent and service charges.

### Interest rate risk

The Group monitors interest rate risk by calculating the mean duration of the investment portfolio and the liabilities issued. The mean duration is an indicator of the sensitivity of the assets and liabilities to changes in current interest rates. The mean duration of the liabilities is determined by means of projecting expected cash flows from the contracts using best estimates of mortality and voluntary terminations. The mean duration of the assets is calculated in a consistent manner.

### Asset liability matching

The Group manages its financial positions with an asset liability management (ALM) framework that has been developed to achieve long term investment returns in excess of its obligations under insurance and investment contracts. The principal technique of the Group's ALM is to match assets to the liabilities arising from insurance contracts by reference to the type of benefits payable to contract holders.

The Group's ALM is integrated with the management of the financial risks associated with the Group's other financial assets and liabilities not directly associated with insurance and investment liabilities.

### Currency risk

The Group is exposed to foreign exchange risk within the investment portfolios supporting the Group's operations from purchased investments that are denominated or payable in currencies other than sterling. There is no other exposure to currency risk.

The table below summarises the Group's exposure to foreign currency exchange risk in sterling

	2008					2007				
	Euro £m	US Dollar £m	Yen £m	Other £m	Total £m	Euro £m	US Dollar £m	Yen £m	Other £m	Total £m
Derivatives	(0.1)	(2.6)	-	(0.6)	(3.3)	-	-	-	-	-
Equity securities	161.4	228.9	93.6	133.9	617.8	246.1	234.9	151.8	118.5	751.3
Debt securities	17.8	6.1	8.5	0.8	33.2	8.6	4.9	5.6	-	19.1
Other investments	10.0	2.8	1.6	3.8	18.2	-	-	-	-	-
Cash and cash equivalents	9.9	10.6	0.1	0.8	21.4	-	-	-	-	-
	199.0	245.8	103.8	138.7	687.3	254.7	239.8	157.4	118.5	770.4

Some foreign debt securities are denominated in sterling so bear no currency risk and have not been included within the above table.

### Derivative risk

Derivatives are used to reduce exposure to fluctuations in interest rates and exchange rates and for efficient portfolio management purposes. The principal derivatives used are interest rate contracts (including interest rate swaps and options), forward foreign exchange contracts and equity derivatives (index futures and options).

### Summary of market risk sensitivities

The table below sets out the impact on life and pension insurance contract liabilities, the unallocated divisible surplus and profit before tax for movements in sectors of the market that the Group is invested in.

	Impact on profit before tax £m	Impact on the unallocated divisible surplus £m	Impact on gross life and pension insurance contract liabilities £m
Equity values fall by 20%	(191.3)	(153.3)	(184.5)
Property values fall by 17.5%	(49.0)	(41.9)	(11.4)
Fixed interest yields reduce by 17.5%	(0.4)	(26.1)	246.4

### ii. Credit risk

Credit risk is the risk of loss due to counterparties failing to meet all or part of their obligations in a timely fashion.

The principal credit risks arise from exposure to counterparties through exposure to corporate bonds, reinsurers' share of insurance liabilities, amounts due from reinsurers in respect of claims already paid, amounts due from insurance contract holders, amounts due from insurance intermediaries and counterparty risk with respect to derivative transactions.

Policies are in place to control the major components of credit risk, including counterparty default and concentration risk. The Group places limits on its exposure to a single counterparty, or groups of counterparty, and to geographical and industry segments.

Reinsurance is used to manage insurance risk. This does not, however, discharge the Group's liability as primary insurer. If a reinsurer fails to pay a claim, the Group remains liable for the payment to the policyholder. The creditworthiness of reinsurers is considered by reviewing their financial strength prior to finalisation of any contract and on an annual basis.

# NOTES TO THE ACCOUNTS CONTINUED

31 December 2008

## 3. Risk management and control (continued)

### ii. Credit risk (continued)

The tables below show the credit profile of the Group's assets. The credit risk profile of the Society is materially consistent with that of the Group.

Credit risk exposure 2008	AAA £m	AA £m	A £m	BBB £m	Below BBB £m	Not rated £m	Total £m
Debt and other fixed income securities	1,930.0	264.6	310.8	84.7	0.2	32.3	2,622.6
Other	-	63.1	-	-	-	-	63.1
Deposits with credit institutions	20.0	165.0	133.3	45.8	-	-	364.1
Loans secured by mortgages	-	-	-	-	-	5.0	5.0
Loans secured by policies	-	-	-	-	-	1.4	1.4
Other loans	-	-	-	-	-	233.9	233.9
	1,950.0	492.7	444.1	130.5	0.2	272.6	3,290.1
Reinsurance assets							
- non linked	2.4	47.2	71.4	1.0	-	8.8	130.8
- linked	-	(0.8)	-	-	-	-	(0.8)
	1,952.4	539.1	515.5	131.5	0.2	261.2	3,420.1

Credit risk exposure 2007	AAA £m	AA £m	A £m	BBB £m	Below BBB £m	Not rated £m	Total £m
Debt and other fixed income securities	1,939.4	138.8	158.8	44.8	4.8	14.6	2,301.2
Other	-	-	-	-	-	24.8	24.8
Deposits with credit institutions	94.0	128.8	-	-	-	-	222.8
Loans secured by mortgages	-	-	-	-	-	0.5	0.5
Loans secured by policies	-	-	-	-	-	1.8	1.8
Other loans	-	-	-	-	-	435.8	435.8
	2,033.4	267.6	158.8	44.8	4.8	477.5	2,986.9
Reinsurance assets							
- non linked	-	55.8	-	7.3	-	2.2	65.3
- linked	-	2.5	-	-	-	-	2.5
	2,033.4	325.9	158.8	52.1	4.8	479.7	3,054.7

The tables below show the age analysis of the Group's past due and/or impaired assets.

Age analysis of assets past due/impaired 2008	<30 days £m	31 to 60 days £m	61 to 90 days £m	>90 days £m	Linked £m	Total past due but not impaired £m	Past due and impaired £m	Total £m
Financial assets - loans and other receivables	1.0	-	-	-	-	1.0	35.6	36.6
Insurance receivables	8.6	3.0	0.9	4.1	-	16.6	2.2	18.8
	9.6	3.0	0.9	4.1	-	17.6	37.8	55.4

Age analysis of assets past due/impaired 2007	<30 days £m	31 to 60 days £m	61 to 90 days £m	>90 days £m	Linked £m	Total past due but not impaired £m	Past due and impaired £m	Total £m
Financial assets - loans and other receivables	0.9	1.8	-	0.3	-	3.0	37.5	40.5
Insurance receivables	3.1	3.8	2.0	7.1	-	16.0	-	16.0
	4.0	5.6	2.0	7.4	-	19.0	37.5	56.5

The table below summarises the movement in the bad debt provision on loans and advances.

	Group	
	2008 £m	2007 £m
Balance at 1 January	22.0	26.4
Charge against profits	26.9	23.4
Amounts written off	(21.5)	(29.7)
Recoveries	2.5	1.9
Balance at 31 December	29.9	22.0

## NOTES TO THE ACCOUNTS CONTINUED

31 December 2008

### 3. Risk management and control (continued)

#### ii. Credit risk (continued)

##### Collateral

For securities lending, the amount and type of collateral required depends on an assessment of the credit risk of the type of security lent. All securities lent are indemnified subject to the conditions of the Stock Lending Authorisation Agreement with HSBC. Guidelines are implemented regarding the acceptability of types of collateral and the valuation parameters. Collateral is mainly obtained for securities lending. Credit risk is also mitigated by entering into the collateral agreement. Operations monitor the market value of the collateral, request additional collateral when needed and perform an impairment valuation when applicable. The collateral can be sold or repledged by the Group and is repayable if the contract terminates or the contract's fair value decreases. At 31 December 2008, the collateral held was £nil (2007: £1,583.1m). No collateral received from the counterparty has been sold or repledged (2007: £nil).

For over-the-counter derivative transactions undertaken by the Group, collateral is received from the counterparty. The collateral can be sold or repledged by the Group and is repayable if the contract terminates or the contract's fair value decreases. At 31 December 2008, the fair value of such collateral held was £184.3m (2007: £0.4m). No collateral received from the counterparty has been sold or repledged (2007: £nil).

#### iii. Liquidity risk

Liquidity risk is the risk that the firm does not have sufficient available liquid assets to meet its obligations as they fall due.

Sources of liquidity risk have been identified and systems are in place to measure, monitor and control liquidity exposures. These are documented in liquidity policies.

Liquidity is maintained at a prudent level, with a buffer to cover contingencies including the provision of temporary liquidity to subsidiary companies.

The table below summarises the maturity profile of the financial liabilities of the Group based on remaining undiscounted contractual obligations, except for with-profits contracts where maturity profiles are determined on the discounted estimated timing of net cash outflows.

Group	Within 1 year	1-3 years	3-5 years	Over 5 years	No term	Linked	Total
Maturity profile of financial liabilities 2008	£m	£m	£m	£m	£m	£m	£m
Insurance contract liabilities	1,057.6	733.9	497.9	2,996.5	-	146.4	5,432.3
Investment contract liabilities	-	-	-	-	-	396.0	396.0
Unallocated divisible surplus	-	-	-	-	1,117.3	-	1,117.3
Net asset value attributable to unit holders	132.1	-	-	-	-	-	132.1
Financial liabilities							
- Derivative financial instruments	15.3	-	-	-	-	-	15.3
- Borrowings	150.6	-	-	-	-	-	150.6
- Other financial liabilities	68.8	2.4	-	11.4	-	-	82.6
Provisions	23.8	33.0	40.5	3.4	8.8	-	109.5
Deferred tax liability	-	-	-	-	-	-	-
Insurance payables	50.9	-	-	-	-	-	50.9
Trade and other payables	155.9	-	-	-	47.0	-	202.9
	<b>1,655.0</b>	<b>769.3</b>	<b>538.4</b>	<b>3,011.3</b>	<b>1,173.1</b>	<b>542.4</b>	<b>7,689.5</b>

Group	Within 1 year	1-3 years	3-5 years	Over 5 years	No term	Linked	Total
Maturity profile of financial liabilities 2007	£m	£m	£m	£m	£m	£m	£m
Insurance contract liabilities	1,025.3	631.2	500.3	3,367.7	-	104.1	5,628.6
Investment contract liabilities	-	-	-	-	-	253.9	253.9
Unallocated divisible surplus	-	-	-	-	1,319.3	-	1,319.3
Net asset value attributable to unit holders	111.0	-	-	-	-	-	111.0
Financial liabilities							
- Derivative financial instruments	0.6	-	-	-	-	-	0.6
- Borrowings	76.0	99.5	47.7	12.4	-	-	235.6
- Other financial liabilities	90.2	14.6	-	-	-	-	104.8
Provisions	45.9	30.4	2.6	4.1	-	-	83.0
Deferred tax liability	69.5	11.4	(21.3)	4.5	-	-	64.1
Insurance payables	23.2	-	-	-	-	-	23.2
Trade and other payables	185.9	-	-	-	-	-	185.9
	<b>1,627.6</b>	<b>787.1</b>	<b>529.3</b>	<b>3,388.7</b>	<b>1,319.3</b>	<b>358.0</b>	<b>8,010.0</b>

## NOTES TO THE ACCOUNTS CONTINUED

31 December 2008

### 3. Risk management and control (continued)

#### iii. Liquidity risk (continued)

For unit-linked contracts the Group matches all the assets on which the unit prices are based with assets in the portfolio. Therefore the Group is not exposed to price, currency, credit, or interest risk in respect of these contracts. The Group is responsible for ensuring there is sufficient liquidity within the asset portfolio to enable liabilities to unit-linked policyholders to be met as they fall due.

Society	Within 1 year	1-3 years	3-5 years	Over 5 years	No term	Linked	Total
Maturity profile of financial liabilities 2008	£m	£m	£m	£m	£m	£m	£m
Insurance contract liabilities	385.6	541.5	383.8	2,904.3	-	102.5	4,317.7
Investment contract liabilities	-	-	-	-	-	396.0	396.0
Unallocated divisible surplus	-	-	-	-	1,311.7	-	1,311.7
Net asset value attributable to unit holders	-	-	-	-	-	-	-
Financial liabilities							
- Derivative financial instruments	3.5	-	-	-	-	-	3.5
- Borrowings	-	-	-	-	-	-	-
- Other financial liabilities	-	-	-	-	-	-	-
Provisions	0.8	13.5	35.9	1.4	-	-	51.6
Deferred tax liability	-	1.9	-	-	-	-	1.9
Insurance payables	39.3	-	-	-	-	-	39.3
Trade and other payables	159.1	-	-	-	-	-	159.2
	<b>588.3</b>	<b>556.9</b>	<b>419.7</b>	<b>2,905.7</b>	<b>1,311.7</b>	<b>498.5</b>	<b>6,280.8</b>

Society	Within 1 year	1-3 years	3-5 years	Over 5 years	No term	Linked	Total
Maturity profile of financial liabilities 2007	£m	£m	£m	£m	£m	£m	£m
Insurance contract liabilities	226.3	389.7	327.6	2,368.3	-	-	3,311.9
Investment contract liabilities	-	-	-	-	-	83.2	83.2
Unallocated divisible surplus	-	-	-	-	1,447.7	-	1,447.7
Net asset value attributable to unit holders	-	-	-	-	-	-	-
Financial liabilities							
- Derivative financial instruments	-	-	-	-	-	-	-
- Borrowings	-	-	-	-	-	-	-
- Other financial liabilities	-	9.5	-	-	-	-	9.5
Provisions	6.7	5.1	0.9	2.3	-	-	15.0
Deferred tax liability	55.5	-	-	-	-	-	55.5
Insurance payables	12.4	-	-	-	-	-	12.4
Trade and other payables	143.6	-	-	-	-	-	143.6
	<b>444.5</b>	<b>404.3</b>	<b>328.5</b>	<b>2,370.6</b>	<b>1,447.7</b>	<b>83.2</b>	<b>5,078.8</b>

The following tables summarise the expected recovery or settlement of assets:

Group	2008			2007		
	Within 1 year	Over 1 year	Total	Within 1 year	Over 1 year	Total
	£m	£m	£m	£m	£m	£m
Intangible assets	<b>5.3</b>	<b>322.8</b>	<b>328.1</b>	5.5	155.8	161.3
Property and equipment	-	<b>16.6</b>	<b>16.6</b>	-	23.7	23.7
Investment properties	-	<b>377.2</b>	<b>377.2</b>	-	474.2	474.2
Financial assets						
- Derivative financial instruments	<b>4.0</b>	<b>194.2</b>	<b>198.2</b>	12.4	6.6	19.0
- Fair value through profit or loss	<b>394.8</b>	<b>4,508.9</b>	<b>4,903.7</b>	74.4	5,369.9	5,444.3
- Loans and other receivables	<b>496.4</b>	<b>150.2</b>	<b>646.6</b>	415.8	284.2	700.0
Reinsurance assets	<b>124.0</b>	<b>12.0</b>	<b>136.0</b>	3.3	84.3	87.6
Tax receivable	<b>4.1</b>	<b>25.1</b>	<b>29.2</b>	-	-	-
Pension benefit asset	-	<b>4.6</b>	<b>4.6</b>	-	19.9	19.9
Insurance receivables	<b>138.1</b>	-	<b>138.1</b>	93.5	-	93.5
Deferred acquisition costs	<b>57.0</b>	<b>37.4</b>	<b>94.4</b>	41.9	89.6	131.5
Prepayments and accrued income	<b>67.2</b>	-	<b>67.2</b>	65.7	-	65.7
Cash and cash equivalents	<b>749.6</b>	-	<b>749.6</b>	789.3	-	789.3
<b>Total assets</b>	<b>2,040.5</b>	<b>5,649.0</b>	<b>7,689.5</b>	<b>1,501.8</b>	<b>6,508.2</b>	<b>8,010.0</b>

## NOTES TO THE ACCOUNTS CONTINUED

31 December 2008

### 3. Risk management and control (continued)

#### iii. Liquidity risk (continued)

Society	2008			2007		
	Within 1 year £m	Over 1 year £m	Total £m	Within 1 year £m	Over 1 year £m	Total £m
Intangible assets	-	18.5	18.5	-	23.2	23.2
Property and equipment	-	2.6	2.6	-	1.4	1.4
Investment properties	-	360.2	360.2	-	452.2	452.2
Investments in group undertakings and participating interests	-	1,083.4	1,083.4	-	869.8	869.8
Financial assets						
Derivative financial instruments	-	194.2	194.2	12.4	-	12.4
Fair value through profit or loss	61.3	3,788.4	3,849.7	-	2,987.6	2,987.6
Loans and other receivables	187.5	-	187.5	69.1	3.2	72.3
Reinsurance assets	289.3	-	289.3	-	244.7	244.7
Pension benefit asset	-	4.6	4.6	-	19.9	19.9
Insurance receivables	12.3	-	12.3	0.5	-	0.5
Deferred acquisition costs	0.4	-	0.4	0.1	1.7	1.8
Prepayments and accrued income	39.7	-	39.7	26.1	-	26.1
Cash and cash equivalents	238.4	-	238.4	366.9	-	366.9
<b>Total assets</b>	<b>828.9</b>	<b>5,451.9</b>	<b>6,280.8</b>	<b>475.1</b>	<b>4,603.7</b>	<b>5,078.8</b>

#### iv. Other risk types

##### Operational risk

Operational risk is the risk of loss, resulting from inadequate or failed internal processes, people and systems, or from external events, including legal and regulatory risk.

