



ANNUAL REPORT AND ACCOUNTS

For the year ended
31 December 2007



LIVERPOOL VICTORIA

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THE CHAIRMAN'S STATEMENT

Dennis Holt

“ We remain committed to growing value for our members through the provision of high quality, value for money products delivered by empowered and dedicated staff. ”

THE CHAIRMAN'S STATEMENT

OUR MARKETS

2007 has been a period of considerable volatility in financial services markets, both within the UK and globally. We have seen the nationalisation of a failing retail bank in the UK and massive write-downs in the valuations of complex assets by leading international banks. Whilst I am pleased to confirm that LV= has no direct financial exposure to these assets, they inevitably have an impact on consumer confidence in the markets in which we operate, as do growing concerns about the likelihood of economic recession.

In addition, severe flooding and intense price competition have added to the challenges faced by LV= and other insurers during the year. Despite this backdrop, our financial position remains one of the strongest in the sector, with total group assets exceeding £8 billion and capital resources of £1.3 billion as at 31 December 2007.

In this context, LV= remains committed to growing value for our members through the provision of high quality, value for money products delivered by empowered and dedicated staff. We believe that our mutual ownership structure is fully supportive of this ambition and, in common with the best of our shareholder-owned competitors, we set ourselves demanding performance hurdles.

Just as important, we believe that in turbulent times our revitalised brand supports our positioning as a trusted supplier of financial solutions to everyday needs.



THE CHAIRMAN'S STATEMENT

OUR AGENDA

The 2006 Annual Report and Accounts set out the strategic agenda that is being pursued under the leadership of Group Chief Executive, Mike Rogers, since his appointment in June 2006. This seeks to regain our position as a consistently relevant and effective provider of financial services, better harnessing the advantages of our attractive customer base and our financial strength. The following sections summarise progress on the key strands of that strategy, which are described in more detail in the Group Chief Executive's Statement.

1. Exit from businesses that offer poor prospects of growing adequate member value

Our exit from providing credit cards in 2006 was followed by our stopping writing new loans at the end of 2007. The financial results of our banking operation over the past 4 years have been particularly disappointing, and it was essential to stem the losses. We believe that the likely costs of exit are allowed for within the 2007 results.

We have also disposed of our Whole of Market advice business, whilst providing continuing support to our affinity partners through the Lighthouse Group. No other disposals are currently contemplated.

2. Develop businesses with strong potential for profitable growth

The 2006 Annual Report and Accounts outlined our plans to revitalise our general insurance business, significantly supported by the acquisitions of ABC Insurance Solutions Ltd and the Britannia Rescue business. This is an ambitious programme, and I am pleased to confirm that we are making good progress in terms of roll-out and financial outcome.

Our life, protection and investment propositions have been refreshed, and are further strengthened by our acquisition at the end of 2007 of the new business capability of the former GE Life business. This broadens our proposition in the retirement services market, and positions us well across the more attractive segments of the market.

Our asset management record remains strong across the short, medium and long terms, and we continue to invest in further supporting these capabilities.

“Good strategies can only be delivered by good people. We remain committed to supporting our staff in developing and deploying their potential.”

THE CHAIRMAN'S STATEMENT



3. Manage effectively the cost and quality of service provision

We have made very significant strides in reducing our dependence on outsourced service provision and in growing the skills and capacity to support our growth ambitions. This is already yielding benefits in terms of improving service quality, reducing operational risk and lowering unit costs.

4. Develop our people

Good strategies can only be delivered by good people. We have considerably strengthened our leadership team in 2007 both through external recruitment and by developing our existing talent. We remain committed to supporting our staff in developing and deploying their potential.

BOARD CHANGES

John Woolhouse retired from the Board in June 2007, having served as a director for 11 years, including the final two years as Chairman. On your behalf, I would like to record our appreciation for his unstinting commitment to LV=.

Ian Reynolds joined the Board in January 2008 as a non-executive director, and brings extensive current experience in our key markets.

Two executive directors joined the Board, namely Chief Operating Officer Richard Rowney in August 2007 and Group Finance Director Keith Abercromby in December 2007. The Board is now at its full complement of nine members, including five non-executive directors.

THE FUTURE

We closed 2007 with clarity of strategic direction and growing evidence of improved delivery. There remains much to do before this is fully reflected in the financial results, but our foundations are stronger, our delivery capability is much improved, and the prospects are attractive.

All of us at LV= remain focused on the journey ahead, and on best serving the interests of our members. On behalf of the Board, I thank them for their continued support.



THE GROUP CHIEF EXECUTIVE'S STATEMENT

Mike Rogers

“ 2007 marked the first year in our five year plan to transform LV= into a business that can compete successfully in its chosen markets and deliver consistent, attractive returns from trading. ”

THE GROUP CHIEF EXECUTIVE'S STATEMENT

In 2007, we have made good progress in executing our strategy, improving our financial strength and delivering a strong relative investment performance for our with-profits members. Group profit before tax was £56.4m (2006: £113.7m) reflecting weaker investment markets in 2007. Group operating profit, which reflects long-term investment returns, recovered to £49.6m in 2007 from a loss of £20.1m in 2006.

OUR GOAL

Our goal remains to grow member value, for the benefit of members. I am pleased to say that both of our chosen measures of member value improved in 2007:

- Enterprise Value (our best estimate of the Society's external market value) increased by 2.4%, despite the costs associated with exiting non-core business lines and transforming under-performing ones.
- Our with-profits fund growth of 5.7% was well above benchmark, though lower than 2006 absolute returns in line with investment markets generally.

We are committed to the successful delivery of our transformation plan in order to generate tangible benefits for our members and to make our mutuality meaningful and relevant.

DELIVERING OUR STRATEGY

We will be successful if we help people find freedom from financial worry and do so in a way that combines the best of mutual values with market leading expertise and performance. Our members and customers are the best judge of our success and I am pleased to report that our overall customer satisfaction increased by 3% in 2007 and compares favourably to industry averages. We intend to drive this higher in 2008.

Our people deliver our customer experience and it is vital to our success that they feel increasingly engaged with LV=. Over the course of 2007, our employee engagement, as measured by an external company, rose from 64% to 75%, close to our target benchmark for high performance organisations of 80%.



THE GROUP CHIEF EXECUTIVE'S STATEMENT



2007 saw the award winning launch of our new brand identity “LV=”, which supported considerable sales success in general insurance and protection, and led to a measurable increase in consumer awareness over the year.

We recognised the need to improve substantially our operational service and IT capability, which led to the decision to bring our outsourced IT arrangement and our life servicing operation back in-house.

Organic growth strategies have been complemented by selective acquisitions and disposals, to provide an attractive portfolio of businesses, as described in more detail below.

GENERAL INSURANCE

Our ambitious growth plans for general insurance progressed rapidly following the acquisition of an industry leading management team in late 2006 and Britannia Rescue in 2007. During the course of the year we improved our competitiveness and operational efficiency, leading to a 25% increase in motor new business and the launch of improved travel and pet products. In home insurance, we chose not to compete for unprofitable new business, a strategy which served us well in view of the exceptional weather events, which nevertheless cost us an estimated £33 million. I am very proud of the efforts of our team in helping so many customers impacted by the misery of flooding.

Work progressed well on the development of our new operating platform, in which we are investing heavily to increase capacity and improve customer service whilst reducing unit cost in future years. We successfully launched our broker brand, ABC Insurance, into the small business and motor markets. Of particular note was the strong growth in our internet new business; up 134% in 2007, supported by the launch of LV.com, with sales originated online overtaking all other channels in the last quarter of 2007.

Overall, performance against our plan to become a top five player in our chosen personal lines markets by 2012 is on track. We enter 2008 with powerful momentum, having halted the long-term decline in customer numbers, and look forward to strong revenue growth in 2008, as a precursor to sustainable profits in future years.

THE GROUP CHIEF EXECUTIVE'S STATEMENT

LIFE

2007 marked the first year of our strategy to develop as a protection and retirement specialist, culminating in the completed acquisition of the new business capabilities of the former GE Life business called Tomorrow (now re-branded LV=) in December. We continued to experience only small new business flows into our traditional with-profits investment bonds and we do not anticipate this situation changing in the near term.

In a competitive protection market we stabilised sales and enhanced margins through improved reinsurance terms and operational efficiency. Our new 50 Plus campaign featuring Cilla Black has been a great success, with sales in the second half of the year up 197%. We believe that there is scope for product innovation and improved customer propositions in protection and we will be introducing a number of new initiatives in 2008.

We have improved our service in both the IFA and direct channels. For IFAs, we have introduced straight-through-processing and brought our previously outsourced operations back in-house. In common with general insurance, we have seen growth in the internet channel and have launched both online Straightforward Advice and 50 Plus online during the year.

The acquisition of our specialist retirement services business has the potential to transform the prospects of our life operation, leading to an estimated tripling of new business flows and moving us into the higher growth markets of pension consolidation, enhanced annuities and equity release. In addition to growing distribution of these products through IFA channels, we see potential to bring them directly to our membership. We have been able to leverage our traditional with-profits strengths in the retirement market, with good growth in our with-profits annuities and the planned launch of an enhanced with-profits annuity for 2008.

THE GROUP CHIEF EXECUTIVE'S STATEMENT

PARTNERSHIPS

The partnership business made great strides in exiting consistently loss-making businesses (banking and Whole of Market advice) which had largely operated to service our partnership contracts. We won a significant new contract with Help the Aged (trading as InTune) and continued to deepen our penetration of products into the estimated five million potential customers available through our partnership relationships. Whilst the loss of a banking product offering will be a disappointment to some partners, we believe that the improved competitiveness of our general insurance products and the addition of road rescue, online Straightforward Advice, equity release and enhanced annuities will compensate.

During 2008, we will be looking to win substantial new partnerships and deepen the penetration of our new products to our existing partners.

ASSET MANAGEMENT

The asset management business has a long track record of delivering consistent investment performance, both in absolute terms and relative to its benchmark index. This was in evidence once again during 2007 when, despite an increasingly volatile market environment, our investment team delivered a return some 1.9% ahead of the benchmark index. This impressive return builds on the team's previous record and is reflected in strong relative performance numbers over 3, 5 and 10 year time periods as shown below:-

Annualised Outperformance against With-Profits Benchmark				
Period (Years)	1	3	5	10
Outperformance (% per annum)	1.9	1.2	0.7	0.3

During 2007 a programme of investment in the asset management business was initiated. Our primary objective remains to deliver strong relative investment performance for the Society's members, as well as for our other clients, and the investment being made in personnel and infrastructure is focused toward this aim. We are also looking to the future, adding skills to the team that will help us to develop new product capabilities, to offer our investment expertise to new clients and in new markets, and thereby to benefit the Group as a whole. The recent establishment of a multi manager unit and the launch of 10 new retail investment funds, primarily to support the newly-acquired retirement services business, are good examples of this.

THE GROUP CHIEF EXECUTIVE'S STATEMENT

“We have made excellent progress in executing on our five year transformation plan and remain confident that we can build a competitive and valuable business for our members.”

TOWARDS 2008

In summary we have made excellent progress in executing on our five year transformation plan and remain confident that we can build a competitive and valuable business for our members. 2008 promises to be a year of further investment and organic growth. We also remain alert to acquisition opportunities that would accelerate delivery of our strategy, subject to meeting our rigorous performance hurdles for creating member value.

I would like to thank all our members, customers and employees for their continued support.



BUSINESS REVIEW

Keith
Abercromby

OVERVIEW

As a mutual, LV= benefits members financially in two principal ways:

- the investment returns earned directly for the with-profits members; and
- the value created by the trading businesses that LV= operates.

As a Friendly Society offering with-profit products, LV= is exposed to long-term returns from financial markets, both through the returns on its free assets, and the impact on the guarantees offered to members. This underlines the need to maintain a strong capital base and to manage financial risk actively.

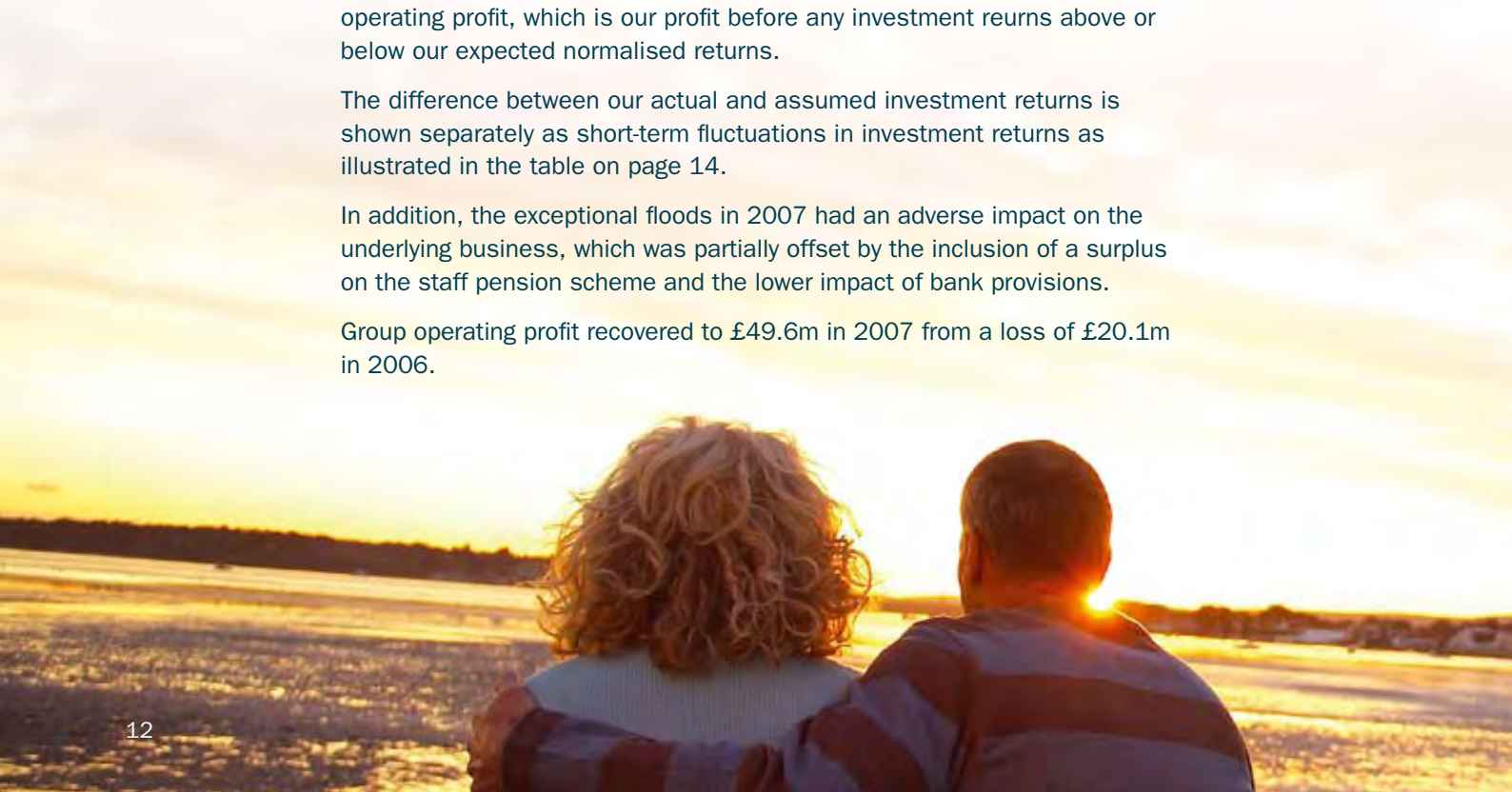
LV= produced positive investment returns of 5.7% in 2007 and strong out-performance of 1.9% against its benchmark. This was despite a turbulent year in external markets, where returns fell from the high levels earned in 2006.

Group profit before tax was £56.4m, down from £113.7m in 2006 and reflects the impact of investment performance on free assets and guarantees. A more transparent measure of our performance is our operating profit, which is our profit before any investment returns above or below our expected normalised returns.

The difference between our actual and assumed investment returns is shown separately as short-term fluctuations in investment returns as illustrated in the table on page 14.

In addition, the exceptional floods in 2007 had an adverse impact on the underlying business, which was partially offset by the inclusion of a surplus on the staff pension scheme and the lower impact of bank provisions.

Group operating profit recovered to £49.6m in 2007 from a loss of £20.1m in 2006.



BUSINESS REVIEW

INVESTMENT RETURNS

In the first half of 2007, global equity markets rose strongly based on expectations of economic growth. Consequently, bond prices fell as concerns remained about inflationary pressures and the quality of bank lending. Property values rose, although demand began to slow following the growth in recent years.

During the summer, concerns over 'sub prime lending' and the quality of bank loan books took over as the market driver. This led to a rare "credit squeeze" as banks refused to lend to each other, culminating in the troubles at Northern Rock in the UK. As conditions tightened, confidence evaporated leading to equity markets outside Europe and Asia (excluding Japan) giving up virtually all the year's capital gains. UK commercial property prices fell sharply, leading to negative returns for the year as a whole. Bonds reacted to the slowing global economy and lower interest rates by recouping earlier losses to finish the year largely unchanged.

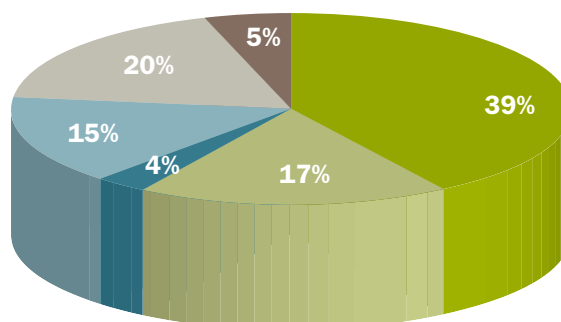
The Board measures investment performance based on actual returns compared to market returns, using agreed asset allocation and currency matching criteria. Overall, the increase in value of policies from investment activities in 2007 was 5.7%, which is 1.9% above the return generated from the benchmark asset allocation set by the Board. This resulted in LV= adding £142m to with-profit policy asset shares (2006: £302m), reflecting lower market returns partially offset by the outperformance against the market.

Returns (%) on investments	2007 Actual	2007 Market	2006 Actual	2006 Market
UK equities	7.5%	5.3%	15.6%	16.8%
International equities	11.2%	11.7%	10.3%	9.1%
Alternative investments	11.5%	11.1%	1.2%	10.0%
Property investments	(1.2%)	(5.5%)	22.2%	18.2%
Bonds	3.7%	3.5%	0.3%	0.0%
Cash & cash equivalents	5.2%	5.7%	4.5%	4.4%
Total return	5.7%	3.8%	11.2%	11.4%

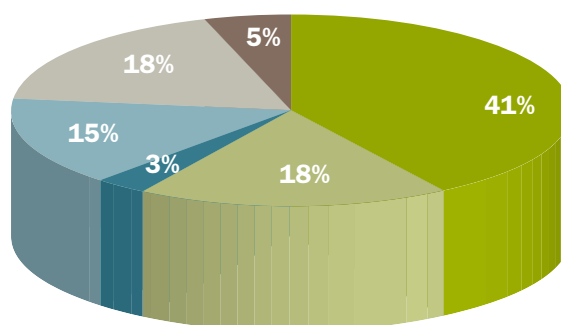
BUSINESS REVIEW

At the end of 2007 and 2006 the investments held on behalf of with-profit policyholders were as shown in the following charts.

Investments held at 31 December 2007



Investments held at 31 December 2006



TRADING BUSINESSES

LV= is organised into Strategic Business Units; principally Life, General Insurance and Banking.

The results of the trading businesses are summarised below:

Operating profit before tax £m	2007	2006
Life	100.1	75.5
General Insurance	(46.3)	(21.5)
Banking	(37.0)	(77.7)
Other ^a	32.8	3.6
Group operating profit before tax	49.6	(20.1)
Short-term fluctuations in investment returns ^b	6.8	133.8
Profit before tax	56.4	113.7

a. Including pension scheme surplus of £22.8m (2006: £12.6m).

b. The operating profit is calculated using long-term expected rates of return. The difference between the actual return and the expected return is shown as short-term investment fluctuations.

BUSINESS REVIEW

Life Business

As shown below, the difference between 2006 and 2007 Life profit before tax is wholly attributable to the exceptional investment returns in 2006. Investment returns in 2007 were broadly in line with our expected normalised returns. If investment returns had been consistent between 2006 and 2007, the Life business would have shown an improvement in its profit before tax, albeit that 2006 bore a number of one-off charges relating to the costs associated with the transformation programme now underway.

The income statement for this business is as follows:

Income statement £m	2007	2006
Net premium income	293.7	269.3
Net investment return	356.5	345.0
Other income	1.7	0.2
Claims and changes in policy provisions	(447.6)	(430.7)
Operating costs	(104.2)	(108.3)
Operating profit	100.1	75.5
Short-term fluctuations in investment returns	6.8	133.8
Profit before tax	106.9	209.3

Sales of protection products were strong at the start of 2007, but the Government's decision to stop Pension Term Assurance brought to an end what was a successful product line for LV=. This, compounded by highly competitive market conditions, resulted in static overall sales. Sales of with-profits business remain low, with no signs of a return to the volumes achieved in past years. However, sales of with-profits pension annuities grew, constituting the main part of the with-profits sales for the year.

Sales generated by the newly acquired new business capabilities of the former GE Life business called Tomorrow (now rebranded LV=) have been in line with our expectations and consist of 'at retirement' products such as impaired life annuities, products allowing drawdown of pensions as an alternative to an annuity, and equity release mortgages.

Sales (annual premium equivalent^c) £m	2007	2006
– protection	15.0	17.5
– savings & investments	6.1	7.3
– annuities	4.2	1.0
– Tomorrow (6 months)	9.8	–
Total sales	35.1	25.8

c. New regular premiums annualised plus 10% of single premiums.

BUSINESS REVIEW

General Insurance Business

The floods experienced in 2007 added £33m to general insurance claims costs. Moreover, LV='s general insurance business is in a period of transition, characterised by investment to enhance capability whilst growing new business in target sectors and actively reviewing the underperforming parts of the current book of business. We anticipate further significant investment going forward.

Income statement £m	2007	2006
Net premiums earned	332.1	361.1
Other income	4.5	2.7
Operating costs	(123.5)	(101.1)
Claims incurred	(311.1)	(323.3)
Underwriting loss	(98.0)	(60.6)
Net investment income	51.7	39.1
Loss before tax	(46.3)	(21.5)

New business sales in 2007 were significantly ahead of 2006, reflecting the impact of the new brand and associated marketing campaigns, as well as more competitive product offerings. Sales also benefited from a broader distribution capability, resulting from entry into the broker market and a significantly increased presence on aggregator websites.

Sales (gross written premiums) £m	2007	2006
New sales		
– motor	59.9	47.9
– home	15.9	15.9
– other including road rescue	13.4	0.2
Total new sales	89.2	64.0
Renewals	257.4	286.8
Total sales	346.6	350.8

New products included redesigned motor and home policies as well as completely new covers for pets and small businesses. The acquisition of Britannia Rescue during the year also led to LV= underwriting road rescue business, thereby adding that income to the existing revenue from distribution. Renewals were lower than in 2006, reflecting action taken to retain only those risks which were expected to offer adequate future returns.

