

Annual Report and Accounts

for the year ended 31 December 2005

Liverpool Victoria

Why we exist

Liverpool Victoria exists purely for the benefit of its members. This report is about how we build benefits and create value for our members.

Our vision

Our purpose is to be the trusted partner to whom our members and their families naturally turn to plan for and manage their major life events.

We exist to improve the lives of our members through protecting them against financial loss and helping them to finance their aspirations.

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“The last decade has seen major changes in society as a whole and the market for financial services. Liverpool Victoria has responded in order to remain financially healthy and with a clear role in that market. ”

The last decade has seen major changes in society as a whole and the market for financial services. Liverpool Victoria has responded in order to remain financially healthy and with a clear role in that market.

In the early 90s the transition from an outdated collecting friendly society and in the late 90s the development of a business model providing a wide range of quality products and outstandingly performing investment contracts was carried out with great success. Liverpool Victoria then emerged successfully from the difficult financial markets of the early years of the new millennium as one of the financially strongest companies in its field.

The two years of 2004 and 2005 have presented yet more challenges. We have concluded that there is a place in the financial services market place for a financially strong mutual, with no shareholders diluting the returns available for policyholders but with a total commitment to providing top quality products and services to our members and customers. We greatly regret the steady disappearance of so many mutuals but our commitment to mutuality was clearly articulated by my predecessor last year.

In order to succeed in the current fast-moving market for financial services, companies need to react to keep themselves up to speed with changes in the market place and public needs and preferences for different products and methods of distribution. We are sure that this will continue

to be the case in a market that remains very challenging.

Board activity

2005 has been an eventful year in the Liverpool Victoria boardroom. The board has reviewed, energetically, all aspects of the group's business and has debated many issues including developments with the internet, the paramount requirement to give outstanding service to members and customers and the loss of public confidence in some traditional savings products. Of particular concern has been the reduction in the take up of with-profits policies that we consider remain an attractive product for many savers.

We reported at last year's AGM that Nick McAndrew was retiring and Gill Nott was joining us. In July Stephen Maran resigned as chairman having provided us with some five years of energetic leadership for which we are grateful. In November Malcolm Berryman stood down after six years as our Group Chief Executive having developed a tightly controlled operation which was clear, at a high level, about what it wanted to do. We thank him for his efforts and considerable achievements. However, your board is convinced that continuous strategic development and a more flexible approach to the future is necessary to keep pace with changes in the outside world. This we were not doing at a fast enough pace.

In July your board asked me to take on the duties of chairman which I was honoured to do and then

in November I was asked to take on the task of chief executive as a temporary measure. There was a lot of sense in this approach. The board was convinced that change was required and it was decided that direct communication with the group executive and through them to the senior management was the right way forward. At the same time we instructed an eminent firm of search consultants to help us to recruit a new permanent chief executive by considering suitable candidates both within and outside our organisation. That process is proceeding well.

Recent performance

In 2005 our performance has been mixed as my predecessor as chairman predicted it might well be last year. The bank has continued to disappoint but we are taking firm steps to address what is an unacceptable performance.

The year's new business volumes fell compared to 2004. Sales of life products were disappointing due particularly to a continuing loss of confidence in savings products on the part of the public since the stock market crash of 2000 to 2003. This despite our outstanding record on bonus payments referred to in the performance review.

Our general insurance company has continued to make profits, resisting the temptation to write unprofitable business to secure sales volumes. As we predicted, there is intense competition in the market place over premium rates particularly through the growth of the internet as a means of comparing rates and transacting business. There is little evidence that sales of any of our products are going to get any easier in the short term.

Our people have worked hard in a difficult business environment and the board is grateful to them for their efforts. In particular David Nicholls, who is retiring, has served us well as head of corporate governance.

The jewel in the crown of our performance is however that of our fund management team. Always consistent, this year they have been

exceptional with an investment return of 19.7%.

This has helped produce a before tax group surplus of £611.7 million on a comparable basis to the £425.5 million produced last year.

The future

As a mutual organisation our commitment to our members and customers is fundamental, as is our commitment to offering top quartile products and excellent service. However, given the difficult trading conditions, we have devoted considerable time in recent months to reviewing our business strategy. We are refining our vision, our purpose and our values to ensure we are all pulling in the same direction to deliver our business strategy and meet our objectives.

Some key issues are emerging and will be addressed over the coming months. These include ensuring that more members of the public are familiar with our brand, the value of membership and our vision and values. We need to ensure that the value of our customer-focused claims philosophy is understood and that the financial strength that enabled us to give a guarantee to mortgage endowment policyholders is fully appreciated. These are all aspects of the commitment to dealing fairly with members and customers that is at the heart of our purpose.

We are building a close and continuous relationship with the Financial Services Authority and I hope that we can also make it a frank and collaborative one as the regulatory processes develop.

We believe that the market will remain difficult in 2006, particularly in respect of sales and the bank. However, we are determined to succeed and we look to the future with quiet confidence.

John Woolhouse
Chairman

“This is a crucial period for the Society to face new challenges and realise its full potential.”

Annual Performance

Overview

- The chairman has described recent industry trends, actions to improve strategic strength and future plans for the continued success of the Society as a self-sustaining membership based mutual organisation.
- The business continues in a robust state in terms of financial strength and capability to provide excellent member benefits, products and service.
- Immediate trading conditions present significant concerns in terms of subdued sales and poor bank lending performance.
- This is a crucial period for the Society to face new challenges and realise its full potential.

Our Business Strategy

Membership and mutuality remain at the heart of Liverpool Victoria's purpose. We exist to help members achieve their financial aspirations by offering relevant and highly competitive products backed up by good service and financial strength in the long term. Our mutual status and long standing experience and success make us extremely well placed in the market place to provide this.

The Marketplace

In 2005 the UK economy has performed satisfactorily in the face of concerns over government borrowing levels, future energy supplies and competition from new markets such as China and India. Investment markets have performed well.

The recent shift in consumer behaviour towards postponement of financial planning decisions has continued. In addition to attitudinal factors many consumers are experiencing difficult economic realities and a reduced ability to make provision for the future. Two consequences of this are that competition within the retail financial service sector has intensified and credit experience has deteriorated. With fast broadband internet connections now commonplace, consumers are increasingly shopping for financial products by using search engines such as Google or Kelkoo to throw up lists of providers and prices. The subsequent purchase decision is often made purely on price and may fail to take into account the quality of service and depth of product features, such things being the hallmark of Liverpool Victoria products.

Review 2005

Business and Financial Performance

The overall financial performance of the group was good, helped by strong investment growth. In spite of the difficult market conditions, the decline in sales volume across the three main businesses seen in 2004 has slowed and plans are in place to restore growth. Bank losses were the biggest disappointment and we are currently reviewing our banking strategy.

We have adopted the Accounting Standards Board's Financial Reporting Standard 27 on Life Assurance for these accounts. Under this new standard allowance is made for discretionary terminal bonuses within long-term business provisions, whereas they were previously held within funds for future appropriations. As a result, the 2005 group income & expenditure result is not directly comparable with that for 2004.

The 2005 group income & expenditure account on a comparable basis to that used for the 2004 figures would have shown a surplus before tax of £611.7m (2004 £425.5m). Details of the restatement are given in note 21 in the notes to the accounts.

In an increasingly fluid and competitive environment, success will depend on an effective customer facing infrastructure in terms of people, financial strength and technological capability.

- The group is investing in it's people through a 'Winning Culture' programme of initiatives with the aim of creating a high performance values based environment for corporate and individual development.
- Capital strength remains within the top few in the UK and the group is not burdened with a significant deficit in its staff pension fund.
- A long-term programme of enhancement for the IT infrastructure is being developed and implemented. The initial phases, now in delivery, cover enhancing our internet and the migration of life administration systems onto a new platform in order to improve efficiency and customer service.

Fund Management

Our Business Strategy

The group's fund management division exists to provide strong investment performance at acceptable levels of risk and reasonable cost. Operations are based in the City of London with outsourced local expertise in the US and Far Eastern markets. The Friendly Society's capital strength and mutual status have enabled us to take a long-term view of investment strategy. Our 2005 investment return has outperformed the majority of other providers in our market and further improved our capital position.

The Marketplace

Investment markets were very favourable in 2005 and all our investment markets performed well. The UK stockmarket increased for the third successive year but remains below the all time high of late 1999.

Performance Analysis

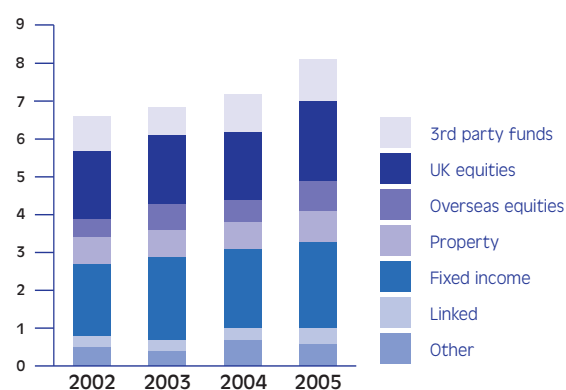
Investment Performance by Asset Class (%)

	%
UK equities	21.5
Overseas equities	30.9
Fixed income	9.7
Property	20.5
Overall return	19.7

Total investment returns +19.7%

The underlying return was 19.7%, significantly ahead of the performance of most of our competitors. At 31 December 2005 the Group's investment portfolio had grown to £7.0bn and funds managed for third parties to £1.1bn.

Growth in funds under management (£bn)



General Insurance

Our Business Strategy

The purpose of the general insurance business is to provide excellent value insurance cover to members and customers while generating additional financial return on capital for the group. The core motor and household covers are increasingly supported by ancillary products such as our road rescue motor breakdown product. Our business is characterised by high levels of loyalty engendered by a strong claims and service ethic which results in high customer retention rates. Around 50% of business originates from our strong affinity relationships.

The Marketplace

The market is experiencing a period of intense competition based around price, distribution effectiveness and claims efficiency. Price competition is in part cyclical but also significantly influenced by the growth of internet comparisons for basic levels of cover. The recent trend towards increasing claims has been countered by improved fraud detection methods.

Our Frizzell brand won the Guardian/Observer Consumer Finance Award 2005 for **Best Car Insurance Provider** beating many better known providers. Jill Insley quoted in the The Observer said 'The car insurance market has been ferociously competitive this year, yet Frizzell has refused to let price wars distract it from offering policyholders good customer service.'

We continue to respond rapidly to distressing events such as the Carlisle floods early in 2005, making quick decisions in order to reduce stress for our policyholders at a time of crisis.

Business and Financial Performance

Gross written premiums at £387m have remained close to 2004 levels (£392m). However, the price and claims factors referred to above have caused a deterioration in the loss ratios for both motor and household lines. Pricing policy and claims actions have been taken to improve this situation but current levels of competition may make a full recovery difficult in the immediate term. Although expenses were carefully contained the worsening underwriting result caused pre tax trading profit to fall by £11.4m to £20.8m.

Life

Our Business Strategy

The aim of the life business is to provide competitive returns and product value to members and customers, accessed through a range of distribution channels.

The Marketplace

The trust lost by financial institutions in recent years is proving slow to return. In this respect, mutual organisations have not been recognised as different by consumers. While confidence in investments remains depressed in spite of relatively buoyant markets the demand for protection products has remained firm albeit with a large 'needs gap' remaining. A move towards online menu driven products has emerged. The overall impact of regulation remains significant particularly for pensions with the introduction of simplification measures in April 2006.

Business and Financial Performance

We have continued our excellent recent record for with-profits performance. Money Market surveys for with-profits pensions and endowments past performance show that Liverpool Victoria products have been consistently competitive compared with other providers. Our protection products have also been recognised through industry awards.

- In the last five years with-profits endowment over 10, 15, 20 & 25 years have been ranked either first or second in the independent Money Management survey (maturity value payable 1 August 2001-2005 for a male aged 30 at next birthday contributing £50 a month)
- Best Income Protection provider 2005 – Lifesearch Awards
- Finalist – Most competitive Term Assurance provider – Moneyfacts Awards 2005 (Financial Adviser of the Year Awards).

Major new products were launched successfully in 2005:

- The Child Trust Fund offered as both with-profits and stakeholder versions
- The innovative 'All in 1' Bond, which has received excellent press and industry comment. "I rate this product as the best innovation of 2005" – Julian Gibbs, Money Marketing 15 December 2005
- The guaranteed whole of life plan for inheritance tax.

As a result of the factors described overall life sales remained at disappointing levels with protection faring better than savings and investment.

On 1st November 2005 LVLC, our main life protection company, acquired a small portfolio of business from UIA Insurance (UK) Ltd. This will further cement our relationship with UNISON as one of our key affinity group partners.

Bank

Our Business Strategy

The banking industry is tending towards consolidation of the larger players at Global and European level with opportunities available for smaller niche players such as Liverpool Victoria. The bank business based on personal loans, credit cards and deposits exists to complement the group's range of competitive financial products whilst generating financial returns for the group.