Senior managers are responsible for the identification, assessment, control and monitoring of operational risks and for reporting these to the Risk Committee in accordance with the LV= Group's escalation criteria. Operational risks are assessed in terms of their probability and impact in accordance with Group policy.

##### Group risk

Group risk is the risk of contagion that the Society incurs from its membership of a group of firms. The Group Risk Committee oversees the management of such risks.

##### Strategic risk

Strategic risk is the risk arising from the implementation of agreed strategy. It includes risks arising from political, economic, sociological and technological changes, competitor actions and capital adequacy.

Executive management identifies strategic risks when drawing up business plans for approval by the Board and monitors these, ensuring that excess risk is reported to the Group Audit, Risk & Compliance Committee and Board.

## NOTES TO THE ACCOUNTS CONTINUED

31 December 2008

### 4. Net premiums

	Group		Society	
	2008 £m	2007 £m	2008 £m	2007 £m
<b>Gross premiums</b>				
<b>Life and pensions insurance premiums – participating business</b>				
Investments and savings - single premium	18.6	21.7	18.6	21.1
Pensions and annuities - single premium	15.0	41.2	15.0	41.2
Investments and savings - regular premium	89.6	91.2	57.9	51.7
Pensions and annuities - regular premium	16.0	16.5	8.9	9.5
Life and health protection - regular premium	1.8	14.6	-	12.5
<b>Life and pensions insurance premiums – non participating business</b>				
Pensions and annuities - single premium	228.5	13.5	215.1	-
Life and health protection - single premium	0.2	0.4	-	-
Investments and savings - regular premium	1.4	0.1	1.4	-
Pensions and annuities - regular premium	10.1	10.9	-	-
Life and health protection - regular premium	89.8	86.2	0.6	0.7
<b>Life and pensions insurance premiums – linked business</b>				
Investments and savings - regular premium	8.2	10.9	-	-
Pensions and annuities - regular premium	0.5	0.6	-	-
Life and health protection - regular premium	14.2	14.8	-	-
<b>General insurance business</b>				
Motor	288.4	211.2	-	-
Property damage	113.0	112.5	-	-
Other	43.7	22.9	-	-
Change in unearned premiums provision	(21.7)	(3.7)	-	-
	<b>917.3</b>	<b>665.5</b>	<b>317.5</b>	<b>136.7</b>
<b>Reinsurers share of gross premiums</b>				
Life and pensions insurance premiums	(32.6)	(28.9)	(113.6)	(0.1)
General insurance business	(12.1)	(11.0)	-	-
Change in unearned premiums provision	(0.9)	0.1	-	-
	<b>(45.6)</b>	<b>(39.8)</b>	<b>(113.6)</b>	<b>(0.1)</b>
	<b>871.7</b>	<b>625.7</b>	<b>203.9</b>	<b>136.6</b>

All business is written in the UK.

## NOTES TO THE ACCOUNTS CONTINUED

31 December 2008

### 5. New business premiums

	Group		Society	
	2008 £m	2007 £m	2008 £m	2007 £m
<b>Gross new business premiums – life and pensions</b>				
<b>Life and pensions insurance premiums – participating business</b>				
Investments and savings - single premium	18.6	21.7	18.6	21.1
Pensions and annuities - single premium	15.0	41.2	15.0	41.2
Investments and savings - regular premium	2.5	2.6	2.5	2.6
Pensions and annuities - regular premium	0.2	1.1	0.2	1.1
<b>Life and pensions insurance premiums – non participating business</b>				
Pensions and annuities - single premium	228.5	13.5	215.1	-
Life and health protection - single premium	0.2	0.4	-	-
Pensions and annuities - regular premium	-	1.4	-	-
Life and health protection - regular premium	11.6	10.3	-	-
<b>Life and pensions insurance premiums – linked business</b>				
Pensions and annuities - regular premium	1.3	-	1.3	-
Life and health protection - regular premium	4.0	3.3	-	-
<b>Life and pensions investment premiums – linked business</b>				
Pensions and annuities – single premium	229.9	98.1	229.9	98.1
	<b>511.9</b>	<b>193.6</b>	<b>482.6</b>	<b>164.1</b>

All gross new business premiums relate to individual business.

Recurrent single premium rebates from the Department for Works and Pensions are included as new business single premiums.

Where periodic premiums are received other than annually, the periodic new business premiums are stated on an annualised basis.

Group gross premiums earned – general business	2008 £m	2007 £m
Motor	273.4	215.4
Property damage	113.5	113.8
Other	36.5	13.7
	<b>423.4</b>	<b>342.9</b>

### 6. Fee and commission income

	Group		Society	
	2008 £m	2007 £m	2008 £m	2007 £m
Policy administration fees	10.3	1.3	4.9	1.3
Fund management fees	1.4	1.7	-	-
Accrued mortgage interest	0.5	-	-	-
Commission income	24.8	2.6	0.3	-
Reinsurance commission income	0.1	0.1	-	-
	<b>37.1</b>	<b>5.7</b>	<b>5.2</b>	<b>1.3</b>

### 7. Investment income

	Group		Society	
	2008 £m	2007 £m	2008 £m	2007 £m
Rental income from investment properties	26.5	24.8	23.6	23.0
Income from investments at fair value through profit and loss				
Interest income	118.3	116.9	50.7	45.3
Dividend income	93.5	107.9	77.5	80.5
Interest on loans and receivables	63.1	76.0	15.9	10.1
	<b>301.4</b>	<b>325.6</b>	<b>167.7</b>	<b>158.9</b>

## NOTES TO THE ACCOUNTS CONTINUED

31 December 2008

### 8. (Losses)/gains on investments

	Group		Society	
	2008 £m	2007 £m	2008 £m	2007 £m
Investment properties	(100.7)	(34.5)	(98.0)	(38.2)
Investments at fair value through profit and loss				
Debt securities	42.8	(21.4)	(12.6)	(22.8)
Equity securities	(838.8)	180.8	(556.8)	125.8
Derivatives at fair value through profit and loss	168.7	8.1	163.8	12.4
	<b>(728.0)</b>	<b>133.0</b>	<b>(503.6)</b>	<b>77.2</b>

(Losses)/gains on investments includes realised and fair value gains and losses.

### 9. Net benefits and claims

	Group		Society	
	2008 £m	2007 £m	2008 £m	2007 £m
<b>Gross benefits and claims</b>				
<b>Life and pensions insurance contracts</b>				
Benefits and claims paid	712.0	883.7	428.0	613.8
Change in the provision for claims	-	(2.6)	1.7	(5.4)
	<b>712.0</b>	<b>881.1</b>	<b>429.7</b>	<b>608.4</b>
<b>General insurance business</b>				
Claims paid	340.1	292.0	-	-
Change in the provision for claims	(1.3)	32.1	-	-
	<b>338.8</b>	<b>324.1</b>	<b>0.0</b>	<b>0.0</b>
	<b>1,050.8</b>	<b>1,205.2</b>	<b>429.7</b>	<b>608.4</b>
<b>Reinsurers share of gross benefits and claims</b>				
<b>Life and pensions insurance contracts</b>				
Benefits and claims paid	(25.5)	(20.5)	(42.1)	(64.8)
	<b>(25.5)</b>	<b>(20.5)</b>	<b>(42.1)</b>	<b>(64.8)</b>
<b>General insurance business</b>				
Claims paid	(1.1)	(1.4)	-	-
Change in the provision for claims	(0.9)	(11.5)	-	-
	<b>(2.0)</b>	<b>(12.9)</b>	<b>0.0</b>	<b>0.0</b>
	<b>1,023.3</b>	<b>1,171.8</b>	<b>387.6</b>	<b>543.6</b>

### 10. Net change in contract liabilities

	Group		Society	
	2008 £m	2007 £m	2008 £m	2007 £m
<b>Gross change in contract liabilities</b>				
Change in life and pensions insurance contract liabilities	604.7	384.3	431.4	283.0
Change in linked life and pensions insurance contract liabilities	53.3	28.6	-	-
Change in investment contract liabilities	18.6	(13.4)	(13.6)	-
	<b>676.6</b>	<b>399.5</b>	<b>417.8</b>	<b>283.0</b>
<b>Reinsurers share of gross change in contract liabilities</b>				
Change in life and pensions insurance contract liabilities	(18.2)	1.4	(45.0)	(46.5)
Change in linked life and pensions insurance contract liabilities	(3.3)	1.5	43.9	-
	<b>(21.5)</b>	<b>2.9</b>	<b>(1.1)</b>	<b>(46.5)</b>
	<b>655.1</b>	<b>402.4</b>	<b>416.7</b>	<b>236.5</b>

## NOTES TO THE ACCOUNTS CONTINUED

31 December 2008

### 11. Finance costs

	Group		Society	
	2008 £m	2007 £m	2008 £m	2007 £m
Interest expense on bank overdraft	1.1	2.8	0.2	0.2
Interest expense on loans and borrowings	0.3	-	-	-
Foreign exchange loss on loans and borrowings	1.9	-	-	-
Interest expense on deferred consideration	0.1	0.7	0.1	0.7
	<b>3.4</b>	<b>3.5</b>	<b>0.3</b>	<b>0.9</b>

### 12. Other operating and administrative expenses

	Group		Society	
	2008 £m	2007 £m	2008 £m	2007 £m
Amortisation and impairment of intangible assets	14.0	8.1	4.7	4.6
Depreciation on property and equipment - owned	0.7	0.7	0.2	0.2
Depreciation on property and equipment - finance lease	0.5	0.5	-	-
Loss/(profit) on disposal of property and equipment	7.9	0.2	-	0.2
Operating lease rental charges on land and buildings	5.9	4.0	3.2	1.4
Investment management expenses and charges	1.7	0.1	8.6	16.0
Acquisition costs	144.0	81.0	31.4	9.1
Movement in deferred expenses	54.1	(12.7)	1.8	(1.8)
Auditors' remuneration	2.1	1.6	0.8	0.5
Employee benefits expense	124.2	81.6	119.9	81.6
Bad debt expense	27.8	30.5	-	-
Administrative expenses	44.1	83.3	(95.1)	(67.0)
	<b>427.0</b>	<b>278.9</b>	<b>75.5</b>	<b>44.8</b>

Other operating and administrative expenses in the Society are stated after crediting management charges of £81.0m (2007: £80.1m) in respect of the administration of its subsidiaries.

### 13. Auditors' remuneration

Group	Pricewaterhouse Coopers LLP		KPMG LLP		Ernst & Young LLP		Total	
	2008 £m	2007 £m	2008 £m	2007 £m	2008 £m	2007 £m	2008 £m	2007 £m
Fees payable to the Group's auditors for the audit of the Group's annual accounts	0.5	-	0.3	-	-	0.7	0.8	0.7
Fees payable to the Group's auditors and its associates for other services:								
- other services pursuant to legislation	0.3	-	-	-	-	0.4	0.3	0.4
- tax services	-	-	0.1	-	-	0.1	0.1	0.1
- actuarial fees	-	-	-	-	-	0.1	-	0.1
- other services	0.7	0.1	0.1	-	0.1	0.2	0.9	0.3
	<b>1.5</b>	<b>0.1</b>	<b>0.5</b>	<b>-</b>	<b>0.1</b>	<b>1.5</b>	<b>2.1</b>	<b>1.6</b>

## NOTES TO THE ACCOUNTS CONTINUED

31 December 2008

### 13. Auditors' remuneration continued

Society	Pricewaterhouse Coopers LLP		Ernst & Young LLP		Total	
	2008 £m	2007 £m	2008 £m	2007 £m	2008 £m	2007 £m
Fees payable to the Society's auditors for the audit of the Society's annual accounts	0.2	-	-	0.3	0.2	0.3
Fees payable to the Society's auditors and its associates for other services:						
- other services pursuant to legislation	0.1	-	-	0.2	0.1	0.2
- other services	0.4	-	0.1	-	0.5	-
	<b>0.7</b>	<b>-</b>	<b>0.1</b>	<b>0.5</b>	<b>0.8</b>	<b>0.5</b>

During 2008 Ernst & Young LLP resigned as auditors and PricewaterhouseCoopers LLP were appointed. Of the fees payable to PricewaterhouseCoopers LLP for the Group's annual accounts, £0.3m relates to the audit of the subsidiary companies. Highway Group Plc was acquired during 2008 and KPMG LLP carried on their duties as the Company's auditors. In addition to the above, £0.1m was paid to Watson Wyatt for actuarial services (2007: £1.2m). There were no other services carried out by the auditors in respect of the Group or the Society.

### 14. Employee benefits expense

	Group		Society	
	2008 £m	2007 £m	2008 £m	2007 £m
Wages and salaries	97.2	63.5	93.3	63.5
Social security costs	8.3	5.3	8.0	5.3
Defined benefit pension costs	18.7	12.8	18.6	12.8
	<b>124.2</b>	<b>81.6</b>	<b>119.9</b>	<b>81.6</b>

The average number of employees during the year, including executive directors, was as follows:

	Group		Society	
	2008 Number	2007 Number	2008 Number	2007 Number
Member contact	2,578	1,580	1,956	1,580
Administration	958	393	754	393
	<b>3,536</b>	<b>1,973</b>	<b>2,740</b>	<b>1,973</b>

The increase in staff during 2008 primarily reflects the acquisition of the Tomorrow business and the Highway Group, as well as the termination of outsourcing contracts for the life and pensions administration and information technology which are now run internally.

## NOTES TO THE ACCOUNTS CONTINUED

31 December 2008

### 15. Directors' emoluments

The aggregate amount of directors' emoluments was as follows:

	2008	2007
	£m	£m
a. Aggregate emoluments	2.7	2.1

b. There were no contributions to any money purchase pension scheme in 2008 (2007: £nil).

c. Emoluments of individual directors, including emoluments of the Chairman and highest paid director were as follows for the Society:

	Salary £'000	Bonus £'000	Other Benefits £'000	Total 2008 £'000	Total 2007 £'000
M.J. Rogers	460	430	112	1,002	911
S.M. Daniels	247	200	10	457	657
R.A. Rowney*	245	180	11	436	223
K.W. Abercromby*	272	150	11	433	13
D. Holt	130	-	-	130	79
B. Rose (resigned 18 June 2008)	32	-	-	32	63
G. Nott	55	-	-	55	47
M.E. Austen	57	-	-	57	44
I. Reynolds (appointed 3 January 2008)**	52	-	-	52	-
S. Sinclair (appointed 24 September 2008)**	15	-	-	15	-
J.T. Woolhouse (retired 30 June 2007)	-	-	-	-	53
	1,565	960	144	2,669	2,090

\* 2007 was pro rata for the part of the year since becoming a director

\*\* This remuneration relates to the period since becoming a director.