Banking Business

The banking business made a pre-tax loss of £37.0m in 2007. In 2007 the decision was made to stop offering personal loans and to exit consumer lending following a similar decision with regards to credit cards in 2006.

Provisions totalling £70.9m (2006: £59.1m) are held against onerous contracts, additional risks owing to the decision to close the lending business and to cover other losses on banking products.

Income statement £m	2007	2006
Net income before risk costs	24.2	36.2
Risk costs	(23.4)	(32.5)
Operating costs	(25.0)	(22.3)
Closure and other costs	(12.8)	(59.1)
Loss before tax	(37.0)	(77.7)

BUSINESS REVIEW

Other Businesses

Profit before tax £m	2007	2006
Asset management	9.2	2.3
Independent financial advice	2.0	(12.1)
Other group companies	(1.0)	0.7
Central costs and consolidation adjustments	(0.2)	0.1
Staff pension scheme surplus	22.8	12.6
Profit before tax	32.8	3.6

To support the asset management business's growth plans over the coming years, the Society paid a one-off fee of £10m in 2007 to fund this investment phase.

The Group sold its Whole of Market advice business during 2007. This business had been loss-making for a number of years.

Under accounting rules, the surplus in the staff pension scheme is taken into account in the Group's results in 2007 and the surplus for the year was £22.8m (before tax). This comprised £44.2m from short-term investment fluctuations and miscellaneous other items of surplus, less the £21.4m cost of strengthening the mortality assumptions.

Capital

Capital strength has increased markedly since 2003, and 2007 provided an opportunity to consolidate this position. A more focused approach to matching assets and liabilities has been developed, as part of which two key portfolios were re-balanced. As a result of this, the Staff Pension Scheme had 30% invested in equities at 31 December 2007, down from 60% at the end of 2005, and £200m was reallocated out of equities during the year to re-balance the assets backing the Society's deferred pension policies.

The Society's capital position is amongst the strongest in the UK. In 2006, the latest year for which data is available, the Society was strongest of the UK's top 40 life insurance companies measured both by its free asset ratio and total capital resources ratio.^d

£m	2007	2006
Assets	5,078.8	5,258.7
Liabilities	3,631.1	3,849.3
Capital available to meet regulatory requirements	1,447.7	1,409.4
Required capital ('Peak 2' basis)	317.3	363.3
Cover ^e	4.6 times	3.9 times

d. Source: Ernst & Young UK Life Insurance Companies 2006 Capital and Solvency Review. The free asset ratio is the total capital resources, after deducting the capital resource requirements imposed by the FSA, expressed as a percentage of regulatory liabilities. Total capital resources include all capital meeting the FSA's definition of capital for regulatory purposes. The total capital resources ratio is total capital expressed as a percentage of regulatory liabilities.

e. Calculated as the capital available divided by the required capital.



COMMUNITY SUPPORT

Support for our members and their communities has been the cornerstone of our tradition and is at the heart of our brand. We remain committed to strengthening this.



COMMUNITY SUPPORT



Top: HRH The Princess Royal meets LV= Chairman Dennis Holt at the LV= Streetwise safety centre.



Middle: School children learn about safety issues at LV= Streetwise, an interactive children's safety education centre that is sponsored by LV=.

Left: Keeping tabs on your kids, the LV= Kidzone beach safety scheme.

Below: Former footballer Bob Wilson hands over the keys to a new LV= sponsored Lord's Taverners minibus.



Throughout 2007 we have continued to strengthen and expand our community support programme. Our activities have been primarily focused upon our strategy of **'protecting our children and their future'**. This approach concentrates on the areas our members and employees tell us matter most to them.

Our community support is based on a long term view as befits an organisation providing long term products. Thus it is focused on the nation's children and their future. It is embedded in our operations through:

- i) our employee charity and community support initiatives.
- ii) our membership related fund raising activities.
- iii) our support for relevant projects that protect and enrich children's lives.
- iv) our sustainability programmes, ensuring our operations are as environmentally friendly as possible.

Some highlights of our programme in 2007 include:

- The launch of our three year title sponsorship commitment to the LV= Streetwise Safety Centre in Bournemouth. We have continued our longstanding support for this award winning interactive education centre that uses real life street, transport and in-home situations to teach children basic safety skills. In 2007 LV= Streetwise reached the milestone of 100,000 children having benefited from the centre's training.
- We also relaunched and became title sponsor of LV= Kidzone, a beach safety scheme that helps to reunite lost children with their parents on crowded beaches. This simple but effective scheme pioneered the use of 'beach zones' combined with a free wristband given to children, that helps them to find their parents.

We have donated almost £70,000 to a range of causes including the Lord's Taverners minibus appeal, the Youth Cancer Trust charity, Help the Aged and Asthma UK. We also became sponsors to the youth football teams from AFC Bournemouth. Employees have also continued to devote their time and skills to a local Young Enterprise Scheme, helping introduce school pupils to business skills and practices. In addition over 50 employees have used our 'Employee Matching' scheme to add to the money they themselves have raised. As a result almost £17,000 has been added to funds raised by staff to support a range of causes including children's leukaemia support, breast cancer awareness and hospice care.

Last year we pledged to donate 50p for every valid AGM proxy vote we received and thanks to those members who returned their proxy forms, we were able to raise £18,600 which we split between three children's charities. Our member Hardship Fund has also donated in excess of £32,000 to help members in need, in 2007.

With a growing network of staff and sites we remain committed to expanding our engagement with the communities that surround us, and supporting the causes that serve and protect them.

CORPORATE GOVERNANCE

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

CORPORATE GOVERNANCE

COMPLIANCE WITH THE ANNOTATED CODE FOR THE YEAR ENDED 31 DECEMBER 2007

It is the Board's view that the Society now fully complies with the applicable principles and provisions of the Code and did so through 2007 other than in respect of the Audit, Risk and Compliance Committee (for part of the year only) and the Remuneration Committee.

Explanations for these matters are given in the appropriate sections below.

THE BOARD

The Board is responsible for strategy, the monitoring of performance, approval of major projects and the framework of internal controls. It has ultimate responsibility for the management of the Society and the interests of the various stakeholders, particularly its members, other policyholders and customers. It has a schedule of matters reserved to it, delegating operational matters to the Group Chief Executive. The Board met 10 times in 2007, and, in 2008, the Board is expected to meet at least 10 times, including two strategy sessions.

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

A number of Board changes took place during 2007. After many years of distinguished service with the Society, John Woolhouse retired as a director on 30 June 2007 and as Chairman after the 2007 AGM and was succeeded by Dennis Holt. Richard Rowney, the Society's Group Chief Operating Officer, and Keith Abercromby, the Society's Group Finance Director, were appointed as additional executive directors on 15 August and 19 December 2007 respectively. On 3 January 2008 Ian Reynolds was appointed as an additional non executive director.

The Board now comprises five non-executive and four executive directors. All of the non-executive directors (save for Dennis Holt to whom, as Chairman, the test of independence is not applicable) are regarded as independent.

As a result of the above appointments the Society now satisfies the recommendation of the Code that, excluding the Chairman, at least half the Board should consist of independent non-executive directors.

BOARD MEMBERS



Dennis Holt, (59) Chairman

Dennis Holt was appointed as a non-executive director of Liverpool Victoria Friendly Society Limited on 20th September 2006.

Dennis is an Associate of the Chartered Institute of Bankers and worked for Lloyds TSB plc for over 30 years, latterly as the Main Board Executive Director accountable for the UK Retail Bank. In 2001 he became Group Chief Executive of AXA UK plc and a member of the global AXA Executive Committee and performed these roles until his retirement in 2006.

Dennis is a non-executive director of the Bank of Ireland, AA Insurance Services and BIIH, having previously been Vice-Chairman of the Association of British Insurers and Chairman of its General Insurance Council.



Mark Austen, (58) Non-Executive Director

Mark Austen was appointed as a non-executive director of Liverpool Victoria Friendly Society Limited on 20th September 2006.

Mark is a chartered management accountant and worked for Price Waterhouse and its successor PricewaterhouseCoopers for over 25 years, during which time he became Managing Partner of the Global Financial Services Consulting Practice and a Member of the Global Board. With the acquisition of PricewaterhouseCoopers financial services consulting practice by IBM in 2002, he joined that company as Senior Executive, Financial Services Practice of Business Consulting Services until his resignation in 2005. Mark is a non-executive director of Standard Bank plc, Temenos Group AG and Smartstream Technologies Ltd.

Since September 2007 Mark has chaired the Audit, Risk and Compliance Committee.



Gillian (Gill) Nott OBE, (62) Non-Executive Director

Gill Nott was appointed as a non-executive director of Liverpool Victoria Friendly Society Limited on 25th May 2005.

Gill was formerly a director of the Financial Services Authority and is currently chairman of Baronsmead VCT, Noble Health Fund VCT and Witan Pacific Investment Trust PLC. Gill is also a board member of a number of other venture capital trusts and investment trusts.

Gill has chaired the Investment Committee, since September 2007.



Barry Rose, (63) 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 became the Society's Senior Independent Director in July 2005 and chaired the Audit, Risk and Compliance Committee until September 2007. He now chairs the With-Profits Committee.

Barry is also a director of Wolfson Microelectronics plc, Optos plc and Baillie Gifford Shin Nippon Investment Trust plc.

CORPORATE GOVERNANCE



Ian Reynolds, (64) Non-Executive Director

Ian Reynolds is an actuary and chartered director and was appointed as a non-executive director of Liverpool Victoria Friendly Society Limited on 3rd January 2008.

Ian Reynolds has had many years' experience in the insurance industry, including directorships with HSBC Life, Marks & Spencer Life Assurance and Equitable Life. He has also served as an insurance adviser to the Financial Services Authority and as a regulatory consultant for Beachcroft Regulatory Consultants.

Ian now chairs the Remuneration and Nominations Committees.



Michael (Mike) Rogers, (43) Group Chief Executive

Mike Rogers was appointed as a director of Liverpool Victoria Friendly Society Limited and Group Chief Executive on 5th June 2006.

Mike worked for Barclays Bank for 20 years, holding a variety of roles in Business Banking, Wealth Management and Retail Banking. Latterly he was Managing Director of Barclays UK Retail Banking.



Steven Daniels, (48) Group Director, Asset Management and Acquisitions

Steven Daniels joined LV= 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.



Richard Rowney, (37) Group Chief Operating Officer

Richard Rowney joined LV= in February 2007 and joined the Board in August 2007. Richard worked for Barclays Bank for 14 years and was Risk Director of Small Business, Chief Operating Officer of Premier Banking and Integration Director for the Woolwich and Barclays retail bank.



Keith Abercromby, (43) Group Finance Director

Keith Abercromby joined LV= in July 2007 as Group Finance Director and joined the Board in December 2007. Keith held a number of roles within HBOS, including Managing Director of Halifax Life and Finance Director of HBOS Financial Services. Latterly, Keith was Finance Director of Norwich Union's Life Division.

CORPORATE GOVERNANCE

BALANCE OF THE BOARD

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

BOARD PERFORMANCE APPRAISAL

A process of annual appraisal is in place for the Board and the Directors with a view to optimising both individual contributions and group achievement. This appraisal process is conducted by the Chairman and involves consultation and interviews with the Directors. The Senior Independent Director conducts the appraisal process for the Chairman.

BOARD COMMITTEES

The Group Audit Risk and Compliance Committee, the Remuneration and Nomination Committee, the Investment Committee, and the With-profits Committee were standing committees of the Board in 2007. The Terms of Reference of the Board Committees are reviewed annually.



CORPORATE GOVERNANCE

GROUP AUDIT, RISK & COMPLIANCE COMMITTEE

The Group Audit, Risk and Compliance Committee (formerly known as the Group Audit and Compliance Committee) comprises three of the Society's independent non-executive directors, currently Mark Austen (chairman), Barry Rose and Ian Reynolds. In compliance with the Annotated Code, Dennis Holt, as Chairman, resigned from the Committee in December, but normally attends its meetings by invitation.

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

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

The Committee plays a key role in respect of the Group's regulatory compliance, receiving reports from the Group Risk Director and the Head of Compliance on a wide range of issues including regulatory change. In 2007 the Committee has continued to oversee the development of the Group's response to the Financial Services Authority's initiative on Treating Customers Fairly and the embedding of the appropriate processes into the day to day operations of the business. It monitored the development of the group risk management capability, which included the commissioning of an independent review and the appointment of a specialist Group Risk Director, and reviewed its money laundering policy. The committee reviews the actuarial assumptions and accounting policies for the Annual Report and recommends to the Board that the report be adopted.

The Committee also conducts reviews of the arrangements by which staff may raise concerns about possible improprieties in matters of financial reporting or other matters and is responsible for making recommendations on the appointment, reappointment and removal of the external auditors.

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

Sitting as the Remuneration Committee, the Committee usually meets quarterly and is composed of three of the Society's independent non-executive directors. John Woolhouse chaired the committee until June 2007 and Dennis Holt until March 2008, even though, as Chairmen of the Board, they were not regarded as independent under the Code. This was felt to be necessary whilst there was not a full complement of independent non executive directors on the Board. After serving as a director for two months, Ian Reynolds assumed the chairmanship of this Committee in March 2008, the other members currently being Dennis Holt and Gill Nott. On behalf of the Board, the Committee determines the Society's broad policy on executive remuneration, the specific remuneration packages for each of the Executive Directors and the remuneration of senior managers.

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 required 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, market conditions and individual accountabilities and performance. 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 responsibility and time the non-executive directors commit to the Group's affairs and appropriate market comparisons. Proposals for fees for non-executive directors are considered by the Board and individuals do not participate in discussions on their own remuneration.

In its capacity as Nomination Committee, the Committee evaluates the balance of skills, knowledge and experience on, and required by, the Board. In the light of the evaluation the Committee prepares a description of the role and capabilities required for any particular appointment. Recruitment consultants will usually be instructed to help to compile a shortlist of candidates for interview for board vacancies; this is the process that was used in 2007 for the recruitment of Richard Rowney, Keith Abercromby and Ian Reynolds. The Committee then recommends appointments to the Board for approval. The Committee's members are the same as the Remuneration Committee except for the addition of Mike Rogers.

CORPORATE GOVERNANCE

INVESTMENT COMMITTEE

The Investment Committee comprises three non executive directors, currently Gill Nott, Dennis Holt and Barry Rose, together with the Group Chief Executive, the Group Finance Director and the Managing Director of the Life business; the Asset Management Director normally attends by invitation. The Committee is always chaired by a non-executive director; Gill Nott currently assumes this position. The Committee normally meets quarterly to monitor and review the management of the Group's investments. It also provides guidance to LVAM on behalf of Group clients where LVAM proposes investment opportunities outside the existing mandate guidelines.

WITH-PROFITS COMMITTEE

The With-Profits Committee meets at least twice per year in order to bring independent judgement to the assessment of compliance with the Society's statement of Principles and Practice of Financial Management and to monitor how any competing or conflicting interests between different groups of policyholder are resolved. The Committee is entitled to draw on such external professional advice as it sees fit in order to discharge its duties effectively.

The Committee consists of two non executive directors, currently Barry Rose and Mark Austen, together with the Group Chief Executive and the Managing Director of the Life business. The Committee is always chaired by one of the non-executive directors; Barry Rose currently assumes this position.

BOARD AND COMMITTEE MEMBERSHIP AND ATTENDANCE IN 2007

Director	Liverpool Victoria Friendly Society Board	Group Audit, Risk & Compliance Committee	Remuneration and Nomination Committee (sitting as the Remuneration Committee)	Remuneration and Nomination Committee (sitting as the Nomination Committee)	With-Profits Committee	Investment Committee
	10 meetings	4 meetings	5 meetings	4 meetings	5 meetings	3 meetings
D Holt	10/10	4/4	5/5	4/4	5/5	3/3
J Woolhouse ¹	4/4	2/2	4/4	2/2	1/2	1/1
M Austen	9/10	4/4	3/4	3/4	5/5	2/2
G Nott	10/10	3/3	5/5	4/4	N/A	3/3
B Rose	10/10	4/4	5/5	3/4	5/5	3/3
M Rogers	10/10	N/A	N/A	4/4	5/5	3/3
K Abercromby ²	1/1	N/A	N/A	N/A	N/A	N/A
S Daniels	10/10	N/A	N/A	N/A	N/A	2/2
R Rowney ³	5/5	N/A	N/A	N/A	N/A	N/A

¹ John Woolhouse resigned on 30 June 2007

² Keith Abercromby was appointed on 19 December 2007

³ Richard Rowney was appointed on 15 August 2007

CORPORATE GOVERNANCE



GROUP EXECUTIVE COMMITTEE

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

RELATIONS WITH MEMBERS

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

The Board regards communication with the Society's members as of high importance and will review its arrangements during 2008 in order to maximise their effectiveness.

COMPLAINTS POLICY

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

CORPORATE GOVERNANCE

THE ENVIRONMENT

We take our responsibility to the environment seriously. Recent examples of initiatives to reduce our impact on the environment include that:

- we have halved the volume of our direct mail since 2005, equivalent to a reduction of over 26 million mailing packs, through more sophisticated profiling;
- we have selected a print management partner that has ISO1 4001 recognition and holds the prestigious FSC (Forestry Stewardship Council) and PEFC (Programme for the Endorsement of Forest Certification) accreditations;
- over 80% of all our printed material is produced to full FSC Chain of Custody standards, with many examples of high recycled content papers in use and vegetable based inks;
- we have donated unwanted items such as out of date merchandise to worthy causes like Kasisi Children, an orphanage in Zambia;
- we use energy efficient lighting and water savers across all our sites;
- we recycled 1,213 tons of paper and cardboard in 2007 and provide colour-coded recycle bins for paper, cardboard, plastic and print toner cartridges; and
- we encourage our employees to consider a range of alternative modes of transport, providing tax efficient ways to purchase bikes, supplying dedicated cycle storage, showers and changing facilities, and actively support national green travel initiatives such as National Bike Week and Liftshare Awareness days.

EXTERNAL CONSULTANCY SERVICES

Watson Wyatt Limited provides actuarial consultancy services to the Group, including the services of Richard Waller as the Society's Actuarial Function Holder. The firm also provides the group with market information on remuneration.

Ernst & Young LLP, the 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 objectivity and independence is maintained.

DIRECTORS' REPORT ON REMUNERATION

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



DIRECTORS' REPORT ON REMUNERATION

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.

Ian Reynolds now chairs the Remuneration Committee. In 2007 the other members were John Woolhouse, Dennis Holt, Gillian Nott, Mark Austen and Barry Rose. By invitation, the meetings are also attended by the Group Chief Executive, except when his own remuneration is being considered. Other persons, such as representatives of Hays HR Services plc, which provides Human Resource services to LV=, may also attend meetings by invitation. The Committee reviews the remuneration policy and strategy at least annually. All incentive and bonus schemes are established and monitored by the Committee.

REMUNERATION POLICY

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

REMUNERATION POLICY FOR NON-EXECUTIVE DIRECTORS

Non-executive directors are appointed for a period of three years. Their performance is reviewed annually and they may be re-appointed for further periods. Their original dates of appointment are shown in the list of directors on pages 22 and 23. Fees for the non-executive directors are determined by the Society's Board, based on the responsibility and time committed to the Group's affairs and appropriate market comparisons.

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



DIRECTORS' REPORT ON REMUNERATION

REMUNERATION POLICY FOR EXECUTIVE DIRECTORS

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

Remuneration reflects individual experience and responsibility. It is based on relevant individual market comparators, related to job size, function and sector, and individual and company performance, and is reviewed annually. Judgements are based on a range of external information, mainly from Hay Group, Watson Wyatt Limited and McLagan Partners, all of whom gave advice to the Group during 2007.

SALARY

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

GROUP ANNUAL PERFORMANCE BONUS

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

For the executive directors other than Steven Daniels, the Scheme for 2007 could pay a maximum of 80% of salary (110% in the case of the Chief Executive). The maximum payment would only be attracted in the case of exceptional individual performance and significant divisional out-performance; an on target divisional performance and good individual performance would attract a bonus of approximately half of the maximum award.

Steven Daniels participates in the Investment Bonus scheme only, which is based partly on the total performance of relevant funds compared to benchmark performance and the contribution made by asset allocation and partly on his performance in achieving specific business and personal objectives. Under this arrangement he can receive up to 250% of salary.

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

LONG TERM INCENTIVE SCHEME

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

DIRECTORS' REPORT ON REMUNERATION



Each year, starting from 1 January 2007, a new three year Long Term Incentive Scheme commences based on the Enterprise Value of the Group at its start date. For payments to be made under the scheme, the Enterprise Value is required to grow at a rate in excess of a risk weighted return on the Group's capital; 7.8% pa net of tax for the 2007–09 scheme and 7.5% pa net of tax for the 2008–10 scheme. Participation in the scheme is determined by reference to an amount awarded ('award') at the date of joining the scheme, which is calculated as a percentage of salary (up to a maximum of 80% in the case of the Group Chief Executive). The amount received is dependent on the Group's performance against its Enterprise Value targets and on target investment performance, with a maximum achievable payout of 2.5 times the award.

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

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

Other benefits provided by the Group are:

- contributory final salary pension scheme;
- car allowance;
- medical insurance; and
- employee discounts. Directors can acquire group products on the terms applicable to other employees.

Details of the Directors' remuneration, pension entitlements, long term incentive scheme payments and other benefits can be found in note 16 to the accounts.

DIRECTORS' LOANS

At 31 December 2007 and 31 December 2006 there were no loans outstanding made to directors.

SERVICE CONTRACTS

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

The directors approved the Directors' Report on Remuneration on 19 March 2008.

Ian Reynolds
Chairman of the Remuneration Committee

BOARD OF DIRECTORS' REPORT

The directors of Liverpool Victoria Friendly Society Limited (the Society) present their annual report together with the accounts of the Society for the year ended 31 December 2007.

BOARD OF DIRECTORS' REPORT

BUSINESS ACTIVITIES AND FUTURE PROSPECTS

The Society is an incorporated friendly society that, together with its subsidiaries, carries on insurance and financial services business in the United Kingdom. A review of the business for the year ended 31 December 2007, of recent events and of likely future developments is contained in the Chairman's Statement, the Group Chief Executive's Statement and the Business Review.

The Board sets key performance indicators (KPIs) and targets, which it monitors on a regular basis throughout the year. These KPIs change from time to time as objectives and priorities change. During 2007, the KPIs were focused on financial results and significant change objectives, as discussed in the Chairman's Statement and Group Chief Executive's Statement.

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 shown on pages 22 and 23, together with their dates of appointment or resignation.

The Society maintained liability insurance cover for its Directors and Officers during the year.

WITH-PROFITS BONUS DECLARATION

The Society is declaring annual bonus rates for the year ended 31 December 2007 at 1.5% of the sum assured for Industrial Branch business and at 3% of the sum assured for conventional Ordinary Branch life business. Interim bonus rates will also be at these levels. Terminal bonus rate changes in 2007 maintained the Society's position at or near the top of the market for most products.