The Marketplace

The growth of consumer credit has continued towards saturation levels due to consumer attitudes and ready availability, leading in some cases to repayment difficulties, particularly for unsecured and credit card borrowings. The satisfactory underlying economic outlook, full employment and low inflation suggest a need for close monitoring rather than a cause for alarm. However, it is likely that the low point in the cycle has yet to be reached.

Business and Financial Performance

Substantial additional provisions have been made to reflect uncertainty over credit performance and caused a pre tax trading loss of £25.8m. This level of loss is both unsustainable and exceptional, even in cyclical terms. The current strategy and delivery mechanism are under review with a view to taking urgent and decisive action to stem the losses permanently.

Personal loan advances in 2005 were £223m down 28% on the previous year.

Although Liverpool Victoria Friendly Society (“the Society”) is not bound by the Combined Code, in 2004 the Board decided to seek appropriate compliance with relevant and appropriate aspects of the Combined Code.

Following the publication of Paul Myners’ Review of the Governance of Life Mutuals in December 2004, the Society participated in the production of an annotated version of the Combined Code on Corporate Governance (“the Code”) and the formulation of best practice guidelines by the Association of Mutual Insurers (AMI) and Association of Friendly Societies (AFS).

The Society will seek to observe the Code and the best practice guidelines during the accounting period commencing 1st January 2006.

The Board

The Board meets at least 11 times each year and is responsible for strategy, the monitoring of performance, approval of major projects and the framework of internal controls. It has a schedule of matters reserved to it, delegating operational matters to the Group Chief Executive.

A number of Board changes took place during 2005. Nick McAndrew retired as a non-executive Director at the Society’s AGM on 25th May 2005, the first AGM after his 70th birthday. Prior to his retirement Nick was regarded as independent.

Stephen Maran resigned as Chairman and Director in July 2005 after 6 years’ service on the Board. Malcolm Berryman resigned as Group Chief Executive in November 2005 and as a director in January 2006. Gillian Nott was appointed as a non-executive director at the 2005 AGM.

John Woolhouse became the Chairman of the Society following Stephen Maran’s resignation. Following Malcolm Berryman’s resignation as Group Chief Executive, John Woolhouse also became acting Group Chief Executive and

therefore ceased to be a non-executive director. Prior to his appointment as Chairman he had been regarded as an independent non-executive director.

The Board currently comprises two non-executive and three executive directors. Both of the non-executive directors are regarded as independent. The Code recommends that, excluding the Chairman, at least half the Board should consist of independent non-executive directors. The Society complied with this guidance until July 2005 and is seeking to recruit at least one additional independent non-executive director to increase the independent representation on the Board. The Society is also seeking to recruit a Group Chief Executive and this will restore compliance with the Code in respect of the separation of the functions of Chairman and Chief Executive.

Board Members

John Woolhouse FIA, (Age 69)

Chairman and acting Group Chief Executive

John Woolhouse was appointed a non-executive director of Liverpool Victoria Friendly Society Limited on 1st January 1996 and became Chairman following the resignation of Stephen Maran in July 2005. John became acting Group Chief Executive following the resignation of Malcolm Berryman in November 2005.

In addition to the main Board, John also chairs the Remuneration and Nomination Committee and the Life Supervisory Board. John is also Chairman of the Society’s life assurance, banking and general insurance subsidiaries.

John Woolhouse was formerly chief executive officer of Lloyd’s Life Assurance and subsequently a partner in Watson Wyatt, the consulting actuaries. He is also a director of Wessex Insurance Management and Isle of Man Insurance and Pensions Authority.

Gillian (Gill) Nott OBE, (59)

Non-Executive Director

Gill Nott was appointed as a non-executive director of Liverpool Victoria Friendly Society Limited on 25th May 2005. Gill is also a non-executive director of the Society's life assurance, banking, general insurance and asset management subsidiaries.

Gill was formerly a director of the Financial Services Authority and is currently a director of Baronsmead VCT PLC and Witan Pacific Investment Trust PLC.

Barry Rose, (60)

Non-Executive Director and Senior Independent Director

Barry Rose was appointed as a non-executive director of Liverpool Victoria Friendly Society Limited on 19th June 2002, having formerly been Chief Executive of Scottish Provident UK. Barry chairs the Group Audit and Compliance Committee and is Chairman and non-executive director of the Society's asset management subsidiary, as well as being a non-executive director of the Society's life assurance, banking and general insurance subsidiaries. Barry became the Society's Senior Independent Director on John Woolhouse's appointment as Chairman in July 2005. Barry is also a director of Wolfson Microelectronics plc, Optos plc and Baillie Gifford Shin Nippon Investment Trust plc.

Steven Daniels FIA, (46)

Group Director, Asset Management and Acquisitions

Steven Daniels joined Liverpool Victoria in 1988 and was appointed as Group Director, Investment in 1996. He was appointed to the Board on 27th March 1996. He was appointed Group Director, Asset Management in January 2001 and assumed additional responsibility for acquisitions becoming Group Director, Asset Management and Acquisitions in October 2001.

Ian Cordwell FCA, (42)

Group Director, Marketing

Ian Cordwell was formerly Finance Director of Marks & Spencer Financial Services Ltd and joined Liverpool Victoria as Group Finance Director in May 1999. He was appointed to the Board on 19th July 2000. In July 2001, he was appointed Group Director, Operations & Finance and Group Director, Operations from June 2002. He was appointed as Group Director, Marketing in August 2004.

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

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 has been introduced for the Board and the Directors with a view to improving both individual contributions and group achievement. This appraisal process is conducted by the Chairman and involves consultation and individual interviews with the Directors. The Senior Independent Director conducts the appraisal process for the Chairman.

Board Committees

The Group Audit and Compliance Committee, the Remuneration and Nomination Committee and the Life Supervisory Board are standing committees of the Board.

Group Audit & Compliance Committee

The Group Audit and Compliance Committee normally comprises the Society's non-executive directors under the chairmanship of Barry Rose. Currently, John Woolhouse is also a member of the Committee. The Committee meets at least

quarterly with the Group's senior management in finance, internal audit, risk and compliance and the external auditors, to consider the nature and scope of audit reviews and the adequacy and effectiveness of the Society's systems of internal control, compliance and risk management.

The Terms of Reference of the Committee include the matters indicated by the Code and has four key areas of operation namely: Oversight of Financial Reporting; Oversight of External Audit; Oversight of Systems of Business Control; and Oversight of Internal Audit.

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

Remuneration and Nomination Committee

In compliance with the Code, this Committee is normally made up of the Society's non-executive directors. Currently, John Woolhouse is also a member and the Chairman of the Committee in his capacity as Chairman of the Board. It is the Group's policy to remunerate senior executives, including executive directors, at competitive levels that are designed to attract, retain and motivate people of the right calibre. In addition to salary and pension entitlements, this is achieved by means of an annual bonus plan and a long-term incentive plan for its senior executives. Senior executive remuneration and bonus entitlements are reviewed on an annual basis by the Committee, which takes into account business results, individual accountabilities and performance together with market conditions.

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

It is the Board's policy to determine remuneration for non-executive directors based on the amount of time the non-executive directors give to the Group's affairs and appropriate market comparisons, on the recommendation of the Remuneration Committee.

In its capacity as the Remuneration Committee, the Committee usually meets quarterly. By invitation, the meetings are also attended by the Group Chief Executive, except when his own remuneration is being considered. The Chairman is not in attendance while the Committee considers his remuneration.

In its capacity as Nomination Committee, the Committee evaluates the balance of skills, knowledge and experience on the Board, seeking to maintain a Board with a range of appropriate skills and experience. In the light of the evaluation the Committee prepares a description of the role and capabilities required for any particular appointment. When seeking to fill a non-executive vacancy on the Board, recruitment consultants will usually be instructed to help to compile a short list of candidates for interview but other recommendations, including any from existing Board members, will also be considered.

As the Nomination Committee it approves, on behalf of the Board, appointments to the Board in the light of recommendations by the Group Chief Executive (for executive appointments) and the Chairman (for non-executive appointments). When considering candidates for Board membership, the key consideration is the contribution that the individual is expected to make to the operation of the Board and to the achievement of the Society's strategy and business goals.

The Group Chief Executive is a member of the Committee when it sits as the Nomination Committee.

The Life Supervisory Board

The Life Supervisory Board meets quarterly. Its responsibilities are to monitor and supervise (on behalf of the Group) the management (including the investment and bonus policy) of the life funds and of the life business operations of the Society. It is chaired by John Woolhouse and its membership is the same as the Society's Board.

The Life Supervisory Board also acts as the With Profits Committee for Liverpool Victoria Friendly Society Limited and the ex-Minster Fund of Liverpool Victoria Life Company Limited, in order to assess compliance with the Principles and Practices of Financial Management ("PPFM") for

the companies. In addition, the Life Supervisory Board undertakes on behalf of the Board functions in relation to the supervision of the management of life funds and life business operations within the Group. This includes matters such as: risk management policies; approval of reinsurance policy and contracts; approval of claims and underwriting philosophies; and oversight of solvency maintenance. It receives reports from the Actuarial Function Holder as to the financial condition of the Society in respect of its long term business and determination of bonuses to be paid from available surplus.

Board and Committee Membership and Attendance in 2005

Director	Liverpool Victoria Friendly Society Board	Group Audit & Compliance Committee	Remuneration and Nomination Committee (sitting as the Remuneration Committee)	Remuneration and Nomination Committee (sitting as the Nomination Committee)	Life Supervisory Board
	15 meetings	5 meetings	5 meetings	2 meetings	4 meetings
J Woolhouse	15	5	5	2	4
B Rose	14	5	5	2	4
G Nott ¹	9(10)	3(3)	3(3)	2	2(3)
I Cordwell	15	N/A	N/A	N/A	4
S Daniels	14	N/A	N/A	N/A	4
S Maran ²	8(8)	3(3)	2(2)	0(0)	3(3)
N McAndrew ³	4(5)	2(2)	2(2)	0(0)	0(1)
M Berryman ⁴	13(13)	N/A	N/A	2	4

¹ G Nott was appointed on 25 May 2005

² S Maran resigned on 25 July 2005

³ N McAndrew retired on 25 May 2005

⁴ M Berryman resigned as Group Chief Executive on 15 November 2005

Group Executive Directors

John Bannon,
Group Director, Insurance

Ian Cordwell,
Group Director, Marketing

Steven Daniels,
Group Director, Asset Management
and Acquisitions

Kevin Durkan,
Group Director, Operations

Ken Lawrence,
Investment Director

Mike Newton,
Group Director, Sales

David Nicholls,
Group Director, Corporate Governance

Ian Owen,
Interim Group Director Insurance

Mike Rutherford,
Group Director, Affinity Relations

Roy Spragg,
Group Director, Finance

John Woolhouse,
Acting Group Chief Executive

Company Secretary

Vince Jerrard

Group Executive Committee

The Group Executive Committee meets monthly under the chairmanship of the Group Chief Executive in order to assist him in the discharge of his responsibilities to the Board.

The Committee receives reports from each of the General Insurance, Banking, Life & Retail Investment and Financial Advice Services product areas and the Asset Management business.

Relations with Members

The Society hosts two Members Representative Panel meetings each year and has developed a programme of Regional Member Panel meetings to encourage members to participate on a nationwide basis.

The Board regards these meetings and the AGM as important opportunities to communicate directly with, and understand the views of, members.

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 complaints procedures are governed by regulations or guidance, 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 to refer the matter to the Financial Ombudsman Service.

Environmental policy

The Society's environmental policy forms an integral part of its corporate business strategy.

Looking after the environment benefits both the Society and its members and is consistent with membership and mutuality.

External Consultancy Services

Watson Wyatt LLP provides actuarial consultancy services to the Liverpool Victoria group, including the services of Martin Pike as the Society's Actuarial Function Holder. The firm also provides the group with market information on remuneration.

Ernst & Young LLP, the Liverpool Victoria group's external auditors, also provides advisory services to the group, providing advice in relation to matters such as taxation, acquisitions and system reviews. In all cases where Ernst & Young LLP provides such advisory services, steps are taken to ensure that their objectivity and independence is maintained. Hays plc provides human resources services to the Liverpool Victoria Group.

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.

Until his resignation in July 2005, the Remuneration Committee was chaired by Stephen Maran. The other members are John Woolhouse, Gillian Nott and Barry Rose. By invitation the meetings are also attended by the Group Chief Executive, except when his own remuneration is being considered. Neil Tune of Hays plc attends as a representative of the company that provides Human Resource services to Liverpool Victoria.

Since July 2005 the Committee has been chaired by John Woolhouse who retained the chairmanship when he became acting Group Chief Executive in November 2005. The remuneration strategy, policy and approach for all staff are reviewed at least annually by the Committee. All incentive and bonus schemes are established and monitored by the Committee.