Other benefits include cash allowance in lieu of pension, car allowances, medical, relocation and other benefits in kind or their equivalent monetary value.

The Society has made no contributions to personal pension arrangements during 2007 or 2008.

d. Pension arrangements

S.M. Daniels, R.A. Rowney and K.W. Abercromby are members of the LV= Employee Pension Scheme, which is a defined benefit scheme.

The Society makes contributions to the LV= Employee Pension Scheme of 20.6% of pensionable salaries less £6.1m (2007: 20.6% of pensionable salaries less 6.1m) in respect of all permanent staff, including executive directors.

M.J. Rogers is a member of the staff pension scheme for life assurance only.

	2008 £'000	2007 £'000
Accrued pension at end of period		
S.M. Daniels	85	77
R.A. Rowney	8	4
K.W. Abercromby	7	2

## NOTES TO THE ACCOUNTS CONTINUED

31 December 2008

### 16. Income tax expense

#### a. Current year tax charge

Group	2008 £m	2007 £m
<b>Current year tax charge:</b>		
Corporation tax	33.5	40.3
Prior year adjustment	(8.0)	(4.1)
<b>Total current tax</b>	<b>25.5</b>	<b>36.2</b>

#### Deferred tax

Excess of depreciation	1.4	0.1
Prior year adjustments	(0.2)	-
Temporary differences	(26.4)	(29.6)
Tax losses	(57.7)	-
<b>Total deferred tax</b>	<b>(82.9)</b>	<b>(29.5)</b>
<b>Total income tax/(credit) expense</b>	<b>(57.4)</b>	<b>6.7</b>

#### Society

	2008 £m	2007 £m
<b>Current year tax charge:</b>		
Corporation tax	22.8	40.6
Prior year adjustment	(8.3)	(4.0)
<b>Total current tax</b>	<b>14.5</b>	<b>36.6</b>

#### Deferred tax

Excess of depreciation	1.0	4.8
Temporary differences	(1.7)	(36.4)
Tax losses	(54.3)	-
<b>Total deferred tax</b>	<b>(55.0)</b>	<b>(31.6)</b>
<b>Total income tax/(credit) expense</b>	<b>(40.5)</b>	<b>5.0</b>

All tax is recorded within the current year tax charge and none relates to equity.

#### b. Reconciliation of tax charge

Group	2008 £m	2007 £m
Profit before tax	(258.3)	56.4
Tax at 28.5% (2007: 30%)	(73.6)	16.9
<b>Permanent differences</b>		
Disallowable expenses	(2.6)	7.1
Deferred tax on intangibles acquired	(0.3)	-
Deferred tax not provided	1.5	1.8
Transfer pricing	0.2	-
Intra group charges not allowable for tax	-	(0.8)
Policyholder tax (including prior year adjustments)	25.4	(18.4)
Adjustment to tax charge in respect of prior years	(8.0)	0.1
<b>Total tax (credit)/charge for the year</b>	<b>(57.4)</b>	<b>6.7</b>

#### Society

	2008 £m	2007 £m
Profit before tax	(167.6)	43.3
Tax at 28.5% (2007: 30%)	(47.8)	13.0
<b>Permanent differences</b>		
Policyholder tax (including prior year adjustments)	15.6	(8.0)
Adjustment to tax charge in respect of prior years	(8.3)	-
<b>Total tax (credit)/charge for the year</b>	<b>(40.5)</b>	<b>5.0</b>

The tax rate changed from 30% to 28% from the 1 April 2008. The average tax rate used for 2008 was 28.5%.

## NOTES TO THE ACCOUNTS CONTINUED

31 December 2008

### 17. Intangible assets

Group	Goodwill £m	Other intangible assets £m	PVIF £m	Total £m
<b>Cost:</b>				
At 1 January 2008	94.0	74.6	63.4	232.0
Acquisitions	114.9	28.9	-	143.8
Additions	37.0	-	-	37.0
<b>At 31 December 2008</b>	<b>245.9</b>	<b>103.5</b>	<b>63.4</b>	<b>412.8</b>
<b>Amortisation:</b>				
At 1 January 2008	20.6	27.9	22.2	70.7
Charge for the year	-	8.5	5.5	14.0
<b>At 31 December 2008</b>	<b>20.6</b>	<b>36.4</b>	<b>27.7</b>	<b>84.7</b>
<b>Net book value at 31 December 2008</b>	<b>225.3</b>	<b>67.1</b>	<b>35.7</b>	<b>328.1</b>
<b>Cost:</b>				
At 1 January 2007	20.6	50.9	63.4	134.9
Additions	73.4	23.7	-	97.1
At 31 December 2007	94.0	74.6	63.4	232.0
<b>Amortisation:</b>				
At 1 January 2007	20.6	23.1	18.9	62.6
Charge for the year	-	4.8	3.0	7.8
Impairment in year	-	-	0.3	0.3
At 31 December 2007	20.6	27.9	22.2	70.7
Net book value at 31 December 2007	73.4	46.7	41.2	161.3

Society	Goodwill £m	Other intangible assets £m	PVIF £m	Total £m
<b>Cost:</b>				
At 1 January 2008	-	50.9	-	50.9
<b>At 31 December 2008</b>	<b>-</b>	<b>50.9</b>	<b>-</b>	<b>50.9</b>
<b>Amortisation and impairment:</b>				
At 1 January 2008	-	27.7	-	27.7
Charge for the year	-	4.7	-	4.7
<b>At 31 December 2008</b>	<b>-</b>	<b>32.4</b>	<b>-</b>	<b>32.4</b>
<b>Net book value at 31 December 2008</b>	<b>-</b>	<b>18.5</b>	<b>-</b>	<b>18.5</b>
<b>Cost:</b>				
At 1 January 2007	-	50.9	-	50.9
At 31 December 2007	-	50.9	-	50.9
<b>Amortisation and impairment:</b>				
At 1 January 2007	-	23.1	-	23.1
Charge for the year	-	4.6	-	4.6
At 31 December 2007	-	27.7	-	27.7
Net book value at 31 December 2007	-	23.2	-	23.2

Additions for the year are explained in note 41.

## NOTES TO THE ACCOUNTS CONTINUED

31 December 2008

### 17. Intangible assets (continued)

PVIF denotes Present Value of Acquired In-Force Business.

Goodwill has been allocated to the individual cash generating units which are based on the key segments of the group as follows:

	Group	
	2008 £m	2007 £m
Life and pensions insurance business	<b>79.7</b>	78.2
General insurance business	<b>166.2</b>	15.8
	<b>245.9</b>	94.0

Impairment testing of the goodwill relating to the life business is done by calculating an estimate of the market value of the life business which is then compared to the value of that business in the accounts. This appraisal value of the life insurance business uses standard embedded value techniques and adds an amount for the value of future new business, calculated as a multiple of the value added by new business to the embedded value in the current period. In this calculation expense overruns on new business are ignored where such overruns are expected to be eliminated by future economies of scale. However, the multiple used is reduced where those economies of scale have yet to be achieved. The discount rates used in the embedded value calculations differ by product to reflect the risk free rate based on 15 year gilt yields plus a margin for risk of between 2.5% and 3% to take into account the uncertainties associated with the particular contracts being valued.

For impairment testing of general insurance goodwill, we estimate the market value of the general insurance business and compare this to its net asset value. The market value estimate uses an average of eight measures, seven of which use historic market prices and valuation factors with the eighth being a discounted cash flow model of future business. Any surplus capital in the business is added as this would increase market value. The cash flows are based on current strategic plans, with a terminal value calculated at the end of the planning horizon. The market measures are moderated by using three years' weighted figures. The discounted cash flow results are calculated using a 12%pa discount rate and are further reduced by 15%; these reflect the inherent uncertainty in future cash flows on business that has yet to be written.

Amortisation and impairment losses are presented in other operating and administrative expenses in the income statement.

### 18. Property and equipment

Group	Freehold and leasehold (finance lease) property £m	Leasehold property enhancements long £m	Leasehold property enhancements short £m	Major computer systems £m	Fixtures, fittings and motor vehicles £m	Total £m
<b>Cost:</b>						
At 1 January 2008	27.1	12.8	2.1	7.9	4.3	54.2
Additions	-	0.7	1.1	-	0.2	2.0
Disposals	-	-	-	(7.9)	-	(7.9)
<b>At 31 December 2008</b>	<b>27.1</b>	<b>13.5</b>	<b>3.2</b>	<b>-</b>	<b>4.5</b>	<b>48.3</b>
<b>Depreciation:</b>						
At 1 January 2008	18.0	7.6	0.9	-	4.0	30.5
Provided in the year	0.5	0.4	0.1	-	0.2	1.2
<b>At 31 December 2008</b>	<b>18.5</b>	<b>8.0</b>	<b>1.0</b>	<b>-</b>	<b>4.2</b>	<b>31.7</b>
<b>Net book value at 31 December 2008</b>	<b>8.6</b>	<b>5.5</b>	<b>2.2</b>	<b>-</b>	<b>0.3</b>	<b>16.6</b>
<b>Cost:</b>						
At 1 January 2007	27.1	11.7	2.0	4.3	4.1	49.2
Additions	-	1.1	0.9	3.6	0.2	5.8
Disposals	-	-	(0.8)	-	-	(0.8)
At 31 December 2007	27.1	12.8	2.1	7.9	4.3	54.2
<b>Depreciation:</b>						
At 1 January 2007	17.5	7.1	1.2	-	4.0	29.8
Provided in the year	0.5	0.5	0.2	-	-	1.2
Disposals	-	-	(0.5)	-	-	(0.5)
At 31 December 2007	18.0	7.6	0.9	-	4.0	30.5
Net book value at 31 December 2007	9.1	5.2	1.2	7.9	0.3	23.7

## NOTES TO THE ACCOUNTS CONTINUED

31 December 2008

### 18. Property and equipment (continued)

Society	Leasehold property enhancements short £m	Fixtures, fittings and motor vehicles £m	Total £m
<b>Cost:</b>			
At 1 January 2008	1.9	4.3	6.2
Additions	1.2	0.2	1.4
<b>At 31 December 2008</b>	<b>3.1</b>	<b>4.5</b>	<b>7.6</b>
<b>Depreciation:</b>			
At 1 January 2008	0.8	4.0	4.8
Provided in the year	0.1	0.1	0.2
<b>At 31 December 2008</b>	<b>0.9</b>	<b>4.1</b>	<b>5.0</b>
<b>Net book value at 31 December 2008</b>	<b>2.2</b>	<b>0.4</b>	<b>2.6</b>
<b>Cost:</b>			
At 1 January 2007	1.9	4.1	6.0
Additions	0.8	0.2	1.0
Disposals	(0.8)	-	(0.8)
At 31 December 2007	1.9	4.3	6.2
<b>Depreciation:</b>			
At 1 January 2007	1.1	4.0	5.1
Provided in the year	0.2	-	0.2
Disposals	(0.5)	-	(0.5)
At 31 December 2007	0.8	4.0	4.8
<b>Net book value at 31 December 2007</b>	<b>1.1</b>	<b>0.3</b>	<b>1.4</b>

## NOTES TO THE ACCOUNTS CONTINUED

31 December 2008

### 19. Investment properties

	Group		Society	
	2008 £m	2007 £m	2008 £m	2007 £m
Freeholds	<b>302.8</b>	382.5	<b>302.8</b>	360.5
Freeholds unit linked	<b>17.0</b>	-	-	-
Long leaseholds	<b>57.4</b>	91.7	<b>57.4</b>	91.7
	<b>377.2</b>	474.2	<b>360.2</b>	452.2

Owner occupied properties in the Group, not held as investments, are shown in note 18. The Group does not hold any investments that the Group occupies.

The market value movements in the year on land and buildings were:

	Group		Society	
	2008 £m	2007 £m	2008 £m	2007 £m
Balance at 1 January	<b>474.2</b>	590.4	<b>452.2</b>	537.2
Additions	<b>39.6</b>	8.0	<b>22.6</b>	8.0
Disposals	<b>(31.4)</b>	(77.4)	<b>(31.4)</b>	(49.7)
Fair value adjustment	<b>(105.2)</b>	(46.8)	<b>(97.4)</b>	(43.3)
Transfer under Part VII of the FSMA	-	-	<b>14.2</b>	-
Balance at 31 December	<b>377.2</b>	474.2	<b>360.2</b>	452.2

All investment properties are valued annually at fair value. They were valued as at 31 December 2008, by qualified professional valuers working for the company of Atisreal Chartered Surveyors, acting in the capacity of external valuers. All such valuers are Chartered Surveyors, being members of The Royal Institution of Chartered Surveyors. All valuations were carried out in accordance with the RICS Appraisal and Valuation Standards. The valuation reports are dated 31 December 2008.

The fair value represents the amount at which the assets could be exchanged between a knowledgeable, willing buyer and a knowledgeable, willing seller in an arm's length transaction at the date of valuation, in accordance with standards issued by the International Valuation Standards Committee. Valuations are performed on an annual basis and the fair value gains and losses are recorded within the income statement.

The Group and Society enter into operating leases for all investment properties. All rents are payable in advance and the rental income arising during the year amounted to £26.5m (2007: £24.8m) for the Group and £23.6m (2007: £23.0m) for the Society, which is included in investment income.

Non recoverable expenses are deducted from rental income for investment properties and amounted to £1.3m (2007: £1.8m) for the Group and £1.3m (2007: £1.8m) for the Society.

The future aggregate minimum lease payments expected to be received in respect of these leases are:

	Group		Society	
	2008 £m	2007 £m	2008 £m	2007 £m
Within one year	<b>34.5</b>	28.6	<b>31.5</b>	26.8
Between two and five years	<b>123.9</b>	99.9	<b>112.1</b>	93.2
Over five years	<b>168.6</b>	140.2	<b>154.7</b>	127.6
	<b>327.0</b>	268.7	<b>298.3</b>	247.6

## NOTES TO THE ACCOUNTS CONTINUED

31 December 2008

### 20. Investments in group undertakings

Society	2008 £m	2007 £m
<b>Shares in subsidiaries</b>		
Cost less provisions at 1 January	747.0	553.1
Additions	43.9	223.4
Disposal	-	(29.5)
	<b>790.9</b>	<b>747.0</b>
<b>Loan stock in subsidiaries</b>		
Cost at 1 January	122.8	40.5
Additions	169.7	82.3
	<b>292.5</b>	<b>122.8</b>
Shares and loan stock in subsidiaries at 31 December	<b>1,083.4</b>	<b>869.8</b>

The Society has examined the carrying value of its subsidiaries and no provision for impairment was considered necessary.

### 21. Derivative financial instruments

The Group uses derivatives to hedge the effect of changes in variable rate borrowings on its fixed rate loan portfolio and to reduce exposure to payouts under guaranteed annuity contracts. Fair values are estimated using current market interest rate data.