BOARD OF DIRECTORS' REPORT

BASIS OF ACCOUNTING

The accounts for the Society and the Group are presented using International Financial Reporting Standards as adopted by the European Union. This is the first time that the accounts have been so presented and more detail on the changes from the UK Generally Accepted Accounting Principles previously adopted is given in note 49 to the accounts. The change keeps the Group in line with best practice for accounting in the UK.

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 2007, the required capital resource requirement as prescribed by the Financial Services Authority, 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 have been identified and risk appetite for each of these has been defined as the amount of regulatory capital required to meet the capital requirements under the Financial Services Authority's Individual Capital Assessment. A review of the definition of risk appetite is underway under the stewardship of the Group Finance Director and Group Risk Director with a view to achieving a more sophisticated measure of the risks which the Group is prepared to run. Further information on these risks can be found at note 3 to the accounts.

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

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

BOARD OF DIRECTORS' REPORT

CHARITABLE CONTRIBUTIONS

The Society makes charitable donations by periodic lump sum deposits to its Charities Aid Foundation account, from which payments are subsequently made; the amounts disbursed from this account in 2007 amounted to almost £70,000. In 2007, payments of £18,600 were made to three charities based on proxy votes received for the AGM. Payments for the benefit of members from the Care and Support Fund amounted to £32,440 and the Society provided a members' telephone helpline at a cost of £45,250. No political donations were made.

EQUAL OPPORTUNITIES

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

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

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

The Society provides employees with information on issues relevant to their employment and the Society's performance through meetings, newsletters and a monthly Team Talk process, cascaded to all employees by management. During 2007 the implementation of a new corporate intranet has made a big impact on achieving swift and effective communication with, and receiving feedback from, employees. The Society's management also engages actively with the Employee Consultative Forum on issues of importance to employees, including the working environment, employee facilities, terms of employment and employee safety.

BOARD OF DIRECTORS' REPORT

PERSONS EMPLOYED BY THE SOCIETY AND ITS SUBSIDIARIES

The average number of persons employed by the Society and its subsidiaries and the aggregate employee costs are shown in note 15 to the accounts.

MEMBERSHIP

As at 31 December 2007, the Society had 937,000 (2006: 1,000,000) members.

RELATIONS WITH MEMBERS

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

STATEMENT OF DISCLOSURE OF INFORMATION TO AUDITORS

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

- 1) so far as each of them is aware, there is no information relevant to the audit of the Company's financial statements for the year ended 31 December 2007 of which the auditors are unaware; and
- 2) the director has taken all steps that he/she ought to have taken in his/her duty as a director to make him/herself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

RESPONSIBILITIES OF THE BOARD OF DIRECTORS FOR THE ACCOUNTS

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

BOARD OF DIRECTORS' REPORT



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

- select suitable accounting policies and verify they are applied consistently in preparing the accounts, on a going concern basis unless it is inappropriate to presume that the Society and the Group will continue in business;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRS is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Society and the Group's financial position and financial performance; and
- state that the Society and the Group have complied with applicable IFRS, subject to any material departures disclosed and explained in the accounts.

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

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

By order of the Board of directors
P B Cassidy, Company Secretary
19 March 2008

AUDITORS' REPORT

We have audited the accounts of Liverpool Victoria Friendly Society Limited for the year ended 31 December 2007, which comprise the Income Statements, the Balance Sheets, Cash Flow Statements and Notes 1 to 49. These accounts have been prepared under 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' responsibilities for preparing the Annual Report and Accounts in accordance with applicable United Kingdom law and International Financial Reporting Standards (IFRSs) as adopted by the European Union are set out in the Statement of Responsibilities of the Board of Directors. The Society

has chosen to comply with the Annotated Combined Code issued by the Association of Mutual Insurers and the Association of Friendly Societies. This code is intended to assist mutual insurers in having regard to the 2003 FRC Combined Code.

Our responsibility is to audit the accounts in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland). The Society has also instructed us to review the Society's compliance with provisions C1.1, C2.1, and C3.1 to C3.7 of the Annotated Combined Code.

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. In addition we report to you if, in our opinion, the Society has not kept proper accounting records, or if we have not received all the information, explanations and access to documents that we require for our audit or if information specified by law regarding directors remuneration and other transactions is not disclosed. 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 accounts.

We review whether the Corporate Governance Statement reflects the Society's compliance with the nine provisions of the Annotated Combined Code that we have been instructed to review by the Society and we report if it does not. We are not required to consider whether the Board of directors' statements on internal control covers all risks and controls, or form an opinion on the effectiveness of the group's corporate governance procedures or its risks and control procedures.

AUDITORS' REPORT

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 Chairman's statement, the Group Chief Executive's Statement, the Corporate Governance Report, the Directors Report on Remuneration and the Board of directors' report. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the accounts. Our responsibilities do not extend to any other information.

BASIS OF AUDIT OPINION

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the 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 Group's and 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 IFRSs as adopted by the European Union, of the state of the Society's and the Group's affairs as at 31 December 2007 and of the income and expenditure of the Society and the Group for the year then ended;
- the accounts have been properly prepared in accordance with the Friendly Societies Act 1992 and the regulations made under it; and
- the Board of directors' report has been prepared in accordance with the Friendly Societies Act 1992 and the regulations made under it and the information given therein is consistent with the accounts.

Ernst & Young LLP

Registered Auditor
1 More London Place
London SE1 2AF
19 March 2008

INCOME STATEMENTS

year ended 31 December 2007

	Notes	Group		Society	
		2007 £m	2006 £m	2007 £m	2006 £m
Gross premiums	4	665.5	662.2	136.7	102.5
Reinsurers share of gross premiums	4	(39.8)	(31.9)	(0.1)	–
Net premiums	4	625.7	630.3	136.6	102.5
Fee and commission income	6	5.7	8.9	1.3	–
Investment income	7	325.6	363.4	158.9	182.6
Realised gains	8	416.2	389.1	373.9	314.2
Fair value losses on investments	9	(283.2)	(107.6)	(296.7)	(64.9)
Other income		4.7	3.0	–	–
Total income		1,094.7	1,287.1	374.0	534.4
Gross benefits and claims	10	(1,205.2)	(1,003.9)	(608.4)	(415.7)
Reinsurers share of gross benefits and claims	10	33.4	20.0	64.8	32.6
Net benefits and claims	10	(1,171.8)	(983.9)	(543.6)	(383.1)
Gross change in contract liabilities	11	399.5	223.9	283.0	16.1
Reinsurers share of gross change in contract liabilities	11	2.9	(73.1)	(46.5)	6.5
Net change in contract liabilities	11	402.4	150.8	236.5	22.6
Write down of investment in subsidiaries	21	–	–	–	(0.3)
Finance costs	12	(12.1)	(18.1)	(0.9)	(1.1)
Other operating and administrative expenses	13	(256.8)	(322.2)	(22.7)	(70.1)
Other expenses		(268.9)	(340.3)	(23.6)	(71.5)
Total benefits, claims and expenses		(1,038.3)	(1,173.4)	(330.7)	(432.0)
Profit before tax		56.4	113.7	43.3	102.4
Income tax expense	17	(6.7)	(18.4)	(5.0)	(19.1)
Profit for the year – transferred to the unallocated divisible surplus	32	49.7	95.3	38.3	83.3

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

- all income and expense for the current and preceding financial years are shown in the income statements
- there is no equity holders in either the Group or Society as the Society is a mutual organisation

BALANCE SHEETS

as at 31 December 2007

	Notes	Group		Society	
		2007 £m	2006 £m	2007 £m	2006 £m
Assets					
Intangible assets	18	161.3	72.3	23.2	27.8
Property and equipment	19	23.7	19.4	1.4	0.9
Investment properties	20	648.7	754.8	615.5	690.1
Investments in group undertakings	21	–	–	869.8	593.6
Financial assets					
– Derivative financial instruments	22	19.0	10.5	12.4	–
– Fair value through profit or loss	23	5,269.8	5,907.5	2,824.3	3,447.1
– Loans and other receivables	23	700.0	910.3	72.3	84.0
Reinsurance assets	24	87.6	73.1	244.7	291.2
Tax receivable	25	–	3.2	–	3.8
Pension benefit asset	37	19.9	–	19.9	–
Insurance receivables	26	93.5	96.7	0.5	2.2
Deferred acquisition costs	27	131.5	118.8	1.8	–
Prepayments and accrued income	28	65.7	60.6	26.1	27.2
Cash and cash equivalents	29	789.3	325.1	366.9	90.8
Total assets		8,010.0	8,352.3	5,078.8	5,258.7
Liabilities					
Insurance contract liabilities	30	5,628.6	6,008.4	3,311.9	3,600.3
Investment contract liabilities	31	253.9	178.6	83.2	–
Unallocated divisible surplus	32	1,319.3	1,269.6	1,447.7	1,409.4
Net asset value attributable to unit holders		111.0	145.5	–	–
Financial liabilities					
– Derivative financial instruments	22	0.6	–	–	–
– Borrowings	34	235.6	271.5	–	–
– Other financial liabilities	35	104.8	136.8	9.5	9.5
Provisions	36	83.0	100.7	15.0	39.7
Deferred tax liability	38	64.1	94.0	55.5	87.1
Insurance payables	39	23.2	16.7	12.4	5.4
Trade and other payables	40	185.9	130.5	143.6	107.3
Total liabilities		8,010.0	8,352.3	5,078.8	5,258.7

The accounts were approved by the Board of directors and authorised for issue on 19 March 2008. They were signed on its behalf by:

P.B. Cassidy

Secretary

CASH FLOW STATEMENTS

as at 31 December 2007

	Notes	Group		Society	
		2007 £m	2006 £m	2007 £m	2006 £m
Cash and cash equivalents at 1 January	29	294.6	461.4	76.3	177.6
Cash flows arising from:					
Operating activities					
Cash generated from operating activities	41	218.3	(622.1)	427.7	(360.3)
Dividend income received		96.9	129.9	71.6	99.6
Interest income received		189.7	196.0	55.5	52.8
Rental income on investment properties		36.5	31.7	34.7	28.6
Purchase of investment properties		(19.6)	(118.6)	(19.6)	(118.6)
Proceeds from sale of investment properties		89.7	238.8	54.8	218.0
Finance cost paid		(3.5)	(4.5)	(0.9)	(1.1)
Income tax paid		(33.4)	(11.2)	(32.8)	(15.4)
Net cash flows from operating activities		574.6	(160.0)	591.0	(96.4)
Investing activities					
Proceeds from sale of property and equipment		0.1	–	0.1	–
Intangible assets cost capitalised		(97.1)	(0.4)	–	–
Increase in investment in subsidiaries		–	–	(305.7)	(9.8)
Redemption of loans to subsidiaries		–	–	–	5.0
Purchase of property and equipment		(5.8)	(6.4)	(1.0)	(0.1)
Net cash flows from investing activities		(102.8)	(6.8)	(306.6)	(4.9)
Net increase/(decrease) in cash and cash equivalents		471.8	(166.8)	284.4	(101.3)
Cash and cash equivalents at 31 December	29	766.4	294.6	360.7	76.3

NOTES TO THE ACCOUNTS

31 December 2007

1. ACCOUNTING POLICIES

Basis of presentation

The Group accounts which consolidate the results of the Society and its subsidiary companies and the Society accounts have been prepared in accordance with The Friendly Societies (Accounts and Related Provisions) Regulations 1994 (“the Regulations”) and in accordance with International Financial Reporting Standards (“IFRS”) as adopted by the EU. The financial statements have been prepared under the historical cost convention as modified by the revaluation of land and buildings, available for sale investments and financial assets and liabilities (including derivatives) at fair value through profit and loss. The preparation of financial statements in conformity with IFRS requires Management to exercise its judgement in the process of applying the Society’s accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated accounts are disclosed in the Accounting Policies.

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

The principal accounting policies of the Society and Group are set out below:

a. Consolidation

Subsidiaries

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

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

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

Where the Group invests in specialised investment vehicles (such as OEICs) and owns greater than 50% they are consolidated. The interests of other parties in these vehicles will be classified as liabilities and appear as “Net asset value attributable to unitholders” because they are puttable instruments.

b. Product classification

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

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

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

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

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

Insurance contracts and participating investment contracts in general continue to be measured and accounted for under existing accounting practices at the later of the date of transition to IFRS or the date of the acquisition of the entity. Accounting for insurance contracts is determined in accordance with the Statement of Recommended Practice issued by the Association of British Insurers in December 2005, as amended in December 2006. However, in certain businesses, the accounting policies or accounting estimates have been changed, as permitted by IFRS 4 and IAS 8 respectively, to remeasure designated insurance liabilities to reflect current market interest rates and changes to regulatory capital requirements.

c. Earned premiums

Life and pensions business

Premiums on life and pensions insurance contracts (including all with-profit contracts) are recognised as income when due for payment, except for linked insurance contracts which are accounted for when the corresponding liabilities are recognised. For single premium business, this is the date from which the policy is effective. For regular premium contracts, this is the date when payments are due. Reinsurance premiums payable are accounted for when due for payment.

NOTES TO THE ACCOUNTS CONTINUED

31 December 2007

General business

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

d. Reinsurance premiums

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

An impairment review is performed at the year end reporting date and at other times during the year. Impairment occurs when there is evidence that the Group will not recover outstanding amounts under the contract. The impairment loss would be recorded in the income statement.

Gains or losses on buying reinsurance are recognised in the income statement immediately at the date of purchase and are not amortised.

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

e. Claims

Life and pensions business

Maturity claims and annuities are accounted for when due for payment. Surrenders are accounted for on the earlier of the date when paid or when the policy ceases to be included within the long term business provision. Death claims and other claims are accounted for when notified. The value of claims on with-profits business include bonuses payable. Claims values include related internal and external claims handling costs. Reinsurance recoveries are accounted for in the same period as the related claim.

General business

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

Provision is made at the year end for the estimated cost of claims incurred but not settled at the balance sheet date, including the cost of claims incurred but not reported ("IBNR"). The estimated cost of claims includes expenses to be incurred in settling claims and a deduction for the expected value of recoveries. However, given the uncertainty in establishing claims provisions, it is likely that the final outcome will prove to be different from the original liability established.

The 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 is different from the estimate, for example where experience is worse than that assumed, the surplus or deficit will be credited or charged to the income statement in future years.

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

f. Fee and commission income

Fees from investment contracts for investment management, other policy administration charges and fund management fees are recognised as income when the service is provided. Premiums and claims are not recognised in the income statement but are recorded as contributions and deductions to the investment contract provisions recorded in the balance sheet. Commission earned from financial intermediary services is taken to income when receivable.

g. Investment income

Investment income include dividends, interest on deposits, interest on loan advances to customers and rents. Dividends are included on an ex-dividend basis. Interest receivable on loan advances to customers less interest payable on securitisation financing is calculated on an actuarial basis. Interest on deposits, rents and expenses are included on an accruals basis. Interest income for financial assets that are not classified as "fair value through profit or loss" is recognised using the effective interest method.

h. Realised gains/(losses)

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

i. Fair value gains/(losses) on investments

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

j. Deferred acquisition costs

Life and pensions business

The method of calculating the life and pension claims liabilities assumes that acquisition costs, comprising all direct and indirect costs arising from the 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.

NOTES TO THE ACCOUNTS CONTINUED

31 December 2007

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.

k. Operating lease payments

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

I. Taxes

Current income tax

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the balance sheet date.

The income tax expense reflects the movement in current and deferred income tax recognised in respect of those items of income, gains and expenses, which inure to the benefit of policyholders.

Deferred income tax

Deferred income tax is provided using the liability method on temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred income tax liabilities are recognised for all taxable temporary differences, except:

- when the deferred income tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss, and
- in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

m. Foreign currencies

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

n. Intangible assets

Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary at the acquisition date and is included in intangible assets. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is reviewed for impairment at the end of the first full year of acquisition. Subsequent impairment reviews are performed when there are indicators of impairment. Previous impairment losses for goodwill are not reversed in future periods.

Goodwill arising on acquisitions prior to 1998 has been eliminated against the unallocated divisible surplus.

Other intangibles

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

The carrying value of the asset is amortised over its expected economic life and is assessed annually using current assumptions in order to determine whether any impairment has arisen on the amortised value.

Present value of acquired in-force business

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

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

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

o. Property and equipment

Property and equipment is stated at accumulated cost less accumulated depreciation and accumulated impairment.

Property and equipment is 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 (classified as a finance lease)*	50 years
Leasehold property enhancements*	10 years or lease term if shorter
Fixtures, fittings and motor vehicles	4 to 10 years
Major computer systems	5 years

Provision is made for any impairments in property and equipment.

*These are properties used by the Group for operational purposes, which are valued at amortised cost, and are not investment properties which are dealt with below.

p. Investment properties

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

NOTES TO THE ACCOUNTS CONTINUED

31 December 2007

q. Investments in group undertakings

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

r. Financial assets

The Group classifies its investments into the following categories: financial assets at fair value through profit or loss and loans and receivables. The classification will depend upon the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition.

Financial assets at fair value through profit or loss has two sub categories: financial assets held for trading and those designated at fair value through profit or loss at inception. All securities of the Group classified as fair value are designated at fair value through profit or loss at inception (trade date). This is in accordance with the Group's documented investment strategy and consistent with investment risk being assessed on a portfolio basis.

Financial assets at fair value through profit or loss include listed and unlisted investments, units in authorised unit trusts, open ended investment companies (OEICs), and other investments. Listed investments, units in authorised unit trusts and OEICs are included at bid value. Unlisted investments and other investments are shown at estimated fair value which is determined by using suitable valuation techniques (recent arm's length transactions and reference to the current market value of another similar instrument) as provided by external fund managers.

Derivatives are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently re-measured at their fair value. These include forward foreign exchange contracts, financial futures, swap options, interest rate swap and cap contracts. Changes in the fair value of derivative instruments are recognised immediately in fair value gains on investments in the income statement for the period. There are no designated hedging relationships within the Group that qualify for hedge accounting. The derivatives are valued using pricing models that consider contractual prices, market prices, time value of money, credit risk and volatility factors.

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

Loans subject to securitisation include unsecured personal loans, which are subject to non-recourse finance arrangements. These loans have been purchased by a special purpose securitisation company, which is itself funded by the issue of loan notes. The relevant values are grossed up for the accounts and the loans subject to securitisation are included in loans and receivables with the non-recourse funding disclosed under borrowings.

The Group assess at each balance sheet date whether a financial asset or group of financial assets are impaired. For items not at fair value through profit or loss the amount of the impairment loss is measured as the difference between the carrying amount and the present value of future cash flows. The carrying amount of the asset is reduced by the impairment loss and the loss recorded in the income statement.

A financial asset is derecognised when the rights to receive cash flows from the asset have expired or the Group has transferred its rights to receive cash flows from the asset and has either transferred the risks and rewards of the asset or has transferred control of the asset.

s. Cash and cash equivalents

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

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

t. Life and pensions insurance contract liabilities

Participating (with-profits) business

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

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

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

In determining the realistic value of liabilities for with-profits contracts, indirect account is taken of the value of future profits on non participating business written out of with-profits funds. This is separately identifiable and is all in respect of policyholder liabilities. As such the excess of the value of those future profits has been deducted from the realistic liabilities rather than recognising the present value of future profits (PVFP) on this business as an asset.

Non participating business

The liability 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 the notes to the accounts. The Society and relevant subsidiaries have adopted the modified statutory solvency basis approach in the determination of profit on non participating business.

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

NOTES TO THE ACCOUNTS CONTINUED

31 December 2007

Changes to estimation technique

The determination of the life and pensions insurance contract liabilities reflects the provisions of the Prudential Requirements for Insurers (Amendment) Instrument 2006 (2006/62) which made certain changes to the regulatory reserving rules from 31 December 2006. This represents a change to an estimation technique. The provisions listed below alter the life and pensions insurance contract liabilities and were adopted in 2006:

- allowance is made for a prudent lapse rate assumption for all classes of life and pensions insurance contracts (previously such allowance was only made for with-profits business);
- provisions for expenses are set at a homogenous risk group level for all classes of life and pensions insurance contracts, unless they are directly attributable to one particular contract (previously they were set at an individual contract level).

The provisions listed below alter the life and pensions insurance contract liabilities and were adopted in 2007:

- where the surrender value of a long term business contract is not guaranteed at the valuation date, individual contracts may contribute a negative value to the life and pensions insurance contract liabilities (previously zero value).

u. Investment contract liabilities

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

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

Fair value adjustments are performed at each reporting date and are recognised in the income statement. Fair value is determined through the use of prospective discounted cash flow techniques. Fair value is calculated as the number of units allocated to the policyholder in each unit-linked fund multiplied by the unit-price of those funds at the balance sheet date. The fund assets and liabilities used to determine the unit-prices at the balance sheet date are valued on a basis consistent with their measurement basis in the consolidated Group balance sheet, adjusted to take account of the effect on the liabilities, discounted for the time value of future tax on unrealised gains on assets in the fund.

The liability is derecognised when the contract expires, is discharged or is cancelled. For a contract that can be cancelled by the policyholder, the fair value cannot be less than the surrender value.

When contracts contain both a financial risk component and a significant insurance risk component and the cash flows from the two components are distinct and can be measured reliably, the

underlying amounts are unbundled. Any premiums relating to the insurance risk component are accounted for on the same bases as insurance contracts and the remaining element is accounted for as a deposit through the balance sheet as described above.

v. Unexpired risks

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

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

w. Unallocated divisible surplus

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

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

x. Borrowings

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

y. Provision for bad and doubtful debts – banking

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

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

NOTES TO THE ACCOUNTS CONTINUED

31 December 2007

z. Pension benefit obligation

The Group operates a defined benefit pension scheme. The cost of providing benefits is determined using the projected unit credit valuation method. The net surplus or deficit within the scheme is calculated annually with the assets measured at the fair value at the balance sheet date and the liabilities discounted at the rate of return available on high quality corporate bonds. The net surplus or deficit is recognised as an asset or liability in the balance sheet of the Society and the Group.

The pension cost for the 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.

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

aa. Assets held under leases

Where assets are financed by leasing agreements where the risks and rewards are substantially transferred to the Group or Society (finance leases) the assets are treated as if they had been purchased outright and the corresponding liability to the leasing company is included as an obligation under finance leases. Depreciation on leased assets is charged to the income statement on the same basis as owned assets.

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

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

ab. Significant accounting judgements, estimates and assumptions

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

Valuation of life and pension insurance contract liabilities

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

Main assumptions used for mortality, morbidity, longevity are based on standard industry tables which reflect historical experiences (adjusted where appropriate to reflect the Group's own risk exposure). The main assumptions used for investment returns, expenses, lapse rates, surrender rates and discount rates are based on product characteristics, claims experience, current market returns and industry risk rates.

Valuation of general insurance contract liabilities

For general insurance contracts, estimates are made for the expected ultimate cost of claims at the balance sheet date and the cost of claims incurred but not reported (IBNR). It can take a significant period of time before the ultimate cost of claims can be established with certainty. The estimation of these claims is based on historical experience projected forward.