Remuneration Policy

Liverpool Victoria's approach to remuneration policy is the same for all employees and is designed to support recruitment, motivation and retention. Remuneration is considered in the context of the financial services sector and the Liverpool Victoria Group's individual businesses. The objective continues to be to pay at the relevant mid-market level with a significant proportion of total remuneration dependent upon 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 of three years. Their original dates of appointment are shown in the list of directors on pages 10 and 11. If approved by the Society's AGM in May 2006, the requirement that non-executive directors should retire at the AGM after their 70th birthday will be removed. The Board intends that any director remaining on the Board after his or her 70th birthday will seek annual re-election. Fees for the non-executive directors are determined by the Society's Board, based on the time devoted to the Group affairs and appropriate market comparisons.

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 Liverpool Victoria activities. Non-executive directors' contracts provide for one month's notice of termination of the contract. Notice can be given by either party.

Remuneration Policy for Executive Directors

The remuneration of the Society's executive directors comprises salary, an annual cash bonus based upon performance, participation in long term incentive plans with returns based on Value Created (broadly, the group's internal measure for profit from trading activities), 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 aims of the Society. Remuneration reflects individual experience and responsibility. It is based on Value Created, 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, mainly from Hays plc, Watson Wyatt LLP and McLagan Partners, and APO G Consulting, which carries out job matching. These advisers are not specifically appointed by the Committee for the purposes of the consideration of remuneration.

John Woolhouse does not participate in any bonus or incentive schemes and is not a member of the Society's staff pension scheme.

Salary

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

Group Annual Incentive Scheme

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.

In 2006, the Group Annual Bonus Scheme will reward employees on the basis of Group Results, local results and personal contribution. For the executive directors, the Scheme can pay a maximum of 54% of salary (up to 27% for Steven Daniels) with Group and local results and personal contribution weighted 5:4:3. The Group result will be linked to sales performance of the Group in terms of Value Created.

In the case of both Ian Cordwell and Steven Daniels, their personal contribution will be determined by the Group Chief Executive by reference to individual performance under their Personal Performance Plans.

In addition to the Group Annual Bonus Scheme, Steven Daniels will participate in the Investment Bonus Scheme in 2006 which is based on the

Directors' Report on Remuneration continued...

total performance of relevant funds compared to benchmark performance and the contribution made by asset allocation. These elements are measured over one and three years. Under the Investment Bonus Scheme, Steven Daniels can receive up to 250% of salary.

Long Term Incentive Scheme

The Long Term Incentive Scheme has been developed to reflect market practice and to provide longer term management focus, motivation and retention. The Committee believes that a significant element of executives' remuneration should be linked to the delivery of longer term targets. The Scheme has a three year cycle, a new scheme commencing each January. Payments are based on achievement of Value Created targets in the group's annual business plan over a rolling three year cycle. The maximum payable under each maturing cycle for executive directors is 35% of salary. Each year, an amount set aside to be paid to the Scheme is divided among each of the three cycles in which the year features. This amount is 2.25% of the Value Created up to Plan level and 4.5% of Value Created in excess of Plan, subject to a maximum equal to the amount needed to pay the maximum bonus to all participants and to the discretion of the Remuneration Committee.

Neither the Annual nor the Long Term Incentive Schemes are a contractual entitlement of those potentially eligible to them.

Other benefits provided by the Group are:

- pension scheme;
- car allowance;
- medical insurance; and
- staff discounts. Group products can be acquired by executive directors on the terms applicable to other members of staff.

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 2005.

Business activities and future prospects

The Society is an incorporated friendly society which, 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 2005, of recent events and of likely future developments is contained in the Chairman's Statement and the Annual Performance Review.

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.

Board Directors and interests

The current members of the Board and Board Committees are as shown on pages 10 to 14.

On 25 May 2005, Nick McAndrew retired as a Director and Gill Nott was appointed as a Director with effect from the same date. Stephen Maran resigned as a Director on 25 July 2005 and was succeeded as Chairman by John Woolhouse. Malcolm Berryman stepped down as Group Chief Executive with effect from 15 November 2005 and was succeeded as acting Group Chief Executive by John Woolhouse. On 16 January 2006, Malcolm Berryman resigned as a Director. No Board Directors had any interest in the shares of any of the Society's subsidiaries as at 31 December 2005. The Society maintained liability insurance cover for its Directors and Officers during the year.

Bonus declaration

The Society is declaring annual bonus rates for the year ended 31 December 2005 at 1.5% of the sum assured for Industrial Branch business and at 3.0% of the sum assured for Ordinary Branch business. Interim bonus rates will also be at these levels. Terminal bonus rate changes in 2005 maintained the Society's position at or near the top of the market for all products.

Fixed assets

Changes in the fixed assets of the Society are disclosed in note 19 to the accounts.

Margin of solvency

The Society had, at 31 December 2005, the required capital resource requirement as prescribed in paragraph 7.2 of the Prudential Sourcebook for Insurance Companies, for each class of business.

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.

Seven principal types of risk, which are detailed below, have been identified and risk appetite for each of these has been defined as the amount of regulatory capital required to meet the Financial Services Authority's Individual Capital Assessment (ICA) capital requirements.

The Liverpool Victoria 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 Liverpool Victoria 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.

Financial Risk Management Objectives

The Group is exposed to financial risk through its financial assets, financial liabilities, reinsurance assets, and policyholder liabilities. In particular, the key financial risk is that the proceeds from financial assets are not sufficient to fund the obligations arising from contracts with policyholders. The most important components of this financial risk are market risk (including equity price risk, interest rate risk and currency risk), insurance risk and credit risk.

These risks arise from open positions in equity, interest rate and currency products, all of which are exposed to general and specific market movements. The financial risks that the Group primarily faces due to the nature of its investments and liabilities are equity price risk and interest rate risk.

The Group manages these 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.

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.

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. Any gap between the mean duration of the assets and the mean duration of the liabilities is minimised by means of buying and selling fixed interest securities of different durations and the use of interest rate swaps.

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.

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).

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.

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.

Other Risk Types

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 and lapses. Systems are in place to measure, monitor and control exposure to these risks. These are documented in policies for underwriting, pricing, claims and reinsurance.

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 Liverpool Victoria Group's escalation criteria.

Operational risks are assessed in terms of their probability and impact in accordance with Group policy.

Board of Directors' Report continued...

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 & Compliance Committee and Board.

Charitable contributions

Charitable donations made by the Society during the year to its Charities Aid Foundation account amounted to £166,000, of which £32,500 was spent. In addition, payments to members under the Care and Support Fund amounted to £9,250.

Equal opportunities

Liverpool Victoria is committed to equality and opportunity of treatment of all those who work for the Society. In line with our corporate values the Society undertakes to treat its entire staff 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 members of staff, 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 staff with information on issues relevant to their employment and the Society's performance through meetings, newsletters and a monthly Team Talk process, cascaded to staff by management. The Society's management also engages actively with the Employee Consultative Forum on issues of importance to staff, including the working environment, staff facilities, terms of employment and staff safety.

Persons employed by the Society and its subsidiaries

The average number of persons employed by the Society and its subsidiaries and the aggregate staff costs are shown in note 7 to the accounts.

Membership

As at 31 December 2005, the Society had 1.0 million members.

By order of the Board of directors
V J Jerrard
Secretary
22 March 2006

Responsibilities of the Board of Directors

The Friendly Societies Act 1992 requires the Committee of Management to prepare accounts for each financial year which give a true and fair view of the state of affairs of the Society and the Group as at the period end and of the income and expenditure of the Society and Group for that period.

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.

The directors are responsible for preparing the Annual Report and the accounts in accordance with applicable United Kingdom law and United Kingdom Generally Accepted Accounting Practice.

In preparing the accounts, the Board is required to:-

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the accounts;
- prepare the accounts on the going concern basis unless it is inappropriate to presume that the Society will continue in business.

The Board of directors is responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Society and enable the Board to ensure that the accounts comply with the Friendly Societies Act 1992 and the Regulations under it. It is also responsible for safeguarding the assets of the Society and Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors' are responsible for the maintenance and integrity of the 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.

Auditors' Report

We have audited the accounts of Liverpool Victoria Friendly Society Limited for the year ended 31 December 2005, which comprise Income and Expenditure Accounts, the Balance Sheets and Notes 1 to 37. These accounts have been prepared on the basis of the accounting policies set out therein.

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

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

This report has been prepared for the members of the Society pursuant to Section 73 of the Friendly Societies Act 1992. Our audit work has been undertaken so that we might state to the Society's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Society and the Society's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the Board of directors and auditors

The Board of directors' are responsible for the preparation of the Annual Report and the accounts in accordance with applicable United Kingdom law and Accounting Standards (United Kingdom Generally Accepted Accounting Practice) as set out in the Statement of Directors' Responsibilities in relation to the accounts.

Our responsibility is to audit the accounts in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the accounts 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 our opinion as to whether the Board of directors' 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 the accounts.

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 we require for our audit.

We read the other information contained in the Annual Report and consider whether it is consistent with the audited accounts. This other information comprises only the Board of directors' report, the Chairman's statement and the Annual Performance Review 2005. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the accounts. Our responsibilities do not extend to any other information.

Basis of 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 accounts. It also includes an assessment of the significant estimates

and judgments made by the Board of directors in the preparation of the accounts, 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 accounts 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 accounts.

Opinion

In our opinion the accounts give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the Society's and the Group's affairs as at 31 December 2005 and of the income and expenditure 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.

In our opinion the Report of the Board of directors 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 accounts for the year.

Ernst & Young LLP
Registered Auditor
1 More London Place
London SE1 2AF
22 March 2006

Group income and expenditure accounts

Technical account - general business

year ended 31 December 2005

	Notes	2005 £m	2004 £m
Earned premiums, net of reinsurance			
Gross premiums written	2a	386.7	391.8
Outward reinsurance premiums		(8.5)	(11.6)
Change in the provision for unearned premiums – gross amount		4.9	(22.0)
Change in the provision for unearned premiums – reinsurers' share		0.3	4.3
		383.4	362.5
Claims incurred, net of reinsurance			
Claims paid	4		
– gross amount		(289.9)	(250.1)
– reinsurers' share		0.5	4.0
Change in the provision for claims			
– gross amount		(44.5)	(48.6)
– reinsurers' share		(3.0)	(1.5)
		(336.9)	(296.2)
Net operating expenses	6a	(62.1)	(56.2)
Change in the equalisation provision		1.7	(3.1)
Balance on the technical account – general business		(13.9)	7.0

Non technical account

year ended 31 December 2005

	Notes	2005 £m	2004 £m
Balance on the general business technical account		(13.9)	7.0
Investment income	5a	36.7	32.7
Unrealised gains/(losses) on investments	5c	2.7	(4.9)
Other income		1.2	1.3
		26.7	36.1
Investment expenses and charges	5b	(7.8)	(0.8)
Surplus of income over expenditure on ordinary activities		18.9	35.3
Surplus transferred to the group technical account – long term business		(18.9)	(35.3)
Balance on the non-technical account		–	–

Income and expenditure accounts

Technical account - long term business

year ended 31 December 2005

	Notes	Group		Society	
		2005 £m	2004 Restated* £m	2005 £m	2004 Restated* £m
Earned premiums, net of reinsurance					
Gross premiums written	2b	304.5	331.6	109.5	138.7
Outward reinsurance premiums		(21.9)	(17.9)	(0.1)	(0.1)
		282.6	313.7	109.4	138.6
Investment income	5a	544.9	306.0	394.0	200.9
Unrealised gains on investments	5c	464.0	264.1	326.9	190.1
Other technical income		62.5	65.5	–	–
Total Technical Income		1,354.0	949.3	830.3	529.6
Claims incurred, net of reinsurance					
Claims paid					
– gross amount		(548.2)	(496.5)	(317.0)	(264.8)
– reinsurers' share		16.1	14.6	17.0	9.6
		(532.1)	(481.9)	(300.0)	(255.2)
Change in the provision for claims					
– gross amount		1.6	(5.8)	0.8	(2.5)
		(530.5)	(487.7)	(299.2)	(257.7)
Change in technical provisions, net of reinsurance					
Long term business provision, net of reinsurance					
– gross amount	21	(396.8)	41.9	(318.4)	98.2
– reinsurers' share		(10.9)	85.4	33.6	15.5
		(407.7)	127.3	(284.8)	113.7
Other technical provisions, net of reinsurance					
Technical provisions for linked liabilities, net of reinsurance					
– gross amount		(31.0)	(15.0)	–	–
– reinsurers' share		(1.4)	6.2	–	–
		(32.4)	(8.8)	–	–
		(440.1)	118.5	(284.8)	113.7
Other expenditure					
Net operating expenses	6b	(100.9)	(110.1)	(102.4)	(70.0)
Write down of investment in subsidiaries	12	–	–	(0.4)	–
Investment expenses and charges	5b	(7.7)	(6.0)	(5.0)	(3.3)
Other technical charges		(84.7)	(67.4)	–	–
Change in present value of future profits on non-participating business written out of with-profits funds		(9.5)	–	–	–
		(202.8)	(183.5)	(107.8)	(73.3)
Total Technical Charges		(1,173.4)	(552.7)	(691.8)	(217.3)
Surplus transferred from the non-technical account – general business		18.9	35.3	–	–
Actuarial gains/(losses) in pension liability	32	10.5	(6.4)	10.5	(6.0)
Surplus of technical income over technical charges before taxation		210.0	425.5	149.0	306.3
Tax attributable to the long term and general businesses	9	(83.3)	(30.4)	(68.9)	(13.4)
Surplus on technical account – long term business		126.7	395.1	80.1	292.9
Transfer to the fund for future appropriations	21	(126.7)	(395.1)	(80.1)	(292.9)
Balance on the technical account – long term business		–	–	–	–

There are no recognised gains or losses for the current financial year and the preceding financial year other than as stated in the group and society technical accounts and the group non-technical account, other than the restatement for FRS17.

