

ANNUAL REPORT AND ACCOUNTS

for the year ended
31 December 2006

LV LIVERPOOL VICTORIA



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FROM LIVERPOOL VICTORIA TO...

Your Society was founded in 1843. Our purpose then was to enable people with limited means to bury their loved ones with dignity. So our name has a heritage of which we can be proud.

However, whilst our heritage is important and our values enduring, our name and corporate identity were less well suited to modern media. Listening to our members, customers and employees, we decided to review the way we look to make our identity more relevant.



As such, we have introduced a shorter and more memorable brand name and identity which communicate, in a modern way, our values of mutuality and maintain the best aspects of our heritage, but sharpen up our delivery. You will see further evidence of this over the coming months through new and improved initiatives.

There will be a period of transition during the course of 2007 as we switch all our products and services over to our new brand name. We hope you like it.



MISSION

**TRUE WEALTH
FOR THE MANY**

To help people realise the
'true wealth' of freedom
from financial worry



THE CHAIRMAN'S STATEMENT

“2006 has been a year of considerable change for the Society both in terms of people and strategy.”

THE CHAIRMAN'S STATEMENT

“...our commitment to mutuality and the values that have served us well since we were established has not wavered.”

Last year, I highlighted the need for continuous strategic development and a flexible approach to the future. During 2006 we have made significant strides in achieving these goals. Our new Group Chief Executive, Mike Rogers, has completed a review of strategy across the Group and has initiated a series of changes both to our business and to the way that we operate. His report, which follows this, focuses on the revised strategy and its implications.

I want to stress that, although our strategy has been reviewed, our commitment to mutuality and the values that have served us well since we were established has not wavered.

A key development has been the acquisition of an outstanding team of senior managers who were behind the development of the Churchill and Direct Line brands, and who are now working to revitalise and enhance our general insurance business. The fact that we could attract such a team is testimony to the strength of our values and the respect that we command within the industry.

Other key appointments have recently been made to strengthen the Life and Operational sides of the business with a view to implementing the revised strategy. Again, we have attracted experienced directors from other leading financial institutions to drive this important work.

On the issue of underperformance by our Bank, we have taken strong action. First, we have sold some £100m of our credit card advances to Morgan Stanley. We still offer cards under our brand names to our customer base and Morgan Stanley now underwrite these, paying us for such sales. Second, we have initiated a strategic review of the business and are currently evaluating the options that are emerging from this process. While we are keen to improve the risk profile of our banking business, this is not at any price and we do want to be able to offer tailored products suitable to our customer base, so the choice of an appropriate partner is important. It may be some time before we have completely disentangled ourselves from the current situation and, while this process continues, we have established provisions in these accounts sufficient to absorb on going losses on uneconomic credit card contracts.

I am also pleased that, this year, we have entered into an agreement to acquire Britannia Road Rescue Services from the Civil Service Motoring Association, subject to agreement from their

THE CHAIRMAN'S STATEMENT

membership. This acquisition perfectly complements our motor insurance offering and Britannia's high quality service, along with a sizeable base of over 300,000 customers offers us additional opportunities profitably to grow our motor insurance business.

These changes are all in line with our aim to grow the value of the business for the benefit of our members, and this remains the primary focus of the Board. On this note, despite the inevitable costs associated with change, we can report an after tax profit for the Group of £90.3m. Consequently our financial strength continues to build and remains at the top end of the industry range, confirming our ability to invest for medium and longer term growth.

BOARD CHANGES

Last year, I indicated that we were recruiting a new Group Chief Executive and we were pleased to appoint Mike Rogers in June. Mike joined us from Barclays where he had been Managing Director of UK Retail Banking. At that time, I stepped down from my temporary dual role as Chairman & Group Chief Executive and reverted to the role of non-executive Chairman.

We also took the opportunity to recruit two new non-executive directors with relevant skills and experience to assist us. Mark Austen had been a partner in the consultancy practice of PricewaterhouseCoopers and Dennis Holt had been the Group Chief Executive of AXA's UK Insurance businesses. I am pleased to be able to welcome both of them to the Board.

Ian Cordwell left the board in November after seven years with the Group. We are grateful for his contribution first as Finance Director and latterly in a variety of line roles.

Among senior management, Kevin Durkan left the Group after 10 years. Kevin was a key player in the development of our general insurance underwriting business and our best wishes go with him for the future.