Fair value of financial assets

In the absence of an active market, estimation of fair value is achieved by using valuation techniques such as recent arm's length transactions, discounted cash flow analysis or option pricing models.

Valuation of pension benefit obligation

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

ac. Future changes in accounting policies

International Accounting Standards (IAS/IFRSs) not yet effective

IFRS 8 Operating Segments – Effective date 1 January 2009.

This IFRS requires the companies to align its reported segments to business lines or internal segments to those used for internal management reporting purposes. The Group is not required to adopt this but is evaluating the effect of this new standard and may voluntarily adopt it in 2008.

IFRS 3R Business Combinations and IAS 27R Consolidated and Separate Financial Statements – Effective date 1 July 2009.

IAS 1 Revised Presentation of Financial Statements – Effective date 1 January 2009.

Amendments to IAS 32 and IAS 1 Puttable Financial Instruments – Effective date 1 January 2009.

International Financial Reporting Interpretations Committee (IFRIC) interpretations not yet effective

IFRIC 11 IFRS 2 – Group and Treasury Share Transactions – Effective date 1 March 2007.

IFRIC 12 Service Concession Arrangements – Effective date 1 January 2008.

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

NOTES TO THE ACCOUNTS CONTINUED

31 December 2007

2. Capital management

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

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

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

Capital statement

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

	Society's With-profits business (1) £m	RNPFN With-profits business £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 2007								
Unallocated divisible surplus	1,447.7	–	–	–	1,447.7	–	(128.4)	1,319.3
Shareholder funds	–	–	–	657.1	657.1	758.5	(1,415.6)	–
Adjustments onto regulatory basis:								
Unallocated divisible surplus adjustment	398.4	173.8	–	0.1	572.3	–	–	572.3
Adjustments to assets	(140.2)	(0.8)	–	(114.5)	(255.5)	(37.8)	–	(293.3)
Adjustment for subsidiary values	(136.0)	–	–	(218.9)	(354.9)	–	341.2	(13.7)
Other adjustments	(27.1)	–	–	–	(27.1)	–	–	(27.1)
Internal Loans	–	–	–	82.3	82.3	–	(82.3)	–
RNPFN Fund not available to the Group	–	(173.0)	–	–	(173.0)	–	–	(173.0)
Total Available Capital Resources	1,542.8	–	–	406.1	1,948.9	720.7	(1,285.1)	1,384.5

With-profits Liabilities on a Realistic Basis 2007

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

Available Capital Resources 2006

Unallocated divisible surplus	1,409.4	–	–	–	1,409.4	–	(139.8)	1,269.6
Restatement on conversion to IFRS	0.7	–	–	–	0.7	–	(7.6)	(6.9)
Shareholder funds	–	–	–	491.2	491.2	264.6	(755.8)	–
Adjustments onto regulatory basis:								
Unallocated divisible surplus adjustment	424.5	179.6	–	0.1	604.2	–	–	604.2
Adjustments to assets	(27.8)	(1.3)	–	(106.9)	(136.0)	(11.3)	–	(147.3)
Adjustment for subsidiary values	(176.6)	–	–	(196.0)	(372.6)	–	336.9	(35.7)
Other adjustments	(9.4)	–	–	–	(9.4)	–	–	(9.4)
Internal Loans	–	–	–	40.5	40.5	–	(40.5)	–
RNPFN Fund not available to the Group	–	(178.3)	–	–	(178.3)	–	–	(178.3)
Total Available Capital Resources	1,620.8	–	–	228.9	1,849.7	253.3	(606.8)	1,496.2

With-profits Liabilities on a Realistic Basis 2006

Options and guarantees	582.8	119.9	–	0.1	702.8	–	–	702.8
Other policyholder obligations	2,689.0	947.0	–	291.0	3,927.0	–	–	3,927.0
Total with-profits liabilities	3,271.8	1,066.9	–	291.1	4,629.8	–	–	4,629.8
Unit linked liabilities	–	–	288.6	73.7	362.3	–	–	362.3
Non participating life assurance	7.1	–	294.7	190.5	492.3	–	–	492.3
Technical provision in the balance sheet	3,278.9	1,066.9	583.3	555.3	5,484.4	–	–	5,484.4

Notes:

- 1) Included within the Society's with-profits fund are the non participating policies written within this fund.
- 2) Included within the Other non participating fund is the reinsured business from Society to its subsidiary company Liverpool Victoria Life Company Limited.

NOTES TO THE ACCOUNTS CONTINUED

31 December 2007

2. Capital management (continued)

Movements in capital during the year are analysed below.

	Society's With-profits business £m	RNPFN With-profits business £m	RNPFN non participating £m	Other non participating £m	Total Life Business £m	Other Activities £m	Consolidation Adjustments £m	Group Total £m
Movements in capital 2007								
Capital at 1 January 2007	1,620.8	–	–	228.9	1,849.7	253.3	(606.8)	1,496.2
Effect of investment variations	7.2	13.2	–	12.5	32.9	–	–	32.9
Effect of changes in market conditions	–	–	–	–	–	–	–	–
Effect of changes in assumptions	0.8	(20.2)	–	50.0	30.6	–	–	30.6
Effect of changes in regulatory requirements	(130.1)	0.5	–	–	(129.6)	(26.5)	(41.9)	(198.0)
New business	(6.9)	–	–	(32.9)	(39.8)	–	–	(39.8)
Other	77.1	6.5	–	147.6	231.2	493.9	(636.4)	88.7
Adjustment from regulatory to realistic peak	(26.1)	–	–	–	(26.1)	–	–	(26.1)
Removal of RNPFN fund	–	–	–	–	–	–	–	–
Capital at 31 December 2007	1,542.8	–	–	406.1	1,948.9	720.7	(1,285.1)	1,384.5

	Society's With-profits business £m	RNPFN With-profits business £m	RNPFN non participating £m	Other non participating £m	Total Life Business £m	Other Activities £m	Consolidation Adjustments £m	Group Total £m
Movements in capital 2006								
Capital at 1 January 2006	1,466.7	–	–	240.4	1,707.1	353.9	(659.1)	1,401.9
Effect of investment variations	130.3	9.5	–	(6.9)	132.9	–	–	132.9
Effect of changes in market conditions	5.4	10.7	–	–	16.1	–	–	16.1
Effect of changes in assumptions	(24.8)	9.0	–	97.4	81.6	–	–	81.6
Effect of changes in regulatory requirements	4.2	0.7	–	–	4.9	(11.2)	5.0	(1.3)
New business	(7.7)	–	–	(67.2)	(74.9)	–	–	(74.9)
Other	(10.7)	(29.3)	–	(34.8)	(74.8)	(89.4)	47.3	(116.9)
Adjustment from regulatory to realistic peak	57.4	39.9	–	–	97.3	–	–	97.3
Removal of RNPFN fund	–	(40.5)	–	–	(40.5)	–	–	(40.5)
Capital at 31 December 2006	1,620.8	–	–	228.9	1,849.7	253.3	(606.8)	1,496.2

In aggregate the group has at its disposal total available capital of £1,384.5m (2006: £1,496.2m), representing the aggregation of the solvency capital of all group businesses. This capital is available to meet risks and regulatory requirements set by reference to regulatory guidance as prescribed by the FSA.

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

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

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

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

NOTES TO THE ACCOUNTS CONTINUED

31 December 2007

2. Capital management (continued)

Available capital

i) With-profits business

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

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

ii) Non participating business

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

Sensitivity analysis

i) Sensitivity of Society funds

The sensitivity of the Society's with-profits liabilities at 31 December 2007 to a 20% fall in global equity markets or a fall in fixed interest yields of 17.5% is as follows:

	2007	Equities down 20%	Fixed interest yields down 17.5%	2006	Equities down 20%	Fixed interest yields down 17.5%
	£m	£m	£m	£m	£m	£m
Contract liabilities (excluding linked)	3,042.4	2,967.3	3,230.5	3,278.9	3,059.8	3,400.0

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

ii) Sensitivity of insurance liabilities

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

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

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

Financial guarantees and options

a) With-profits business

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

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

NOTES TO THE ACCOUNTS CONTINUED

31 December 2007

2. Capital management (continued)

a) With-profits business (continued)

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

- i) Guaranteed annuity options – the RNPFN with-profits fund has written individual pensions which contain guaranteed annuity rate options (GAOs), where the policyholder has the option to take the benefits from a policy in the form of annuity based on guaranteed conversion rates. The RNPFN fund also has exposure to GAOs and similar options on deferred annuities.
- ii) Maturity value guarantees – many of the Group's with-profits policies have minimum maturity values reflecting the sums assured plus declared annual bonus.
- iii) Money-back guarantees – some of the policies written within the Group provide a guarantee or option to pay out all the premiums paid in (at a certain point in time).
- iv) In addition, while these do not constitute contractual guarantees, the Group has made promises to certain policyholders in relation to mortgage endowments that payments on these policies will meet the mortgage value covered.

b) Non participating business

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

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

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

3. Risk management and control

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

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

a) Insurance risk

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

Life and pensions

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

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

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

NOTES TO THE ACCOUNTS CONTINUED

31 December 2007

3. Risk management and control (continued)

Life and pensions (continued)

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

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

Group	2007			2006		
	Gross £m	Reinsurance £m	Net £m	Gross £m	Reinsurance £m	Net £m
Whole life	1,600.6	–	1,600.6	1,817.1	–	1,817.1
Endowment	1,113.3	–	1,113.3	1,233.2	–	1,233.2
Term assurance	43.7	(29.2)	14.5	60.6	(30.7)	29.9
Guaranteed annuity pension	930.4	–	930.4	932.4	–	932.4
Pure endowment pensions	517.3	–	517.3	475.3	–	475.3
Critical illness	41.4	(14.6)	26.8	39.6	(15.8)	23.8
Income protection	132.8	(21.4)	111.4	182.7	(15.9)	166.8
ISA	66.1	–	66.1	64.0	–	64.0
Other	411.4	(2.5)	408.9	454.2	(2.5)	451.7
	4,857.0	(67.8)	4,789.2	5,259.1	(64.9)	5,194.2
Unit linked	354.7	–	354.7	290.2	–	290.2
	5,211.7	(67.8)	5,143.9	5,549.3	(64.9)	5,484.4

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

	Impact on profit before tax £m	Impact on the unallocated divisible surplus £m	Impact on gross liabilities £m
Sensitivity analysis for the change in long term business provision for insurance contracts			
Increase in mortality rates by 5%	(49.6)	(47.1)	50.1
Increase in morbidity rates by 5%	(15.2)	(10.9)	15.7
Reduction in persistency by 5%	(37.3)	(36.5)	38.4
Increase in expenses by 10%	(43.9)	(41.2)	43.9

General insurance

Property business suffers from the risk of significant weather events or subsidence which can result in large claims in a single area. The Group has entered into reinsurance contracts to reduce exposure to catastrophe claims.

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

The table below sets out the concentration of General Insurance claims liabilities by type of contract.

Group	2007			2006		
	Gross £m	Reinsurance £m	Net £m	Gross £m	Reinsurance £m	Net £m
Motor	345.8	(14.5)	331.3	330.4	(3.0)	327.4
Household	78.9	(0.1)	78.8	65.7	(0.1)	65.6
Other	12.4	–	12.4	8.9	–	8.9
	437.1	(14.6)	422.5	405.0	(3.1)	401.9

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

	Impact on profit before tax £m	Impact on the unallocated divisible surplus £m	Impact on General Insurance claims provision £m
Sensitivity analysis for the change in assumptions used in the General Insurance claims provision			
Single storm event (1 in 200 year probability)	(38.0)	(38.0)	38.0
Subsidence event (based on worst year to date)	(5.0)	(5.0)	5.0
Increase in substantial personal injury claims by 10%	(11.0)	(11.0)	11.0
Increase in major accidents on a single policy	(2.0)	(2.0)	2.0

NOTES TO THE ACCOUNTS CONTINUED

31 December 2007

3. Risk management and control (continued)

General insurance (continued)

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

Analysis of claims development – gross of reinsurance	2002	2003	2004	2005	2006	2007	Total
Initial estimate of gross provision	219.8	261.4	214.5	336.2	366.4	373.4	
One year later	219.3	260.5	207.4	332.4	347.5		
Two years later	203.9	253.5	186.7	315.2			
Three years later	200.2	235.2	181.0				
Four years later	191.2	230.1					
Five years later	189.9						
Current estimate of cumulative claims	189.9	230.1	181.0	315.2	347.5	373.4	1,637.1
Cumulative payments to date	(185.5)	(215.5)	(149.1)	(257.2)	(252.5)	(161.4)	(1,221.2)
Liability recognised in the balance sheet for 2002 to 2007 accident years	4.4	14.6	31.9	58.0	95.0	212.0	415.9
Liability recognised in the balance sheet in respect of prior accident years							6.6
Claims handling provision							14.6
Provision as at 31 December 2007							437.1

Analysis of claims development – net of reinsurance	2002	2003	2004	2005	2006	2007	Total
Initial estimate of net provision	219.8	259.4	214.5	336.2	366.4	369.1	
One year later	219.3	258.4	207.4	332.4	345.4		
Two years later	203.9	253.2	186.7	313.1			
Three years later	200.2	234.7	179.1				
Four years later	191.2	229.0					
Five years later	189.1						
Current estimate of cumulative claims	189.1	229.0	179.1	313.1	345.4	369.1	1,624.8
Cumulative payments to date	(185.5)	(215.3)	(149.1)	(257.2)	(252.5)	(161.4)	(1,221.0)
Liability recognised in the balance sheet for 2002 to 2007 accident years	3.6	13.7	30.0	55.9	92.9	207.7	403.8
Liability recognised in the balance sheet in respect of prior accident years							4.1
Claims handling provision							14.6
Provision as at 31 December 2007							422.5

Included within claims incurred is a release of £51.5 million in respect of motor insurance business (2006: £40.6 million release) and a release of £4.8 million in respect of property insurance business (2006: £14.4 million release), 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.

b) Financial risk

i. Market risk

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

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

Equity price risk

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

NOTES TO THE ACCOUNTS CONTINUED

31 December 2007

3. Risk management and control (continued)

Property price risk

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

Interest rate risk

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

Asset liability matching

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

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

Currency risk

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

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

	2007					2006				
	Euro £m	US Dollar £m	Yen £m	Other £m	Total £m	Euro £m	US Dollar £m	Yen £m	Other £m	Total £m
Equity securities	246.1	234.9	151.8	118.5	751.3	360.1	236.7	190.6	124.9	912.3
Debt securities	8.6	4.9	5.6	-	19.1	8.4	5.1	4.7	-	18.2
	254.7	239.8	157.4	118.5	770.4	368.5	241.8	195.3	124.9	930.5

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

Derivative risk

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

Summary of market risk sensitivities

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

	Impact on profit before tax £m	Impact on the unallocated divisible surplus £m	Impact on gross life and pension insurance contract liabilities £m
Sensitivity analysis to movements in key market sectors			
Equity values fall by 10%	66.7	66.7	(66.7)
Property values fall by 10%	11.7	11.7	(11.7)
Fixed interest rates fall by 0.5%	(144.4)	(141.8)	146.8

ii. Credit risk

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

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

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

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

NOTES TO THE ACCOUNTS CONTINUED

31 December 2007

3. Risk management and control (continued)

ii. Credit risk (continued)

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

Credit risk exposure 2007	AAA £m	AA £m	A £m	BBB £m	Below BBB £m	Not rated £m	Total £m
Debt and other fixed income securities	1939.4	138.8	158.8	44.8	4.8	14.6	2,301.2
Other	–	–	–	–	–	24.8	24.8
Deposits with credit institutions	94.0	128.8	–	–	–	–	222.8
Loans secured by mortgages	–	–	–	–	–	0.5	0.5
Loans secured by policies	–	–	–	–	–	1.8	1.8
Other loans	–	–	–	–	–	435.8	435.8
	2,033.4	267.6	158.8	44.8	4.8	477.5	2,986.9
Reinsurance assets							
– non linked	–	55.8	–	7.3	–	2.2	65.3
– linked	–	2.5	–	–	–	–	2.5
	2,033.4	325.9	158.8	52.1	4.8	479.7	3,054.7

Credit risk exposure 2006	AAA £m	AA £m	A £m	BBB £m	Below BBB £m	Not rated £m	Total £m
Debt and other fixed income securities	1,957.4	115.5	145.2	79.4	–	0.6	2,298.1
Other	–	–	–	–	–	25.2	25.2
Deposits with credit institutions	149.7	198.2	–	–	–	–	347.9
Loans secured by mortgages	–	–	–	–	–	0.7	0.7
Loans secured by policies	–	–	–	–	–	1.9	1.9
Other loans	–	–	–	–	–	514.7	514.7
	2,107.1	313.7	145.2	79.4	–	543.1	3,188.5
Reinsurance assets							
– non linked	–	55.7	–	5.1	0.7	2.4	63.9
– linked	–	1.0	–	–	–	–	1.0
	2,107.1	370.4	145.2	84.5	0.7	545.5	3,253.4

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

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

Age analysis of assets past due/impaired 2006	<30 days £m	31 to 60 days £m	61 to 90 days £m	>90 days £m	Linked £m	Total past due but not impaired £m	Past due and impaired £m	Total £m
Financial assets – loans and other receivables	0.9	–	–	0.3	–	1.2	45.0	46.2
Insurance receivables	1.3	1.9	1.2	4.3	–	8.7	0.1	8.8
	2.2	1.9	1.2	4.6	–	9.9	45.1	55.0

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

	Group	
	2007 £m	2006 £m
Balance at 1 January	26.4	30.9
Charge against profits	23.4	32.5
Amounts written off	(29.7)	(42.4)
Recoveries	1.9	3.7
Impairment losses on loan book acquisition	–	1.7
Balance at 31 December	22.0	26.4

NOTES TO THE ACCOUNTS CONTINUED

31 December 2007

3. Risk management and control (continued)

ii. Credit risk (continued)

Collateral

For securities lending the amount and type of collateral required depends on an assessment of the credit risk of the type of security lent. All securities lent are indemnified subject to the conditions of the Stock Lending Authorisation Agreement with HSBC. Guidelines are implemented regarding the acceptability of types of collateral and the valuation parameters. Collateral is mainly obtained for securities lending. Credit risk is also mitigated by entering into the collateral agreement. Operations monitor the market value of the collateral, requests additional collateral when needed and performs an impairment valuation when applicable. The collateral can be sold or repledged by the Group and is repayable if the contract terminates or the contract's fair value decreases. At 31 December 2007, the fair value of such collateral held was £1,583.1m (2006: £841.6m). No collateral received from the counterparty has been sold or repledged (2006: £nil).

For over-the-counter derivative transactions undertaken by the Group, collateral is received from the counterparty. The collateral can be sold or repledged by the Group and is repayable if the contract terminates or the contract's fair value decreases. At 31 December 2007, the fair value of such collateral held was £0.4m (2006: £5.5m). No collateral received from the counterparty has been sold or repledged (2006: £nil).

iii. Liquidity risk

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

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

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

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

	Within 1 year £m	1-3 years £m	3-5 years £m	Over 5 years £m	No term £m	Linked £m	Total £m
Maturity profile of financial liabilities 2007							
Insurance contract liabilities	1,025.3	631.2	500.3	3,367.7	–	104.1	5,628.6
Investment contract liabilities	–	–	–	–	–	253.9	253.9
Unallocated divisible surplus	–	–	–	–	1,319.3	–	1,319.3
Net asset value attributable to unit holders	111.0	–	–	–	–	–	111.0
Financial liabilities							
– Derivative financial instruments	0.6	–	–	–	–	–	0.6
– Borrowings	76.0	99.5	47.7	12.4	–	–	235.6
– Other financial liabilities	90.2	14.6	–	–	–	–	104.8
Provisions	45.9	30.4	2.6	4.1	–	–	83.0
Deferred tax liability	69.5	11.4	(21.3)	4.5	–	–	64.1
Insurance payables	23.2	–	–	–	–	–	23.2
Trade and other payables	185.9	–	–	–	–	–	185.9
	1,627.6	787.1	529.3	3,388.7	1,319.3	358.0	8,010.0
Society – Insurance contract liabilities	226.3	389.7	327.6	2,368.3	–	–	3,311.9
Maturity profile of financial liabilities 2006							
Insurance contract liabilities	1,057.0	781.6	629.9	3,426.3	–	113.6	6,008.4
Investment contract liabilities	–	–	–	–	–	178.6	178.6
Unallocated divisible surplus	–	–	–	–	1,269.6	–	1,269.6
Net asset value attributable to unit holders	145.5	–	–	–	–	–	145.5
Financial liabilities							
– Derivative financial instruments	–	–	–	–	–	–	–
– Borrowings	87.7	120.2	52.1	11.5	–	–	271.5
– Other financial liabilities	105.8	30.8	0.2	–	–	–	136.8
Provisions	57.5	27.5	12.6	3.1	–	–	100.7
Deferred tax liability	95.3	9.9	(11.2)	–	–	–	94.0
Insurance payables	16.7	–	–	–	–	–	16.7
Trade and other payables	130.5	–	–	–	–	–	130.5
	1,696.0	970.0	683.6	3,440.9	1,269.6	292.2	8,352.3
Society – Insurance contract liabilities	276.8	453.0	394.4	2,476.1	–	–	3,600.3

NOTES TO THE ACCOUNTS CONTINUED

31 December 2007

3. Risk management and control (continued)

iii. Liquidity risk (continued)

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

The tables below summarises the expected recovery or settlement of assets:

Group	2007			2006		
	Within 1 year £m	Over 1 year £m	Total £m	Within 1 year £m	Over 1 year £m	Total £m
Intangible assets	–	161.3	161.3	–	72.3	72.3
Property and equipment	–	23.7	23.7	–	19.4	19.4
Investment properties	–	648.7	648.7	–	754.8	754.8
Investments in group undertakings and participating interests	–	–	–	–	–	–
Financial assets						
– Derivative financial instruments	12.4	6.6	19.0	–	10.5	10.5
– Fair value through profit or loss	74.4	5,195.4	5,269.8	148.5	5,759.0	5,907.5
– Loans and other receivables	415.8	284.2	700.0	559.6	350.7	910.3
Reinsurance assets	3.3	84.3	87.6	8.9	64.2	73.1
Tax receivable	–	–	–	3.2	–	3.2
Pension benefit asset	–	19.9	19.9	–	–	–
Insurance receivables	93.5	–	93.5	96.7	–	96.7
Deferred acquisition costs	41.9	89.6	131.5	35.5	83.3	118.8
Prepayments and accrued income	65.7	–	65.7	60.6	–	60.6
Cash and cash equivalents	789.3	–	789.3	325.1	–	325.1
Total assets	1,496.3	6,513.7	8,010.0	1,238.1	7,114.2	8,352.3

Society	2007			2006		
	Within 1 year £m	Over 1 year £m	Total £m	Within 1 year £m	Over 1 year £m	Total £m
Intangible assets	–	23.2	23.2	–	27.8	27.8
Property and equipment	–	1.4	1.4	–	0.9	0.9
Investment properties	–	615.5	615.5	–	690.1	690.1
Investments in group undertakings and participating interests	–	869.8	869.8	–	593.6	593.6
Financial assets						
– Derivative financial instruments	12.4	–	12.4	–	–	–
– Fair value through profit or loss	–	2,824.3	2,824.3	–	3,447.1	3,447.1
– Loans and other receivables	69.1	3.2	72.3	64.5	19.5	84.0
Reinsurance assets	–	244.7	244.7	–	291.2	291.2
Tax receivable	–	–	–	3.8	–	3.8
Pension benefit asset	–	19.9	19.9	–	–	–
Insurance receivables	0.5	–	0.5	2.2	–	2.2
Deferred acquisition costs	0.1	1.7	1.8	–	–	–
Prepayments and accrued income	26.1	–	26.1	27.2	–	27.2
Cash and cash equivalents	366.9	–	366.9	90.8	–	90.8
Total assets	475.1	4,603.7	5,078.8	188.5	5,070.2	5,258.7

NOTES TO THE ACCOUNTS CONTINUED

31 December 2007

3. Risk management and control (continued)

iv. Other risk types

Operational risk

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

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

Group risk

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

Strategic risk

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

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

4. Net premiums

	Group		Society	
	2007 £m	2006 £m	2007 £m	2006 £m
Gross premiums				
Life and pensions insurance premiums – participating business				
Investments and savings – single premium	21.7	13.9	21.1	13.5
Pensions and annuities – single premium	41.2	3.3	41.2	3.3
Investments and savings – regular premium	91.2	108.4	51.7	60.6
Pensions and annuities – regular premium	16.5	18.3	9.5	10.2
Life and health protection – regular premium	14.6	16.6	12.5	14.1
Life and pensions insurance premiums – non participating business				
Pensions and annuities – single premium	13.5	11.6	–	–
Life and health protection – single premium	0.4	0.4	–	–
Investments and savings – regular premium	0.1	0.1	–	–
Pensions and annuities – regular premium	10.9	8.4	–	–
Life and health protection – regular premium	86.2	82.9	0.7	0.8
Life and pensions insurance premiums – linked business				
Investments and savings – regular premium	10.9	13.1	–	–
Pensions and annuities – regular premium	0.6	0.5	–	–
Life and health protection – regular premium	14.8	15.5	–	–
General insurance business				
Motor	211.2	226.1	–	–
Property damage	112.5	115.0	–	–
Other	22.9	9.7	–	–
Change in unearned premiums provision	(3.7)	18.4	–	–
	665.5	662.2	136.7	102.5
Reinsurers share of gross premiums				
Life and pensions insurance premiums	(28.9)	(23.7)	(0.1)	–
General insurance business	(11.0)	(8.7)	–	–
Change in unearned premiums provision	0.1	0.5	–	–
	(39.8)	(31.9)	(0.1)	–
	625.7	630.3	136.6	102.5

All business is written in the UK.