*Retstated for FRS17 but not FRS27 as per notes 1a and 21.

Balance sheets

as at 31 December 2005

	Notes	Group		Society	
		2005 £m	2004 Restated £m	2005 £m	2004 Restated £m
Assets					
Intangible assets					
Goodwill	10	32.4	37.0	32.4	37.0
Investments					
Land and buildings	11	758.7	697.8	684.6	580.6
Investments in group undertakings and participating interests	12	–	–	589.4	589.6
Other financial investments	13	5,857.1	5,222.1	3,447.1	3,088.5
		6,615.8	5,919.9	4,721.1	4,258.7
Present value of acquired in-force business	14	47.4	51.4	–	–
Present value of future profits on non-participating business written out of with-profits funds		11.8	21.3	–	–
Assets held to cover linked liabilities	15	370.2	337.8	–	–
Reinsurers share of technical provisions					
Provision for unearned premiums		4.6	4.3	–	–
Claims outstanding		5.6	8.6	–	–
Long term business provisions		132.6	143.5	284.7	251.1
Technical provisions for linked liabilities		5.4	6.8	–	–
		148.2	163.2	284.7	251.1
Debtors					
Arising from direct insurance operations		100.7	98.7	9.0	6.7
Arising from reinsurance operations		18.8	13.4	–	–
Loans and advances not subject to securitisation		343.6	434.1	–	–
Securitised loans and advances to customers	16	363.6	362.1	–	–
Less: non-recourse funding/borrowings		(321.3)	(322.0)	–	–
Loans and advances to customers	17	385.9	474.2	–	–
Other debtors	18	47.7	44.1	80.8	77.9
		553.1	630.4	89.8	84.6
Other assets					
Tangible assets	19	6.3	4.9	1.9	2.8
Cash at bank and in hand		96.9	67.5	13.9	4.5
		103.2	72.4	15.8	7.3
Prepayments and accrued income					
Accrued interest and rent		40.7	37.2	17.2	16.4
Deferred acquisition costs					
– general business		14.0	12.0	–	–
– long term business		100.9	93.4	–	–
Other prepayments and accrued income		17.3	24.5	7.3	12.1
		172.9	167.1	24.5	28.5
Total assets		8,055.0	7,400.5	5,168.3	4,667.2

Balance sheets

31 December 2005

	Notes	Group		Society	
		2005 £m	2004 Restated £m	2005 £m	2004 Restated £m
Liabilities					
Fund for future appropriations	21	1,178.9	1,052.2	1,327.2	1,247.1
Technical provisions					
Provision for unearned premiums		197.9	202.8	–	–
Claims outstanding	20	384.3	341.4	11.1	11.9
Long term business provision	21 & 22	5,431.3	4,998.5	3,586.2	3,267.8
Equalisation provision		1.4	3.1	–	–
		6,014.9	5,545.8	3,597.3	3,279.7
Technical provisions for linked liabilities	22	375.6	344.6	–	–
Provisions for other risks and charges	23	95.5	29.4	87.0	24.8
Creditors					
Arising from direct insurance operations		11.8	14.7	6.5	9.1
Arising from reinsurance operations		23.9	15.3	–	–
Debenture loans	24	9.7	8.7	9.7	8.7
Deposits by banks	25	2.4	31.9	–	–
Customer accounts	26	170.4	184.4	–	–
Other creditors including taxation and social security	27	108.1	89.7	54.0	37.9
		326.3	344.7	70.2	55.7
Accruals and deferred income		50.8	59.0	73.6	35.1
Total liabilities excluding the pension liability		8,042.0	7,375.7	5,155.3	4,642.4
Pension liability	32	13.0	24.8	13.0	24.8
Total liabilities		8,055.0	7,400.5	5,168.3	4,667.2

The accounts were approved by the Board of directors on 22 March 2006 and were signed on its behalf by:

V J Jerrard
Secretary

1. Accounting policies

Basis of presentation

The Group accounts which consolidate the results of the Society and its subsidiary companies have been prepared in accordance with The Friendly Societies (Accounts and Related Provisions) Regulations 1994 ("the Regulations") and in accordance with applicable accounting standards. In addition the recommendations of the Statement of Recommended Practice on Accounting for Insurance Business, issued by the Association of British Insurers in December 2005 (the 'ABI SORP') have been adopted. The practices recommended by the ABI SORP are applicable for accounting periods ending after 1 January 2005.

There is a conflict between the requirements of Statement of Standard Accounting Practice (SSAP) 19 "Accounting for Investment Properties" and the requirements of Friendly Societies legislation in respect of the depreciation of investment properties. Explanation of departures of the Society's accounting policy from the requirements of that legislation is given in the "Investments" accounting policy below.

The principal accounting policies of the Society and Group, along with changes to policies adopted in the year, are set out below:

a. Change in accounting policies

FRS 27 "Life Assurance"

The provisions of Financial Reporting Standard 27 "Life Assurance" have been adopted in these accounts. Prior to the adoption of FRS 27, the Company adopted the modified statutory solvency basis approach in the determination of insurance liabilities, including the deferral of new business acquisition costs incurred where the benefit of such costs will be obtained in subsequent accounting periods. Following adoption of FRS 27, insurance liabilities in respect of with-profit business are stated at the amount of the realistic value of liabilities. The deferral of acquisition costs is no longer permitted in respect of with-profit business, but an amount has been recognised for the present value of future profits on non participating business written in the with-profit fund. The present value of in force business in the non participating business held in with-profits funds is shown separately to the long-term business provision.

The Accounting Standards Board acknowledged the difficulty of applying the requirements of FRS 27 retrospectively and it is the Society's view

that it would be impractical to do so. Therefore only the balance sheets at 31 December 2004 have been restated for the impact of FRS 27.

When applying FRS27, the effects of Actuarial Guidance Note 45 "Determining the With Profit Insurance Capital Component" has also been adopted in these accounts. Prior to this the surplus arising on the closed RNPFN fund was recognised within the Group fund for future appropriations. Following adoption of this guidance note all surpluses arising in closed funds are recognised as part of the long term business provision.

For the Society, this adoption of FRS 27 resulted at 31 December 2004 in a decrease in net insurance liabilities of £49.4m and an increase in the fund for future appropriations of £49.4m. For the Group, this adoption of FRS 27 combined with the adoption of Actuarial Guidance Note 45 has resulted at 31 December 2004 in an increase in net insurance liabilities of £116.9m, an asset of £21.3m representing the present value of future profits on non participating business written out of with-profits funds and a decrease in the fund for future appropriations of £95.6m.

FRS 17 "Retirement Benefits"

The provisions of FRS17 "Retirement Benefits" have been adopted in full in these financial statements and require immediate recognition in the balance sheet of the net surplus or deficit in the Scheme. Prior to this adoption the company charged contributions to the technical account so as to spread the expected pension costs over the remaining service lives of scheme members.

The adoption of FRS 17 has resulted in a credit in the 2004 Group technical account – long term business of £2.7m and a charge in the Society technical account – long term business of £2.9m. A liability for the pension deficit of £24.8m is included in the Group and Society balance sheets at 31 December 2004 (2003: Group £27.5m, Society £21.9m).

FRS 25 "Financial Instruments: Disclosure and Presentation"

The relevant parts of FRS25 "Financial Instruments: Disclosure and Presentation" have been adopted in these accounts. This has resulted in no change to the amounts shown within the balance sheet or profit and loss account so no prior year adjustment is required.

b. Earned premiums

Long term business

Long term business premiums, including reinsurance premiums, are recognised as earned in the technical account when due for payment. The analysis of premiums in the notes to the accounts, between with-profit policies and non-profit policies refers to, respectively, premiums on policies which attract bonuses and those that do not.

General business

General business premiums reflect business accepted during the year adjusted for unearned premiums. The unearned premium is that portion of the premium written that relates to a period of risk subsequent to the balance sheet date.

c. Claims

Long term business

Death claims are recorded on the basis of notifications received. Maturity payments are recorded when due. Surrenders are recorded on the earlier of the date when paid or when the policy ceases to be included within the long term business provision. Claims on participating business include bonuses payable. Claims include the direct costs of settlement.

General business

Claims outstanding represent the estimated ultimate cost of settling all claims (including direct and indirect claims settlement costs) arising from events which have occurred up to the balance sheet date including a provision for claims incurred but not yet reported. Outstanding claims provisions are based on the estimated ultimate cost of all claims incurred but not settled at the balance sheet date. Any estimate represents a point within a range of possible outcomes. Further details of estimation techniques are given in note 20.

d. Investment income and expenses

Investment income and expenses include dividends, interest and rents, together with realised gains and losses on investments, less related expenses. Dividends are included on an ex-dividend basis. Interest, rents and expenses are included on an accruals basis. Realised gains and losses on investments are calculated as the difference between net sales proceeds and original cost.

e. Unrealised gains and losses on investments

Unrealised gains and losses on investments represent the difference between the valuation of investments at the balance sheet date and their purchase price or, if they have been previously valued, 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.

f. Other technical income and other technical charges

Commission earned from financial intermediary services is taken to income when receivable. Interest receivable on loan advances to customers is calculated on an actuarial basis. These items are recognised in the group technical account – long term business, other technical income.

Costs associated with financial intermediary services and loan advances are recognised in the group technical account - long term business, other technical charges on an accruals basis.

g. Deferred acquisition costs

Long term business

The method of calculating the long term business provision assumes that acquisition costs, comprising all direct and indirect costs arising from the conclusion of non participating insurance contracts, will be recovered from future premiums payable. 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.

General business

Deferred acquisition costs are shown as an asset in the Balance Sheet and represent the deferral of acquisition costs associated with the unearned premium provision.

h. Operating lease payments

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

i. Deferred taxation

Deferred taxation is provided for in full on timing differences arising from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in the accounts to the extent that it is probable that a liability or asset will crystallise in the future. Deferred taxation assets are only recognised where it is more likely than not that they will be recoverable in the foreseeable future. Deferred tax is measured on a non-discounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

j. 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 long term technical account.

k. Goodwill

Purchased goodwill is capitalised in the balance sheet at cost and amortised through the long term technical account on a straight line basis over its useful economic life. The gain or loss on the disposal of a subsidiary or business will include any attributable unamortised goodwill. Goodwill arising on acquisitions prior to 1998 has been eliminated against the fund for future appropriations. This goodwill would be charged in the technical account on subsequent disposal of the business to which it related.

l. Investments

Investments consist of land and buildings, listed and unlisted investments, units in authorised unit trusts, open ended investment companies (OEICs), deposits, loans and other investments. Listed investments, units in authorised unit trusts and OEICs are included at bid value. Deposits are included at current value. Loans, unlisted investments and other investments are shown at estimated market value.

All properties were valued as at 31 December 2005, by qualified professional valuers working for the company of DTZ Debenham Tie Leung, Chartered Surveyors, acting in the capacity of

external valuers. All such valuers are Chartered Surveyors, being members of The Royal Institution of Chartered Surveyors.

The freehold and leasehold property investments are valued annually at market value. All valuations were carried out in accordance with the RICS Appraisal and Valuation Standards. The valuation reports are dated 6 January 2006.

No depreciation is provided in respect of freehold properties or leasehold properties with over twenty years to expiry. This is a departure from the requirements of the Regulations which requires all properties to be depreciated. Such properties are not held for consumption, but for investment. Depreciation is only one amongst many factors reflected in the annual valuation of properties and, accordingly, the amount of depreciation which might otherwise have been charged cannot be separately identified or quantified. The directors consider that this policy results in the accounts giving a true and fair view.

Investments in subsidiaries are shown at the lower of cost and an assessment of net realisable value.

Investments in associated undertakings are accounted for as other financial investments and are shown at their estimated current value. Movements in the value of associated undertakings are accounted for in line with the Society's accounting policy for unrealised gains and losses on investments.

m. Hedging contracts

Hedging contracts comprise forward foreign exchange contracts and financial futures. These are included in the accounts at market value. The resulting gains or losses are recognised in the long term technical account as realised or unrealised gains or losses.

n. Present value of acquired in-force business

On acquisition of a portfolio of long term insurance contracts, the net present value of the Group's interest in the expected cashflows of the in-force business is capitalised in the balance sheet as an asset. That part of the Group's interest which will be recognised as profit over the lifetime of the in-force policies 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 Group technical account – long term business in other technical charges.

o. Present value of future profits on non participating business written out of 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. Although not identifiable separately, the fund for future appropriations includes the excess of the value of those future profits that are taken into account in calculating the realistic liabilities. Since it is not possible to apportion the future profits on this non participating business between the amount relating to policyholder liabilities and the amount relating to the fund for future appropriation, the present value of future profits (PVFP) on this business is recognised as an asset.