THE CHAIRMAN'S STATEMENT

THE FUTURE

As is evident from the activities outlined above, the Group is in a period of profound change but change based on two guiding principles – to continue to serve the same purpose as when we were first established, and to ensure that we are relevant in today's and tomorrow's market place.

It would be foolish to think that 2007 will see the end of the change process. However, I believe that we now have a robust strategy in place and a management capable of implementing that strategy. We will emerge stronger and fitter from the changes, and members will be able to see the benefit from them in the years to come.

I have not dwelt on the market or the regulatory environment. We have constantly to recognise these as areas requiring our attention. There is little sign that either is going to become less demanding over the next year, and we will therefore focus on making sure that we respond appropriately to the challenges that emerge.

As ever, we need to remember that, without our loyal and dedicated people, we would not have a business on which to report. My thanks and those of the Board go to them for continuing to 'do the business' during this period of significant challenge.

“...the Group is in a period of profound change but change based on two guiding principles – to continue to serve the same purpose as when we were first established, and to ensure that we are relevant in today's and tomorrow's market place.”



THE GROUP CHIEF EXECUTIVE'S STATEMENT

“ LV has a proud history, financial strength, loyal membership and committed employees. ”

THE GROUP CHIEF EXECUTIVE'S STATEMENT

“In 2006 our challenge was to develop a strategy to deliver profitable growth in a competitive market.”

“Our aspiration is to combine mutual values of trust and service with best in class products and operations to help people find freedom from financial worry.”

In 2006 our challenge was to develop a strategy to deliver profitable growth in a competitive market. We have assessed every aspect of our business, set ambitious goals, and become clear about where and how we will compete in the future. We are convinced the Society can compete with the best but recognise that to do so will require investment in many aspects of our business operations before we see the full financial benefit.

OUR GOAL

Our goal is to grow member value, which we measure through returns on their with-profits policies and increases in the economic value of the Society they own.

ACHIEVING OUR GOAL

A great many people in the UK feel anxious about money, and trust in financial service providers is low. Our aspiration is to combine mutual values of trust and service with best in class products and operations to help people find freedom from financial worry.

We have developed a new brand identity to help us communicate our unique proposition. Our strategy is to invest more on brand in 2007 as we reduce our dependency on direct mail, which is becoming less effective as an acquisition channel.

Along with brand we will be investing in people, IT and controls to ensure that we are capable of delivering on our strategy. By way of examples we have started work on a new Group Desktop infrastructure and a new IT system for our General Insurance business. Talented and committed employees will be at the heart of our success so we are re-designing our employee proposition to ensure that we attract, develop and retain the best. Good governance is good business, especially during times of change, so we are strengthening our governance and risk management framework to ensure it is fit for purpose.

During 2006 we re-organised into Strategic Business Units (Life, General Insurance, Partnerships, Bank, Asset Management) and Strategic Support Units (Finance, Marketing, HR, IT & Operations, Corporate Governance) to ensure that we had real market focus and performance accountability allied with professional excellence within support functions.

I am pleased to say that we saw some early signs of improved performance in the second half of 2006 as a consequence of our change programme.

THE GROUP CHIEF EXECUTIVE'S STATEMENT

BUSINESS UNIT STRATEGIES

The Chairman has already mentioned some important developments in our businesses as a consequence of our strategic review process and I would like to expand on the performance of, and our plans for, each business.

LIFE

During 2006 we built a strong market position in Pension Term Assurance and were obviously disappointed with the Government decision to review this product and will continue to lobby for its re-instatement.

We are looking to defend and grow our protection business by building on the flexibility and added value features of our product, and the effectiveness of our direct distribution. We went live with our Online Application Capability for protection, providing much improved service to IFAs.

Market sentiment remained unhelpful for our with-profits investment business though we have seen renewed interest in our with-profits annuities from IFAs and consumers, which should lead to uplift in 2007.

We see attractive prospects in the "over 50s" market and will be looking to widen and deepen our participation in this growing segment. With shortfalls in pension provision, increased longevity, growing care costs and higher lifestyle expectations, tomorrow's retirees will be looking for help in maximising income from their available assets and protecting themselves and their families from the new financial risks of increased longevity

GENERAL INSURANCE

2006 was a difficult year as the market became increasingly price-competitive and the cost of acquiring new customers continued to escalate. We chose not to compete at irrational price levels and allowed our motor account to reduce in size in the most competitive segments. Despite this, we saw some clear signs of recovery in new business in the last few months of the year and our customer retention rates remained market leading on the back of our very strong service offering.