Group	2008			2007		
	Contract/ notional amount £m	Fair value – asset £m	Fair value – liability £m	Contract/ notional amount £m	Fair value – asset £m	Fair value – liability £m
Interest rate swaps	431.6	156.2	(11.5)	150.0	-	(0.6)
Interest rate caps	110.6	-	-	110.6	0.6	-
Swap options	203.5	20.1	(0.3)	265.8	18.4	-
Forward exchange contracts	830.2	20.2	(3.5)	-	-	-
Equity/index derivatives	1.7	1.7	-	-	-	-
	<b>1,577.6</b>	<b>198.2</b>	<b>(15.3)</b>	<b>526.4</b>	<b>19.0</b>	<b>(0.6)</b>

Society	2008			2007		
	Contract/ notional amount £m	Fair value – asset £m	Fair value – liability £m	Contract/ notional amount £m	Fair value – asset £m	Fair value – liability £m
Interest rate swaps	286.6	153.0	-	-	-	-
Swap options	203.0	19.3	-	50.0	12.4	-
Forward exchange contracts	830.2	20.2	(3.5)	-	-	-
Equity/index derivatives	1.7	1.7	-	-	-	-
	<b>1,321.5</b>	<b>194.2</b>	<b>(3.5)</b>	<b>50.0</b>	<b>12.4</b>	<b>-</b>

## NOTES TO THE ACCOUNTS CONTINUED

31 December 2008

### 22. Other financial investments

Group	2008				2007			
	Assets held to cover life and pension linked investment contract liabilities £m	Other investments £m	Assets held to cover life and pension linked insurance contract liabilities £m	Total financial investments £m	Assets held to cover life and pension linked investment contract liabilities £m	Other investments £m	Assets held to cover life and pension linked insurance contract liabilities £m	Total financial investments £m
<b>Fair value through profit or loss</b>								
Shares, other variable yield securities and units in unit trusts								
– UK listed	320.2	1,114.6	42.1	1,476.9	179.3	1,885.7	85.9	2,150.9
– UK unlisted	-	150.1	-	150.1	-	216.1	-	216.1
– Overseas listed	-	427.9	-	427.9	-	665.6	-	665.6
– Overseas unlisted	-	163.1	-	163.1	-	85.7	-	85.7
Debt and other fixed income securities								
– UK listed	28.6	2,237.8	59.1	2,325.5	25.7	2,170.5	51.4	2,247.6
– Overseas listed	-	297.1	-	297.1	5.4	34.5	13.7	53.6
Other	12.1	49.9	1.1	63.1	0.6	23.8	0.4	24.8
	<b>360.9</b>	<b>4,440.5</b>	<b>102.3</b>	<b>4,903.7</b>	<b>211.0</b>	<b>4,907.4</b>	<b>151.4</b>	<b>5,444.3</b>

#### Loans and receivables

Deposits with credit institutions	-	364.1	-	364.1	-	222.8	-	222.8
Loans secured by mortgages	-	5.0	-	5.0	-	0.5	-	0.5
Loans secured by policies	-	1.4	-	1.4	-	1.8	-	1.8
Other loans	-	233.9	-	233.9	-	435.8	-	435.8
Other receivables	1.9	39.3	1.0	42.2	-	39.1	-	39.1
	<b>1.9</b>	<b>643.7</b>	<b>1.0</b>	<b>646.6</b>	<b>-</b>	<b>700.0</b>	<b>-</b>	<b>700.0</b>
	<b>362.8</b>	<b>5,084.2</b>	<b>103.3</b>	<b>5,550.3</b>	<b>211.0</b>	<b>5,607.4</b>	<b>151.4</b>	<b>5,969.8</b>

## NOTES TO THE ACCOUNTS CONTINUED

31 December 2008

### 22. Other financial investments (continued)

	2008				2007			
	Assets held to cover life and pension linked investment contract liabilities £m	Other investments £m	Assets held to cover life and pension linked insurance contract liabilities £m	Total financial investments £m	Assets held to cover life and pension linked investment contract liabilities £m	Other investments £m	Assets held to cover life and pension linked insurance contract liabilities £m	Total financial investments £m
<b>Society</b>								
<b>Fair value through profit or loss</b>								
Shares, other variable yield securities and units in unit trusts								
– UK listed	348.4	874.8	42.1	1,265.3	38.5	1,213.7	-	1,252.2
– UK unlisted	-	150.1	-	150.1	-	204.9	-	204.9
– Overseas listed	-	387.3	-	387.3	-	638.6	-	638.6
– Overseas unlisted	-	106.8	-	106.8	-	85.6	-	85.6
Debt and other fixed income securities								
– UK listed	28.6	1,637.1	15.3	1,681.0	5.2	754.5	-	759.7
– Overseas listed	-	198.0	-	198.0	-	25.9	-	25.9
Other	12.1	48.0	1.1	61.2	-	20.7	-	20.7
	<b>389.1</b>	<b>3,402.1</b>	<b>58.5</b>	<b>3,849.7</b>	<b>43.7</b>	<b>2,780.6</b>	<b>-</b>	<b>2,987.6</b>
<b>Loans and receivables</b>								
Deposits with credit institutions	-	68.0	-	68.0	-	-	-	-
Loans secured by policies	-	1.3	-	1.3	-	0.6	-	0.6
Other loans	-	1.1	-	1.1	-	1.3	-	1.3
Amounts due from other group companies	-	87.0	-	87.0	-	56.5	-	56.5
Other receivables	1.9	27.2	1.0	30.1	-	13.9	-	13.9
	<b>1.9</b>	<b>184.6</b>	<b>1.0</b>	<b>187.5</b>	<b>-</b>	<b>72.3</b>	<b>-</b>	<b>72.3</b>
	<b>391.0</b>	<b>3,586.7</b>	<b>59.5</b>	<b>4,037.2</b>	<b>43.7</b>	<b>2,852.9</b>	<b>-</b>	<b>2,896.6</b>

The carrying amounts disclosed above reasonably approximate fair value at the balance sheet date.

Included within other loans are loans subject to securitisation to banking customers. These amount to £172m (2007: £274m). A subsidiary, Liverpool Victoria Banking Services Limited (LVBS), securitised these unsecured personal loan receivables to a special purpose securitisation company, Gresham Receivables (No.2) UK Limited (Gresham), in return for non-returnable finance of £150m (2007: £251m). The £31m (2007: £23m) balance of the consideration is deferred and repayable in line with loan customer receipts. The securitisation agreement provides for the management of the loans by LVBS, and that LVBS has the facility to offer to replace loan amounts repaid with further personal loans advanced meeting the qualifying criteria of Gresham.

Should the receipts from the personal loan receivables exceed interest and principal loan liabilities due to Gresham, the surplus is due to LVBS. LVBS is under no obligation to support any losses that may be incurred by Gresham and does not intend to provide such support. The terms of the securitisation contract state that Gresham will only seek repayments of the finance to the extent that sufficient funds are generated by the personal loan balances, and that it will not seek recourse in any other form.

The income statement includes the following amounts, which relate to personal loan balances held by Gresham:

Group	2008 £m	2007 £m
Interest receivable and similar income	16.5	18.0
Interest payable	(11.4)	(14.4)
Impairment losses on loans and advances	(11.0)	(13.1)

These are included within investment income and other operating and administrative expenses within the income statement.

## NOTES TO THE ACCOUNTS CONTINUED

31 December 2008

### 23. Reinsurance assets

	Notes	Group		Society	
		2008 £m	2007 £m	2008 £m	2007 £m
Reinsurers' share of provision for unearned premiums	29a	9.6	5.2	-	-
Reinsurers' share of life and pensions insurance contract liabilities	29a	47.1	65.3	246.3	244.7
Reinsurers' share of linked life and pensions insurance contract liabilities	29a	(0.8)	2.5	43.0	-
Reinsurers' share of claims outstanding	29a	80.1	14.6	-	-
		<b>136.0</b>	<b>87.6</b>	<b>289.3</b>	<b>244.7</b>

The carrying amounts disclosed above reasonably approximate fair value at the balance sheet date.

### 24. Tax receivable

	Group		Society	
	2008 £m	2007 £m	2008 £m	2007 £m
Deferred taxation	29.2	-	-	-
	<b>29.2</b>	<b>-</b>	<b>-</b>	<b>-</b>

The carrying amounts disclosed above reasonably approximate fair value at the balance sheet date.

The asset at the end of the year is expected to be recovered over the next five years as expected taxable profits emerge.

### 25. Insurance receivables

	Group		Society	
	2008 £m	2007 £m	2008 £m	2007 £m
Due from policyholders	85.6	76.1	0.8	0.5
Due from agents, brokers and intermediaries	36.8	1.2	0.6	-
Due from reinsurers	15.7	16.2	10.9	-
	<b>138.1</b>	<b>93.5</b>	<b>12.3</b>	<b>0.5</b>

The carrying amounts disclosed above reasonably approximate fair value at the balance sheet date.

### 26. Deferred acquisition costs

Group	Life and pensions insurance contracts £m	Life and pensions linked investment contracts £m	General insurance contracts £m	Total £m
<b>Cost:</b>				
At 1 January 2008	115.3	1.8	14.4	131.5
Acquisition	-	-	17.0	17.0
Expenses deferred	37.7	(1.8)	64.0	99.9
Amortisation	(27.0)	-	(50.7)	(77.7)
Write-off following transfer under Part VII of the FSMA	(76.3)	-	-	(76.3)
<b>At 31 December 2008</b>	<b>49.7</b>	<b>-</b>	<b>44.7</b>	<b>94.4</b>
<b>Cost:</b>				
At 1 January 2007	108.2	-	10.6	118.8
Expenses deferred	31.8	1.9	27.0	60.7
Amortisation	(24.7)	(0.1)	(23.2)	(48.0)
At 31 December 2007	115.3	1.8	14.4	131.5

## NOTES TO THE ACCOUNTS CONTINUED

31 December 2008

### 26. Deferred acquisition costs (continued)

Society	Life and pensions insurance contracts £m	Life and pensions linked investment contracts £m	Total £m
<b>Cost:</b>			
At 1 January 2008	-	1.8	1.8
Expenses deferred	-	(1.8)	(1.8)
Amortisation	0.4	-	0.4
<b>At 31 December 2008</b>	<b>0.4</b>	<b>-</b>	<b>0.4</b>

Cost:

At 1 January 2007	-	-	-
Expenses deferred	-	1.9	1.9
Amortisation	-	(0.1)	(0.1)
At 31 December 2007	-	1.8	1.8

The deferred acquisition costs relating to the business transferred under the Part VII have been written off and replaced by an amount included in insurance contract liabilities for the present value of future profits on non-participating business written in a with-profits fund. This has been included within Other in Note 29.

### 27. Prepayments and accrued income

	Group		Society	
	2008 £m	2007 £m	2008 £m	2007 £m
Accrued dividends	1.1	5.5	1.1	4.3
Accrued interest	51.8	40.9	32.6	9.6
Other prepayments and accrued income	14.3	19.3	6.0	12.2
	<b>67.2</b>	<b>65.7</b>	<b>39.7</b>	<b>26.1</b>

### 28. Cash and cash equivalents

	Group		Society	
	2008 £m	2007 £m	2008 £m	2007 £m
Bank balances	185.6	132.4	9.6	14.7
Bank balances - linked contracts	11.2	-	-	-
Short term bank deposits	547.8	611.8	223.8	312.7
Short term bank deposits - linked contracts	5.0	45.1	5.0	39.5
<b>Cash and cash equivalents per balance sheet</b>	<b>749.6</b>	<b>789.3</b>	<b>238.4</b>	<b>366.9</b>
Bank overdrafts (Note 39)	(23.0)	(22.9)	(13.2)	(6.2)
<b>Cash and cash equivalents per cash flow statement</b>	<b>726.6</b>	<b>766.4</b>	<b>225.2</b>	<b>360.7</b>

The carrying amounts disclosed above reasonably approximate fair value at the balance sheet date.

### 29. Insurance contract liabilities

#### a) Analysis of insurance contract liabilities and reinsurance assets

Group	Notes	2008			2007		
		Gross £m	Reinsurance £m	Net £m	Gross £m	Reinsurance £m	Net £m
Life and pension insurance contract liabilities	29b	4,195.5	(47.1)	4,148.4	4,801.7	(65.3)	4,736.4
Life and pension linked insurance contract liabilities	29c	102.5	0.8	103.3	156.1	(2.5)	153.6
Life and pension claims liabilities	29d	50.1	-	50.1	50.5	-	50.5
		<b>4,348.1</b>	<b>(46.3)</b>	<b>4,301.8</b>	<b>5,008.3</b>	<b>(67.8)</b>	<b>4,940.5</b>

General insurance claims liabilities	29e	762.8	(80.1)	682.7	437.1	(14.6)	422.5
General insurance unearned premiums	29f	321.4	(9.6)	311.8	183.2	(5.2)	178.0
		<b>1,084.2</b>	<b>(89.7)</b>	<b>994.5</b>	<b>620.3</b>	<b>(19.8)</b>	<b>600.5</b>
		<b>5,432.3</b>	<b>(136.0)</b>	<b>5,296.3</b>	<b>5,628.6</b>	<b>(87.6)</b>	<b>5,541.0</b>

## NOTES TO THE ACCOUNTS CONTINUED

31 December 2008

### 29. Insurance contract liabilities (continued)

#### a) Analysis of insurance contract liabilities and reinsurance assets (continued)

Society	Notes	2008			2007		
		Gross £m	Reinsurance £m	Net £m	Gross £m	Reinsurance £m	Net £m
Life and pension insurance contract liabilities	29b	4,165.2	(246.3)	3,918.9	3,287.1	(244.7)	3,042.4
Life and pension linked insurance contract liabilities	29c	102.5	(43.0)	59.5	-	-	-
Life and pension claims liabilities	29d	50.0	-	50.0	24.8	-	24.8
		<b>4,317.7</b>	<b>(289.3)</b>	<b>4,028.4</b>	<b>3,311.9</b>	<b>(244.7)</b>	<b>3,067.2</b>

#### b) Movement in life and pension insurance contract liabilities

Group	2008			2007		
	Gross £m	Reinsurance £m	Net £m	Gross £m	Reinsurance £m	Net £m
Balance at 1 January	4,801.7	(65.3)	4,736.4	5,186.0	(63.9)	5,122.1
Premiums received	138.9	(24.5)	114.4	199.8	(25.5)	174.3
Liabilities paid for death maturities, surrenders, benefits & claims	(819.6)	22.4	(797.2)	(662.4)	24.1	(638.3)
New business	221.2	0.3	221.5	68.2	(3.0)	65.2
Benefits and claims variation	98.4	8.6	107.0	(203.8)	7.3	(196.5)
Fees deducted	(33.9)	-	(33.9)	(33.6)	-	(33.6)
Accretion of investment income or change in unit prices	(71.7)	(0.3)	(72.0)	268.9	-	268.9
Mortality/morbidity	(43.0)	0.5	(42.5)	2.0	2.0	4.0
Investment return	-	-	-	(11.3)	-	(11.3)
Expense	38.7	-	38.7	(3.6)	-	(3.6)
Lapse and surrender rates	(56.6)	-	(56.6)	(19.1)	6.2	(12.9)
Discount rate	41.7	(0.1)	41.6	3.4	(1.1)	2.3
Model changes	(77.6)	0.4	(77.2)	13.9	(9.9)	4.0
Other	(42.7)	10.9	(31.8)	(6.7)	(1.5)	(8.2)
Balance at 31 December	<b>4,195.5</b>	<b>(47.1)</b>	<b>4,148.4</b>	<b>4,801.7</b>	<b>(65.3)</b>	<b>4,736.4</b>