The value of the PVFP is determined in accordance with the FSA's realistic capital regime. In particular, the methodology and assumptions involve reasonable adjustments to reflect risk and uncertainty, are based on current estimates of future experience and current market yields and allow for a market-consistent valuation of any guarantees or options within the contracts.

p. Loans and advances subject to securitisation

Loans and advances 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.

Where the conditions for linked presentation, as stipulated in FRS5 are met, the proceeds of the sale of unsecured personal loans are shown using the linked presentation method, and the related gross amounts are shown on the face of the balance sheet.

q. Fixed assets

Fixed assets 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
Computers and equipment	3 years
Fixtures, fittings and motor vehicles	4 to 10 years

Provision is made for any impairments in fixed assets.

*These are properties used by the Group for operational purposes and are not investment properties which are dealt with in a separate note.

r. Fund for future appropriations

The fund for future appropriations represents the excess of assets over and above the long term business provision 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 surplus or deficit arising through the technical accounts (for the Society and for the Group) is transferred to or from the fund.

s. Long term business provision

The long term business provision has been calculated in accordance with the methods and assumptions approved by the Society's and relevant subsidiary's Board of Directors as part of their investigation of the long term business.

Participating business

For with-profits contracts, the provision 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 the 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 investment returns, asset mix 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 asset is recognised representing the value of non participating business written within the with-profits fund. Such an asset is not recognised for business written outside with-profits fund.

The principal assumptions are given in note 22.

Non participating business

The provision is calculated to comply with the reporting requirements under the 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 note 22. The Society and relevant subsidiaries have adopted the modified statutory solvency basis approach in the determination of profit on non participating business.

t. Unexpired risks

Provision is made, if required, for any anticipated claims and deferred acquisition or claims handling costs that are anticipated to exceed the unearned premiums. 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.

u. Equalisation provision

An equalisation provision is created in accordance with the requirements of the Financial Services Authority Prudential Sourcebook to mitigate exceptional high loss ratios in future years for classes of business displaying a high degree of volatility. These provisions are over and above those required to meet existing insurance liabilities.

v. Provision for bad and doubtful debts – banking

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. General provisions have been made in respect of losses which, although not yet specifically identified, are expected from experience to arise.

w. Pensions

The Group operates a defined benefit pension scheme. The net surplus or deficit within the scheme is calculated annually with the assets measured at the market 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 scheme 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. Net expected return on the pension asset comprises the expected return on the pension scheme assets less interest on scheme liabilities and is recognised in investment income. Actuarial gains or losses are included as a separate line in the technical account for long term insurance business immediately above the line for transfer to or from the fund for future appropriations and are reflected in that transfer.

Notes to the accounts continued...

31 December 2005

2. Earned premiums segmental analysis

All business is written in the UK.

a. Group – general business – gross premiums written and gross premiums earned

	Gross premiums written		Gross premiums earned	
	2005 £m	2004 £m	2005 £m	2004 £m
Motor	260.9	272.3	267.8	263.1
Property damage	114.3	106.7	111.0	98.4
Other	11.5	12.8	12.8	8.3
	386.7	391.8	391.6	369.8

b. Group and Society – long term business – premiums written

	Group		Society		
	2005 £m	2004 £m	2005 £m	2004 £m	
Single premiums					
Investments and savings	– with-profit	15.7	29.6	15.1	29.6
Pensions and annuities	– with-profit	5.8	13.4	5.8	13.4
	– non participating	10.6	10.8	–	–
Life and health protection	– non participating	0.5	0.5	–	–
		32.6	54.3	20.9	43.0
Periodic premiums					
Investments and savings	– with-profit	116.5	131.1	60.8	64.7
	– non participating	0.1	0.1	–	–
	– unit linked	15.0	16.6	–	–
Pensions and annuities	– with-profit	20.4	22.2	11.5	13.8
	– non participating	8.1	8.5	–	–
	– unit linked	0.5	0.1	–	–
Life and health protection	– with-profit	18.5	16.7	15.4	16.7
	– non participating	76.5	64.8	0.9	0.5
	– unit linked	16.3	17.2	–	–
	271.9	277.3	88.6	95.7	
	304.5	331.6	109.5	138.7	

c. Group and Society – long term business – gross new business premiums

	Group		Society		
	2005 £m	2004 £m	2005 £m	2004 £m	
Single premiums					
Investments and savings	– with-profit	15.7	29.6	15.1	29.6
Pensions and annuities	– with-profit	5.8	13.4	5.8	13.4
	– non participating	10.6	10.8	–	–
Life and health protection	– non participating	0.5	0.5	–	–
		32.6	54.3	20.9	43.0
Periodic premiums					
Investments and savings	– with-profit	4.5	7.3	4.5	7.3
Pensions and annuities	– with-profit	0.5	1.2	0.5	1.2
	– non participating	0.1	0.2	–	–
Life and health protection	– non participating	14.1	17.7	–	–
	– unit linked	3.6	3.3	–	–
	22.8	29.7	5.0	8.5	
	55.4	84.0	25.9	51.5	

All gross new business premiums relate to individual business.

DSS recurrent single premium rebates 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.

3. Segmental reporting

	Turnover		Surplus/(deficit) of technical income over technical charges before taxation		Net assets	
	2005	2004	2005	2004	2005	2004
	£m	£m	£m	Restated* £m	£m	Restated £m
Long term business	304.5	331.6	173.1	391.1	6,243.1	5,707.8
General insurance	386.7	391.8	20.7	34.3	127.9	132.7
Banking	43.2	44.1	(25.8)	(9.1)	67.8	72.0
Financial intermediary	7.1	9.3	(4.4)	(0.9)	5.7	5.2
Other	71.7	38.2	46.4	10.1	33.1	(10.5)
	813.2	815.0	210.0	425.5	6,477.6	5,907.2

Turnover from the long term business relates to premiums earned in the year. Turnover in respect of general insurance comprises gross written premium. Turnover from banking comprises net interest, fees and commissions receivable. Turnover from the financial intermediary comprises commissions.

Turnover and surplus or deficit of technical income over technical charges before taxation are stated before the removal of intra-group transactions. The intra-group transactions have been eliminated in the primary statements.

*Restated for FRS17 but not FRS27 as per notes 1a and 21.

4. Movement in prior year's technical provision for claims outstanding - general business

Included within claims incurred is a release of £16.3m in respect of motor insurance business (2004: £19.3m) and a release of £1.0m in respect of property insurance business (2004: £12.1m), being the difference between the provision for claims outstanding at the beginning of the year less payments made in respect of claims incurred in prior years and the claims outstanding at the end of the year in respect of those claims.

5a. Investment income

	Group technical account long term business		Society technical account long term business		Group non-technical account	
	2005	2004	2005	2004	2005	2004
	£m	Restated £m	£m	Restated £m	£m	£m
Land and buildings	38.0	41.8	32.9	35.6	–	–
Other investments	204.8	197.2	116.9	108.5	36.7	32.7
Gains on realisation of investments	291.9	56.8	234.0	46.8	–	–
Pension scheme income	10.2	10.2	10.2	10.0	–	–
	544.9	306.0	394.0	200.9	36.7	32.7

5b. Investment expenses and charges

	Group technical account long term business		Society technical account long term business		Group non-technical account	
	2005	2004	2005	2004	2005	2004
	£m	£m	£m	£m	£m	£m
Investment management expenses and charges	7.7	6.0	5.0	3.3	3.3	0.4
Losses on realisation of investments	–	–	–	–	4.5	0.4
	7.7	6.0	5.0	3.3	7.8	0.8

5c. Investment activity account

		Group technical account long term business		Society technical account long term business		Group non-technical account	
		2005	2004	2005	2004	2005	2004
		£m	£m	£m	£m	£m	£m
Investment income	5a	544.9	306.0	394.0	200.9	36.7	32.7
Net unrealised investment gains/(losses)		464.0	264.1	326.9	190.1	2.7	(4.9)
Investment expenses and charges	5b	(7.7)	(6.0)	(5.0)	(3.3)	(7.8)	(0.8)
Investment return for the year		1,001.2	564.1	715.9	387.7	31.6	27.0

Notes to the accounts continued...

31 December 2005

6. Expenses

a. Group – general business – net operating expenses

	2005 £m	2004 £m
Acquisition costs	29.2	24.5
Movement in deferred acquisition costs	(2.0)	(0.5)
Administrative expenses	34.9	32.2
	62.1	56.2

b. Group and Society – long term business – net operating expenses

	Group		Society	
	2005 £m	2004 Restated £m	2005 £m	2004 Restated £m
Acquisition costs	51.3	59.0	15.0	17.4
Movement in deferred acquisition costs	(7.5)	(7.8)	–	–
Administrative expenses	57.1	58.9	87.4	52.6
	100.9	110.1	102.4	70.0

Net operating expenses are stated after crediting management charges of £86.4m (2004: £78.6m) in the Society in respect of the administration of its subsidiaries.

c. Costs incurred during the year included the following:

	Group		Society	
	2005 £m	2004 £m	2005 £m	2004 £m
Depreciation on tangible fixed assets	1.5	1.7	0.9	1.0
Operating lease rental charges:				
– Land and buildings	3.4	3.9	0.7	0.9
– Other	–	0.3	–	0.3
	3.4	4.2	0.7	1.2

d. Auditor's remuneration

Group audit fees amounted to £1.0m (2004: £0.7m), of which the element relating to the Society was £0.5m (2004: £0.3m). Included within these fees were £0.5m (2004: £0.3m) for the Group and £0.2m (2004: £0.1m) for the Society relating to the audit of returns to the Financial Services Authority.

In addition to the audit fees, Ernst & Young received from the Group £0.1m (2004 £0.4m) in respect of non-audit services.

7. Staff costs

	Group		Society	
	2005 £m	2004 £m	2005 £m	2004 £m
Wages and salaries	50.8	47.8	50.8	47.4
Social security costs	4.1	4.0	4.1	3.9
Other pension costs	2.9	2.5	2.9	2.5
	57.8	54.3	57.8	53.8

Wages and salaries includes redundancy and closure related incentive costs in respect of the closure of home service collections division.

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

	Group		Society	
	2005 Number	2004 Number	2005 Number	2004 Number
Member contact	1,397	1,449	1,397	1,449
Administration	491	609	491	595
	1,888	2,058	1,888	2,044

8. Directors' emoluments

The aggregate amount of directors' emoluments was as follows:

				2005 £m	2004 £m
a. Aggregate emoluments				1.3	1.3
b. Contributions to money purchase pension schemes				0.1	0.1
c. Emoluments of individual directors, including emoluments of the Chairman and highest paid director were as follows:					
	Salary £'000	Bonus £'000	Other Benefits £'000	Total 2005 £'000	Total 2004 £'000
M.L. Berryman	337	–	91	428	511
S.M. Daniels	198	181	10	389	278
I.D.Cordwell	197	12	37	246	276
J.T. Woolhouse	111	–	–	111	41
S.A. Maran	58	–	–	58	84
B.M. Rose	42	–	–	42	35
G. Nott	22	–	–	22	–
N. McAndrew	16	–	–	16	39
	981	193	138	1,312	1,264

Other benefits include contributions to funded unapproved retirement benefit schemes, car allowances, medical and other benefits in kind or their equivalent monetary value.

During 2005 compensation for loss of office payments were made to M.L. Berryman which amounted to £481,000 and are not included in the table above.

The Society has made the following contributions to personal pension arrangements:

	2005 £'000	2004 £'000
Funded unapproved retirement benefit scheme		
M.L. Berryman	80	77

d. Pension arrangements

M.L. Berryman, S.M. Daniels and I.D. Cordwell are members of the Liverpool Victoria (1994) Staff Pension Scheme, which is a defined benefit scheme.

The Society makes contributions to the Liverpool Victoria (1994) Staff Pension Scheme of 7.2% of pensionable salaries (2004: 7.2%) in respect of all permanent staff, including executive directors.

	2005 £'000	2004 £'000
Accrued pension at end of period		
M.L. Berryman	51	48
S.M. Daniels	60	55
I.D. Cordwell	38	35

9. Taxation

Group	2005 £m	2004 Restated £m
Current year:		
Corporation tax	21.4	15.4
Deferred tax	61.4	19.2
Prior year:		
Corporation tax	0.5	(4.2)
	83.3	30.4
Society	£m	2004 Restated £m
Current year:		
Corporation tax at 20% (2004: 20%)	7.2	4.9
Deferred tax at 20% (2004: 20%)	61.2	12.5
Prior year:		
Corporation tax	0.5	(4.0)
	68.9	13.4

Notes to the accounts continued...