Our medium term ambition is to grow our General Insurance business into a top 5 player in our chosen personal lines markets. In support of that ambition, we acquired ABC Insurance Solutions Ltd and its highly experienced management team in September 2006.

The team has already made demonstrable progress in re-focusing our existing direct and affinity businesses and has developed plans to broaden our distribution capabilities during 2007. Our growth plans for General Insurance will mean significant investment in new capabilities and marketing that will weigh on results in the near-term but will lead to substantial growth in member value over the medium term.

THE GROUP CHIEF EXECUTIVE'S STATEMENT

PARTNERSHIPS

Our Partnerships business is responsible for our valuable portfolio of relationships that the group enjoys with third parties, and for whom we manufacture and distribute a range of financial services. These arrangements represent a valuable channel to market for our Life, GI, and Bank products as well as for our Whole of Market Advisors. 2006 was a good year for Partnerships with new relationships established and increased penetration for existing contracts.

Looking forward, with more than 5 million potential customers available to us, we want to build on the full service relationship strengths of our Partnership proposition and achieve even better penetration. This will be achieved by working more effectively with our partners, tailoring our offering more closely to their needs and developing new services in response to changing consumer trends.

BANK

Bank had another unsatisfactory year as credit experience remained poor (though did not worsen) and the Chairman has already mentioned the Morgan Stanley Credit Card deal and our strategic review. Provision of banking services is an important part of our Partnerships offering and so we will be working hard to find a long-term solution for the Bank whilst delivering improved short-term operating results. However there are no quick fixes.

ASSET MANAGEMENT

Our Asset Management business had an excellent 2006 in terms of investment performance delivering a return of 11.2%. We believe that we have good competence in this area and can build more value for members through developing our range of products and our third-party business.

CONCLUSION

2006 was a difficult trading year for the Society but we still managed to increase our financial strength and add to member value with a transfer to reserves of £90.3m. During the year we conducted a comprehensive strategic review and identified a compelling competitive positioning for the Society through combining mutual values with best in class product and operating performance. Good initial progress was made in executing our plans. 2007 promises to be a year of growing momentum as we invest in the capabilities required to compete with the best and position ourselves to deliver sustainable growth in member value. I would like to thank our members for their feedback and loyalty and all our employees for their commitment in a challenging year.

“2007 promises to be a year of growing momentum as we invest in the capabilities required to compete with the best and position ourselves to deliver sustainable growth in member value.”



COMMUNITY SUPPORT

Your Society has a proud tradition of supporting its members and their communities. As a mutual we continue to take our social responsibilities seriously; such concerns are at the heart of our business and our brand.

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



COMMUNITY SUPPORT

Our commitment to best practice Corporate Social Responsibility (CSR) is not only morally and ethically sound, but an increasingly significant reason members and employees give for choosing LV=.

Among many other benefits, a good CSR programme can positively influence:

- Our brand reputation and therefore business performance
- Employee recruitment, motivation and retention
- Our business-to-business partner relationships.



Renewed sponsorship of beach safety scheme, Kidzone.

The core theme for our CSR strategy 2007-2009 is 'protecting our children and their future'. We aim to do this through programmes that are 'close to home' and relevant to ordinary working people, and in particular families with children.

As an initial aspect of this strategy we have committed our support to two key local initiatives:

- Increased title sponsorship of the Streetwise Safety Centre, which is an award winning interactive safety education centre in Bournemouth used to raise awareness of everyday safety and good citizenship issues amongst children.
- Renewed sponsorship of Kidzone, a Bournemouth-based beach safety scheme for young children.

Together these programmes will help thousands of children and can genuinely help to save lives.

On that note, in August, LV= and our affinity partner csma reached a milestone donation figure of £515,000 raised for the RNLI. More importantly the lifeboats we have sponsored have already saved two lives.

This year, we expect to significantly increase our investment in community and charitable causes. Some examples of this are: incentivising 2007 AGM voting with a charity donation for every vote cast; investing in member-prompted initiatives; adopting cricket sponsorship-related charitable activities; matching employee fund-raising activities; and making tax-efficient donations via the Charities Aid Foundation.