NOTES TO THE ACCOUNTS CONTINUED

31 December 2007

5. New business premiums

	Group		Society	
	2007 £m	2006 £m	2007 £m	2006 £m
Gross new business premiums – life and pensions				
Life and pensions insurance premiums – participating business				
Investments and savings – single premium	21.7	13.9	21.1	13.5
Pensions and annuities – single premium	41.2	3.3	41.2	3.3
Investments and savings – regular premium	2.6	4.3	2.6	4.3
Pensions and annuities – regular premium	1.1	0.5	1.1	0.5
Life and health protection – regular premium	–	–	–	–
Life and pensions insurance premiums – non participating business				
Pensions and annuities – single premium	13.5	11.6	–	–
Life and health protection – single premium	0.4	0.4	–	–
Investments and savings – regular premium	–	–	–	–
Pensions and annuities – regular premium	1.4	3.2	–	–
Life and health protection – regular premium	10.3	11.3	–	–
Life and pensions insurance premiums – linked business				
Investments and savings – regular premium	–	–	–	–
Pensions and annuities – regular premium	–	–	–	–
Life and health protection – regular premium	3.3	2.9	–	–
Life and pensions investment premiums – linked business				
Pensions and annuities – single premium	98.1	–	98.1	–
	193.6	51.4	164.1	21.6

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.

	2007 £m	2006 £m
Group gross premiums earned – general business		
Motor	215.4	243.1
Property damage	113.8	116.0
Other	13.7	10.1
	342.9	369.2

6. Fee and commission income

	Group		Society	
	2007 £m	2006 £m	2007 £m	2006 £m
Policy administration fees	1.3	–	1.3	–
Fund management fees	1.7	2.4	–	–
Commission income	2.6	6.4	–	–
Reinsurance commission income	0.1	0.1	–	–
	5.7	8.9	1.3	–

7. Investment income

	Group		Society	
	2007 £m	2006 £m	2007 £m	2006 £m
Rental income from investment properties	36.9	33.9	34.7	30.6
Income from investments at fair value through profit and loss				
– Interest income	116.9	117.8	45.3	41.5
– Dividend income	95.8	128.3	68.8	99.6
Interest on loans and receivables	76.0	83.4	10.1	10.9
	325.6	363.4	158.9	182.6

NOTES TO THE ACCOUNTS CONTINUED

31 December 2007

8. Realised gains

	Group		Society	
	2007 £m	2006 £m	2007 £m	2006 £m
Investment properties	35.0	70.9	27.9	64.2
Investments at fair value through profit and loss				
– Debt securities	(35.1)	16.4	(12.5)	(7.8)
– Equity securities	416.3	301.8	358.5	257.8
	416.2	389.1	373.9	314.2

9. Fair value (losses) on investments

	Group		Society	
	2007 £m	2006 £m	2007 £m	2006 £m
Investment properties	(71.0)	45.4	(67.3)	40.7
Investments at fair value through profit and loss				
– Debt securities	13.7	(133.5)	(10.3)	(43.2)
– Equity securities	(234.0)	(18.8)	(231.5)	(62.4)
Derivatives at fair value through profit and loss	8.1	(0.7)	12.4	–
	(283.2)	(107.6)	(296.7)	(64.9)

10. Net benefits and claims

	Group		Society	
	2007 £m	2006 £m	2007 £m	2006 £m
Gross benefits and claims				
Life and pensions insurance contracts				
Benefits and claims paid	883.7	649.6	613.8	396.6
Change in the provision for claims	(2.6)	33.2	(5.4)	19.1
General insurance business				
Claims paid	292.0	280.1	–	–
Change in the provision for claims	32.1	41.0	–	–
	1,205.2	1,003.9	608.4	415.7
Reinsurers share of gross benefits and claims				
Life and pensions insurance contracts				
Benefits and claims paid	(20.5)	(22.3)	(64.8)	(32.6)
Change in the provision for claims	–	–	–	–
General insurance business				
Claims paid	(1.4)	(0.2)	–	–
Change in the provision for claims	(11.5)	2.5	–	–
	(33.4)	(20.0)	(64.8)	(32.6)
	1,171.8	983.9	543.6	383.1

NOTES TO THE ACCOUNTS CONTINUED

31 December 2007

11. Net change in contract liabilities

	Group		Society	
	2007 £m	2006 £m	2007 £m	2006 £m
Gross change in contract liabilities				
Change in life and pensions insurance contract liabilities	384.3	233.5	283.0	16.1
Change in linked life and pensions insurance contract liabilities	28.6	6.8	–	–
Change in investment contract liabilities	(13.4)	(16.4)	–	–
	399.5	223.9	283.0	16.1
Reinsurers share of gross change in contract liabilities				
Change in life and pensions insurance contract liabilities	1.4	(68.7)	(46.5)	6.5
Change in linked life and pensions insurance contract liabilities	1.5	(4.4)	–	–
Change in investment contract liabilities	–	–	–	–
	2.9	(73.1)	(46.5)	6.5
	402.4	150.8	236.5	22.6

12. Finance costs

	Group		Society	
	2007 £m	2006 £m	2007 £m	2006 £m
Interest expense on bank overdraft	2.8	4.2	0.2	0.2
Interest expense on deferred consideration	0.7	0.9	0.7	0.9
Unit holders finance cost	8.6	13.0	–	–
	12.1	18.1	0.9	1.1

13. Other operating and administrative expenses

	Group		Society	
	2007 £m	2006 £m	2007 £m	2006 £m
Amortisation and impairment of intangible assets	8.1	7.5	4.6	4.6
Depreciation on property and equipment – owned	0.7	0.8	0.2	0.4
Depreciation on property and equipment – finance lease	0.5	0.5	–	–
Loss on disposal of property and equipment	0.2	0.3	0.2	0.3
Operating lease rental charges on land and buildings	4.0	2.2	1.4	0.7
Investment management expenses and charges	0.1	9.0	16.0	3.9
Acquisition costs	67.3	71.7	9.1	6.9
Movement in deferred expenses	(12.7)	(3.9)	(1.8)	–
Auditors' remuneration	1.5	1.0	0.5	0.5
Employee benefits expense	81.6	61.4	81.6	61.4
Bad debt expense	29.7	42.4	–	–
Administrative expenses	75.8	129.3	(89.1)	(8.6)
	256.8	322.2	22.7	70.1

Other operating and administrative expenses in the Society are stated after crediting management charges of £80.1m (2006: £91.0m) in respect of the administration of its subsidiaries.

Other operating and administrative expenses include £(0.6)m (2006: £68.0m) for Group and £(5.3)m (2006: £21.3m) for Society in respect of ongoing losses on uneconomic contracts relating to banking, unused premises and outsourcing. In addition, net operating costs includes £14.4m (2006: £nil) for Group to cover losses on banking products.

NOTES TO THE ACCOUNTS CONTINUED

31 December 2007

14. Auditors' remuneration

	Group		Society	
	2007 £m	2006 £m	2007 £m	2006 £m
Audit fees – accounts	0.7	0.5	0.3	0.3
Other services supplied pursuant to legislation – Financial Services Authority returns	0.4	0.5	0.2	0.2
Total audit fees	1.1	1.0	0.5	0.5
Tax fees	0.1	–	–	–
Actuarial fees	0.1	–	–	–
All other services	0.2	–	–	–
	1.5	1.0	0.5	0.5

There were no other services carried out by the auditors in respect of the Group or the Society.

15. Employee benefits expense

	Group		Society	
	2007 £m	2006 £m	2007 £m	2006 £m
Wages and salaries	63.5	47.4	63.5	47.4
Social security costs	5.3	3.9	5.3	3.9
Defined benefit pension costs	12.8	10.1	12.8	10.1
	81.6	61.4	81.6	61.4

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

	Group		Society	
	2007 Number	2006 Number	2007 Number	2006 Number
Member contact	1,580	1,417	1,580	1,417
Administration	393	322	393	322
	1,973	1,739	1,973	1,739

16. Directors' emoluments

The aggregate amount of directors' emoluments was as follows:

	£m	£m
a. Aggregate emoluments	2.1	1.5
b. Contributions to money purchase pension schemes	–	–

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 2007 £'000	Total 2006 £'000
M.J. Rogers	439	365	107	911	517
S.M. Daniels	242	415	–	657	280
R.A. Rowney (appointed 15 August 2007)*	86	65	72	223	–
K.W. Abercromby (appointed 19 December 2007)*	9	4	–	13	–
D. Holt	79	–	–	79	11
B.M. Rose	63	–	–	63	58
G. Nott	47	–	–	47	43
M.E. Austen	44	–	–	44	11
J.T. Woolhouse (retired 30 June 2007)	53	–	–	53	273
I.D.Cordwell (resigned 21 November 2006)	–	–	–	–	292
	1,062	849	179	2,090	1,485

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

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

During 2006 compensation for loss of office payments were made to I.D. Cordwell which amounted to £242,000 and are not included in the table above.

The Society has made no contributions to personal pension arrangements during 2006 or 2007.

NOTES TO THE ACCOUNTS CONTINUED

31 December 2007

16. Directors' emoluments (continued)

d. Pension arrangements

S.M. Daniels, R.A. Rowney and K.W. Abercromby 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 20.6% of pensionable salaries less £6.1m (2006: 7.2% of pensionable salaries) in respect of all permanent staff, including executive directors.

M.J. Rogers is a member of the Liverpool Victoria (1994) Staff Pension Scheme for Life Assurance only.

	2007 £'000	2006 £'000
Accrued pension at end of period		
S.M. Daniels	77	64
R.A. Rowney	4	–
K.W. Abercromby	2	–

17. Income tax expense

a. Current year tax charge

Group	2007 £m	2006 £m
Current year tax charge:		
Corporation tax	40.3	9.6
Prior year adjustment	(4.1)	(4.0)
Total current tax	36.2	5.6
Deferred tax		
Excess of depreciation	0.1	–
Temporary differences	(29.6)	24.0
Tax losses	–	(11.2)
Total deferred tax	(29.5)	12.8
Total income tax expense	6.7	18.4
Society	2007 £m	2006 £m
Current year tax charge:		
Corporation tax	40.6	9.6
Prior year adjustment	(4.0)	–
Total current tax	36.6	9.6
Deferred tax		
Excess of depreciation	4.8	–
Temporary differences	(36.4)	9.5
Total deferred tax	(31.6)	9.5
Total income tax expense	5.0	19.1

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

NOTES TO THE ACCOUNTS CONTINUED

31 December 2007

17. Income tax expense (continued)

b. Reconciliation of tax charge

Group	2007 £m	2006 £m
Profit before tax	56.4	113.7
Tax at 30%	16.9	34.1
Permanent differences		
Disallowable expenses	7.1	8.3
Intra group charges not allowable for tax	(0.8)	–
Unprovided deferred tax asset	1.8	(1.0)
Policyholder tax (including prior year adjustments)	(18.4)	(20.3)
Adjustment to tax charge in respect of prior years	0.1	(2.7)
Total tax charge for the year	6.7	18.4
	2007	2006
	£m	£m
Society		
Profit before tax	43.3	102.4
Tax at 30%	13.0	30.7
Permanent differences		
Policyholder tax (including prior year adjustments)	(8.0)	(11.6)
Total tax charge for the year	5.0	19.1

18. Intangible assets

Group	Goodwill £m	Other intangible assets £m	PVIF £m	Total £m
Cost:				
At 1 January 2007	20.6	50.9	63.4	134.9
Additions	73.4	23.7	–	97.1
At 31 December 2007	94.0	74.6	63.4	232.0
Amortisation:				
At 1 January 2007	20.6	23.1	18.9	62.6
Charge for the year	–	4.8	3.0	7.8
Impairment in year	–	–	0.3	0.3
At 31 December 2007	20.6	27.9	22.2	70.7
Net book value at 31 December 2007	73.4	46.7	41.2	161.3
Cost:				
At 1 January and 31 December 2006	20.6	50.9	63.4	134.9
Amortisation:				
At 1 January 2006	20.6	18.5	16.0	55.1
Charge for the year	–	4.6	2.9	7.5
At 31 December 2006	20.6	23.1	18.9	62.6
Net book value at 31 December 2006	–	27.8	44.5	72.3

NOTES TO THE ACCOUNTS CONTINUED

31 December 2007

18. Intangible assets (continued)

Society	Goodwill £m	Other intangible assets £m	PVIF £m	Total £m
Cost:				
At 1 January 2007	–	50.9	–	50.9
Additions	–	–	–	–
At 31 December 2007	–	50.9	–	50.9
Amortisation:				
At 1 January 2007	–	23.1	–	23.1
Charge for the year	–	4.6	–	4.6
Impairment in year	–	–	–	–
At 31 December 2007	–	27.7	–	27.7
Net book value at 31 December 2007	–	23.2	–	23.2
Cost:				
At 1 January 2006	–	50.9	–	50.9
Additions	–	–	–	–
At 31 December 2006	–	50.9	–	50.9
Amortisation:				
At 1 January 2006	–	18.5	–	18.5
Charge for the year	–	4.6	–	4.6
Impairment in year	–	–	–	–
At 31 December 2006	–	23.1	–	23.1
Net book value at 31 December 2006	–	27.8	–	27.8

Additions for the year are explained in note 42.

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

	Group	
	2007 £m	2006 £m
Life and pensions insurance business	78.2	20.6
General insurance business	15.8	–
	94.0	20.6

The recoverable amount for the life insurance business has been determined based on a fair value calculation less cost to sell. An estimate of the total of the adjusted net worth of the life insurance business plus the value of in-force covered business is calculated in accordance with embedded value principles. This is based on 2007 sales projected forward for 20 years assuming a reduction of 10% per year for pensions and 20% per year for all other sales. A pre tax discount rate of 4.5% has been used to discount these cash flows.

For impairment testing of the general insurance business goodwill the recoverable amount is based on an value in use calculation using cash flow projections based on budgets approved by management. Cash flows beyond the budget period are extrapolated assuming no growth. This is based on 2007 profits projected forward for 20 years assuming a reduction of 10% per year. A pre tax discount rate of 4.5% has been used to discount these cash flows.

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

NOTES TO THE ACCOUNTS CONTINUED

31 December 2007

19. Property and equipment

Group	Freehold and leasehold (finance lease) property £m	Leasehold property enhancements long £m	Leasehold property enhancements short £m	Major computer systems £m	Fixtures, fittings and motor vehicles £m	Total £m
Cost:						
At 1 January 2007	27.1	11.7	2.0	4.3	4.1	49.2
Additions	–	1.1	0.9	3.6	0.2	5.8
Disposals	–	–	(0.8)	–	–	(0.8)
At 31 December 2007	27.1	12.8	2.1	7.9	4.3	54.2
Depreciation:						
At 1 January 2007	17.5	7.1	1.2	–	4.0	29.8
Provided in the year	0.5	0.5	0.2	–	–	1.2
Disposals	–	–	(0.5)	–	–	(0.5)
At 31 December 2007	18.0	7.6	0.9	–	4.0	30.5
Net book value at 31 December 2007	9.1	5.2	1.2	7.9	0.3	23.7
Cost:						
At 1 January 2006	27.1	9.7	2.1	–	4.4	43.3
Additions	–	2.0	0.1	4.3	–	6.4
Disposals	–	–	(0.2)	–	(0.3)	(0.5)
At 31 December 2006	27.1	11.7	2.0	4.3	4.1	49.2
Depreciation:						
At 1 January 2006	17.0	6.8	1.0	–	4.1	28.9
Provided in the year	0.5	0.3	0.3	–	0.2	1.3
Disposals	–	–	(0.1)	–	(0.3)	(0.4)
At 31 December 2006	17.5	7.1	1.2	–	4.0	29.8
Net book value at 31 December 2006	9.6	4.6	0.8	4.3	0.1	19.4
Society						
Cost:						
At 1 January 2007				1.9	4.1	6.0
Additions				0.8	0.2	1.0
Disposals				(0.8)	–	(0.8)
At 31 December 2007				1.9	4.3	6.2
Depreciation:						
At 1 January 2007				1.1	4.0	5.1
Provided in the year				0.2	–	0.2
Disposals				(0.5)	–	(0.5)
At 31 December 2007				0.8	4.0	4.8
Net book value at 31 December 2007				1.1	0.3	1.4
Cost:						
At 1 January 2006				1.8	4.4	6.2
Additions				0.1	–	0.1
Disposals				–	(0.3)	(0.3)
At 31 December 2006				1.9	4.1	6.0
Depreciation:						
At 1 January 2006				0.7	4.1	4.8
Provided in the year				0.2	0.2	0.4
Disposals				0.2	(0.3)	(0.1)
At 31 December 2006				1.1	4.0	5.1
Net book value at 31 December 2006				0.8	0.1	0.9

NOTES TO THE ACCOUNTS CONTINUED

31 December 2007

20. Investment properties

	Group		Society	
	2007 £m	2006 £m	2007 £m	2006 £m
Freeholds	486.4	596.2	453.2	531.5
Long leaseholds	162.3	158.6	162.3	158.6
	648.7	754.8	615.5	690.1

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	
	2007 £m	2006 £m	2007 £m	2006 £m
Balance at 1 January	754.8	758.7	690.1	684.6
Additions	19.6	118.6	19.6	118.6
Disposals	(77.4)	(223.1)	(49.7)	(203.4)
Revaluation adjustment	(48.3)	100.6	(44.5)	90.3
Balance at 31 December	648.7	754.8	615.5	690.1

All investment properties are valued annually at fair value. They were valued as at 31 December 2007, by qualified professional valuers working for the company of Atisreal, Chartered Surveyors, acting in the capacity of external valuers. All such valuers are Chartered Surveyors, being members of The Royal Institution of Chartered Surveyors. All valuations were carried out in accordance with the RICS Appraisal and Valuation Standards. The valuation reports are dated 31 December 2007.

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

The Group and Society enter into operating leases for all investment properties. All rents are payable in advance and the rental income arising during the year amounted to £36.9m (2006: £33.9m) for the Group and £34.7m (2006: £30.6m) for Society, which is included in investment income.

Non recoverable expenses are deducted from rental income for investment properties and amounted to £4.7m (2006: £5.4m) for Group and £4.5m (2006:£4.7m) for Society.