Society	2008			2007		
	Gross £m	Reinsurance £m	Net £m	Gross £m	Reinsurance £m	Net £m
Balance at 1 January	3,287.1	(244.7)	3,042.4	3,570.1	(291.2)	3,278.9
Premiums received	66.2	(69.4)	(3.2)	67.3	-	67.3
Liabilities paid for death maturities, surrenders, benefits & claims	(600.0)	95.6	(504.4)	(402.0)	25.9	(376.1)
New business	206.4	-	206.4	56.1	-	56.1
Benefits and claims variation	179.2	(60.4)	118.8	(219.9)	38.8	(181.1)
Fees deducted	(16.0)	-	(16.0)	(18.7)	-	(18.7)
Accretion of investment income or change in unit prices	(181.4)	88.3	(93.1)	195.9	(18.2)	177.7
Mortality/morbidity	(38.4)	-	(38.4)	6.0	-	6.0
Investment return	-	-	-	(11.3)	-	(11.3)
Expense	36.4	-	36.4	(5.4)	-	(5.4)
Lapse and surrender rates	0.8	-	0.8	28.1	-	28.1
Discount rate	44.7	-	44.7	(5.4)	-	(5.4)
Model changes	(86.9)	-	(86.9)	14.4	-	14.4
Transfer Under Part VII of the FSMA	1,311.0	(46.7)	1,264.3	-	-	-
Other	(43.9)	(9.0)	(52.9)	11.9	-	11.9
Balance at 31 December	<b>4,165.2</b>	<b>(246.3)</b>	<b>3,918.9</b>	<b>3,287.1</b>	<b>(244.7)</b>	<b>3,042.4</b>

## NOTES TO THE ACCOUNTS CONTINUED

31 December 2008

### 29. Insurance contract liabilities (continued)

#### c) Movement in life and pension linked insurance contract liabilities

Group	2008			2007		
	Gross £m	Reinsurance £m	Net £m	Gross £m	Reinsurance £m	Net £m
Balance at 1 January	156.1	(2.5)	153.6	184.7	(1.0)	183.7
Premiums received	25.5	(2.2)	23.3	30.0	(6.9)	23.1
Liabilities paid for death maturities, surrenders, benefits & claims	(45.6)	4.8	(40.8)	(48.0)	6.7	(41.3)
New business	(0.3)	(0.2)	(0.5)	2.7	(0.8)	1.9
Benefits and claims variation	(1.5)	0.2	(1.3)	(8.0)	0.3	(7.7)
Fees deducted	(3.3)	0.3	(3.0)	(4.1)	-	(4.1)
Accretion of investment income or change in unit prices	(14.9)	(0.3)	(15.2)	13.7	-	13.7
Mortality/morbidity	(4.2)	0.1	(4.1)	(0.9)	0.5	(0.4)
Expense	0.3	-	0.3	0.4	-	0.4
Lapse and surrender rates	0.2	0.9	1.1	(10.5)	1.7	(8.8)
Discount rate	2.5	-	2.5	1.0	(0.3)	0.7
Model changes	(9.2)	(0.1)	(9.3)	(0.2)	(2.7)	(2.9)
Other	(3.1)	(0.2)	(3.3)	(4.7)	-	(4.7)
Balance at 31 December	102.5	0.8	103.3	156.1	(2.5)	153.6

Society	2008			2007		
	Gross £m	Reinsurance £m	Net £m	Gross £m	Reinsurance £m	Net £m
Premiums received	-	(43.8)	(43.8)	-	-	-
Transfer under Part VII of the FSMA	102.5	0.8	103.3	-	-	-
Balance at 31 December	102.5	(43.0)	59.5	-	-	-

#### d) Movement in life and pension claims liabilities

Group	2008			2007		
	Gross £m	Reinsurance £m	Net £m	Gross £m	Reinsurance £m	Net £m
Balance at 1 January	50.5	-	50.5	53.2	-	53.2
Movement in linked funds claims liabilities	(0.3)	-	(0.3)	(0.1)	-	(0.1)
Claims incurred	711.9	(25.5)	686.4	881.1	(20.5)	860.6
Claims paid during the year	(712.0)	25.5	(686.5)	(883.7)	20.5	(863.2)
Balance at 31 December	50.1	-	50.1	50.5	-	50.5

Society	2008			2007		
	Gross £m	Reinsurance £m	Net £m	Gross £m	Reinsurance £m	Net £m
Balance at 1 January	24.8	-	24.8	30.2	-	30.2
Claims incurred	429.7	(42.1)	387.6	608.4	(64.8)	543.6
Claims paid during the year	(428.0)	42.1	(385.9)	(613.8)	64.8	(549.0)
Transfer under Part VII of the FSMA	23.5	-	23.5	-	-	-
Balance at 31 December	50.0	-	50.0	24.8	-	24.8

#### e) Movement in general insurance claims liabilities

Group	2008			2007		
	Gross £m	Reinsurance £m	Net £m	Gross £m	Reinsurance £m	Net £m
Balance at 1 January	437.1	(14.6)	422.5	405.0	(3.1)	401.9
Movement in claims incurred in prior accident years	(64.9)	6.2	(58.7)	(67.7)	(8.5)	(76.2)
Claims incurred in the current accident year	403.7	(8.2)	395.5	391.8	(4.4)	387.4
Claims paid during the year	(340.1)	1.1	(339.0)	(292.0)	1.4	(290.6)
Acquisitions	327.0	(64.6)	262.4	-	-	-
Balance at 31 December	762.8	(80.1)	682.7	437.1	(14.6)	422.5

## NOTES TO THE ACCOUNTS CONTINUED

31 December 2008

### 29. Insurance contract liabilities (continued)

#### f) Movement in general insurance unearned premiums

Group	2008			2007		
	Gross £m	Reinsurance £m	Net £m	Gross £m	Reinsurance £m	Net £m
Balance at 1 January	183.2	(5.2)	178.0	179.5	(5.1)	174.4
Premiums written in the year	445.2	(12.1)	433.1	346.6	(11.0)	335.6
Premiums earned during the year	(423.5)	13.0	(410.5)	(342.9)	10.9	(332.0)
Acquisitions	116.5	(5.3)	111.2	-	-	-
Balance at 31 December	321.4	(9.6)	311.8	183.2	(5.2)	178.0

### 30. Investment contract liabilities

Group	2008			2007		
	Gross £m	Reinsurance £m	Net £m	Gross £m	Reinsurance £m	Net £m
Balance at 1 January	253.9	-	253.9	178.6	-	178.6
Deposits received from policyholders	230.0	-	230.0	98.1	-	98.1
Payments made to policyholders and fees deducted	(53.6)	-	(53.6)	(37.2)	-	(37.2)
Movement in assets	(2.1)	-	(2.1)	-	-	-
Investments fair value adjustment	-	-	-	1.0	-	1.0
Change in technical provision as shown in the income statement	(32.2)	-	(32.2)	13.4	-	13.4
Balance at 31 December	396.0	-	396.0	253.9	-	253.9

Society	2008			2007		
	Gross £m	Reinsurance £m	Net £m	Gross £m	Reinsurance £m	Net £m
Balance at 1 January	83.2	-	83.2	-	-	-
Deposits received from policyholders	230.0	-	230.0	98.1	-	98.1
Payments made to policyholders and fees deducted	(36.5)	-	(36.5)	(15.9)	-	(15.9)
Movement in assets	(2.1)	-	(2.1)	-	-	-
Investments fair value adjustment	-	-	-	1.0	-	1.0
Transfer under Part VII of the FSMA	121.4	-	121.4	-	-	-
Balance at 31 December	396.0	-	396.0	83.2	-	83.2

### 31. Unallocated divisible surplus

	Group		Society	
	2008 £m	2007 £m	2008 £m	2007 £m
Balance at 1 January	1,319.3	1,269.6	1,447.7	1,409.4
Change in the year	(202.0)	49.7	(136.0)	38.3
Balance at 31 December	1,117.3	1,319.3	1,311.7	1,447.7

Cumulative goodwill of £199.8m in the Group (£62.2m in the Society) has been eliminated against the unallocated divisible surplus.

## NOTES TO THE ACCOUNTS CONTINUED

31 December 2008

### 32. Life and pension insurance and investment contract liabilities valuation assumptions

The basis of the calculation of the life and pensions insurance contract liabilities is described in the accounting policies. The liability is calculated separately for each life operation. Material judgement is required in calculating the liability. In particular there is discretion over the assumptions used. For participating business, the liability is calculated in accordance with the FSA's realistic capital regime, adjusted to exclude the shareholder's share of the future bonuses (in subsidiaries) and the associated tax liability. Non participating liabilities are valued using a gross premium method.

In calculating the realistic liabilities, account has also been taken of future management actions consistent with those set out in the Principles and Practices of Financial Management. The most significant of these are changes to bonus assumptions and level of payouts.

The assumptions used to calculate the liability depend on the circumstances prevailing in each of the life operations. The assumptions used in determining the liability are estimated to give a result within the normal range of outcomes. To the extent that the ultimate cost differs to the amounts provided, for example where experience is worse than that assumed, the surplus or deficit will be credited or charged to the income statement in future years.

When valuing options and guarantees the asset model used was the Barrie and Hibbert Market-Consistent Asset Model. This is a deflator model based on published financial economic theory that is capable of market-consistent valuations for multiple asset classes in multiple currencies. For this valuation it was calibrated to market data as at 31 December 2008 and is representative of the nature and term of the guarantees inherent in with-profits business within the with-profits funds.

#### a) Society

##### i) Participating business

For participating business, a market consistent valuation is used to calculate the liability. This involves placing a value on liabilities similar to the market value of assets with similar cash flow patterns. The key assumptions used in this valuation are set out in the tables below.

#### Interest Rates

The risk free interest rates assumed are:

Year	2008	2007
5	2.84%	4.62%
15	4.08%	4.64%
25	4.04%	4.47%
35	3.82%	4.30%

#### Other assumptions

Best estimate assumptions are set for inflation, mortality, expenses and persistency. The future expense inflation assumption is modelled as RPI plus 1% (2007: RPI plus 1.0%), where RPI is modelled stochastically (2007: cash less 0.8%).

Asset mix for assets backing asset shares at the valuation date:	2008	2007
Cash	6.0%	6.0%
Fixed interest	19.0%	19.0%
Equities	60.0%	60.0%
Property	15.0%	15.0%

Mortality rate tables	2008	2007
Conventional Life Business	75% AM80 Females -3	75% AM80 Females-3
Conventional Pensions Business	70% AM80 Females -3	70% AM80 Females-3
Conventional Industrial Branch Business	45% ELT14M	60% ELT14M
Non Unitised Accumulating Pensions Business	70% AM80	70% AM80
Unitised Accumulating Life Business	80% AM80 Select/AF80 Select	80% AM/F80
Unitised Accumulating Pensions Business	80% AM80	80% AM80
Unitised Accumulating Bond Business	80% AM80 2 year select	80% AM80 2 year select
Unitised Accumulating Life ISA Business	80% AM80	80% AM/F80 select
Annuities in Payment	RV92 av of med and long cohort	95% RM/FV92mc (YoB)

Per policy expenses – regular premiums	2008	2007
Conventional Life Business	£22.00	£15.80
Conventional Pensions Business	£26.50	£34.10
Conventional Industrial Branch Business	£12.60	£12.50
Non Unitised Accumulating Pensions Business	£16.60	£9.80
Unitised Accumulating Life Business	£34.30	£38.30
Unitised Accumulating Pensions Business	£44.10	£49.40
Unitised Accumulating Bond Business	£34.70	£24.40
Unitised Accumulating Life ISA Business	£40.70	£38.80
Annuities in Payment	£39.50	£23.20

A percentage of these amounts is used for single premium and paid up policies.

## NOTES TO THE ACCOUNTS CONTINUED

31 December 2008

### 32. Life and pension insurance and investment contract liabilities valuation assumptions (continued)

#### Persistency – lapses, surrenders and paid up rates

A review of persistency is carried out annually. Assumptions are adjusted where necessary to reflect more recent experience as evidenced in the persistency trend analysis, or to reflect expected future trends as a result of anticipated future events.

#### Options and guarantees

There are no guaranteed annuity or financial options within the LVFS with-profits fund. There is an additional reserve calculated on a market consistent basis to cover MVR free guarantees on with-profits bonds.

#### Bonuses

The cost of bonuses incurred during the year ended 31 December 2008 was £76.5m (2007: £92.5m) of which £9.1m (2007: £10.0m) was included in the life and pensions insurance contract liabilities and £67.4m (2007: £82.4m) was included in gross benefits and claims paid in the income statement.

#### ii) Non participating business

Interest rate	2008	2007
Non-profit temporary assurances (original LVFS)	4.20%	3.30%
Non-profit temporary assurances	2.64%	3.04%
Other assurances	2.64%	3.04%
Permanent health insurance:		
a) active lives	3.30%	3.80%
b) claims reserves	3.10%	4.05%
Annuities in payment	3.10%	4.05%

Mortality rate tables	2008	2007
Non-profit temporary assurances (original LVFS)	90% AM80 Females -3	A67/70 -1M -4F
Non-profit temporary assurances	TM92/TF92	TM92/TF92
Other assurances	AM92/AF92	AM92/AF92
Permanent health insurance:		
a) active lives	CMIR12	CMIR12
b) claims reserves	CMIR12	CMIR12
Annuities in payment	90% RV92av mc/lc c2026	90% RV92av mc/lc c2026

Appropriate adjustments were made to the standard mortality tables to take account of actual experience and publicly available market data.

Per policy expenses – regular premiums	2008	2007
Non-profit temporary assurances	£24.44	£22.00
Other assurances	£38.72	£33.66
Permanent health insurance:		
a) active lives	£28.52	£33.00
b) claims reserves	£430.10	£401.50
Annuities in payment	£43.42	£29.70

#### Options and guarantees

There are no significant options and guarantees in the non participating business.

#### iii) Linked fund

The provision for unit linked pensions is equal to the value of the assets to which the contracts are linked. There is one product included within the linked fund which is classified as an investment product and the liability is included within the life and pension linked insurance contract liabilities.

The provision for property-linked liabilities is equal to the value of the assets to which the contracts are linked and is included within investment contract liabilities.

The provisions for index-linked permanent health insurance claims and index-linked temporary assurances have been calculated using the same mortality and morbidity assumptions as used for the corresponding non-linked liabilities for both 2008 and 2007. They are included within the life and pension unit linked insurance contract liabilities.

## NOTES TO THE ACCOUNTS CONTINUED

31 December 2008

### 32. Life and pension insurance and investment contract liabilities valuation assumptions (continued)

Interest rate	2008	2007
Unit linked pensions (original LVFS)	4.40%	3.75%
Non-profits temporary assurances	(0.36)%	0.09%
Permanent health insurance:		
a) active lives	0.30%	0.85%
b) claims reserves	1.30%	1.10%

#### b) Liverpool Victoria Life Company Limited - Ordinary Long term Fund

##### i) Participating business

For participating business, a market consistent valuation is used to calculate the liability. This involves placing a value on liabilities similar to the market value of assets with similar cash flow patterns. The key assumptions used in this valuation are set out in the tables below.

##### Interest Rates

The risk free interest rates assumed are:

Year	2008	2007
5	2.84%	4.62%
15	4.08%	4.64%
25	4.04%	4.47%
35	3.82%	4.30%

##### Other assumptions

Best estimate assumptions are set for inflation, mortality, expenses and persistency. The future expense inflation assumption is modelled as RPI plus 1% (2007: RPI plus 1.0%), where RPI is modelled as the nominal yields on cash less 0.8% (2007: cash less 0.8%).

Asset mix for assets backing asset shares at the valuation date:	2008	2007
Equities	100.0%	100.0%

Mortality rate tables	2008	2007
Conventional Life Business	75% AM80 Females -3	75% AM80 Females-3
Reassurance Accepted Unitised Life Business	80% AM80 2 year select	80% AM80 2 year select

Per policy expenses – regular premiums	2008	2007
Conventional Life Business	£22.00	£15.80
Reassurance Accepted Unitised Life Business	£34.70	£24.40

A percentage of these amounts is used for paid up policies.

##### Persistency - lapses, surrenders and paid up rates

A review of persistency is carried out annually. Assumptions are adjusted where necessary to reflect more recent experience as evidenced in the persistency trend analysis, or to reflect expected future trends as a result of anticipated future events.

##### Options and Guarantees

There are no significant options or guarantees in the Liverpool Victoria Life Company with-profits fund.

##### Bonuses

The cost of bonuses incurred during the year ended 31 December 2008 was £nil (2007: £nil) which was included in gross benefits and claims paid in the income statement.