31 December 2005

10. Goodwill

	Group £m	Society £m
Cost:		
At 1 January & 31 December 2005	71.5	50.9
Amortisation:		
At 1 January 2005	34.5	13.9
Charge for the year	4.6	4.6
At 31 December 2005	39.1	18.5
Net book value at 31 December 2005	32.4	32.4
Net book value at 31 December 2004	37.0	37.0

11. Land and buildings

Group	Market value		Cost	
	2005 £m	2004 £m	2005 £m	2004 £m
Freeholds	576.6	548.7	376.3	384.0
Long leaseholds	182.1	149.1	139.8	121.5
	758.7	697.8	516.1	505.5

Society	Market value		Cost	
	2005 £m	2004 £m	2005 £m	2004 £m
Freeholds	502.5	431.5	323.2	296.6
Long leaseholds	182.1	149.1	139.8	121.5
	684.6	580.6	463.0	418.1

Owner occupied properties in the Group, not held as investments, are shown in note 19.

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

	Group		Society	
	2005 £m	2004 £m	2005 £m	2004 £m
At 1 January	697.8	672.0	580.6	543.1
Additions	83.0	16.3	83.0	16.2
Disposals	(120.9)	(65.2)	(62.9)	(35.8)
Revaluation adjustment	98.8	74.7	83.9	57.1
At 31 December	758.7	697.8	684.6	580.6

12. Investments in group undertakings and participating interests

Society	2005 £m	2004 £m
Shares in subsidiaries		
Cost less provisions at 1 January	544.1	551.5
Additions	0.2	13.9
Impairment write off	(0.4)	-
Dividend paid from pre-acquisition reserves	-	(21.3)
	543.9	544.1
Loan stock in subsidiaries		
Cost at 1 January	45.5	45.5
Additions	-	-
	45.5	45.5
At 31 December	589.4	589.6

In accordance with Financial Reporting Standard 11 "Impairment of Fixed Assets and Goodwill", the Society has examined the carrying value of its subsidiaries and after an impairment write off of £0.4m no further provision for impairment was considered necessary.

13. Other financial investments

Group	Market value		Historical cost	
	2005 £m	2004 £m	2005 £m	2004 £m
Shares, other variable yield securities and units in unit trusts				
– UK listed	2,105.9	1,740.2	1,622.7	1,453.4
– UK unlisted	32.6	41.5	33.7	36.8
– Overseas listed	737.3	572.7	584.0	532.6
– Overseas unlisted	69.4	64.5	93.3	90.6
Debt and other fixed income securities				
– UK listed	2,234.4	2,112.3	2,143.0	2,091.2
– Overseas listed	54.0	34.3	51.6	33.1
Loans	4.0	4.3	4.0	5.1
Deposits with credit institutions	564.5	614.2	564.5	614.2
Other	55.0	38.1	50.1	36.6
	5,857.1	5,222.1	5,146.9	4,893.6

Society	Market value		Historical cost	
	2005 £m	2004 £m	2005 £m	2004 £m
Shares, other variable yield securities and units in unit trusts				
– UK listed	1,642.9	1,394.1	1,276.9	1,166.8
– UK unlisted	32.6	41.5	33.7	36.8
– Overseas listed	737.3	572.7	584.0	532.6
– Overseas unlisted	69.4	64.5	93.3	90.6
Debt and other fixed income securities				
– UK listed	733.0	691.7	697.1	675.6
– Overseas listed	23.2	24.8	21.7	24.0
Loans	2.4	2.6	2.4	3.4
Deposits with credit institutions	176.6	274.0	176.6	274.0
Other	29.7	22.6	26.8	19.8
	3,447.1	3,088.5	2,912.5	2,823.6

Listed investments include unit trusts and open ended investment companies.

Loans secured by life policies amounted to £2.3m (2004: £2.6m) for the Group and £0.8m (2004: £0.9m) for Society. These are included in loans.

14. Present value of acquired in-force business

Group	£m
Cost:	
At 1 January and 31 December 2005	63.4
Amortisation:	
At 1 January 2005	12.0
Charge for the year	4.0
At 31 December 2005	16.0
Net book value at 31 December 2005	47.4
Net book value at 31 December 2004	51.4

Notes to the accounts continued...

31 December 2005

15. Assets held to cover linked liabilities

Group	2005 £m	2004 £m
At valuation	370.2	337.8
At cost	302.2	309.0

16. Loans and advances subject to securitisation

At 31st December 2005 a subsidiary, Liverpool Victoria Banking Services Limited (LVBS), had a total of £364m (2004:£362m) of unsecured personal loan receivables securitised to a special purpose securitisation company, Gresham Receivables (No.2) UK Limited (Gresham), in return for non-returnable finance of £350m (2004: £350m). The £14m (2004: £12m) 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.

Under the provisions of FRS 5 "Reporting the Substance of Transactions", the securitised personal loans have been included in the balance sheet using linked presentation.

The profit and loss account includes the following amounts, which relate to personal loan balances held by Gresham:

Group	2005 £m	2004 £m
Interest receivable and similar income	25.1	24.4
Interest payable	(18.9)	(16.8)
Charges for bad and doubtful debts	(18.7)	(13.1)

These are included within Other Technical Income and Other Technical Charges within the Long Term Technical Account.

17. Loans and advances to customers

Group	2005 £m	2004 £m
Remaining maturity		
– Over five years	48.0	55.2
– Five years or less but over one year	241.0	290.0
– One year or less but over three months	86.7	100.2
– Three months or less	36.6	47.0
	412.3	492.4
General bad and doubtful debt provisions	(6.3)	(1.2)
Specific bad and doubtful debt provisions	(20.1)	(17.0)
	385.9	474.2
Of which repayable on demand or at short notice	14.2	14.0

18. Other debtors

	Group		Society	
	2005 £m	2004 £m	2005 £m	2004 £m
Amounts due within one year				
Amounts due from group undertakings	–	–	57.1	58.3
Other	24.4	24.1	6.5	7.8
	24.4	24.1	63.6	66.1
Amounts due after one year				
Deferred taxation	0.1	0.9	–	–
Other	23.2	19.1	17.2	11.8
	47.7	44.1	80.8	77.9

Notes to the accounts continued...

31 December 2005

19. Tangible assets

Group	Freehold property £m	Leasehold property, long £m	Leasehold property, short £m	Computers and equipment £m	Fixtures, fittings and motor vehicles £m	Total £m
Cost:						
At 1 January 2005	2.8	6.8	2.5	12.3	5.3	29.7
Additions	-	2.9	-	0.1	-	3.0
Disposals	-	-	(0.4)	(7.4)	(1.4)	(9.2)
At 31 December 2005	2.8	9.7	2.1	5.0	3.9	23.5
Depreciation:						
At 1 January 2005	1.2	6.3	1.0	11.4	4.9	24.8
Provided in the year	0.1	0.5	0.3	0.3	0.3	1.5
Disposals	-	-	(0.3)	(7.4)	(1.4)	(9.1)
At 31 December 2005	1.3	6.8	1.0	4.3	3.8	17.2
Net book value at 31 December 2005	1.5	2.9	1.1	0.7	0.1	6.3
Net book value at 31 December 2004	1.6	0.5	1.5	0.9	0.4	4.9
Society						
Cost:						
At 1 January 2005			2.2	12.3	5.3	19.8
Additions			-	0.1	-	0.1
Disposals			(0.4)	(7.4)	(1.4)	(9.2)
At 31 December 2005			1.8	5.0	3.9	10.7
Depreciation:						
At 1 January 2005			0.7	11.4	4.9	17.0
Provided in the year			0.3	0.3	0.3	0.9
Disposals			(0.3)	(7.4)	(1.4)	(9.1)
At 31 December 2005			0.7	4.3	3.8	8.8
Net book value at 31 December 2005			1.1	0.7	0.1	1.9
Net book value at 31 December 2004			1.5	0.9	0.4	2.8

20. Provisions for outstanding claims - general business

The ultimate cost of outstanding claims is estimated by using a range of standard actuarial claims projection techniques. 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. The estimation techniques are intended to give a result within the normal range of outcomes. To the extent that the ultimate cost falls outside the range, for example where experience is worse than that assumed, the surplus or deficit will be credited or charged to the technical account-general business in future years.

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

Notes to the accounts continued...

31 December 2005

21. Fund for future appropriations and long term business provision

Group	2005			2004		
	Fund for future appropriations £m	Long term business provision £m	Total £m	Fund for future appropriations Restated £m	Long term business provision Restated £m	Total Restated £m
Balance at 1 January as previously stated	1,172.6	4,881.6	6,054.2	780.2	4,923.5	5,703.7
Restated for FRS 17 "Retirement Benefits"	(24.8)	–	(24.8)	(27.5)	–	(27.5)
Restated for FRS 27 "Life Assurance"	(95.6)	116.9	21.3	–	–	–
Balance at 1 January as restated	1,052.2	4,998.5	6,050.7	752.7	4,923.5	5,676.2
Change in the year	126.7	396.8	523.5	395.1	(41.9)	353.2
Acquisition	–	36.0	36.0	–	–	–
Balance at 31 December as previously stated	1,178.9	5,431.3	6,610.2	1,147.8	4,881.6	6,029.4
Restated for FRS 27 "Life Assurance"	–	–	–	(95.6)	116.9	21.3
Balance at 31 December as restated	1,178.9	5,431.3	6,610.2	1,052.2	4,998.5	6,050.7

Society	2005			2004		
	Fund for future appropriations £m	Long term business provision £m	Total £m	Fund for future appropriations Restated £m	Long term business provision Restated £m	Total Restated £m
Balance at 1 January as previously stated	1,222.5	3,317.2	4,539.7	926.7	3,415.4	4,342.1
Restated for FRS 17 "Retirement Benefits"	(24.8)	–	(24.8)	(21.9)	–	(21.9)
Restated for FRS 27 "Life Assurance"	49.4	(49.4)	–	–	–	–
Balance at 1 January as restated	1,247.1	3,267.8	4,514.9	904.8	3,415.4	4,320.2
Change in the year	80.1	318.4	398.5	292.9	(98.2)	194.7
Balance at 31 December as previously stated	1,327.2	3,586.2	4,913.4	1,197.7	3,317.2	4,514.9
Restated for FRS 27 "Life Assurance"	–	–	–	49.4	(49.4)	–
Balance at 31 December as restated	1,327.2	3,586.2	4,913.4	1,247.1	3,267.8	4,514.9

The fund for future appropriations and long term business provisions have been restated for changes in accounting policy triggered by FRS 27 "Life Assurance" and FRS 17 "Retirement Benefits". These have been implemented as follows:

- (i) FRS 27 requires that only the 2004 closing balances be restated. This means that the technical accounts – long term business for 2004 and 2005 are not comparable, as explained in the Performance Report.
- (ii) FRS 27 also requires the fund for future appropriations in the RNPFN Fund to be shown within the long term business provision. This fund is closed and only available to members of that fund. It is therefore no longer included in the Group fund for future appropriations.
- (iii) The restatement for FRS17 has been made in both the 2004 balance sheets and income & expenditure accounts.

Cumulative goodwill of £199.8m in the Group (£62.2m in the Society) has been eliminated against the fund for future appropriations.

The acquisition represents the transfer of the life fund of UIA (Insurance) Limited. The policies have been transferred in on a non-profit basis. No goodwill arose on this transfer.

22. Long term business provision

The basis of the calculation of the long term business provision is described in note 1s. The long term business provision is calculated separately for each life operation. Material judgement is required in calculating the long term business provision. In particular there is discretion over the assumptions used. For participating business, the long term business provision is calculated in accordance with the FSA's realistic capital regime. Non participating liabilities are valued using a gross premium method.

In calculating our realistic liabilities, account has also been taken of future management actions consistent with those set out in our 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 long term business provision depend on the circumstances prevailing in each of the life operations. The assumptions used in determining the long term business provision 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 technical account in future years.

When valuing options and guarantees the asset model used was the Watson Wyatt 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 2005 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 long term business provision. 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	2005	2004
5	4.34%	4.67%
15	4.18%	4.70%
25	4.14%	4.57%
35	4.12%	4.43%

Other assumptions

Best estimate assumptions are set for inflation, mortality, expenses and persistency. The future expense inflation assumption is modelled as RPI plus 1.0% (2004: RPI plus 1.0%), where RPI is modelled as the nominal yields on cash less 0.8% (2004: cash less 0.8%).