21. Investments in group undertakings

Society	2007 £m	2006 £m
Shares in subsidiaries		
Cost less provisions at 1 January	553.1	543.9
Additions	223.4	9.5
Disposal	(29.5)	–
Impairment write off	–	(0.3)
	747.0	553.1
Loan stock in subsidiaries		
Cost at 1 January	40.5	45.5
Additions	82.3	–
Redemption	–	(5.0)
	122.8	40.5
Shares and loan stock in subsidiaries at 31 December	869.8	593.6

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

NOTES TO THE ACCOUNTS CONTINUED

31 December 2007

22. Derivative financial instruments

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

Group	2007			2006		
	Contract/ notional amount £m	Fair value – asset £m	Fair value – liability £m	Contract/ notional amount £m	Fair value – asset £m	Fair value – liability £m
Interest rate swaps	150.0	–	(0.6)	85.0	0.4	–
Interest rate caps	110.6	0.6	–	110.6	0.9	–
Swap options	265.8	18.4	–	228.3	9.2	–
	526.4	19.0	(0.6)	423.9	10.5	–

Society	2007			2006		
	Contract/ notional amount £m	Fair value – asset £m	Fair value – liability £m	Contract/ notional amount £m	Fair value – asset £m	Fair value – liability £m
Swap options	50.0	12.4	–	–	–	–
	50.0	12.4	–	–	–	–

23. Other financial investments

Group	2007				2006			
	Assets held to cover life and pension linked investment contract liabilities £m	Other invest- ments £m	Assets held to cover life and pension linked insurance contract liabilities £m	Total financial invest- ments £m	Assets held to cover life and pension linked investment contract liabilities £m	Other invest- ments £m	Assets held to cover life and pension linked insurance contract liabilities £m	Total financial invest- ments £m
Fair value through profit or loss								
Shares, other variable yield securities and units in unit trusts								
– UK listed	179.3	1,885.7	85.9	2,150.9	151.4	2,394.6	96.4	2,642.4
– UK unlisted	–	41.6	–	41.6	–	29.5	–	29.5
– Overseas listed	–	665.6	–	665.6	–	842.1	–	842.1
– Overseas unlisted	–	85.7	–	85.7	–	70.2	–	70.2
Debt and other fixed income securities								
– UK listed	25.7	2,170.5	51.4	2,247.6	14.3	2,152.3	78.9	2,245.5
– Overseas listed	5.4	34.5	13.7	53.6	10.8	34.8	7.0	52.6
Other	0.6	23.8	0.4	24.8	0.4	24.5	0.3	25.2
	211.0	4,907.4	151.4	5,269.8	176.9	5,548.0	182.6	5,907.5
Loans and receivables								
Deposits with credit institutions	–	222.8	–	222.8	–	347.9	–	347.9
Loans secured by mortgages	–	0.5	–	0.5	–	0.7	–	0.7
Loans secured by policies	–	1.8	–	1.8	–	1.9	–	1.9
Other loans	–	435.8	–	435.8	–	514.7	–	514.7
Other receivables	–	39.1	–	39.1	–	45.1	–	45.1
	–	700.0	–	700.0	–	910.3	–	910.3
	211.0	5,607.4	151.4	5,969.8	176.9	6,458.3	182.6	6,817.8

NOTES TO THE ACCOUNTS CONTINUED

31 December 2007

23. Other financial investments (continued)

Society	2007				2006			
	Assets held to cover life and pension linked investment contract liabilities £m	Other investments £m	Assets held to cover life and pension linked insurance contract liabilities £m	Total financial investments £m	Assets held to cover life and pension linked investment contract liabilities £m	Other investments £m	Assets held to cover life and pension linked insurance contract liabilities £m	Total financial investments £m
Fair value through profit or loss								
Shares, other variable yield securities and units in unit trusts								
– UK listed	38.5	1,213.7	– 1,252.2	–	– 1,735.8	–	– 1,735.8	–
– UK unlisted	–	41.6	– 41.6	–	– 29.5	–	– 29.5	–
– Overseas listed	–	638.6	– 638.6	–	– 798.0	–	– 798.0	–
– Overseas unlisted	–	85.6	– 85.6	–	– 70.2	–	– 70.2	–
Debt and other fixed income securities								
– UK listed	5.2	754.5	– 759.7	–	– 774.7	–	– 774.7	–
– Overseas listed	–	25.9	– 25.9	–	– 26.2	–	– 26.2	–
Other	–	20.7	– 20.7	–	– 12.7	–	– 12.7	–
	43.7	2,780.6	– 2,824.3	–	– 3,447.1	–	– 3,447.1	–
Loans and receivables								
Deposits with credit institutions	–	–	–	–	–	–	–	–
Loans secured by policies	–	0.6	– 0.6	–	– 0.6	–	– 0.6	–
Other loans	–	1.3	– 1.3	–	– 1.6	–	– 1.6	–
Amounts due from other group companies	–	56.5	– 56.5	–	– 55.8	–	– 55.8	–
Other receivables	–	13.9	– 13.9	–	– 26.0	–	– 26.0	–
	–	72.3	– 72.3	–	– 84.0	–	– 84.0	–
	43.7	2,852.9	– 2,896.6	–	– 3,531.1	–	– 3,531.1	–

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

Included within other loans are loans subject to securitisation to banking customers. These amount to £274m (2006: £307m). A subsidiary, Liverpool Victoria Banking Services Limited (LVBS), securitised these unsecured personal loan receivables to a special purpose securitisation company, Gresham Receivables (No.2) UK Limited (Gresham), in return for non-returnable finance of £251m (2006: £295m). The £23m (2006: £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.

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

Group	2007 £m	2006 £m
Interest receivable and similar income	18.0	22.5
Interest payable	(14.4)	(17.6)
Impairment losses on loans and advances	(13.1)	(15.0)

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

NOTES TO THE ACCOUNTS CONTINUED

31 December 2007

24. Reinsurance assets

	Notes	Group		Society	
		2007 £m	2006 £m	2007 £m	2006 £m
Reinsurers' share of provision for unearned premiums	30a	5.2	5.1	–	–
Reinsurers' share of life and pensions insurance contract liabilities	30a	65.3	63.9	244.7	291.2
Reinsurers' share of linked life and pensions insurance contract liabilities	30a	2.5	1.0	–	–
Reinsurers' share of claims outstanding	30a	14.6	3.1	–	–
		87.6	73.1	244.7	291.2

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

25. Tax receivable

	Group		Society	
	2007 £m	2006 £m	2007 £m	2006 £m
Corporation tax	–	3.2	–	3.8
Deferred taxation	–	–	–	–
	–	3.2	–	3.8

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

26. Insurance receivables

	Group		Society	
	2007 £m	2006 £m	2007 £m	2006 £m
Due from policyholders	76.1	86.1	0.5	2.2
Due from agents, brokers and intermediaries	1.2	0.2	–	–
Due from reinsurers	16.2	10.4	–	–
	93.5	96.7	0.5	2.2

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

27. Deferred acquisition costs

Group	Life and pensions insurance contracts £m	Life and pensions linked investment contracts £m	General insurance contracts £m	Total £m
Cost:				
At 1 January 2007	108.2	–	10.6	118.8
Expenses deferred	31.8	1.9	27.0	60.7
Amortisation	(24.7)	(0.1)	(23.2)	(48.0)
At 31 December 2007	115.3	1.8	14.4	131.5
Cost:				
At 1 January 2006	100.9	–	14.0	114.9
Expenses deferred	30.4	–	20.8	51.2
Amortisation	(23.1)	–	(24.2)	(47.3)
At 31 December 2006	108.2	–	10.6	118.8

NOTES TO THE ACCOUNTS CONTINUED

31 December 2007

27. Deferred acquisition costs (continued)

Society	Life and pensions linked investment contracts £m	Total £m
Cost:		
At 1 January 2007	–	–
Expenses deferred	1.9	1.9
Amortisation	(0.1)	(0.1)
At 31 December 2007	1.8	1.8
Cost:		
At 1 January 2006	–	–
Expenses deferred	–	–
Amortisation	–	–
At 31 December 2006	–	–

28. Prepayments and accrued income

	Group		Society	
	2007 £m	2006 £m	2007 £m	2006 £m
Accrued dividends	5.5	6.6	4.3	7.1
Accrued interest	40.9	37.7	9.6	9.7
Other prepayments and accrued income	19.3	16.3	12.2	10.4
	65.7	60.6	26.1	27.2

29. Cash and cash equivalents

	Group		Society	
	2007 £m	2006 £m	2007 £m	2006 £m
Bank balances	132.4	91.4	14.7	9.6
Short term bank deposits	611.8	230.9	312.7	81.2
Short term bank deposits – linked contracts	45.1	2.8	39.5	–
Cash and cash equivalents per balance sheet	789.3	325.1	366.9	90.8
Bank overdrafts (Note 40)	(22.9)	(30.5)	(6.2)	(14.5)
Cash and cash equivalents per cash flow statement	766.4	294.6	360.7	76.3

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

30. Insurance contract liabilities

a) Analysis of insurance contract liabilities

	Notes	2007			2006		
		Gross £m	Reinsurance £m	Net £m	Gross £m	Reinsurance £m	Net £m
Life and pension insurance contract liabilities	30b	4,801.7	(65.3)	4,736.4	5,186.0	(63.9)	5,122.1
Life and pension linked insurance contract liabilities	30c	156.1	(2.5)	153.6	184.7	(1.0)	183.7
Life and pension claims liabilities	30d	50.5	–	50.5	53.2	–	53.2
		5,008.3	(67.8)	4,940.5	5,423.9	(64.9)	5,359.0
General insurance claims liabilities	30e	437.1	(14.6)	422.5	405.0	(3.1)	401.9
General insurance unearned premiums	30f	183.2	(5.2)	178.0	179.5	(5.1)	174.4
		620.3	(19.8)	600.5	584.5	(8.2)	576.3
		5,628.6	(87.6)	5,541.0	6,008.4	(73.1)	5,935.3
		2007			2006		
Society	Notes	Gross £m	Reinsurance £m	Net £m	Gross £m	Reinsurance £m	Net £m
Life and pension insurance contract liabilities	30b	3,287.1	(244.7)	3,042.4	3,570.1	(291.2)	3,278.9
Life and pension claims liabilities	30d	24.8	–	24.8	30.2	–	30.2
		3,311.9	(244.7)	3,067.2	3,600.3	(291.2)	3,309.1

NOTES TO THE ACCOUNTS CONTINUED

31 December 2007

30. Insurance contract liabilities (continued)

b) Movement in life and pension insurance contract liabilities

Group	2007			2006		
	Gross £m	Reinsurance £m	Net £m	Gross £m	Reinsurance £m	Net £m
Balance at 1 January	5,186.0	(63.9)	5,122.1	5,419.5	(132.6)	5,286.9
Premiums received	199.8	(25.5)	174.3	252.2	(19.2)	233.0
Liabilities paid for death maturities, surrenders, benefits & claims	(662.4)	24.1	(638.3)	(527.9)	21.5	(506.4)
New business	68.2	(3.0)	65.2	54.4	(10.9)	43.5
Benefits and claims variation	(203.8)	7.3	(196.5)	(122.6)	11.5	(111.1)
Fees deducted	(33.6)	-	(33.6)	(75.6)	-	(75.6)
Accretion of investment income or change in unit prices	268.9	-	268.9	342.7	-	342.7
Adjustment due to changes in assumptions:						
Mortality/morbidity	2.0	2.0	4.0	(15.9)	5.4	(10.5)
Longevity	-	-	-	-	-	-
Investment return	(11.3)	-	(11.3)	-	-	-
Expense	(3.6)	-	(3.6)	19.3	(8.8)	10.5
Lapse and surrender rates	(19.1)	6.2	(12.9)	(128.1)	51.4	(76.7)
Discount rate	3.4	(1.1)	2.3	(32.9)	6.4	(26.5)
Model changes	13.9	(9.9)	4.0	28.3	18.5	46.8
Other	(6.7)	(1.5)	(8.2)	(27.4)	(7.1)	(34.5)
Balance at 31 December	4,801.7	(65.3)	4,736.4	5,186.0	(63.9)	5,122.1

Society	2007			2006		
	Gross £m	Reinsurance £m	Net £m	Gross £m	Reinsurance £m	Net £m
Balance at 1 January	3,570.1	(291.2)	3,278.9	3,586.2	(284.7)	3,301.5
Premiums received	67.3	-	67.3	74.6	-	74.6
Liabilities paid for death maturities, surrenders, benefits & claims	(402.0)	25.9	(376.1)	(299.0)	21.5	(277.5)
New business	56.1	-	56.1	26.6	-	26.6
Benefits and claims variation	(219.9)	38.8	(181.1)	(86.1)	11.1	(75.0)
Fees deducted	(18.7)	-	(18.7)	(21.0)	-	(21.0)
Accretion of investment income or change in unit prices	195.9	(18.2)	177.7	234.2	(39.1)	195.1
Adjustment due to changes in assumptions:						
Mortality/morbidity	6.0	-	6.0	-	-	-
Longevity	-	-	-	-	-	-
Investment return	(11.3)	-	(11.3)	-	-	-
Expense	(5.4)	-	(5.4)	(7.1)	-	(7.1)
Lapse and surrender rates	28.1	-	28.1	24.4	-	24.4
Discount rate	(5.4)	-	(5.4)	(5.0)	-	(5.0)
Model changes	14.4	-	14.4	44.0	-	44.0
Other	11.9	-	11.9	(1.7)	-	(1.7)
Balance at 31 December	3,287.1	(244.7)	3,042.4	3,570.1	(291.2)	3,278.9

NOTES TO THE ACCOUNTS CONTINUED

31 December 2007

30. Insurance contract liabilities (continued)

c) Movement in life and pension linked insurance contract liabilities

Group	2007			2006		
	Gross £m	Reinsurance £m	Net £m	Gross £m	Reinsurance £m	Net £m
Balance at 1 January	184.7	(1.0)	183.7	191.5	(5.4)	186.1
Premiums received	30.0	(6.9)	23.1	18.3	(1.1)	17.2
Liabilities paid for death maturities, surrenders, benefits & claims	(48.0)	6.7	(41.3)	(20.9)	1.2	(19.7)
New business	2.7	(0.8)	1.9	2.8	(0.6)	2.2
Benefits and claims variation	(8.0)	0.3	(7.7)	(6.5)	0.6	(5.9)
Fees deducted	(4.1)	-	(4.1)	(1.2)	-	(1.2)
Accretion of investment income or change in unit prices	13.7	-	13.7	14.9	-	14.9
Adjustment due to changes in assumptions:						
Mortality/morbidity	(0.9)	0.5	(0.4)	(0.8)	0.3	(0.5)
Longevity	-	-	-	-	-	-
Investment return	-	-	-	-	-	-
Expense	0.4	-	0.4	1.3	(0.5)	0.8
Lapse and surrender rates	(10.5)	1.7	(8.8)	(7.8)	3.0	(4.8)
Discount rate	1.0	(0.3)	0.7	(1.0)	0.4	(0.6)
Model changes	(0.2)	(2.7)	(2.9)	(0.8)	1.1	0.3
Other	(4.7)	-	(4.7)	(5.1)	-	(5.1)
Balance at 31 December	156.1	(2.5)	153.6	184.7	(1.0)	183.7

d) Movement in life and pension claims liabilities

Group	2007			2006		
	Gross £m	Reinsurance £m	Net £m	Gross £m	Reinsurance £m	Net £m
Balance at 1 January	53.2	-	53.2	20.3	-	20.3
Movement in linked funds claims liabilities	(0.1)	-	(0.1)	(0.3)	-	(0.3)
Claims incurred	881.1	(20.5)	860.6	682.8	(22.3)	660.5
Claims paid during the year	(883.7)	20.5	(863.2)	(649.6)	22.3	(627.3)
Balance at 31 December	50.5	-	50.5	53.2	-	53.2

Society	2007			2006		
	Gross £m	Reinsurance £m	Net £m	Gross £m	Reinsurance £m	Net £m
Balance at 1 January	30.2	-	30.2	11.1	-	11.1
Movement in linked funds claims liabilities	-	-	-	-	-	-
Claims incurred	608.4	(64.8)	543.6	415.7	(32.6)	383.1
Claims paid during the year	(613.8)	64.8	(549.0)	(396.6)	32.6	(364.0)
Balance at 31 December	24.8	-	24.8	30.2	-	30.2

e) Movement in general insurance claims liabilities

Group	2007			2006		
	Gross £m	Reinsurance £m	Net £m	Gross £m	Reinsurance £m	Net £m
Balance at 1 January	405.0	(3.1)	401.9	364.0	(5.6)	358.4
Movement in claims incurred in prior accident years	(67.7)	(8.5)	(76.2)	(59.1)	2.2	(56.9)
Claims incurred in the current accident year	391.8	(4.4)	387.4	380.2	-	380.2
Claims paid during the year	(292.0)	1.4	(290.6)	(280.1)	0.3	(279.8)
Balance at 31 December	437.1	(14.6)	422.5	405.0	(3.1)	401.9

f) Movement in general insurance unearned premiums

Group	2007			2006		
	Gross £m	Reinsurance £m	Net £m	Gross £m	Reinsurance £m	Net £m
Balance at 1 January	179.5	(5.1)	174.4	197.9	(4.6)	193.3
Premiums written in the year	346.6	(11.0)	335.6	350.8	(8.7)	342.1
Premiums earned during the year	(342.9)	10.9	(332.0)	(369.2)	8.2	(361.0)
Balance at 31 December	183.2	(5.2)	178.0	179.5	(5.1)	174.4

NOTES TO THE ACCOUNTS CONTINUED

31 December 2007

31. Investment contract liabilities

Group	2007			2006		
	Gross £m	Reinsurance £m	Net £m	Gross £m	Reinsurance £m	Net £m
Balance at 1 January	178.6	–	178.6	184.1	–	184.1
Deposits received from policyholders	98.1	–	98.1	–	–	–
Payments made to policyholders and fees deducted	(37.2)	–	(37.2)	(21.9)	–	(21.9)
Investments fair value adjustment	1.0	–	1.0	–	–	–
Change in technical provision as shown in the income statement	13.4	–	13.4	16.4	–	16.4
Balance at 31 December	253.9	–	253.9	178.6	–	178.6

Society	2007			2006		
	Gross £m	Reinsurance £m	Net £m	Gross £m	Reinsurance £m	Net £m
Balance at 1 January	–	–	–	–	–	–
Deposits received from policyholders	98.1	–	98.1	–	–	–
Payments made to policyholders and fees deducted	(15.9)	–	(15.9)	–	–	–
Investments fair value adjustment	1.0	–	1.0	–	–	–
Balance at 31 December	83.2	–	83.2	–	–	–

32. Unallocated divisible surplus

	Group		Society	
	2007 £m	2006 £m	2007 £m	2006 £m
Balance at 1 January	1,269.6	1,174.3	1,409.4	1,326.1
Change in the year	49.7	95.3	38.3	83.3
Balance at 31 December	1,319.3	1,269.6	1,447.7	1,409.4

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

33. Life and pensions insurance and investment contract liabilities valuation assumptions

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

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

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

When valuing options and guarantees the asset model used was the Barrie and Hibbert Market-Consistent Asset Model. This is a deflator model based on published financial economic theory that is capable of market-consistent valuations for multiple asset classes in multiple currencies. For this valuation it was calibrated to market data as at 31 December 2007 representative of the nature and term of the guarantees inherent in with-profits business within the with-profits funds.

a) Society

i) Participating business

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

Interest Rates

The risk free interest rates assumed are:

Year	2007	2006
5	4.62%	5.12%
15	4.64%	4.63%
25	4.47%	4.29%
35	4.30%	4.04%

NOTES TO THE ACCOUNTS CONTINUED

31 December 2007

33. Life and pensions insurance and investment contract liabilities valuation assumptions (continued)

Other assumptions

Best estimate assumptions are set for inflation, mortality, expenses and persistency. The future expense inflation assumption is modelled as RPI plus 1.0% (2006: RPI plus 1.0%), where RPI is modelled as the nominal yields on cash less 0.8% (2006: cash less 0.8%).

Asset mix for assets backing asset shares at the valuation date:	2007	2006
Cash	6.0%	6.0%
Fixed interest	19.0%	19.0%
Equities	60.0%	60.0%
Property	15.0%	15.0%

Mortality rate tables	2007	2006
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
Unitised accumulating life business	80% AM/F80	80% AM/F80
Unitised accumulating pensions business	80% AM80	80% AM80
Unitised accumulating bond business	80% AM80	80% AM80
Unitised accumulating life ISA business	80% AM/F80	80% AM/F80
Annuities in payment	95% RM/FV92mc (YoB)	90% RM/FV92mc (YoB)

Per policy expenses – regular premiums	2007	2006
Conventional life business	£15.80	£15.20
Conventional pensions business	£34.10	£20.20
Conventional industrial branch business	£12.50	£15.40
Non unitised accumulating pensions business	£9.80	£10.20
Unitised accumulating life business	£38.30	£32.40
Unitised accumulating pensions business	£49.40	£41.80
Unitised accumulating bond business	£24.40	£22.60
Unitised accumulating life ISA business	£38.80	£32.40
Annuities in payment	£23.20	£23.60

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

Persistency – lapses, surrenders and paid up rates

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

Options and guarantees

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

Bonuses

The cost of bonuses incurred during the year ended 31 December 2007 was £92.5m (2006: £83.7m) of which £10.1m (2006: £10.0m) was included in the life and pensions insurance contract liabilities and £82.4m (2006: £73.7m) was included in gross benefits and claims paid in the income statement.

ii) Non participating business

Interest rate	2007	2006
Non-profit temporary assurances	3.30%	5.30%
Immediate annuities	4.50%	n/a

Mortality rate tables	2007	2006
Non-profit temporary assurances	A67/70	A67/70
Immediate annuities	80% PM(F)A00	n/a

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.

NOTES TO THE ACCOUNTS CONTINUED

31 December 2007

33. Life and pensions insurance and investment contract liabilities valuation assumptions (continued)

iii) Linked fund

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

Interest rate	2007	2006
Unit linked pensions	3.75%	n/a

Mortality rate tables	2007	2006
Unit linked pensions	80% AM(F)92C20mc	n/a

b) Liverpool Victoria Life Company Limited – Ordinary Long term Fund

i) Participating business

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

Interest Rates

The risk free interest rates assumed are:

Year	2007	2006
5	4.62%	5.12%
15	4.64%	4.63%
25	4.47%	4.29%
35	4.30%	4.04%

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% (2006: RPI plus 1.0%), where RPI is modelled as the nominal yields on cash less 0.8% (2006: cash less 0.8%).

Asset mix for assets backing asset shares at the valuation date:	2007	2006
Equities	100.0%	100.0%

Mortality rate tables	2007	2006
Conventional life business	75% AM80	75% AM80
Reassurance accepted unitised life business	80% AM80	80% AM80

Per policy expenses – regular premiums	2007	2006
Conventional life business	£15.80	£15.20
Reassurance accepted unitised life business	£24.40	£22.60

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

Persistency – lapses, surrenders and paid up rates

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

Options and Guarantees

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

Bonuses

The cost of bonuses incurred during the year ended 31 December 2007 was £nil (2006: £nil) which was included in gross benefits and claims paid in the income statement.

ii) Non participating business

Interest rate	2007	2006
Non-profit temporary assurances	3.04%	3.12%
Other assurances	3.04%	3.12%
Permanent health insurance:		
a) active lives	3.80%	3.90%
b) claims reserves	4.05%	4.15%
Annuities in payment	4.05%	4.15%

NOTES TO THE ACCOUNTS CONTINUED

31 December 2007

33. Life and pensions insurance and investment contract liabilities valuation assumptions (continued)

ii) Non participating business (continued)

Mortality rate tables	2007	2006
Non-profit temporary assurances	TM92/TF92	TM92/TF92
Other assurances	AM92/AF92	AM92/AF92
Permanent health insurance:		
a) active lives	CMIR12	CMIR12
b) claims reserves	CMIR12	CMIR12
Annuities in payment	90% RV92av mc/lc c2026	90% RV92av mc/lc c2026

In 2006 standard inception/termination methodology was used for PHI business. In 2007, the methodology changed to a multi state approach for active lives only. 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.

Changes in estimation

Changes arising from the adoption of the provisions of the Prudential Requirements for Insurers (Amendment) Instrument 2006, as detailed in the accounting policy note, combined with other changes to actuarial estimation methodology had the effect of decreasing the life and pensions insurance contract liabilities by £50.8m (2006: £101.1m) and reducing the charge in the income statement by £50.8m (2006: £101.1m).

iii) Linked fund

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

The provisions for index-linked permanent health insurance claims and index-linked temporary assurances have been calculated using the same mortality and morbidity assumptions as used for the corresponding non-linked liabilities for both 2007 and 2006. They are included within the life and pension unit linked insurance contract liabilities.

Interest rate	2007	2006
Non-profits temporary assurances	0.09%	0.32%
Permanent health insurance		
a) active lives	0.85%	1.10%
b) claims reserves	1.10%	1.35%

c) Liverpool Victoria Life Company Limited – RNPFN fund

i) Participating business

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

Interest Rates

The risk free interest rates assumed are:

Year	2007	2006
5	4.62%	5.12%
15	4.64%	4.63%
25	4.47%	4.29%
35	4.30%	4.04%

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% (2006: RPI plus 1.0%), where RPI is modelled as the nominal yields on cash less 0.8% (2006: cash less 0.8%).