##### Other

This business was transferred from Liverpool Victoria Life Company Limited to Liverpool Victoria Friendly Society on 31 December 2008 under Part VII of the Financial Services and Markets Act 2000. All policies were converted to non profit on transfer.

## NOTES TO THE ACCOUNTS CONTINUED

31 December 2008

### 32. Life and pension insurance and investment contract liabilities valuation assumptions (continued)

#### ii) Non participating business

Interest rate	2008	2007
Non-profit temporary assurances	2.64%	3.04%
Other assurances	2.64%	3.04%
Permanent health insurance:		
a) active lives	3.30%	3.80%
b) claims reserves	3.10%	4.05%
Annuities in payment	3.10%	4.05%

Mortality rate tables	2008	2007
Non-profit temporary assurances	TM92/TF92	TM92/TF92
Other assurances	AM92/AF92	AM92/AF92
Permanent health insurance:		
a) active lives	CMIR12	CMIR12
b) claims reserves	CMIR12	CMIR12
Annuities in payment	90% RV92av mc/lc c2026	90% RV92av mc/lc c2026

Per policy expenses – regular premiums	2008	2007
Non-profit temporary assurances	£24.44	£22.00
Other assurances	£38.72	£33.66
Permanent health insurance:		
a) active lives	£28.52	£33.00
b) claims reserves	£430.10	£401.50
Annuities in payment	£43.42	£29.70

##### Options and guarantees

There are no significant options and guarantees in the non participating business.

#### iii) Linked fund

The provision for property-linked liabilities is equal to the value of the assets to which the contracts are linked and is included within investment contract liabilities.

The provisions for index-linked permanent health insurance claims and index-linked temporary assurances have been calculated using the same mortality and morbidity assumptions as used for the corresponding non-linked liabilities for both 2008 and 2007. They are included within the life and pension unit linked insurance contract liabilities.

Interest rate	2008	2007
Non-profits temporary assurances	(0.36)%	0.09%
Permanent health insurance:		
a) active lives	0.30%	0.85%
b) claims reserves	1.30%	1.10%

#### c) Liverpool Victoria Life Company Limited to 31 December 2008, Society on 31 December 2008 (following Part VII transfer) - RNPFN fund

##### i) Participating business

For participating business, a market consistent valuation is used to calculate the liability. This involves placing a value on liabilities similar to the market value of assets with similar cash flow patterns. The key assumptions used in this valuation are set out in the tables below

##### Interest Rates

The risk free interest rates assumed are:

Year	2008	2007
5	2.84%	4.62%
15	4.08%	4.64%
25	4.04%	4.47%
35	3.82%	4.30%

## NOTES TO THE ACCOUNTS CONTINUED

31 December 2008

### 32. Life and pension insurance and investment contract liabilities valuation assumptions (continued)

#### Other assumptions

Best estimate assumptions are set for inflation, mortality, expenses and persistency. The future expense inflation assumption is modelled as RPI plus 1% (2007: RPI plus 1.0%), where RPI is modelled stochastically (2007: cash less 0.8%).

Asset mix for assets backing asset shares at the valuation date:	2008	2007
Cash	9.4%	4.2%
Fixed interest	65.8%	60.1%
Equities	21.8%	32.6%
Property	3.0%	3.2%

Mortality rate tables	2008	2007
Conventional Life Business	100% AM/F92 ult	AM/F92 ult
Life Deferred Annuities	100% AM/F92 ult	100% AM/F92
Pension Deferred annuities	100% AM/F92 ult	100% AM/F92
Unitised with-profits Business	100% A67/70 ult	A67/70 ult
Annuities in payment (Male)	72% IML00 with improvements of 120% medium cohort over 2000 to 2004 and future improvements 120% medium cohort sbt a floor of 1.5%	72% IML00 with improvements of 120% medium cohort over 2000 to 2004 and future improvements 120% medium cohort sbt a floor of 1.5%
Annuities in payment (Female)	85% IFL00 with improvements of greater of 90% of medium cohort and CMIR17 over 2000 to 2004 and future improvements of greater of 90% medium cohort and CMIR17 subject to a 1.5% floor.	85% of IFL00 with improvements of greater of 90% of medium cohort and CMIR17 over 2000 to 2004 and future improvements of greater of 90% medium cohort and CMIR17 subject to a 1.5% floor.

Per policy expenses – regular premiums	2008	2007
Conventional Life Business	£14.45	£13.89
Pensions Deferred annuities	£27.05	£26.01
Life Deferred annuities	£13.91	£13.37
Unitised with-profits ISA	£14.12	£13.58
Unitised with-profits bond	£14.45	£13.89

#### Persistency - lapses, surrenders and paid up rates

A review of persistency is carried out annually. Assumptions are adjusted where necessary to reflect more recent experience as evidenced in the persistency trend analysis, or to reflect expected future trends as a result of anticipated future events.

#### Options and guarantees

The provisions held in respect of guaranteed annuity options are determined on a market consistent basis. The total amount provided in respect of the future costs of the options and guarantees was £79.3m (2007: £71.2m).

#### Bonuses

The cost of bonuses incurred during the year ended 31 December 2008 was £38.1m (2007: £32.1m) of which £1.8m (2007: £1.8m) was included in the life and pensions insurance contract liabilities and £36.3m (2007: £30.3m) was included in gross benefits and claims paid in the income statement.

#### ii) Non participating business

Interest rate	2008	2007
Non-profits assurances	2.40%	3.36%
Non-profits general deferred annuities	2.40%	3.36%
Annuities in Payment (post 31/12/91)	2.40%	3.36%
Annuities in Payment (other)	3.00%	4.20%
Pension Deferred Annuities	3.00%	4.20%

## NOTES TO THE ACCOUNTS CONTINUED

31 December 2008

### 32. Life and pension insurance and investment contract liabilities valuation assumptions (continued)

Mortality rate tables	2008	2007
Non-profits assurances	120% AM/F92 ult	A49/52
Non-profits general deferred annuities	80% AM/F92 ult	80% AM/F92
Annuities in Payment (Male)	57.6% IML00 with improvements of 120% medium cohort over 2000 to 2004 and future improvements 120% medium cohort sbt a floor of 1.5%	57.6% IML00 with improvements of 120% medium cohort over 2000 to 2004 and future improvements 120% medium cohort sbt a floor of 1.5%
Annuities in Payment (Female)	68% IFL00 with improvements of greater of 90% of medium cohort and CMIR17 over 2000 to 2004 and future improvements of greater of 90% medium cohort and CMIR17 subject to a 1.5% floor.	68% of IFL00 with improvements of greater of 90% of medium cohort and CMIR17 over 2000 to 2004 and future improvements of greater of 90% medium cohort and CMIR17 subject to a 1.5% floor.
Pension Deferred Annuities	80% AM/F92 ult	80% AM/F92

Appropriate adjustments were made to the standard mortality tables to take account of actual experience and publicly available market data.

The provision for linked and unitised with-profits contracts is equal to the value of the units. A non-unit liability consisting mainly of a sterling reserve calculated by carrying out cashflow projections on appropriate bases is included within the liability.

#### Options and guarantees

There are no significant options or guarantees in the non participating business.

#### iii) Linked fund

The provision for unit linked assurances is equal to the value of the assets to which the contracts are linked. There are two products included within the linked fund, one is classified as an investment product and the liability is included within the life and pension unit linked insurance contract liabilities, the other is classified as an insurance product and the liability is included within the investment contract liabilities.

Interest rate	2008	2007
Unit linked assurances	2.40%	3.36%

Mortality rate tables	2008	2007
Unit linked assurances	120% AM/F92 ult	A67/70 ult

### 33. Borrowings

Borrowings represent non-returnable finance for unsecured personal loan receivables securitised to Gresham Receivables (No.2) UK Limited (a special purpose securitisation company).

The carrying amounts reasonably approximate fair value at the balance sheet date.

## NOTES TO THE ACCOUNTS CONTINUED

31 December 2008

### 34. Other financial liabilities

	Group		Society	
	2008 £m	2007 £m	2008 £m	2007 £m
Debenture loan notes (at libor)	-	9.5	-	9.5
Deposits by banks	0.4	2.1	-	-
Banking customer accounts	60.8	93.2	-	-
Bank loan (at 1.47% over libor)	10.0	-	-	-
Subordinated note (£12m - interest payable at the 3 month Euro Deposit Rate plus a margin of 3.65%)	11.4	-	-	-
	<b>82.6</b>	<b>104.8</b>	<b>-</b>	<b>9.5</b>

The carrying amounts disclosed above reasonably approximate fair value at the balance sheet date.

### 35. Provisions

#### a) Carrying amounts

	Notes	Group		Society	
		2008 £m	2007 £m	2008 £m	2007 £m
Pension benefit obligation	36	8.8	-	-	-
Other provisions	35b	100.7	83.0	51.6	15.0
		<b>109.5</b>	<b>83.0</b>	<b>51.6</b>	<b>15.0</b>

#### b) Movement during the year on other provisions

	Group		Society	
	Other provisions £m	Total £m	Other provisions £m	Total £m
Balance at 1 January 2008	83.0	83.0	15.0	15.0
Charge/(credit) to the income statement	54.7	54.7	37.4	37.4
Utilised during the year	(37.0)	(37.0)	(0.8)	(0.8)
<b>Balance at 31 December 2007</b>	<b>100.7</b>	<b>100.7</b>	<b>51.6</b>	<b>51.6</b>

Amounts utilised during the year include a fine of £0.8m from the FSA due to historical inadequacies in the Group's PPI sales process.

#### c) Other provisions

Other provisions relate to:

	Group		Society	
	2008 £m	2007 £m	2008 £m	2007 £m
Losses on uneconomic contracts related to banking and losses on banking products	46.4	72.9	2.5	8.6
Unused premises	3.0	3.2	0.6	0.9
Outsourcing and decommissioning IT systems	0.2	1.9	-	0.5
Compensation payables on customer complaints	2.6	5.0	-	5.0
Earnout payments	48.5	-	48.5	-
	<b>100.7</b>	<b>83.0</b>	<b>51.6</b>	<b>15.0</b>

Provisions relative to banking will be utilised during the period to 2023.

Earnout payments are payable during the period to 2012 and relate to the acquisition of the Tomorrow Group in 2007 and the ABC acquisition in 2006.

## NOTES TO THE ACCOUNTS CONTINUED

31 December 2008

### 36. Pension benefit asset/(obligation)

#### 36i. Liverpool Victoria

##### a. Information about the scheme

- The Society is responsible for the LV= Employee Pension Scheme (LV= Scheme) a defined benefit pension scheme, open to new entrants.
- The last full actuarial assessment was performed as at 31 March 2006 and showed a surplus of £56.9m. The figures shown in this note, have been projected from that date with changed assumptions to reflect the requirements of the IAS19.

##### b. Disclosed expense

	2008 £m	2007 £m
Employer service cost	18.6	12.8
Interest cost	41.8	36.7
Expected return on assets	(45.5)	(46.8)
Past service cost	0.5	0.1
Recognition of actuarial net (gain)/loss	8.9	(22.1)
Net benefit expense before special events	24.3	(19.3)
Disclosed expense	<b>24.3</b>	<b>(19.3)</b>

##### Assumptions used to determine expense

Discount rate	5.80%	5.10%
Long-term rate of return on assets	6.10%	6.50%
Rate of compensation/salary increase	4.90%	4.60%
Pension increases for in-payment benefits		
- price inflation capped at 5% pa, floor of 3% pa	3.70%	3.50%
- price inflation capped at 5% pa	3.40%	3.10%
- price inflation capped at 2.5% pa	2.40%	N/A
Pension increases for deferred benefits	3.40%	3.10%
Price inflation	3.40%	3.10%

The expected return on assets has been derived as the weighted average of the expected returns from each of the main asset classes (ie equities and bonds). The expected return for each asset class reflects a combination of historical performance analysis, the forward looking views of the financial markets (as suggested by the yields available), and the views of investment organisations.

The expected return for 2007 reflects the change in investment strategy that occurred in October 2007.

##### c. Net balance sheet position

##### i) Development of net balance sheet position

	2008 £m	2007 £m
Defined benefit obligation (DBO)	(667.1)	(725.9)
Fair Value of Assets (FVA)	671.7	745.8
Funded status	4.6	19.9
Defined benefit asset/(liability) at end of fiscal year	<b>4.6</b>	<b>19.9</b>

## NOTES TO THE ACCOUNTS CONTINUED

31 December 2008

### 36. Pension benefit asset/(obligation) (continued)

#### c. Net balance sheet position (continued)

##### ii) Reconciliation to the balance sheet

	2008 £m	2007 £m
Defined benefit asset/(liability) at end of prior fiscal year	19.9	(2.9)
Net benefit (expense) income for fiscal year	(24.3)	19.3
Employer contributions	10.1	3.5
Gain/(loss) on acquisitions during fiscal year	(1.1)	-
Defined benefit asset/(liability) at end of current fiscal year	4.6	19.9

##### iii) Assumptions and dates used

	2008	2007
Discount rate	6.50%	5.80%
Rate of compensation/salary increase	4.50%	4.90%
Pension increases for in-payment benefits		
- price inflation capped at 5% pa, floor of 3% pa	3.50%	3.70%
- price inflation capped at 5% pa	3.00%	3.40%
- price inflation capped at 2.5% pa	2.30%	2.40%
Pension increases for deferred benefits	3.00%	3.40%
Scheme member valuation date	31 Mar 06	31 Mar 06

Mortality for members is assumed to follow the tables below as at 31 December 2008.