Asset mix for assets backing asset shares at the valuation date:	2005	2004
Cash	7.0%	7.5%
Fixed interest	20.0%	23.5%
Equities	58.0%	54.0%
Property	15.0%	15.0%

Mortality rate tables	2005	2004
Conventional Life Business	75% AM80	75% AM80
Conventional Pensions Business	70% AM80	70% AM80
Conventional Industrial Branch Business	60% ELT14M	60% ELT14M
Non Unitised Accumulating Pensions Business	70% AM80	70% AM80
Direct Unitised Accumulating Life Business	80% AM/F80	80% AM/F80
Direct Unitised Accumulating Pensions Business	80% AM80	80% AM80
Direct Unitised Accumulating Bond Business	80% AM80	80% AM80
Direct Unitised Accumulating Life ISA Business	80% AM/F80	80% AM/F80
Annuities in Payment	90% RM/FV92mc (YoB)	85% RM/FV92mc (YoB)

Per policy expenses – regular premiums	2005	2004
Conventional Life Business	£15.20	£22.42+4.83% APC
Conventional Pensions Business	£17.70	£30.63+4.83% APC
Conventional Industrial Branch Business	£18.50	£17.39
Non Unitised Accumulating Pensions Business	£10.20	£15.00
Direct Unitised Accumulating Life Business	£32.40	£12.90+2% APC
Direct Unitised Accumulating Pensions Business	£41.80	£17.61+0.4% APC
Direct Unitised Accumulating Bond Business	£22.60	£12.00-£18.00
Direct Unitised Accumulating Life ISA Business	£32.10	£16.29
Annuities in Payment	£17.00	£45.00

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

Notes to the accounts continued...

31 December 2005

22. Long term business provision 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 MVA free guarantees on with-profits bonds.

Bonuses

The cost of bonuses incurred during the year ended 31 December 2005 was £83.5m (2004: £102.1m) of which £31.6m (2004: £29.1m) was included in the long term business provision and £51.9m (2004: £73.0m) was included in claims paid.

Other specific matters

The restatement of 31 December 2004 comparatives is in respect of the implementation of FRS 27.

ii) Non participating business

Interest rate	2005	2004
Non-profit temporary assurances	4.80%	3.45%
Mortality rate tables	2005	2004
Non-profit temporary assurances	A67/70	A67/70

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

Options and guarantees

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

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 long term business provision. 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	2005	2004
5	4.34%	4.67%
15	4.18%	4.70%
25	4.14%	4.57%
35	4.12%	4.43%

Other assumptions

Best estimate assumptions are set for inflation, mortality, expenses and persistency. The future expense inflation assumption is modelled as RPI plus 1.0% (2004: RPI plus 1.0%), where RPI is modelled as the nominal yields on cash less 0.8% (2004: cash less 0.8%).

Asset mix for assets backing asset shares at the valuation date:	2005	2004
Cash	7.0%	7.5%
Fixed interest	20.0%	23.5%
Equities	58.0%	54.0%
Property	15.0%	15.0%
Mortality rate tables	2005	2004
Conventional Life Business	75% AM80	75% AM80
Reassurance Accepted Unitised Life Business	80% AM/F80	80% AM/F80
Per policy expenses – regular premiums	2005	2004
Conventional Life Business	£15.20	£22.42+4.83% APC
Reassurance Accepted Unitised Life Business	£22.60	£12.90+2% APC

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

22. Long term business provision 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 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 2005 was £0.1m (2004: £0.4m) which was included in claims paid.

Other specific matters

The restatement of 31 December 2004 comparatives is in respect of the implementation of FRS 27.

ii) Non participating business

Interest rate	2005	2004
Non-profit temporary assurances	2.88%	3.12%
Other assurances	2.88%	3.12%
Permanent health insurance:		
a) active lives	3.60%	3.90%
b) claims reserves	3.70%	4.10%
Annuities in payment	2.96%	3.28%
Mortality rate tables	2005	2004
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	85% RV92mc

In both years standard inception/termination methodology was used for PHI business. Appropriate adjustments were made to the standard mortality/morbidity tables to take account of actual experience, reinsurers data and publicly available market data. Critical illness risk is based upon reinsurance rates.

Options and guarantees

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

iii) Linked fund

The technical provision for property-linked liabilities is equal to the value of the assets to which the contracts are linked. 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 2005 and 2004.

Interest rate	2005	2004
Non-profits temporary assurances	0.28%	0.52%
Permanent health insurance		
a) active lives	1.00%	1.30%
b) claims reserves	1.10%	1.50%

Notes to the accounts continued...

31 December 2005

22. Long term business provision continued

c) Liverpool Victoria Life Company Limited - RNPFN fund

i) Participating business

For participating business, a market consistent valuation is used to calculate the long term business provision. 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	2005	2004
5	4.34%	4.67%
15	4.18%	4.70%
25	4.14%	4.57%
35	4.12%	4.43%

Other assumptions

Best estimate assumptions are set for inflation, mortality, expenses and persistency. The future expense inflation assumption is modelled as RPI plus 1.0% (2004: RPI plus 1.0%), where RPI is modelled as the nominal yields on cash less 0.8% (2004: cash less 0.8%).

Asset mix for assets backing asset shares at the valuation date:	2005	2004
Cash	5.3%	6.7%
Gilts	73.3%	73.0%
Corporate bonds	0.0%	0.4%
Equities	14.9%	9.3%
Property	6.5%	10.6%

Mortality rate tables	2005	2004
Conventional Life Business	AM92/AF92 ult.	AM92/AF92 ult.
Life Deferred Annuities	AM92/AF92 ult.	AM92/AF92 ult.
Pension Deferred annuities	AM92/AF92 ult.	AM92/AF92 ult.
Unitised with-profits Business	A67/70 ult.	A67/70 ult.
Annuities in payment	95% RV92av mc/lc c2026	85% RV92mc

Per policy expenses – regular premiums	2005	2004
Conventional Life Business	£12.52	£12.11
Pensions Deferred annuities	£23.46	£22.69
Life Deferred annuities	£12.06	£11.66
Unitised with-profits ISA	£12.23	£11.83
Unitised with-profits Bond	£12.52	£12.11

Persistency – lapse, 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 £91.7m (2004: £59.7m).

Bonuses

The cost of bonuses incurred during the year ended 31 December 2005 was £11.0m (2004: £12.7m) of which £1.8m (2004: £1.9m) was included in the long term business provision and £9.2m (2004: £10.8m) was included in claims paid.

Other specific matters

The restatement of 31 December 2004 comparatives is in respect of the implementation of FRS 27 and GN45.

22. Long term business provision continued

ii) Non participating business

Interest rate	2005	2004
Non-profits assurances	3.00%	3.21%
Non-profits general deferred annuities	3.00%	3.21%
Annuities in Payment (post 31/12/91)	3.00%	3.21%
Annuities in Payment (other)	3.75%	4.01%
Pension Deferred Annuities	3.75%	4.35%

Mortality rate tables	2005	2004
Non-profits assurances	AM49/52	AM49/52
Non-profits general deferred annuities	No mortality	No mortality
Annuities in Payment (post 31/12/91)	90% RV92av mc/lc	85% RV92mc
Annuities in Payment (other)	90% RV92av mc/lc	85% RV92mc
Pension Deferred Annuities	No mortality	No mortality

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-profit 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 long term business provision.

Options and guarantees

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

23. Provisions for other risks and charges

	Group			Society		
	Deferred tax £m	Other provisions £m	Total £m	Deferred tax £m	Other provisions £m	Total £m
Balance at 1 January 2005	22.7	6.7	29.4	21.9	2.9	24.8
Acquisition	0.4	-	0.4	-	-	-
Charge to the technical account – long term business	59.0	7.9	66.9	59.6	2.6	62.2
Utilised during the year	-	(1.2)	(1.2)	-	-	-
Balance at 31 December 2005	82.1	13.4	95.5	81.5	5.5	87.0

Deferred taxation is made up as follows:

	Group		Society	
	2005 £m	2004 £m	2005 £m	2004 £m
(i) Analysis of deferred taxation timing differences				
Excess of depreciation	(0.5)	(0.5)	(0.5)	(0.5)
Timing differences on expenses	(9.5)	(11.4)	(10.1)	(12.2)
Timing differences on unrealised gains	92.1	34.6	92.1	34.6
	82.1	22.7	81.5	21.9
(ii) Deferred taxation liability not provided				
Chargeable gains deferred by roll-over relief	0.4	0.4	-	-
(iii) Deferred taxation asset not recognised				
Excess of capital allowances	2.4	4.0	-	-
Timing differences on expenses	2.8	1.1	-	-
Timing differences on unrealised losses	1.3	18.2	-	-
Tax losses	10.8	24.3	-	-
	17.3	47.6	-	-

Notes to the accounts continued...

31 December 2005

24. Debenture Loans

	Group		Society	
	2005 £m	2004 £m	2005 £m	2004 £m
Debenture loans, repayable otherwise than by instalments (unsecured)				
In less than five years:				
5.5% loan notes	9.7	8.7	9.7	8.7

25. Deposits by banks

Group	2005 £m	2004 £m
With agreed maturity dates or periods of notice by remaining maturity		
– one year or less or repayable on demand	2.4	31.9

26. Customer accounts

Group	2005 £m	2004 £m
With agreed maturity dates or periods of notice by remaining maturity		
– Over five years	0.1	0.1
– Five years or less but over one year	50.1	42.0
– One year or less but over three months	49.4	77.8
– Three months or less but not repayable on demand	24.8	19.8
– Repayable on demand	46.0	44.7
	170.4	184.4

27. Other creditors including taxation and social security

	Group		Society	
	2005 £m	2004 £m	2005 £m	2004 £m
Amounts falling due within one year				
Bank overdrafts	20.9	17.0	12.9	9.6
Trade creditors	4.8	0.2	–	–
Amounts owed to group undertakings	–	–	10.6	6.0
Corporation tax	17.2	14.2	6.4	4.8
Other taxes and social security costs	1.9	2.9	0.6	2.6
Other creditors	63.3	55.4	23.5	14.9
	108.1	89.7	54.0	37.9

28. Operating leases

Annual commitments under non-cancellable leases are as follows:

Group	Land and Buildings	
	2005 £m	2004 £m
Operating leases which expire:		
– within one year	0.1	0.1
– between two and five years	1.3	0.6
– over five years	1.9	3.0
	3.3	3.7

Society	Land and Buildings	
	2005 £m	2004 £m
Operating leases which expire:		
– within one year	0.1	0.1
– between two and five years	0.5	0.5
– over five years	0.1	0.1
	0.7	0.7

29. Other financial commitments

The Group has entered into several long-term contracts following service outsourcing. These contracts will end no later than 2017. The present value of the remaining commitment is estimated at £125m (2004:£150m), of which at least £50m (2004:£55m) relates to the Society.

These amounts have not been provided for in the financial statements.

30. Capital commitments

	Group & Society	
	2005 £m	2004 £m
Amounts contracted but not provided in the accounts:		
– Property investments	54.0	76.0
– Other financial investments	51.5	65.0
	105.5	141.0

31. 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 2004 and is available on request from the Group Company Secretary, County Gates, Bournemouth, BH1 2NF.

32. Pensions

a. General

- The Society is responsible for the Liverpool Victoria (1994) Staff Pension Scheme (LV Scheme) a defined benefit pension scheme.
- The last full actuarial assessment was performed as at 31 March 2003 and showed a surplus of £25.2m. The FRS17 figures, shown in paragraphs 32b to 32f, have been projected from that date with changed assumptions to reflect the requirements of the FRS.
- Contributions made in 2005 were £2.5m (2004: £2.6m) by the Society (including special contributions) and £1.3m (2004: £1.3m) by Scheme members (excluding Additional Voluntary Contributions). The Society contributes at a rate of 7.2% of pensionable salaries. This rate will be reviewed following completion of the next valuation, due to be carried out as at 31 March 2006.
- During 2004 the defined benefit pension schemes of the Royal National Pension Fund for Nurses Staff Superannuation Scheme (RNPFN Scheme) and Hearts of Oak Insurance Group Staff Pension Scheme (Oak Scheme) were transferred into the the Liverpool Victoria (1994) Staff Pension Scheme (LV Scheme). As such the movements in the technical account-long term business and the restated opening position for 2004 will differ between the Group and the Society. The difference of £5.6m reflects the deficit within those two schemes as at 1 January 2004.

b. Financial assumptions

	2005 % per annum	2004 % per annum	2003 % per annum
Inflation	2.8	2.8	2.7
Rate of increase in salaries	4.3	4.3	4.2
Rate of increase of pensions in payment	2.8	2.8	2.7
Rate of increase for deferred pensioners	2.8	2.8	2.7
Discount rate	4.8	5.4	5.5

c. Scheme assets

	Expected real rate of return 2005 % per annum	Market Value 2005 £m	Expected real rate of return 2004 % per annum	Market Value 2004 £m	Expected real rate of return 2003 % per annum	Market Value 2003 £m
Equities	5.4	457	5.6	387	6.0	369
Bonds	1.5	156	2.0	149	2.2	143
Other	3.0	79	3.7	59	3.4	51
Total		692		595		563

Notes to the accounts continued...