Asset mix for assets backing asset shares at the valuation date:	2007	2006
Cash	4.2%	7.6%
Fixed interest	60.1%	62.2%
Equities	32.6%	24.3%
Property	3.2%	5.9%

NOTES TO THE ACCOUNTS CONTINUED

31 December 2007

33. Life and pensions insurance and investment contract liabilities valuation assumptions (continued)

i) Participating business (continued)

Mortality rate tables	2007	2006
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 (Male)	72% IML00 with improvements of 120% medium cohort over 2000 to 2004 and future improvements 120% medium cohort subject to a floor of 1.5%	95% RV92av mc/lc c2026
Annuities in payment (Female)	85% IML00 with improvements of greater of 90% of medium cohort and CMIR17 over 2000 to 2004 and future improvements of greater of 90% medium cohort and CMIR17 subject to a 1.5% floor	95% RV92av mc/lc c2026
Per policy expenses – regular premiums	2007	2006
Conventional life business	£13.89	£13.19
Pensions deferred annuities	£26.01	£24.70
Life deferred annuities	£13.37	£12.70
Unitised with-profits ISA	£13.58	£12.89
Unitised with-profits bond	£13.89	£13.19

Persistency – lapses, surrenders and paid up rates

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

Options and guarantees

The provisions held in respect of guaranteed annuity options are determined on a market consistent basis. The total amount provided in respect of the future costs of the options and guarantees was £71.2m (2006: £87.0m).

Bonuses

The cost of bonuses incurred during the year ended 31 December 2007 was £32.1m (2006: £21.1m) of which £1.8m (2006: £1.7m) was included in the life and pensions insurance contract liabilities and £30.3m (2006: £19.4m) was included in gross benefits and claims paid in the income statement.

ii) Non participating business

Interest rate	2007	2006
Non-profits assurances	3.36%	3.26%
Non-profits general deferred annuities	3.36%	3.26%
Annuities in payment (post 31/12/91)	3.36%	3.26%
Annuities in payment (other)	4.20%	4.08%
Pension deferred annuities	4.20%	4.08%
Mortality rate tables	2007	2006
Non-profits assurances	A49/52	A49/52
Non-profits general deferred annuities	80% AM/F92	No mortality
Annuities in payment (Male)	57.6% IML00 with improvements of 120% medium cohort over 2000 to 2004 and future improvements 120% medium cohort subject to a floor of 1.5%	90% RV92av mc/lc
Annuities in payment (Female)	68% IFL00 with improvements of greater of 90% of medium cohort and CMIR17 over 2000 to 2004 and future improvements of greater of 90% medium cohort and CMIR17 subject to a 1.5% floor	90% RV92av mc/lc
Pension deferred annuities	80% AM/F92	No mortality

NOTES TO THE ACCOUNTS CONTINUED

31 December 2007

33. Life and pensions insurance and investment contract liabilities valuation assumptions (continued)

ii) Non participating business (continued)

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

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

Options and guarantees

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

iii) Linked fund

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

Interest rate	2007	2006
Unit linked assurances	3.36%	3.26%

Mortality rate tables	2007	2006
Unit linked assurances	A67/70 ult	A67/70

34. Borrowings

Borrowings represent non-returnable finance for unsecured personal loan receivables securitised to Gresham Receivables (No.2) UK Limited (a special purpose securitisation company).

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

35. Financial liabilities

	Group		Society	
	2007 £m	2006 £m	2007 £m	2006 £m
Debenture loan notes (at libor)	9.5	9.5	9.5	9.5
Deposits by banks	2.1	0.5	–	–
Banking customer accounts	93.2	126.8	–	–
	104.8	136.8	9.5	9.5

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

36. Provisions

a) Carrying amounts

	Notes	Group		Society	
		2007 £m	2006 £m	2007 £m	2006 £m
Pension benefit obligation	37	–	2.9	–	2.9
Other provisions	36b	83.0	97.8	15.0	36.8
		83.0	100.7	15.0	39.7

b) Movement during the year on other provisions

	Group		Society	
	Other provisions £m	Total £m	Other provisions £m	Total £m
Balance at 1 January 2007	97.8	97.8	36.8	36.8
Charge/(credit) to the income statement	13.8	13.8	(5.3)	(5.3)
Utilised during the year	(28.6)	(28.6)	(16.5)	(16.5)
Balance at 31 December 2007	83.0	83.0	15.0	15.0

Other provisions primarily relate to ongoing losses on uneconomic contracts relating to banking, unused premises and outsourcing £63.1m (2006: £76.4m) for Group and £10.0m (2006: £21.8m) for Society. In addition, provision has been made for decommissioning IT systems and compensation payable on customer complaints £5.5m (2006: £21.4m) for Group and £5.0m (2006: £15.0m) for Society as well as £14.4m (2006: £nil) for Group to cover losses on banking products.

NOTES TO THE ACCOUNTS CONTINUED

31 December 2007

37. Pension benefit asset/(obligation)

a. Information about the scheme

- i. The Society is responsible for the Liverpool Victoria (1994) Staff Pension Scheme (LV Scheme) a defined benefit pension scheme, open to new entrants.
- ii. The last full actuarial assessment was performed as at 31 March 2006 and showed a surplus of £56.9m. The figures shown in this note, have been projected from that date with changed assumptions to reflect the requirements of the IAS19.

b. Disclosed expense

	2007 £m	2006 £m
Employer service cost	12.8	10.1
Interest cost	36.7	33.2
Expected return on assets	(46.8)	(48.8)
Past service cost	0.1	0.2
Recognition of actuarial net (gain)/loss	(22.1)	(4.8)
Net benefit expense before special events	(19.3)	(10.1)
Cost of curtailments	-	-
Cost of settlements	-	-
Cost of special termination benefits	-	-
Other adjustments	-	-
Change in the effect of the asset ceiling	-	-
Disclosed expense	(19.3)	(10.1)

Assumptions used to determine expense

Discount rate	5.80%	5.10%
Long-term rate of return on assets	6.10%	6.50%
Rate of compensation/salary increase	4.90%	4.60%
Pension increases for in-payment benefits		
– price inflation capped at 5% pa, floor of 3% pa	3.70%	3.50%
– price inflation capped at 5% pa	3.40%	3.10%
– price inflation capped at 2.5% pa	2.40%	n/a
Pension increases for deferred benefits	3.40%	3.10%
Price inflation	3.40%	3.10%

The expected return on assets has been derived as the weighted average of the expected returns from each of the main asset classes (ie equities and bonds). The expected return for each asset class reflects a combination of historical performance analysis, the forward looking views of the financial markets (as suggested by the yields available), and the views of investment organisations.

The expected return for 2007 reflects the change in investment strategy that occurred in October 2007.

c. Net balance sheet position

i). Development of net balance sheet position

	2007 £m	2006 £m
Defined benefit obligation (DBO)	(725.9)	(735.8)
Fair Value of Assets (FVA)	745.8	732.9
Funded status	19.9	(2.9)
Unrecognised past service cost	-	-
Unrecognised net actuarial (gain)/loss	-	-
Restriction to defined benefit asset due to asset ceiling	-	-
Defined benefit asset/(liability) at end of fiscal year	19.9	(2.9)

NOTES TO THE ACCOUNTS CONTINUED

31 December 2007

37. Pensions (continued)

c. Net balance sheet position (continued)

ii). Reconciliation to the balance sheet

	2007 £m	2006 £m
Defined benefit asset/(liability) at end of prior fiscal year	(2.9)	(15.5)
Net benefit income for fiscal year	19.3	10.1
Employer contributions	3.5	2.5
Benefits paid directly by the employer	–	–
Gain/(loss) on acquisitions during fiscal year	–	–
Defined benefit asset/(liability) at end of current fiscal year	19.9	(2.9)

iii). Assumptions and dates used at disclosure

	2007	2006
Discount rate	5.80%	5.10%
Rate of compensation/salary increase	4.90%	4.60%
Pension increases for in-payment benefits		
– price inflation capped at 5% pa, floor of 3% pa	3.70%	3.50%
– price inflation capped at 5% pa	3.40%	3.10%
– price inflation capped at 2.5% pa	2.40%	n/a
Pension increases for deferred benefits	3.40%	3.10%
Scheme member valuation date	31-Mar-06	31-Mar-06

Mortality for members is assumed to follow the tables below as at 31 December 2007.

Pre-retirement mortality: Deferred pensioners

– Males	PMA92, year of use 2007, with medium cohort improvements from 2007
– Females	PFA92, year of use 2007, with medium cohort improvements from 2007

Post-retirement mortality: Non-pensioners

– Males	PMA92, year of use 2007, with medium cohort improvements from 2007
– Females	PFA92, year of use 2007, with medium cohort improvements from 2007

Post-retirement mortality: Pensioners and dependants in payment

– Males	PMA92, year of use 2007, with medium cohort improvements from 2007
– Females	PFA92, year of use 2007, with medium cohort improvements from 2007

d. Additional disclosure information

	£m
Expected future benefit payments for fiscal year ending 31 December 2008	33.6
Expected contributions for fiscal year ending 31 December 2008	
– Employer	4.3
– Scheme members	2.2
Actual return on Scheme assets during fiscal year ending 31 December 2007	
– Expected return on assets	46.8
– Asset gain/(loss) during period	(7.2)
– Actual return on assets	39.6

	Target allocation	Allocation percentage 2007	Allocation percentage 2006
Equities	28%	28.50%	43.10%
Bonds	58%	59.50%	44.70%
Other	12%	12.00%	12.20%
Total	100%	100.00%	100.00%

Fair value of plan assets	745.8	732.9
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NOTES TO THE ACCOUNTS CONTINUED

31 December 2007

37. Pensions (continued)

d. Additional disclosure information (continued)

Information about the scheme

The Scheme is a defined benefit arrangement, open to new entrants.

e. Historical disclosure information	2007	2006	2005	2004	2003
Asset experience					
Asset (gain)/loss during period	7.2	(18.2)	(78.3)	(15.2)	(34.3)
Asset (gain)/loss expressed as percentage of plan assets	1.00%	(2.50)%	(11.30)%	(2.60)%	(6.60)%
Liability experience					
Liability (gain)/loss during period	3	(10.4)	(0.4)	6.9	(23.8)
Liability (gain)/loss expressed as percentage of DBO	0.40%	(1.40)%	(0.10)%	1.10%	(4.30)%
Liability assumptions					
Liability (gain)/loss over period	(32.3)	23.8	68.4	24.6	36
Liability (gain)/loss expressed as percentage of DBO	(4.40)%	3.20%	9.70%	3.90%	6.50%
Net balance sheet position					
Defined benefit obligation (DBO)	(725.9)	(735.8)	(706.4)	(623)	(549.9)
Fair value of assets (FVA)	745.8	732.9	690.9	594.2	523.5
Funded status	19.9	(2.9)	(15.5)	(28.8)	(26.4)

f. Changes in disclosed assets and liabilities

	2007 £m	2006 £m
Change in Defined Benefit Obligation (DBO)		
DBO at prior fiscal year end	735.8	706.4
Employer service cost	12.8	10.1
Interest cost	36.7	33.2
Scheme participants' contributions	1.9	1.4
Experience (gain)/loss	3.0	(10.4)
(Gain)/loss on change of assumptions	(32.3)	23.8
Benefits paid from plan assets/administrative expenses paid	(32.1)	(28.9)
Benefits paid directly by the employer	–	–
Past service costs	0.1	0.2
Scheme change	–	–
Acquisitions/divestitures	–	–
Curtailments	–	–
Settlements	–	–
Special termination benefits	–	–
Other adjustments	–	–
DBO at current fiscal year end	725.9	735.8
Change in Scheme assets		
Fair value of assets at prior fiscal year end	732.9	690.9
Expected return on assets	46.8	48.8
Actuarial gain/(loss)	(7.2)	18.2
Employer contributions	3.5	2.5
Scheme participants' contributions	1.9	1.4
Benefits paid/administrative expenses paid	(32.1)	(28.9)
Acquisitions/divestitures	–	–
Settlements	–	–
Other adjustments	–	–
Fair value of assets at current fiscal year end	745.8	732.9

NOTES TO THE ACCOUNTS CONTINUED

31 December 2007

37. Pensions (continued)

g. Reconciliation of past service cost and (gains)/losses	2007 £m
Reconciliation of past service cost	
Net amount at 31 December 2006	–
Arising in 2007	0.1
Amortisation in year	(0.1)
Effect of curtailments	–
Net amount at 31 December 2007	–
Amortisation in 2008	
Reconciliation of (gains)/losses	
Unrecognised amount at 31 December 2006	–
Amortisation in year	(22.1)
Experience gain/(loss)	22.1
Effect of curtailments	–
Net amount at 31 December 2007	–
Amortisation in 2008	

h. Reconciliation with prior year's disclosure	Defined benefit obligation £m	Fair value of assets £m	Unrecognised past service £m	Unrecognised (gain) /loss £m	Asset ceiling restriction £m	Defined benefit asset/(liability) £m
At 31 December 2006	(735.8)	732.9	–	–	–	(2.9)
Employer service cost	(12.8)	–	–	–	–	(12.8)
Interest cost	(36.7)	–	–	–	–	(36.7)
Expected asset return	–	46.8	–	–	–	46.8
Amortisation	–	–	–	22.1	–	22.1
Experience gain/(loss)	(3.0)	(7.2)	–	10.2	–	–
Employer contributions	–	3.5	–	–	–	3.5
Scheme participants' contributions	(1.9)	1.9	–	–	–	–
Benefits paid	32.1	(32.1)	–	–	–	–
Administrative expenses paid	–	–	–	–	–	–
Scheme changes	–	–	–	–	–	–
Assumption changes	32.3	–	–	(32.3)	–	–
Acquisitions/divestitures	–	–	–	–	–	–
Curtailments	–	–	–	–	–	–
Settlements	–	–	–	–	–	–
Special termination benefits	–	–	–	–	–	–
Other disbursements	–	–	–	–	–	–
Other adjustments	(0.1)	–	–	–	–	(0.1)
Para58A recognition	–	–	–	–	–	–
Change in asset ceiling restriction	–	–	–	–	–	–
At 31 December 2007	(725.9)	745.8	–	–	–	19.9

i. Development of assets for expense	£m
Reconciliation of assets	
Scheme assets at 31 December 2006	732.9
Investment return	39.6
Employer contributions	3.5
Scheme participants' contributions	1.9
Benefit paid/administrative expenses paid	(32.1)
Other	–
Scheme assets at 31 December 2007	745.8

Rate of Return on Invested Assets	
Weighted invested assets	739.4
Rate of return	5.40%

NOTES TO THE ACCOUNTS CONTINUED

31 December 2007

37. Pensions (continued)

j. Summary and comparison of expense

The tables below show the net benefit expense, assumptions, assets and cash flows for 2007 and those expected for 2008.

i). Net benefit expense	2008 £m	2007 £m
Employer service cost	12.2	12.8
Interest cost	41.1	36.7
Expected return on assets	(44.7)	(46.8)
Past service cost	–	0.1
Recognition of net (gain)/loss	–	(22.1)
Net benefit expense before special events	8.6	(19.3)
Cost of curtailments	–	–
Cost of settlements	–	–
Cost of special termination benefits	–	–
Other adjustments	–	–
Change in the effect of the asset ceiling	–	–
Net benefit expense	8.6	(19.3)

ii). Assumptions and dates	2008	2007
Discount rate	5.80%	5.80%
Long-term rate of return on assets	6.10%	6.10%
Rate of compensation/salary increase	4.90%	4.90%
Pension increases for in-payment benefits		
– price inflation capped at 5% pa, floor of 3% pa	3.70%	3.70%
– price inflation capped at 5% pa	3.40%	3.40%
– price inflation capped at 2.5% pa	2.40%	2.40%
Pension increases for deferred benefits	3.40%	3.40%
Scheme participant census date	31-Mar-06	31-Mar-06

iii). Assets at beginning of year	2008 £m	2007 £m
Fair market value	745.8	732.9

iv). Cash Flow	Expected	Actual
Employer contributions	4.3	3.5
Scheme participants' contributions	2.2	1.9
Benefits paid directly by the employer	–	–
Benefits paid from plan assets	(33.6)	(32.1)

NOTES TO THE ACCOUNTS CONTINUED

31 December 2007

38. Deferred tax

	Group £m	Society £m
Balance at 1 January 2007	94.0	87.1
Amounts recorded in the income statement	(29.5)	(31.6)
Acquisition	(0.4)	–
Balance at 31 December 2007	64.1	55.5

	Group		Society	
	2007 £m	2006 £m	2007 £m	2006 £m
(i) Analysis of deferred taxation temporary differences				
Excess of depreciation	(1.5)	(1.0)	(1.0)	(1.0)
Temporary differences on expenses	1.6	(3.2)	(2.3)	(7.2)
Temporary differences on unrealised gains	65.9	97.1	56.7	95.6
Temporary difference for change in actuarial basis	19.4	12.3	2.1	(0.3)
Tax losses	(21.3)	(11.2)	–	–
	64.1	94.0	55.5	87.1

(ii) Deferred taxation liability not provided

Chargeable gains deferred by roll-over relief	0.4	0.4	–	–
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(iii) Deferred taxation asset not recognised

Excess of capital allowances	2.4	2.1	–	–
Temporary differences on expenses	(0.9)	0.9	–	–
Tax losses	1.9	2.0	–	–
	3.4	5.0	–	–

39. Insurance payables

	Group		Society	
	2007 £m	2006 £m	2007 £m	2006 £m
Arising from direct insurance operations	17.6	10.7	12.4	5.4
Arising from reinsurance operations	5.6	6.0	–	–
	23.2	16.7	12.4	5.4

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

40. Trade and other payables

	Group		Society	
	2007 £m	2006 £m	2007 £m	2006 £m
Bank overdrafts	22.9	30.5	6.2	14.5
Trade creditors	2.8	0.1	1.9	–
Amounts owed to group undertakings	–	–	37.6	59.4
Corporation tax	24.4	–	25.7	–
Other taxes and social security costs	8.2	0.3	3.8	0.2
Other creditors	30.7	35.5	8.3	6.0
Deferred rental income	5.9	6.3	5.6	5.6
Finance lease liabilities	6.0	6.3	–	–
Accruals and deferred income	85.0	51.5	54.5	21.6
	185.9	130.5	143.6	107.3

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

NOTES TO THE ACCOUNTS CONTINUED

31 December 2007

41. Cash generated from operating activities

	Group		Society	
	2007 £m	2006 £m	2007 £m	2006 £m
Profit before tax	56.4	113.7	43.3	102.4
Investment income	(325.6)	(363.4)	(158.9)	(182.6)
Realised gains recorded in the income statement	(416.2)	(389.1)	(373.9)	(314.2)
Fair value (gains)/losses recorded in the income statement	283.2	107.6	296.7	64.9
Finance costs	12.1	18.1	0.9	1.1
Purchase of investments at fair value through profit and loss	(3,415.8)	(4,448.7)	(2,444.3)	(2,703.5)
Sales of investments at fair value through profit and loss	4,179.4	4,469.8	3,183.7	2,668.8
(Purchases)/sales of financial derivatives	(7.9)	1.1	(12.4)	–
Non-cash items				
Expenses deferred during the year	(12.7)	(3.9)	(1.8)	–
Amortisation of intangible assets	7.8	7.5	4.6	4.6
Depreciation on property and equipment	1.2	1.3	0.2	0.4
Loss on disposal of property and equipment	0.2	0.3	0.2	0.3
Impairment losses on intangible assets	0.3	0.4	–	–
Impairment write offs in subsidiaries	–	–	–	0.6
Disposal of subsidiaries	–	–	29.5	–
Changes in working capital				
Decrease/(increase) in loans and receivables	210.3	40.6	11.7	50.0
Decrease/(increase) in reinsurance assets	(14.5)	75.1	46.5	(6.5)
Decrease in insurance receivables	3.2	22.8	1.7	6.8
Increase in other prepayments and accrued income	(3.0)	–	(1.8)	(3.1)
(Decrease)/increase in insurance contract liabilities	(379.8)	(184.8)	(288.4)	3.0
(Decrease)/increase in investment contract liabilities	75.3	(5.5)	83.2	–
(Decrease)/increase in provisions and pension obligation	(37.6)	71.8	(44.6)	18.7
Decrease in borrowings	(35.9)	(49.8)	–	–
Decrease in other financial liabilities	(32.0)	(45.7)	–	(0.2)
(Decrease)/increase in insurance payables	6.5	(19.0)	7.0	(1.1)
(Decrease)/increase in trade and other payables	63.4	(42.3)	44.6	(70.7)
Cash generated from operating activities	218.3	(622.1)	427.7	(360.3)

The Group classifies the cash flows for the acquisition and disposal of financial assets as operating cash flows, as the purchases are funded from the cash flows associated with the origination of insurance and investment contracts, net of the cash flows for payments of benefits and claims incurred for insurance and investment contracts, which are respectively treated under operating activities.

NOTES TO THE ACCOUNTS CONTINUED

31 December 2007

42. Business combinations

a. Britannia Road Rescue

On 17 May 2007, LV Insurance Services Limited a subsidiary of the Society, acquired the trade of Britannia Road Rescue. The acquired business contributed income of £1.0m and net loss of £0.4m to the Group for the period from acquisition until 31 December 2007. Details of net assets acquired and goodwill are as follows:

	£m
Purchase consideration:	
– cash paid	18.0
– direct costs relating to the acquisition	1.4
Total purchase consideration	19.4
Fair value of net assets acquired	3.6
Goodwill	15.8

The goodwill is attributable to the profitability of the acquired business and the synergies expected to arise after integration into the Group.

The assets and liabilities arising from the acquisition are as follows:

	Fair value £m	Acquiree's carrying amount £m
Intangible assets – other intangibles (customer base)	3.6	–
Net assets acquired	3.6	–
Purchase consideration settled in cash		18.0
Cash and cash equivalents in business acquired		–
Cash outflow on acquisition		18.0

b. Tomorrow Group

On 31 December 2007, the Society, acquired the companies of Tomorrow. The acquired business contributed income of £1.3m and net loss of £2.2m to the Group for the novated business written during 1 July to 31 December 2007. Details of net assets acquired and goodwill are as follows:

	£m
Purchase consideration:	
– cash paid	66.7
– deferred consideration	13.0
– direct costs relating to the acquisition	8.7
Total purchase consideration	88.4
Fair value of net assets acquired	30.8
Goodwill	57.6

The goodwill is attributable to the profitability of the acquired business and the synergies expected to arise after integration into the Group.

The deferred consideration is dependent upon business performance over the period until 2010 and may be more or less than the amount stated.