#### Pre-retirement mortality: Deferred pensioners

- Males	"2000" series male pensioner table with -0.5 age rating, calendar year 2008, with medium cohort improvements from 2000
- Females	"2000" series female pensioner table with +1.0 age rating, calendar year 2008, with medium cohort improvements from 2000

#### Post-retirement mortality: Non-pensioners, pensioners and dependants in payment

- Males	"2000" series male pensioner table with -0.5 age rating, calendar year 2008, with medium cohort improvements from 2000
- Females	"2000" series female pensioner table with +1.0 age rating, calendar year 2008, with medium cohort improvements from 2000

#### d. Additional disclosure information

	£m
Expected future benefit payments/administration for fiscal year ending 31 December 2009	34.2
Expected contributions for fiscal year ending 31 December 2009	
- Employer	13.1
Actual return on Scheme assets during fiscal year ending 31 December 2008	
- Expected return on assets	45.5
- Asset gain/(loss) during period	(107.6)
- Actual return on assets	(62.1)

	Target allocation	Allocation percentage 2008	Allocation percentage 2007
Equities	28%	24.00%	28.50%
Bonds	58%	61.00%	59.50%
Other	14%	15.00%	12.00%
<b>Total</b>	100%	100.00%	100.00%

Fair value of plan assets (£m) **671.7** 745.8

## NOTES TO THE ACCOUNTS CONTINUED

31 December 2008

### 36. Pension benefit asset/(obligation) (continued)

#### d. Additional disclosure information (continued)

##### Information about the scheme

The Scheme is a defined benefit arrangement, open to new entrants.

e. Historical disclosure information	2008	2007	2006	2005	2004
<b>Asset experience</b>					
Asset (gain)/loss during period	107.6	7.2	(18.2)	(78.3)	(15.2)
Asset (gain)/loss expressed as percentage of plan assets	16.00%	1.00%	(2.50)%	(11.30)%	(2.60)%

##### Liability experience

Liability (gain)/loss during period	-	3.0	(10.4)	(0.4)	6.9
Liability (gain)/loss expressed as percentage of DBO	-	0.40%	(1.40)%	(0.10)%	1.10%

##### Liability assumptions

Liability (gain)/loss over period	(98.7)	(32.3)	23.8	68.4	24.6
Liability (gain)/loss expressed as percentage of DBO	(14.80)%	(4.40)%	3.20%	9.70%	3.90%

##### Net balance sheet position

Defined benefit obligation (DBO)	(667.1)	(725.9)	(735.8)	(706.4)	(623.0)
Fair value of assets (FVA)	671.7	745.8	732.9	690.9	594.2
Funded status	4.6	19.9	(2.9)	(15.5)	(28.8)

#### f. Changes in disclosed assets and liabilities

	2008 £m	2007 £m
<b>Change in Defined Benefit Obligation (DBO)</b>		
DBO at prior fiscal year end	725.9	735.8
Employer service cost	18.6	12.8
Interest cost	41.8	36.7
Scheme participants' contributions	0.2	1.9
Experience (gain)/loss	-	3.0
(Gain)/loss on change of assumptions	(98.7)	(32.3)
Benefits paid from plan assets/administrative expenses paid	(32.7)	(32.1)
Past service costs	0.5	0.1
Acquisitions/divestitures	11.5	-
DBO at current fiscal year end	667.1	725.9

#### Change in Scheme assets

Fair value of assets at prior fiscal year end	745.8	732.9
Expected return on assets	45.5	46.8
Actuarial gain/(loss)	(107.6)	(7.2)
Employer contributions	10.1	3.5
Scheme participants' contributions	0.2	1.9
Benefits paid/administrative expenses paid	(32.7)	(32.1)
Acquisitions/divestitures	10.4	-
Fair value of assets at current fiscal year end	671.7	745.8

#### g. Reconciliation of past service cost and (gains)/losses

	2008 £m
<b>Reconciliation of past service cost</b>	
Original amount	0.5
Amortisation in year	(0.5)
<b>Reconciliation of (gains)/losses</b>	
Amortisation in year	(8.9)
Experience gain/(loss)	8.9

## NOTES TO THE ACCOUNTS CONTINUED

31 December 2008

### 36. Pension benefit asset/(obligation) (continued)

	Defined benefit obligation £m	Fair value of assets £m	Unrecognised past service £m	Unrecognised (gain)/loss £m	Asset ceiling restriction £m	Defined benefit asset/(liability) £m
<b>h. Reconciliation with prior year's disclosure</b>						
At 31 December 2007	(725.9)	745.8	-	-	-	19.9
Employer service cost	(18.6)	-	-	-	-	(18.6)
Interest cost	(41.8)	-	-	-	-	(41.8)
Expected asset return	-	45.5	-	-	-	45.5
Amortisation	-	-	-	(8.9)	-	(8.9)
Experience gain/(loss)	-	(107.6)	-	107.6	-	-
Employer contributions	-	10.1	-	-	-	10.1
Scheme participants' contributions	(0.2)	0.2	-	-	-	-
Benefits paid	32.7	(32.7)	-	-	-	-
Assumption changes	98.7	-	-	(98.7)	-	-
Acquisitions/divestitures	(11.5)	10.4	-	-	-	(1.1)
Other adjustments	(0.5)	-	-	-	-	(0.5)
At 31 December 2008	(667.1)	671.7	-	-	-	4.6

### i. Development of assets

	£m
<b>Reconciliation of assets</b>	
Scheme assets at 31 December 2007	745.8
Investment return	(62.1)
Employer contributions	10.1
Scheme participants' contributions	0.2
Benefit paid/administrative expenses paid	(32.7)
Other	10.4
Scheme assets at 31 December 2008	671.7

### Rate of return on invested assets

Weighted invested assets	708.8
Rate of return	8.30%

### j. Summary and comparison of expense

The tables below show the net benefit expense, assumptions, assets and cash flows for 2008 and those expected for 2009.

	2009 £m	2008 £m
<b>i) Net benefit expense</b>		
Employer service cost	18.0	18.6
Interest cost	42.3	41.8
Expected return on assets	(39.0)	(45.5)
Past service cost	-	0.5
Recognition of net (gain)/loss	-	8.9
Net benefit before special events	21.3	24.3
Net benefit	21.3	24.3

## NOTES TO THE ACCOUNTS CONTINUED

31 December 2008

### 36. Pension benefit asset/(obligation) (continued)

	2009	2008
<b>ii) Assumptions and dates</b>		
Discount rate	6.50%	5.80%
Long-term rate of return on assets	5.90%	6.10%
Rate of compensation/salary increase	4.50%	4.90%
Pension increases for in-payment benefits		
- price inflation capped at 5% pa, floor of 3% pa	3.50%	3.70%
- price inflation capped at 5% pa	3.00%	3.40%
- price inflation capped at 2.5% pa	2.30%	2.40%
Pension increases for deferred benefits	3.00%	3.40%
Scheme participant census date	31 Mar 06	31 Mar 06

### iii). Assets at beginning of year

	2009 £m	2008 £m
Fair market value	671.7	745.8

### iv). Cash Flow

	Expected	Actual
Employer contributions	13.1	10.1
Scheme participants' contributions	-	0.2
Benefits paid from plan assets	(34.2)	(32.7)

### 36ii) Highway Insurance Group Plc

#### a. Information about the scheme

Following the acquisition of the Highway Group,

- The Group is responsible for the Ockham Pension Scheme. The scheme is closed to new entrants.
- The last full actuarial assessment was at 31 December 2005 and showed a deficit of £7.8m.

#### b. Disclosed expense

	2008 £m
Employer service cost	0.1
Interest cost	0.9
Expected return on assets	(0.7)
Past service cost	-
Recognition of actuarial net (gain)/loss	(7.8)
Net benefit expense before special events	(7.5)
Disclosed expense	(7.5)

#### Assumptions used to determine expense

	24 October 2008
Discount rate	6.4% pa
Long-term rate of return on assets	6.4% pa
Rate of compensation/salary increase	3.25% pa
Pension increases	
- linked to inflation	3.25% pa
- fixed rate	5% pa
Price inflation	3.25% pa

# NOTES TO THE ACCOUNTS CONTINUED

31 December 2008

## 36. Pension benefit asset/(obligation) (continued)

### c. Net balance sheet position

#### i) Development of net balance sheet position

	2008 £m
Defined benefit obligation (DBO)	(76.7)
Fair Value of Assets (FVA)	67.9
Funded status	(8.8)
Defined benefit asset/(liability) at end of fiscal year	<b>(8.8)</b>

#### ii) Reconciliation to the balance sheet

	2008 £m
Defined benefit asset/(liability) at end of prior fiscal year	(16.4)
Net benefit (expense) income for fiscal year	7.5
Employer contributions	0.1
Defined benefit asset/(liability) at end of current fiscal year	<b>(8.8)</b>

#### iii) Assumptions and dates used

	31 December 2008
Discount rate	6.5% pa
Long-term rate of return on assets	5.3% pa
Rate of compensation/salary increase	4.5% pa
Pension increases	
- linked to inflation	3% pa
- fixed rate	5% pa
Price inflation	3% pa

#### d. Additional disclosure information

	£m
Expected future benefit payments/administration for fiscal year ending 31 December 2009	4.0
Expected contributions for fiscal year ending 31 December 2009	
- Employer	0.5
Actual return on scheme during fiscal year ending 31 December 2008	
- Expected return on assets	0.7
- Asset gain/(loss) during period	4.5
- Actual return on assets	5.2

#### Scheme asset information

	Allocation percentage 31 December 2008	Allocation percentage 24 October 2008
Equities	23.30%	27.10%
Bonds	23.40%	21.40%
Other	31.30%	29.50%
Other (alternatives)	22.00%	22.00%
Total	100.00%	100.00%
Fair value of plan assets (£m)	67.9	63.2

#### e. Historical disclosure information

	2008 £m
<b>Asset experience</b>	
Asset (gain)/loss during period	(4.5)
Asset (gain)/loss expressed as percentage of plan assets	(6.60)%
<b>Liability assumptions</b>	
Liability (gain)/loss over period	(3.3)
Liability (gain)/loss expressed as percentage of DBO	(4.20)%

# NOTES TO THE ACCOUNTS CONTINUED

31 December 2008

## 36. Pension benefit asset/(obligation) (continued)

### Net balance sheet position

Defined benefit obligation (DBO)	(76.7)
Fair value of assets (FVA)	67.9
Funded status	<b>(8.8)</b>

Historical disclosure information for the period 24 October 2008 to 31 December 2008

#### f. Changes in disclosed assets and liabilities

	2008 £m
Change in Defined Benefit Obligation (DBO)	
DBO at 24 October 2008	79.6
Employer service cost	0.1
Interest cost	0.9
(Gain)/loss on change of assumptions	(3.3)
Benefits paid from plan assets/administrative expenses paid	(0.6)
DBO at 31 December 2008	<b>(76.7)</b>

Change in Scheme assets	
Fair value of assets at 24 October 2008	63.2
Expected return on assets	0.7
Actuarial gain/(loss)	4.5
Employer contributions	0.1
Benefits paid/administrative expenses paid	(0.6)
Fair value of assets at current fiscal year end	<b>67.9</b>

#### g. Reconciliation of past service cost and (gains)/losses

	2008 £m
<b>Reconciliation of (gains)/losses</b>	
Amortisation in year	7.8
Experience gain/(loss)	(7.8)

#### h. Reconciliation with prior year's disclosure

	Defined benefit obligation £m	Fair value of assets £m	Unrecognised (gain)/loss £m	Defined benefit asset/(liability) £m
At 24 October 2008	(79.6)	63.2	-	(16.4)
Employer service cost	(0.1)	-	-	(0.1)
Interest cost	(0.9)	-	-	(0.9)
Expected asset return	-	0.7	-	0.7
Amortisation	-	-	7.8	7.8
Experience gain/(loss)	-	4.5	(4.5)	-
Employer contributions	-	0.1	-	0.1
Scheme participants' contributions	-	-	-	-
Benefits paid	0.6	(0.6)	-	-
Assumption changes	3.3	-	(3.3)	-
At 31 December 2008	<b>(76.7)</b>	<b>67.9</b>	<b>-</b>	<b>(8.8)</b>

#### i. Development of assets for expense

	£m
<b>Reconciliation of assets</b>	
Scheme assets at 24 October 2008	63.2
Investment return	0.7
Experience gain/(loss)	4.5
Employer contributions	0.1
Benefit paid/administrative expenses paid	(0.6)
Scheme assets at 31 December 2008	<b>67.9</b>

#### Rate of Return on Invested Assets

Weighted invested assets	65.6
Rate of return	<b>5.30%</b>

## NOTES TO THE ACCOUNTS CONTINUED

31 December 2008

### 36. Pension benefit asset/(obligation) (continued)

#### j. Summary and comparison of expense

The tables below show the net benefit expense, assumptions, assets and cash flows for 2008 and those expected for 2009.

	Expected £m	Actual £m
i) Net benefit expense		
Employer service cost	0.1	0.1
Interest cost	4.9	0.9
Expected return on assets	(3.5)	(0.7)
Recognition of net (gain)/loss	0.0	(7.8)
Net benefit expense before special events	1.5	(7.5)
Net benefit expense	1.5	(7.5)

	2009 £m	2008 £m
ii) Assets at beginning of year		
Fair market value	67.9	63.2

	Expected £m	Actual £m
iii) Cash Flow		
Employer contributions	0.5	0.1
Benefits paid from plan assets	(4.0)	(0.6)

### 37. Deferred tax

	Group £m	Society £m
Balance at 1 January 2008	64.1	55.5
Acquisition	1.5	-
Amounts recorded in the income statement	(94.8)	(55.1)
Transfer under Part VII of the FSMA	-	1.5
Asset carried forward	29.2	-
Balance at 31 December 2008	-	1.9

	Group		Society	
	2008 £m	2007 £m	2008 £m	2007 £m
i) Analysis of deferred taxation temporary differences				
Excess of depreciation	(0.6)	(1.5)	-	(1.0)
Temporary differences on expenses	8.5	1.6	1.9	(2.3)
Temporary differences on unrealised gains	-	65.9	-	56.7
Temporary difference for change in actuarial basis	-	19.4	-	2.1
Tax losses	(37.1)	(21.3)	-	-
	(29.2)	64.1	1.9	55.5

#### ii) Deferred taxation liability not provided

	Group £m	2007 £m	Society £m	2007 £m
Chargeable gains deferred by roll-over relief	0.4	0.4	-	-

#### iii) Deferred taxation asset not recognised

	Group £m	2007 £m	Society £m	2007 £m
Excess of capital allowances	9.7	2.4	0.8	-
Temporary differences on expenses	2.9	(0.9)	2.9	-
Tax losses	37.7	1.9	30.2	-
	50.3	3.4	33.9	-

### 38. Insurance payables

	Group		Society	
	2008 £m	2007 £m	2008 £m	2007 £m
Arising from direct insurance operations	43.9	17.6	39.2	12.4
Arising from reinsurance operations	7.0	5.6	0.1	-
	50.9	23.2	39.3	12.4

The carrying amounts disclosed above reasonably approximate fair value at the balance sheet date.

## NOTES TO THE ACCOUNTS CONTINUED

31 December 2008

### 39. Trade and other payables

	Group		Society	
	2008 £m	2007 £m	2008 £m	2007 £m
Bank overdrafts	23.0	22.9	13.2	6.2
Trade creditors	12.5	2.8	-	1.9
Amounts owed to group undertakings	-	-	62.7	37.6
Corporation tax	17.3	24.4	13.5	25.7
Other taxes and social security costs	6.6	8.2	3.8	3.8
Other creditors	38.1	30.7	19.0	8.3
Deferred rental income	6.2	5.9	6.2	5.6
Finance lease liabilities	5.8	6.0	-	-
Accruals and deferred income	93.4	85.0	40.7	54.5
	202.9	185.9	159.1	143.6

The carrying amounts disclosed above reasonably approximate fair value at the balance sheet date.

### 40. Cash generated from operating activities

	Group		Society	
	2008 £m	2007 £m	2008 £m	2007 £m
(Loss)/profit before tax	(258.3)	34.3	(167.6)	21.2
Investment income	(301.4)	(325.6)	(167.7)	(158.9)
Losses/(gains) on investments	728.0	(133.0)	503.6	(77.2)
Finance costs	(43.0)	12.1	0.3	0.9
Purchase of investments at fair value through profit and loss	(4,684.1)	(3,415.8)	(3,756.8)	(2,444.3)
Sales of investments at fair value through profit and loss	4,664.9	4,179.4	2,500.2	3,183.7
(Purchases)/sales of financial derivatives	(164.5)	(7.9)	(178.3)	(12.4)
<b>Non-cash items</b>				
Expenses deferred during the year	37.1	(12.7)	1.4	(1.8)
Amortisation of intangible assets	14.0	7.8	4.7	4.6
Depreciation on property and equipment	1.2	1.2	0.2	0.2
Loss on disposal of property and equipment	7.9	0.2	-	0.2
Impairment losses on intangible assets	-	0.3	-	-
Disposal of subsidiaries	-	-	-	29.5
Pension scheme actuarial gains	(1.1)	22.1	(8.9)	22.1
<b>Changes in working capital</b>				
Decrease/(increase) in loans and receivables	73.7	210.3	(115.2)	11.7
(Increase)/decrease in reinsurance assets	(48.4)	(14.5)	(44.6)	46.5
(Increase)/decrease in insurance receivables	(44.6)	3.2	(11.8)	1.7
Decrease/(increase) in other prepayments and accrued income	5.0	(3.0)	6.2	(1.8)
(Decrease)/increase in insurance contract liabilities	(196.3)	(379.8)	1,005.8	(288.4)
Increase in investment contract liabilities	142.1	75.3	312.8	83.2
Increase/(decrease) in provisions and pension obligation	41.8	(37.6)	51.9	(44.6)
Decrease in borrowings	(235.6)	(35.9)	-	-
Decrease in other financial liabilities	(22.2)	(32.0)	(9.5)	-
Increase in insurance payables	27.7	6.5	26.9	7.0
Increase in trade and other payables	146.9	63.4	7.9	44.6
<b>Cash generated from operating activities</b>	<b>(109.2)</b>	<b>218.3</b>	<b>(38.5)</b>	<b>427.7</b>

The Group classifies the cash flows for the acquisition and disposal of financial assets as operating cash flows, as the purchases are funded from the cash flows associated with the origination of insurance and investment contracts, net of the cash flows.