31 December 2005

32. Pensions continued

d. Components of defined benefit cost for the years 2005 and 2004

Analysis of amounts charged to net operating expenses:	2005 £m	2004 £m
Current service cost	(9.7)	(9.1)
Past service costs	(0.1)	–
Total charged to net operating expenses	(9.8)	(9.1)

Analysis of other amounts credited to net operating expenses:	2005 £m	2004 £m
Gain on settlements	–	5.8
Net gain credited to operating expenses	–	5.8

Analysis of the amount credited to investment income:	2005 £m	2004 £m
Interest on pension scheme liabilities	(32.9)	(31.5)
Expected return on assets in the pension scheme	43.1	41.7
Net credit to investment income	10.2	10.2

Analysis of amounts recognised in the technical account – long term business:	2005 £m	2004 £m
Gain on assets	78.5	14.6
Experience gain/(loss) on liabilities	0.4	(6.9)
Loss on change of assumptions (financial and demographic)	(68.4)	(14.1)
Total amount recognised in the technical account before adjustment for tax	10.5	(6.4)

Total technical account – long term business credit before deduction for tax	10.9	0.5
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e. History of experience gains and losses	2005	2004	2003	2002
Gain on Scheme assets				
Amount (£million)	78.5	14.6	36.2	141.5
% of Scheme assets at end of year	11.4%	2.5%	6.4%	27.7%
Experience gain/(loss) on Scheme liabilities				
Amount (£million)	0.4	(6.9)	22.3	1.1
% of Scheme liabilities at end of year	0.1%	1.1%	3.8%	0.2%
Total actuarial gain/(loss) recognised in the technical account – long term business				
Amount (£million)	10.5	(6.4)	18.4	116.3
% of Scheme liabilities at end of year	1.5%	1.0%	3.1%	20.9%

f. Reconciliation to the balance sheet	2005 £m	2004 £m	2003 £m
Market value of Scheme assets	691.6	594.8	562.6
Actuarial value of Scheme liabilities	(706.4)	(623.0)	(593.9)
Deficit in the Scheme	(14.8)	(28.2)	(31.3)
Related deferred tax liability	1.8	3.4	3.8
Pension liability recognised in balance sheet	(13.0)	(24.8)	(27.5)

Analysis of the movement in deficit in the Scheme during the year:	2005 £m	2004 £m
Deficit in the Scheme at beginning of year	(24.8)	(27.5)
Contributions paid	2.5	2.6
Current service cost	(9.7)	(9.1)
Past service cost	(0.1)	–
Settlement gain	–	5.8
Other financial income	10.2	10.2
Actuarial gain/(loss)	10.5	(6.4)
Deferred tax charge	(1.6)	(0.4)
Deficit in the Scheme at end of year	(13.0)	(24.8)

33. 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-profit business (1) £m	RNPFN With-profit business £m	RNPFN non participating £m	Other non participating (2) £m	Total Life Business £m	Other Activities £m	Consolidation Adjustments £m	Group Total £m
Available Capital Resources 2005								
Fund for future appropriations	1,327.2	-	-	-	1,327.2	-	(148.3)	1,178.9
Shareholder funds	-	-	-	488.1	488.1	354.0	(842.1)	-
Adjustments onto regulatory basis:								
FFA adjustment	367.1	139.8	-	(0.1)	506.8	-	-	506.8
Adjustments to assets	(32.4)	(2.0)	-	(99.0)	(133.4)	(0.1)	-	(133.5)
Adjustment for subsidiary values	(185.7)	-	-	(194.1)	(379.8)	-	91.8	(288.0)
Other adjustments	(9.0)	-	-	-	(9.0)	-	-	(9.0)
Internal Loans	-	-	-	45.5	45.5	-	(45.5)	-
Implicit items	-	-	-	-	-	-	-	-
RNPFN Fund not available to the Group	-	(137.8)	-	-	(137.8)	-	-	(137.8)
Total Available Capital Resources	1,467.2	-	-	240.4	1,707.6	353.9	(994.1)	1,117.4

With-profits Liabilities on a Realistic Basis 2005

Options and guarantees	520.2	130.4	-	0.1	650.7	-	-	650.7
Other policyholder obligations	2,774.3	1,006.2	-	284.4	4,064.9	-	-	4,064.9
Total with-profits liabilities	3,294.5	1,136.6	-	284.5	4,715.6	-	-	4,715.6
Unit-linked	-	-	293.0	77.2	370.2	-	-	370.2
Non participating life assurance	7.0	-	299.1	277.0	583.1	-	-	583.1

Technical provision

in the balance sheet	3,301.5	1,136.6	592.1	638.7	5,668.9	-	-	5,668.9
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Available Capital Resources 2004

Fund for future appropriations	1,247.1	-	-	-	1,247.1	-	(194.9)	1,052.2
Shareholder funds	-	-	-	473.0	473.0	332.9	(805.9)	-
Adjustments onto regulatory basis:								
FFA adjustment	(49.4)	145.1	-	(0.2)	95.5	-	-	95.5
Adjustments to assets	(37.0)	(2.7)	-	(90.7)	(130.4)	6.2	-	(124.2)
Adjustment for subsidiary values	(188.9)	-	-	(156.9)	(345.8)	-	95.1	(250.7)
Other adjustments	(56.4)	(50.7)	-	-	(107.1)	-	-	(107.1)
Internal Loans	-	-	-	45.5	45.5	-	(45.5)	-
Implicit items	80.0	45.0	-	-	125.0	-	-	125.0
RNPFN Fund not available to the Group	-	(136.7)	-	-	(136.7)	-	-	(136.7)
Total Available Capital Resources	995.4	-	-	270.7	1,266.1	339.1	(951.2)	654.0

With-profits Liabilities on a Realistic Basis 2004

Options and guarantees	408.1	111.5	-	0.1	519.7	-	-	519.7
Other policyholder obligations	2,599.6	982.1	-	250.9	3,832.6	-	-	3,832.6
Total with-profits liabilities	3,007.7	1,093.6	-	251.0	4,352.3	-	-	4,352.3
Unit-linked	-	-	269.2	68.6	337.8	-	-	337.8
Non participating life assurance	9.0	-	271.2	222.4	502.6	-	-	502.6
Technical provision in the balance sheet	3,016.7	1,093.6	540.4	542.0	5,192.7	-	-	5,192.7

Notes:

- 1) Included within the Society's with-profit 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 LVLC.

Notes to the accounts continued...

31 December 2005

33. Capital statement (continued)

Movements in capital during the year are analysed below.

Movements in capital	Society's With-profit business £m	RNPFN With-profit business £m	RNPFN non participating £m	Other non participating £m	Total Life Business £m	Other Activities £m	Consolidation Adjustments £m	Group Total £m
Capital at 1 January 2005	995.4	-	-	270.7	1,266.1	339.1	(951.2)	654.0
Effect of investment variations	329.4	102.6	-	19.8	451.8	-	-	451.8
Effect of changes in market conditions	(45.6)	(16.2)	-	-	(61.8)	-	-	(61.8)
Effect of changes in assumptions	(126.1)	(32.8)	-	4.4	(154.5)	-	-	(154.5)
Effect of changes in regulatory requirements (27.9)		6.4	-	-	(21.5)	(6.2)	-	(27.7)
New business	(0.4)	-	-	(61.3)	(61.7)	-	-	(61.7)
Other	(74.1)	(53.6)	-	6.8	(120.9)	21.0	7.1	(92.8)
Adjustment from regulatory to realistic peak 416.5		(5.3)	-	-	411.2	-	-	411.2
Removal of RNPFN fund	-	(1.1)	-	-	(1.1)	-	-	(1.1)
Capital at 31 December 2005	1,467.2	-	-	240.4	1,707.6	353.9	(944.1)	1,117.4

In aggregate the group has at its disposal total available capital of £1,117.4 million, 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-profit 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-profit funds the liabilities included in the balance sheet include 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's with-profit 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:

- The RNPFN with-profit and non participating funds available capital is generally available to support the RNPFN with-profit 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.
- 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.

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.

33. Capital statement (continued)

Sensitivity analysis

i) Sensitivity of Society funds

The sensitivity of the Society's fund for future appropriations at 31 December 2005 to a 20% fall in global equity markets or a fall in fixed interest yields of 17.5% is as follows:

	2005	Fixed Equities down 20%	interest yields down 17.5%	2004	Equities down 20%	interest yields down 17.5%
	£m	£m	£m	£m	£m	£m
Long-term savings	3,550.0	3,348.0	3,641.0	3,135.0	3,034.0	3,227.0

These sensitivities assume a full 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-profit 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-profit 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 with-profits are:

- i) Guaranteed annuity options – the RNPFN with-profit 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.
- 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-profit 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.

Notes to the accounts continued...

31 December 2005

34. Summary of Liverpool Victoria Banking Services Limited profit & loss account and balance sheet

	2005 £m	2004 £m
Profit & loss account		
Interest receivable and similar income	62.1	61.1
Interest payable	(36.3)	(32.3)
Net interest income	25.8	28.8
Fees and commissions receivable	17.4	15.3
Fees and commissions payable	(5.6)	(4.0)
Operating income	37.6	40.1
Administrative expenses	(24.1)	(25.9)
Charges for bad and doubtful debts	(39.3)	(23.3)
Loss on ordinary activities before taxation	(25.8)	(9.1)
Tax on loss on ordinary activities	6.6	2.7
Loss for the year	(19.2)	(6.4)
Balance sheet		
Assets		
Loans and advances to banks	12.5	9.1
Loans and advances to customers not subject to securitisation	343.6	434.1
Securitised loans and advances to customers	363.6	362.1
Less: non-recourse funding/borrowings	(321.3)	(322.0)
Loans and advances to customers	385.9	474.2
Other assets	6.9	1.0
Prepayments and accrued income	7.0	5.8
	412.3	490.1
Liabilities		
Deposits by banks	2.4	31.9
Customer accounts	170.4	184.4
Subordinated liabilities	27.4	27.4
Other liabilities	135.2	165.2
Accruals and deferred income	9.1	9.2
	344.5	418.1
Total shareholders' funds	67.8	72.0

35. Related party transactions

- a. The Group has related party transactions, as defined within FRS 8, with Liverpool Victoria (1994) Staff 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	
	2005 £m	2004 £m	2005 £m	2004 £m	2005 £m	2004 £m
Liverpool Victoria Friendly Society Limited	-	-	1.2	0.7	1.2	0.7
Liverpool Victoria Asset Management Limited	0.6	0.6	-	-	0.6	0.6

As at 31 December 2005 Liverpool Victoria (1994) Staff Pension Scheme owed Liverpool Victoria Friendly Society Limited £nil (2004: £1.4m) in respect of administration services and owed Liverpool Victoria Asset Management £nil (2004: £nil).

- b. Advantage has been taken of the exemption within Financial Reporting Standard 8, to not disclose related transactions within the Group.
- c. The aggregate premiums payable for the year by the Group Executive Directors in respect of the Group's products was £39,071 (2004: £18,868).
- d. The Group has continuing business relationships with other businesses that remain partly owned by M. Rutherford and C. Wacey. In the year the Group redeemed £0.1m of loan notes. Mr Rutherford and Mr Wacey were each paid £0.2m of interest. At 31 December 2005, the balance owing to Mr Rutherford and Mr Wacey, in respect of the loan notes, was £4.6m each. In addition, during the year the Group paid £0.1m (2004: £0.1m) to companies associated with Mr Rutherford and Mr Wacey. The balance outstanding at the year end was £nil (2004: £nil).

A loan from a Group company to Bishopscourt Group Services Limited, a company with which Mr Rutherford and Mr Wacey are associated, is currently in place bearing interest at a rate of 5.5% (gross) per annum payable in arrears on the 6 April each year. The repayment date is 6 April 2006. The amount outstanding at the year end was £1.3m.

36. 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 during the year was I.P. Blanchard, the Group Actuary of Liverpool Victoria Friendly Society.
- b. Mr Blanchard, his son and his daughter are members of the Society.
- c. The total emoluments of Mr Blanchard during the year were £128,301 including car allowance and medical benefits.
- d. Mr Blanchard did not receive, nor will receive, any other pecuniary benefit.
- e. The With-profits Actuary role commenced on 31 December 2004 following changes made by the FSA. Prior to that the Appointed Actuary of the Society during the period 1 January 2004 to 30 December 2004 was M.S. Pike, a partner in the firm of Watson Wyatt LLP. He was not a member of the Society nor of a subsidiary of the Society at any time during 2004 or 2005.

37. Subsidiary and associated undertakings

The principal subsidiary and associated undertakings of the Society and Group at 31 December 2005 are shown below.

All undertakings are incorporated in England and Wales. All holdings are in relation to ordinary shares.

Name	Principal Activity	Percentage Held
Subsidiaries		
Liverpool Victoria Asset Management Limited	Fund Management	100
Liverpool Victoria Banking Services Limited *	Banking and Credit Finance	100
Liverpool Victoria FAS Limited *	Financial Advisory Services	100
Liverpool Victoria Insurance Company Limited *	General Insurance	100
Liverpool Victoria Life Company Limited	Life Insurance	100
Liverpool Victoria Portfolio Managers Limited *	Investment Management	100
L.V. (Developments) 1 Limited	Administrative Services	100
L.V. (Developments) 2 Limited	Administrative Services	100
Associates		
Sterling Business Consultants Limited	Internet Financial Information Services	30

* Owned by a subsidiary undertaking of the Society

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