NOTES TO THE ACCOUNTS CONTINUED

31 December 2007

42. Business combinations (continued)

b. Tomorrow Group (continued)

The assets and liabilities arising from the acquisition are as follows:

	Fair value £m	Acquiree's carrying amount £m
Intangible assets – other intangibles (access to distribution channel)	20.1	–
Financial assets – loans and other receivables	1.4	1.4
Tax receivable	2.2	2.2
Prepayments and accrued income	1.1	1.1
Cash and cash equivalents	8.7	8.7
Trade and other payables	(2.7)	(2.7)
Net assets acquired	30.8	10.7
Purchase consideration settled in cash		(66.7)
Cash and cash equivalents in subsidiary acquired		8.7
Cash outflow on acquisition		(58.0)

43. Commitments

a) Capital commitments

	Group		Society	
	2007 £m	2006 £m	2007 £m	2006 £m
Authorised and contracted commitments payable after 31 December not provided for in respect of:				
– Property investments	12.6	24.4	12.6	24.4
– Other financial investments	59.1	49.6	59.1	49.6
	71.7	74.0	71.7	74.0

b) Operating lease commitments

The Group leases various properties under non-cancellable operating lease agreements. The leases have varying terms, escalation clauses and renewal rights. The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	Group		Society	
	2007 £m	2006 £m	2007 £m	2006 £m
Within one year	4.5	1.7	2.6	0.4
Between two and five years	15.7	5.6	9.4	0.4
Over five years	11.1	2.5	9.6	0.2
	31.3	9.8	21.6	1.0

NOTES TO THE ACCOUNTS CONTINUED

31 December 2007

43. Commitments (continued)

b) Operating lease commitments (continued)

The Group has entered into commercial leases for some of its properties that are unoccupied. These leases have varying terms and escalation clauses. Where these subleases are insufficient to cover the Groups operating lease agreements an onerous contract provision for unused premises is set up. The future aggregate minimum sublease payments expected to be received under operating subleases:

	Group		Society	
	2007 £m	2006 £m	2007 £m	2006 £m
Within one year	0.4	0.5	0.1	0.1
Between two and five years	2.6	1.8	0.9	0.2
Over five years	1.0	1.2	0.3	0.2
	4.0	3.5	1.3	0.5

c) Finance lease commitments

It is the Group's policy to lease certain of its properties under finance leases. The average lease term is 99 years. Interest rates are fixed at the contract rate. All leases are on a fixed repayment basis and no arrangements have been entered into for contingent payments. The Group's obligations under finance leases are secured by the lessors' charges over the leased assets.

d) 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 £26m (2006: £75m), of which £26m (2006: £30m) relates to the Society.

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

44. Contingent liabilities

The Society has granted a contingent loan to the RNPFN fund, a closed fund within the Group, up to a maximum of £100.0m, to be used in the event of a shortfall in the capital resources of that fund. No drawdown of this facility is anticipated.

45. Related party transactions

The Group and Society enters into transactions with key management personnel in the normal course of business. All transactions are carried out on an arm's length basis. Details of significant transactions carried out during the year with related parties are as follows:

- The Group has related party transactions 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	
	2007 £m	2006 £m	2007 £m	2006 £m	2007 £m	2006 £m
Liverpool Victoria Friendly Society Limited	–	–	1.2	0.7	1.2	0.7
Liverpool Victoria Asset Management Limited	0.7	0.5	–	–	0.7	0.5

As at 31 December 2007 Liverpool Victoria (1994) Staff Pension Scheme owed Liverpool Victoria Friendly Society Limited £0.3m (2006: £0.2m) in respect of administration services and owed Liverpool Victoria Asset Management £nil (2006: £0.1m) in respect of fund management services.

- The aggregate premiums payable for the year by the Group Executive and Non-Executive Directors in respect of the Group's products was £33,057 (2006: £42,872).
- The aggregate value of transactions under normal commercial terms with the Group Executive and Non-Executive Directors in respect of the Group's products for personal loans and credit cards were £21,726 (2006: £70,678). The amounts unpaid at the year end amounted to £nil (2006: £23,089).
- Liverpool Victoria Banking Services Limited, a group company, has an undrawn committed standby facilities of £225m with Liverpool Victoria Insurance Company Limited and £160m with the Society.
- The Society has granted a contingent loan to the RNPFN fund, a closed fund within the Group, which is disclosed in contingent liabilities.

NOTES TO THE ACCOUNTS CONTINUED

31 December 2007

45. Related party transactions (continued)

f. On 1 September 2006, the Society acquired ABC Insurance Solutions Ltd. and its subsidiaries. As consideration, the Society issued debenture loan notes to the five individuals who owned the company. The debenture loan notes attract interest at LIBOR and are redeemable not later than 30 September 2008. Following the acquisition Mr J. O'Roarke, an owner of the company, was appointed to the Group Executive Committee. At 31 December 2007 the Society had debenture loan notes owing to J. O'Roarke of £2.1m (2006: £2.1m). Interest paid in the year amounted to £0.1m (2006: £nil).

The Society has entered into a contract with the shareholders of ABC Insurance Solutions Limited to acquire the remaining minority interest on 31 December 2012 at market value. In the absence of the minimum threshold being achieved this will be limited to the paid up value of the shares.

g. Key management personnel of the Group includes all directors, executive and non-executive, and senior management (the Board and the Executive Committee). The summary of the compensation of key management personnel for the year is as follows:

	Group	
	2007 £'000	2006 £'000
Salaries	2,265	2,350
Bonuses	1,789	430
Other short term employment benefits	515	256
Compensation for loss of office	250	503
Post employment pension benefits	–	9
Total compensation of key management personnel	4,819	3,548

The Society makes contributions to the Liverpool Victoria (1994) Staff Pension Scheme of 20.6% of pensionable salaries less £6.1m (2006: 7.2% of pensionable salaries) in respect of all permanent staff, including executive directors.

h. The following transactions have taken place between the Society and other Group companies:

	2007 £m	2006 £m
Management charge by the Society	80.1	91.0
Investment management charge to the Society	(16.0)	(3.8)
Reinsurance ceded by the Society – claims recoveries	68.4	32.6
Intra group loans – net interest received by the Society	2.0	2.3
	134.5	122.1

Balances outstanding between the Society and other Group companies:

	2007 £m	2006 £m
Payable by the Society	(37.6)	(50.8)
Receivable by the Society	56.5	55.8
Reinsurance ceded by the Society	244.1	290.7
Loans owed by the Society	–	(8.6)
Loans owed to the Society	122.8	40.5
	385.8	327.6

46. With-profits Actuary

The following information has been provided in accordance with section 77 of the Friendly Societies Act 1992.

- The With-profits Actuary of the Society during the year was I.P Blanchard, the Group Actuary of Liverpool Victoria Friendly Society Limited.
- Mr Blanchard, his son and his daughter are members of the Society.
- The total emoluments of Mr Blanchard during the year were £135,793 (2006: £113,789) including car allowance and medical benefits.
- Mr Blanchard did not receive, nor will receive, any other pecuniary benefit.

47. Valuation

The latest published report on the valuation of Assets and Liabilities of the Society (the Annual FSA Insurance Return) was made at 31 December 2006 and is available on request from the Group Company Secretary, County Gates, Bournemouth, BH1 2NF.

NOTES TO THE ACCOUNTS CONTINUED

31 December 2007

48. Subsidiary undertakings

The principal subsidiary undertakings of the Society and Group at 31 December 2007 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
LV Insurance Services Limited (formerly Affinity B2C Limited) *	General Insurance Broker	100
LV Insurance Management Limited *	Management Services	100
LV Life Services Limited (formerly NM Life Services Limited)	Management Services	100
LV Equity Release Limited (formerly NM Life Equity Release Limited)	Equity Release Lifetime Mortgages	100
N M Pension Trustees Limited	Self Invested Personal Pension (SIPP) Administrator	100

* Owned by a subsidiary undertaking of the Society

49. IFRS 1 first time adoption of International Financial Reporting Standards

a) Reconciliation of Income Statement for the year ended 31 December 2006

Group	Notes	Revenue £m	Expenses £m	Income tax expense £m	Profit after tax and minority interests £m
As reported under UK GAAP		1,412.9	(1,306.4)	(16.2)	90.3
Lease reclassification	i	-	(0.3)	0.1	(0.2)
Capitalisation of major computer systems	ii	-	4.3	(1.2)	3.1
Claims equalisation provision	iii	-	3.2	(1.0)	2.2
Accounting for pension obligations	iv	(15.7)	15.7	(0.1)	(0.1)
Consolidation of additional entities	v	13.0	(13.0)	-	-
Other adjustments	vi	(123.1)	123.1	-	-
As reported under IFRS		1,287.1	(1,173.4)	(18.4)	95.3

Society	Notes	Revenue £m	Expenses £m	Income tax expense £m	Profit after tax and minority interests £m
As reported under UK GAAP		615.0	(512.6)	(19.0)	83.4
Lease reclassification	i	-	-	-	-
Capitalisation of major computer systems	ii	-	-	-	-
Claims equalisation provision	iii	-	-	-	-
Accounting for pension obligations	iv	(15.7)	15.7	(0.1)	(0.1)
Consolidation of additional entities	v	-	-	-	-
Other adjustments	vi	(64.9)	64.9	-	-
As reported under IFRS		534.4	(432.0)	(19.1)	83.3

NOTES TO THE ACCOUNTS CONTINUED

31 December 2007

49. IFRS 1 first time adoption of International Financial Reporting Standards (continued)

b) Reconciliation of the Balance Sheet as at 31 December 2006

Group	As reported UK GAAP £m	Lease reclass- ification £m	Capitalisation of major computer systems £m	Claims equalisation provision £m	Accounting for pension obligations £m	Consolidation of additional entities £m	Other adjustments £m	IFRS restated £m
Assets								
Intangible assets	72.3	-	-	-	-	-	-	72.3
Property and equipment	7.0	8.1	4.3	-	-	-	-	19.4
Investment properties	754.8	-	-	-	-	-	-	754.8
Investments in group undertakings and participating interests	-	-	-	-	-	-	-	-
Financial assets								
- Derivative financial instruments	10.5	-	-	-	-	-	-	10.5
- Fair value through profit or loss	5,772.4	-	-	-	-	135.1	-	5,907.5
- Loans and other receivables	1,144.0	-	-	-	-	-	(233.7)	910.3
Reinsurance assets	73.1	-	-	-	-	-	-	73.1
Tax receivable	3.2	-	-	-	-	-	-	3.2
Pension benefit asset	-	-	-	-	-	-	-	-
Insurance receivables	96.7	-	-	-	-	-	-	96.7
Deferred acquisition costs	118.8	-	-	-	-	-	-	118.8
Prepayments and accrued income	60.6	-	-	-	-	-	-	60.6
Cash and cash equivalents	81.0	-	-	-	-	10.4	233.7	325.1
Total assets	8,194.4	8.1	4.3	-	-	145.5	-	8,352.3
Liabilities								
Insurance contract liabilities	6,013.0	-	-	(4.6)	-	-	-	6,008.4
Investment contract liabilities	178.6	-	-	-	-	-	-	178.6
Unallocated divisible surplus	1,262.7	1.3	3.1	3.2	(0.7)	-	-	1,269.6
Net asset value attributable to unit holders	-	-	-	-	-	145.5	-	145.5
Financial liabilities								
- Derivative financial instruments	-	-	-	-	-	-	-	-
- Borrowings	271.5	-	-	-	-	-	-	271.5
- Other financial liabilities	136.8	-	-	-	-	-	-	136.8
Provisions	99.7	-	-	-	1.0	-	-	100.7
Deferred tax liability	91.2	0.5	1.2	1.4	(0.3)	-	-	94.0
Insurance payables	16.7	-	-	-	-	-	-	16.7
Trade and other payables	124.2	6.3	-	-	-	-	-	130.5
Total liabilities	8,194.4	8.1	4.3	-	-	145.5	-	8,352.3

NOTES TO THE ACCOUNTS CONTINUED

31 December 2007

49. IFRS 1 first time adoption of International Financial Reporting Standards (continued)

b) Reconciliation of the Balance Sheet as at 31 December 2006 (continued)

Society	As reported UK GAAP £m	Lease reclass- ification £m	Capitalisation of major computer systems £m	Claims equalisation provision £m	Accounting for pension obligations £m	Consolidation of additional entities £m	Other adjustments £m	IFRS restated £m
Assets								
Intangible assets	27.8	-	-	-	-	-	-	27.8
Property and equipment	0.9	-	-	-	-	-	-	0.9
Investment properties	690.1	-	-	-	-	-	-	690.1
Investments in group undertakings and participating interests	593.6	-	-	-	-	-	-	593.6
Financial assets								
- Derivative financial instruments	-	-	-	-	-	-	-	-
- Fair value through profit or loss	3,447.1	-	-	-	-	-	-	3,447.1
- Loans and other receivables	114.4	-	-	-	-	-	(30.4)	84.0
Reinsurance assets	291.2	-	-	-	-	-	-	291.2
Tax receivable	3.8	-	-	-	-	-	-	3.8
Pension benefit asset	-	-	-	-	-	-	-	-
Insurance receivables	2.2	-	-	-	-	-	-	2.2
Deferred acquisition costs	-	-	-	-	-	-	-	-
Prepayments and accrued income	27.2	-	-	-	-	-	-	27.2
Cash and cash equivalents	9.6	-	-	-	-	-	81.2	90.8
Total assets	5,207.9	-	-	-	-	-	50.8	5,258.7
Liabilities								
Insurance contract liabilities	3,600.3	-	-	-	-	-	-	3,600.3
Investment contract liabilities	-	-	-	-	-	-	-	-
Unallocated divisible surplus	1,410.1	-	-	-	(0.7)	-	-	1,409.4
Net asset value attributable to unit holders	-	-	-	-	-	-	-	-
Financial liabilities								
- Derivative financial instruments	-	-	-	-	-	-	-	-
- Borrowings	-	-	-	-	-	-	-	-
- Other financial liabilities	9.5	-	-	-	-	-	-	9.5
Provisions	38.7	-	-	-	1.0	-	-	39.7
Deferred tax liability	87.4	-	-	-	(0.3)	-	-	87.1
Insurance payables	5.4	-	-	-	-	-	-	5.4
Trade and other payables	56.5	-	-	-	-	-	50.8	107.3
Total liabilities	5,207.9	-	-	-	-	-	50.8	5,258.7

NOTES TO THE ACCOUNTS CONTINUED

31 December 2007

49. IFRS 1 first time adoption of International Financial Reporting Standards (continued)

c) Reconciliation of the Balance Sheet as at 1 January 2006

Group	As reported UK GAAP £m	Lease reclass- ification £m	Capitalisation of major computer systems £m	Claims equalisation provision £m	Accounting for pension obligations £m	Consolidation of additional entities £m	Other adjustments £m	IFRS restated £m
Assets								
Intangible assets	79.8	-	-	-	-	-	-	79.8
Property and equipment	5.8	8.6	-	-	-	-	-	14.4
Investment properties	758.7	-	-	-	-	-	-	758.7
Investments in group undertakings and participating interests	-	-	-	-	-	-	-	-
Financial assets								
- Derivative financial instruments	11.6	-	-	-	-	-	-	11.6
- Fair value through profit or loss	5,639.0	-	-	-	-	137.0	-	5,776.0
- Loans and other receivables	1,326.5	-	-	-	-	-	(375.6)	950.9
Reinsurance assets	148.2	-	-	-	-	-	-	148.2
Tax receivable	0.1	-	-	-	-	-	-	0.1
Pension benefit asset	-	-	-	-	-	-	-	-
Insurance receivables	119.5	-	-	-	-	-	-	119.5
Deferred acquisition costs	114.9	-	-	-	-	-	-	114.9
Prepayments and accrued income	57.0	-	-	-	-	-	-	57.0
Cash and cash equivalents	96.9	-	-	-	-	9.8	375.6	482.3
Total assets	8,358.0	8.6	-	-	-	146.8	-	8,513.4
Liabilities								
Insurance contract liabilities	6,194.6	-	-	(1.4)	-	-	-	6,193.2
Investment contract liabilities	184.1	-	-	-	-	-	-	184.1
Unallocated divisible surplus	1,172.4	1.5	-	1.0	(0.6)	-	-	1,174.3
Net asset value attributable to unit holders	-	-	-	-	-	146.8	-	146.8
Financial liabilities								
- Derivative financial instruments	-	-	-	-	-	-	-	-
- Borrowings	321.3	-	-	-	-	-	-	321.3
- Other financial liabilities	182.5	-	-	-	-	-	-	182.5
Provisions	26.4	-	-	-	2.5	-	-	28.9
Deferred tax liability	82.1	0.6	-	0.4	(1.9)	-	-	81.2
Insurance payables	35.7	-	-	-	-	-	-	35.7
Trade and other payables	158.9	6.5	-	-	-	-	-	165.4
Total liabilities	8,358.0	8.6	-	-	-	146.8	-	8,513.4

NOTES TO THE ACCOUNTS CONTINUED

31 December 2007

49. IFRS 1 first time adoption of International Financial Reporting Standards (continued)

c) Reconciliation of the Balance Sheet as at 1 January 2006 (continued)

Society	As reported UK GAAP £m	Lease reclass- ification £m	Capitalisation of major computer systems £m	Claims equalisation provision £m	Accounting for pension obligations £m	Consolidation of additional entities £m	Other adjustments £m	IFRS restated £m
Assets								
Intangible assets	32.4	-	-	-	-	-	-	32.4
Property and equipment	1.4	-	-	-	-	-	-	1.4
Investment properties	684.6	-	-	-	-	-	-	684.6
Investments in group undertakings and participating interests	589.4	-	-	-	-	-	-	589.4
Financial assets								
- Derivative financial instruments	-	-	-	-	-	-	-	-
- Fair value through profit or loss	3,268.1	-	-	-	-	-	-	3,268.1
- Loans and other receivables	259.8	-	-	-	-	-	(176.6)	83.2
Reinsurance assets	284.7	-	-	-	-	-	-	284.7
Pension benefit asset	-	-	-	-	-	-	-	-
Tax receivable	-	-	-	-	-	-	-	-
Insurance receivables	9.0	-	-	-	-	-	-	9.0
Deferred acquisition costs	-	-	-	-	-	-	-	-
Prepayments and accrued income	24.5	-	-	-	-	-	-	24.5
Cash and cash equivalents	13.9	-	-	-	-	-	176.6	190.5
Total assets	5,167.8	-	-	-	-	-	-	5,167.8
Liabilities								
Insurance contract liabilities	3,597.3	-	-	-	-	-	-	3,597.3
Investment contract liabilities	-	-	-	-	-	-	-	-
Unallocated divisible surplus	1,326.7	-	-	-	(0.6)	-	-	1,326.1
Net asset value attributable to unit holders	-	-	-	-	-	-	-	-
Financial liabilities								
- Derivative financial instruments	-	-	-	-	-	-	-	-
- Borrowings	-	-	-	-	-	-	-	-
- Other financial liabilities	9.7	-	-	-	-	-	-	9.7
Provisions	18.5	-	-	-	2.5	-	-	21.0
Deferred tax liability	81.5	-	-	-	(1.9)	-	-	79.6
Insurance payables	6.5	-	-	-	-	-	-	6.5
Trade and other payables	127.6	-	-	-	-	-	-	127.6
Total liabilities	5,167.8	-	-	-	-	-	-	5,167.8

d) Notes to the reconciliation of the Balance Sheet at 31 December 2006, at 1 January 2006 and reconciliation of Income Statement for 2006

The UK GAAP balance sheet has been presented in a format consistent with International Financial Reporting Standards (IFRS). No changes have been made to the previously reported numbers for UK GAAP and the analyses of the adjustments are based on UK GAAP as at 31 December 2006.

i) Lease reclassification

Under UK GAAP certain leasehold properties were classified as operating leases and rental payments were expensed as incurred. Under IFRS some properties have been reclassified as finance leases resulting in an additional amount recognised as an asset under property and equipment and a liability to the future costs recognised in Trade and other payables.

ii) Capitalisation of major computer systems

The Group and Society have revisited their accounting policy on the capitalisation of large computer projects. Previously this was expensed as incurred but will now be capitalised and amortised over a 5 year period when brought into use.

iii) Claims equalisation provision

Under UK GAAP an equalisation provision is recognised in the individual accounts of general insurance companies to reduce the volatility in results arising from exceptional levels of claims in certain classes of business. Under IFRS, such provisions are not permitted as no liability exists at the balance sheet date. Elimination of the claims equalisation provision results in an increase in the unallocated distributable surplus of £3.2m at 31 December 2006 (1 January 2006: £1.0m), and an increase of £2.2m to profit for the year ended 31 December 2006.

NOTES TO THE ACCOUNTS CONTINUED

31 December 2007

49. IFRS 1 first time adoption of International Financial Reporting Standards (continued)

d) Notes to the reconciliation of the Balance Sheet at 31 December 2006, at 1 January 2006 and reconciliation of Income Statement for 2006 (continued)

iv) Accounting for pension obligations

Under UK GAAP the deferred tax on the pension scheme liability was recognised as a reduction in the liability. Under IFRS this amount is recognised separately in deferred tax. In addition assets under UK GAAP were on a mid basis whereas under IFRS they are on a bid basis.

v) Consolidation of additional entities

IFRS requires the consolidation of certain mutual funds, other investment vehicles and employee share trusts which do not require consolidation under UK GAAP. This arises from a broader definition of when an entity is considered to be under the control of an investor.

Consolidation of OEICs has resulted in an increase in total assets and liabilities of £145.5m at 31 December 2006 (1 January 2006: £146.8m). The third party interest is included in liabilities as net asset value attributable to unitholders. The consolidation of these funds has no impact on the unallocated divisible surplus or profit after tax.

vi) Other adjustments

A number of adjustments required under IFRS relate primarily to presentational or reclassification changes which have no underlying impact on the unallocated divisible surplus. The movement in the income statements reflects the move of unrealised losses to income. The movement in the balance sheets reflects the movement in short term deposits that are less than three months to cash and cash equivalents.

vii) Insurance contracts

The Group has elected to disclose only six years of claims experience data in its claims development tables as permitted in the first financial year in which it adopts IFRS 4 Insurance Contracts. These disclosures will be extended for an additional year in each succeeding year until the ten year information requirement has been satisfied.

e. Transition to IFRS

For all periods up to and including the year ended 31 December 2006, the Group prepared its financial statements in accordance with United Kingdom generally accepted accounting practice (UK GAAP). These financial statements, for the year ended 31 December 2007, are the first the Group has prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union (EU).

Accordingly, the Group has prepared financial statements which comply with IFRSs applicable for periods beginning on or after 1 January 2007 and the significant accounting policies meeting those requirements are described in note 1.

In preparing these financial statements, the Group has started from an opening balance sheet as at 1 January 2006, the Group's date of transition to IFRSs, and made those changes in accounting policies and other restatements required by IFRS 1 for the first-time adoption of IFRSs. This note explains the principal adjustments made by the Group in restating its UK GAAP balance sheet as at 1 January 2006 and its previously published UK GAAP financial statements for the year ended 31 December 2006.

IFRS 1 allows first-time adopters certain exemptions from the general requirement to apply IFRSs as effective for December 2006 year ends retrospectively. The Group has taken the following exemptions:

- IFRS 3 Business Combinations has not been applied to acquisitions of subsidiaries or of interests in associates and joint ventures that occurred before 1 January 2004.

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