## NOTES TO THE ACCOUNTS CONTINUED

31 December 2008

### 41. Business combinations

#### Highway Insurance Group

On 23 October 2008 Liverpool Victoria Insurance Company Limited, a subsidiary of the Society, acquired Highway Insurance Group. The acquired business contributed income of £41.3m and a profit after tax of £3.4m to the Group for the period from acquisition until 31 December 2008. Details of net assets acquired and goodwill are as follows:

	£m
Purchase consideration:	
- cash paid	153.8
- direct costs relating to the acquisition	3.3
Total purchase consideration	157.1
Fair value of net assets acquired	42.2
Goodwill	114.9

The goodwill is attributable to the synergies expected to arise after integration into the Group.

The assets and liabilities arising from the acquisition are as follows:

	Fair value £m	Acquiree's carrying amount £m
Intangible assets	28.9	20.5
Property and equipment	-	1.6
Financial assets		
Derivative financial instruments	6.7	6.7
Fair value through profit or loss	295.6	295.6
Loans and other receivables	57.5	57.5
Reinsurance assets	69.9	69.9
Tax receivable	18.5	9.3
Deferred acquisition costs	17.0	21.7
Cash and cash equivalents	87.3	87.3
Insurance contract liabilities	(443.5)	(403.5)
Financial liabilities		
Derivative financial instruments	(8.3)	(8.3)
Borrowings	(19.5)	(19.5)
Other financial liabilities		
Provisions	(16.4)	(16.4)
Deferred tax liability	(1.5)	-
Trade and other payables	(50.0)	(50.0)
Net assets acquired	42.2	72.4
Purchase consideration settled in cash		(153.8)
Cash and cash equivalents in business acquired		87.3
Cash outflow on acquisition		(66.5)

## NOTES TO THE ACCOUNTS CONTINUED

31 December 2008

### 42. Transfer of business under Part VII

On 31 December 2008, Liverpool Victoria Life Company Limited (LVLC), a wholly owned subsidiary of the Society, transferred most of its Long Term Business to the Society under Part VII of the Financial Services and Markets Act 2000. The transfer was approved by the High Court of Justice on 5 November 2008 and by a special resolution of the members of the Society on 1 October 2008.

The Long Term business transferred included the ring-fenced Royal National Pension Fund for Nurses (RNPFN) fund, as well as various reinsurance contracts in respect of the transferred business. The former UIA (Insurance) Limited policies which were transferred to LVLC by way of another transfer in 2005 were not transferred.

The transfer was effected in order to improve the Group's operational efficiency, to provide a clearer membership structure of the Society, and to bring financial management benefits to the Group.

Also on 31 December 2008, LVLC and the Society entered into a reinsurance contract whereby the Society ceded to LVLC the liabilities at that date on its Income Protection and Critical Illness policies. LVLC has accepted the liabilities in respect of those policies in force at 31 December 2008, and in respect of new business written by the Society after that date.

The financial impacts of the above are shown below:

Assets and liabilities transferred to the Society:	£m
Investments	1,361.9
Insurance and investment contract liabilities net of reinsurance	(1,512.5)
Sundry assets	174.2
Sundry liabilities	(23.6)

There are no impacts on the Society's results for 2008.

	£m
Liabilities ceded under the reinsurance contracts	113.3
Reinsurance premium paid	113.3

### 43. Commitments

#### a) Capital commitments

	Group		Society	
	2008 £m	2007 £m	2008 £m	2007 £m
Authorised and contracted commitments payable after 31 December not provided for in respect of:				
- property investments	4.7	12.6	4.7	12.6
- other financial investments	70.0	59.1	70.0	59.1
- tangible assets	3.5	-	3.5	-
	<b>78.2</b>	71.7	<b>78.2</b>	71.7

#### b) Operating lease commitments

The Group leases various properties under non-cancellable operating lease agreements. The leases have varying terms, escalation clauses and renewal rights. The future aggregate minimum lease payments net of income under non-cancellable operating leases are as follows:

	Group		Society	
	2008 £m	2007 £m	2008 £m	2007 £m
Within one year	5.9	4.5	3.2	2.6
Between two and five years	19.3	15.7	11.1	9.4
Over five years	8.0	11.1	7.3	9.6
	<b>33.2</b>	31.3	<b>21.6</b>	21.6

## NOTES TO THE ACCOUNTS CONTINUED

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### 43. Commitments (continued)

The Group has entered into commercial leases for some of its properties that are unoccupied. These leases have varying terms and escalation clauses. Where these subleases are insufficient to cover the Group's operating lease agreements an onerous contract provision for unused premises is set up. The future aggregate minimum sublease payments expected to be received under operating subleases:

	Group		Society	
	2008 £m	2007 £m	2008 £m	2007 £m
Within one year	0.4	0.4	-	0.1
Between two and five years	1.7	2.6	0.1	0.9
Over five years	0.3	1.0	-	0.3
	<b>2.4</b>	<b>4.0</b>	<b>0.1</b>	<b>1.3</b>

#### c) Finance lease commitments

It is the Group's policy to lease certain of its properties under finance leases. The average lease term is 99 years. Interest rates are fixed at the contract rate. All leases are on a fixed repayment basis and no arrangements have been entered into for contingent payments. The Group's obligations under finance leases are secured by the lessors' charges over the leased assets.

	Group		Society	
	2008 £m	2007 £m	2008 £m	2007 £m
Within one year	1.1	1.1	1.1	1.1
Between two and five years	4.6	4.5	4.6	4.5
Over five years	94.1	95.2	94.1	95.2
	<b>99.8</b>	<b>100.8</b>	<b>99.8</b>	<b>100.8</b>

#### d) Other financial commitments

The Group has entered into several long-term contracts following service outsourcing. These contracts will end no later than 2012, an option to withdraw from these commitments in 2009 is available. The present value of the remaining commitment is estimated at £5.3m (2007: £26.2m), of which £5.3m (2007: £26.2m) relates to the Society. These amounts have not been provided for in the financial statements.

### 44. Contingent liabilities

The Society has granted a contingent loan facility to the RNPFF fund, a closed fund within the Group, up to a maximum of £100.0m, to be used in the event of a shortfall in the capital resources of that fund. No drawdown of this facility is anticipated.

### 45. Related party transactions

The Group and Society enters into transactions with key management personnel in the normal course of business. All transactions are carried out on an arm's length basis. Details of significant transactions carried out during the year with related parties are as follows:

- a. The Group has related party transactions with LV= Employee Pension Scheme. The Society provides fund management and administration services to the Scheme.

During the year the following amounts were charged to the Pension Scheme for the following services:

	Fund Management Services		Administration Services		Total	
	2008 £m	2007 £m	2008 £m	2007 £m	2008 £m	2007 £m
Liverpool Victoria Friendly Society Limited	-	-	1.0	1.2	1.0	1.2
Liverpool Victoria Asset Management Limited	1.1	0.7	-	-	1.1	0.7

As at 31 December 2008 LV= Employee Pension Scheme owed Liverpool Victoria Friendly Society Limited £0.1m (2007: £0.3m) in respect of administration services and owed Liverpool Victoria Asset Management £nil (2007: £nil) in respect of fund management services.

- b. The aggregate premiums payable for the year by the Group Executive and Non-Executive Directors in respect of the Group's products was £43,555 (2007: £33,057).
- c. The aggregate value of transactions under normal commercial terms with the Group Executive and Non-Executive Directors in respect of the Group's products for personal loans and credit cards were £nil (2007: £21,726). The amounts unpaid at the year end amounted to £nil (2007: £nil).

## NOTES TO THE ACCOUNTS CONTINUED

31 December 2008

### 45. Related party transactions (continued)

- d. Liverpool Victoria Banking Services Limited, a group company, has undrawn committed standby facilities of £90m (2007: £225m) with Liverpool Victoria Insurance Company Limited and £190m (2007: £160m) with the Society.
- e. The Society has granted a contingent loan facility to the RNPFF fund, a closed fund within the Group, which is disclosed in contingent liabilities.
- f. On 1 September 2006, the Society acquired ABC Insurance Solutions Ltd. and its subsidiaries. As consideration, the Society issued debenture loan notes to the five individuals who owned the company. The debenture loan notes attract interest at LIBOR and were all redeemed during 2008. Following the acquisition Mr J. O'Roarke, an owner of the company, was appointed to the Group Executive Committee. At 31 December 2008 the Society had no debenture loan notes owing to J. O'Roarke (2007: £2.1m). Interest paid in the year amounted to £0.1m (2007: £0.1m).

The Society has entered into a contract with the shareholders of ABC Insurance Solutions Limited to acquire the remaining minority interest on 31 December 2012 at market value. In the absence of the minimum threshold being achieved this will be limited to the paid up value of the shares.

- g. Key management personnel of the Group includes all directors, executive and non-executive, and senior management (the Board and the Executive Committee). The summary of the compensation of key management personnel for the year is as follows:

	Group	
	2008 £'000	2007 £'000
Salaries	4,290	3,778
Bonuses	2,197	1,789
Other short term employment benefits	172	603
Compensation for loss of office	119	250
Total compensation of key management personnel	<b>6,778</b>	<b>6,420</b>

The Society makes contributions to the LV= Employee Pension Scheme of 20.6% of pensionable salaries less £6.1m (2007: 20.6% of pensionable salaries less £6.1m) in respect of all permanent staff, including executive directors.

- h. The following transactions have taken place between the Society and other Group companies:

	2008 £m	2007 £m
Management charge by the Society	81.0	80.1
Investment management charge to the Society	(7.4)	(16.0)
Reinsurance ceded by the Society - claims recoveries	42.1	68.4
Reinsurance ceded by the Society - premiums paid	(113.3)	-
Intra group loans - net interest received by the Society	5.6	2.0
	<b>8.0</b>	<b>134.5</b>

Balances outstanding between the Society and other Group companies:

	2008 £m	2007 £m
Payable by the Society	(62.7)	(37.6)
Receivable by the Society	87.0	56.5
Reinsurance ceded by the Society	243.1	244.1
Loans owed to the Society	292.5	122.8
	<b>559.9</b>	<b>385.8</b>

### 46. With-profits Actuary

The following information has been provided in accordance with section 77 of the Friendly Societies Act 1992.

- a. The With-profits Actuary of the Society until 30 September 2008 was I.P. Blanchard, the Group Actuary of Liverpool Victoria Friendly Society Limited.
- b. Mr Blanchard, his son and his daughter are members of the Society.
- c. The total emoluments of Mr Blanchard during the year were £86,339 (2007: £135,793) including car allowance and medical benefits.
- d. Mr Blanchard did not receive, nor will receive, any other pecuniary benefit.

## NOTES TO THE ACCOUNTS CONTINUED

31 December 2008

e. The With-profits Actuary of the Society from 1 October 2008 is A Smith, the Group Actuary of Liverpool Victoria Friendly Society Limited.

f. The total emoluments of Dr Smith during the year were £150,080 (2007: nil) including car allowance and medical benefits.

g. Dr Smith did not receive, nor will receive, any other pecuniary benefit.

### 47. Valuation

The latest published report on the valuation of Assets and Liabilities of the Society (the Annual FSA Insurance Return) was made at 31 December 2008 and is available on request from the Group Company Secretary, County Gates, Bournemouth, BH1 2NF.

### 48. Events after the balance sheet date

On the 3rd March 2009 LV= sold the Hero Group, which was acquired as part of the Highway Group acquisition in October 2008, to Capita for £15m.

Details of the sale are as follows:

	£m
Consideration:	
- Cash received	15.0
- Direct cost relating to the sale	(0.8)
Net sale proceeds	14.2
Net asset adjustments including tax	(0.6)
Net cash	13.6

### 49. Subsidiary undertakings

The principal subsidiary undertakings of the Society and Group at 31 December 2008 are shown below.

The Group and all undertakings are incorporated and domiciled in England and Wales. All holdings are in relation to ordinary shares.

The registered office is County Gates, Bournemouth BH1 2NF.

Name	Principal Activity	Percentage Held
<b>Subsidiaries</b>		
Frizzell Financial Services Limited *	Property Management	100.0%
Hero Insurance Services Limited *	Management Services	100.0%
Highway Group Services Plc *	Insurance Intermediary	100.0%
Highway Insurance Company Limited *	General Insurance	100.0%
Highway Insurance Group Plc *	General Insurance Holding Company	100.0%
Liverpool Victoria Asset Management Limited	Fund Management	100.0%
Liverpool Victoria Banking Services Limited *	Banking and Credit Finance	100.0%
Liverpool Victoria Financial Advisory Services Limited *	Financial Advisory Services	100.0%
Liverpool Victoria General Insurance Group Limited *	General Insurance Holding Company	100.0%
Liverpool Victoria Insurance Company Limited *	General Insurance	100.0%
Liverpool Victoria Life Company Limited	Life Insurance	100.0%
Liverpool Victoria Portfolio Managers Limited *	Investment Management	100.0%
LV Insurance Services Limited (formerly Affinity B2C Limited) *	General Insurance Broker	100.0%
LV Insurance Management Limited *	Management Services	100.0%
LV Life Services Limited (formerly NM Life Services Limited)	Management Services	100.0%
LV Equity Release Limited (formerly NM Life Equity Release Limited)	Equity Release Lifetime Mortgages	100.0%
Membership Services Direct Limited	General Insurance Broker	100.0%
Membership Services General Limited	Insurance Intermediary	100.0%
N M Pension Trustees Limited	Self Invested Personal Pension (SIPP) Administrator	100.0%

\* Owned by a subsidiary undertaking of the Society

Hero Insurance Services Limited was sold to Capita on the 3 March 2009 (see note 48)

## NOTES TO THE ACCOUNTS CONTINUED

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### 50. Associates and joint ventures

The associates and joint ventures of the Society and Group at 31 December 2008 are shown below.

All associates and joint ventures are incorporated in England and Wales.

Name	Principal Activity	Percentage Held
<b>Associates</b>		
Lendlease Chelmsford	Investment property	25.0%
<b>Joint ventures</b>		
Vista Limited Partnership	Investment property	90.0%
Great Victoria Partnership	Investment property	50.0%
Harlow Consortium	Investment property	97.0%

### 51. Open ended investment companies

The open ended investment companies (OEICs) of the Society and Group at 31 December 2008 are shown below.

All OEICs are incorporated and domiciled in England and Wales.

Name	Principal Activity	Percentage Held
LV= Investment Funds I ICVC	Open Ended Investment Company	
which consists of:		
LV= UK Growth Fund		98.37%
LV= US Growth Fund		98.44%
LV= European ex-UK Growth Fund		97.02%
LV= Japan Growth Fund		98.89%
LV= Pacific ex-Japan Growth Fund		91.55%
LV= Investment Funds II ICVC	Open Ended Investment Company	
which consists of:		
LV= UK Corporate Bond Fund		96.70%
LV= UK Fixed Interest Fund		97.60%
LV= UK Index Linked Fund		97.31%
LV= UK Money Market Fund		39.58%
LV= Balanced Managed Fund		96.04%
LV= Stockmarket Fund		98.45%
LV= UK Property Fund	Open Ended Investment Company	
which consists of:		
LV= UK Property Fund		100.00%



# HOW TO contact us

If you have any questions or comments about this Annual Report and Accounts, write to:

Group Company Secretary  
LV=  
County Gates  
Bournemouth  
BH1 2NF

If you would like any further information about the Liverpool Victoria Group, you can write to:

Corporate Communications  
LV=  
County Gates  
Bournemouth  
BH1 2NF

If you need any information or advice on our products or services, you can:

- visit our website at [LV.com](http://LV.com)
- phone 01202 292 333
- write to us at  
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