We also have the Care and Support Fund for members and we are looking at other new proposals and schemes for the future. This may lead to a LV= 'Charity of the Year' scheme, whereby members could vote for a lead charity that we would support during a given year.

“LV has been a longstanding partner and great supporter of Streetwise. Their people genuinely share our objectives, and care about protecting children.”

Alison Curtis
STREETWISE CENTRE MANAGER



Vince Jerrard

CORPORATE GOVERNANCE

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

CORPORATE GOVERNANCE

COMPLIANCE WITH THE ANNOTATED CODE FOR THE YEAR ENDED 31 DECEMBER 2006

It is the board's view that the Society complied with the applicable principles and provisions of the Code other than in respect of Audit and Compliance Committee and Remuneration Committee membership and, for part of the year only, the separation of the roles of Chairman and Chief Executive and the balance between executive and independent non-executive directors.

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 15 times in 2006, in 2007 the board is expected to meet at least 10 times, including two strategy sessions.

A number of Board changes took place during 2006. Malcolm Berryman resigned as a director in January and Ian Cordwell resigned in November. Mike Rogers was appointed to the board as Group Chief Executive in June at which time John Woolhouse relinquished his role as acting Group Chief Executive, while continuing as Chairman. Dennis Holt and Mark Austen were appointed to the Board in September.

The Board currently comprises five non-executive and two executive directors. All of the non-executive directors (save John Woolhouse to whom, as Chairman, the test of independence is not applicable) are regarded as independent.

The Code recommends that, excluding the Chairman, at least half the Board should consist of independent non-executive directors. The Society has complied with this guidance since the appointment of Dennis Holt and Mark Austen on 20th September 2006, its previous non-compliance having resulted from a resignation and a retirement of two non-executive directors in 2005.

BOARD MEMBERS



John Woolhouse FIA, (70) Chairman

John Woolhouse was appointed a non-executive director of Liverpool Victoria Friendly Society Limited on 1st January 1996 and became Chairman in July 2005. John became acting Group Chief Executive following the resignation of Malcolm Berryman in November 2005, a position he relinquished on Mike Rogers' appointment in June 2006. For this period, the Society did not have the recommended separation of the roles of Chairman and Chief Executive. In view of John's knowledge of the Society and broad business and managerial experience, this was felt to be in the best interests of the Society in the circumstances at that time.

John also chairs the Remuneration and Nomination Committee and in 2006 chaired the Life Supervisory Board and the Society's life assurance, banking and general insurance subsidiaries. In 2007, John will become the chairman of the With-Profits Committee.

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



Mark Austen, (57) 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.



Dennis Holt, (58) Non-Executive Director

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, Saga Services and BIIH, having previously been Vice-Chairman of the Association of British Insurers and Chairman of its General Insurance Council.

CORPORATE GOVERNANCE



Gillian (Gill) Nott OBE, (61) Non-Executive Director

Gill Nott was appointed as a non-executive director of Liverpool Victoria Friendly Society Limited on 25th May 2005. In 2006, Gill was also a non-executive director of the Society's life assurance, banking, general insurance and asset management subsidiaries.

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



Barry Rose, (62) 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. In 2006, Barry was also a non-executive director of the Society's life assurance, banking and general insurance subsidiaries and chaired the Society's asset management subsidiary. He chairs the Group Audit and Compliance Committee and in 2007 he will become Chairman of the Board's Investment Committee. Barry became the Society's Senior Independent Director in July 2005.

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



Michael Rogers, (42) 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 FIA, (47) Group Director, Asset Management and Acquisitions

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

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

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

BOARD COMMITTEES

The Group Audit and Compliance Committee, the Remuneration and Nomination Committee and the Life Supervisory Board were standing committees of the Board in 2006. In 2007, a With-profits Committee and an Investment Committee have been established and the Life Supervisory Board will no longer meet. The Terms of Reference of the Board Committees are reviewed annually.

GROUP AUDIT & COMPLIANCE COMMITTEE

The Group Audit and Compliance Committee normally comprises the Society's non-executive directors under the chairmanship of Barry Rose. Dennis Holt and Mark Austen were appointed to the committee in December 2006. John Woolhouse is a member of the Committee even though as Chairman of the Board, he is not regarded as independent under the Code. This is felt to be appropriate and in the best interests of the Society in view of John's experience and knowledge of the Society and its audit, controls and compliance approach and practices.

CORPORATE GOVERNANCE

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

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 annually, most recently in March 2007.

The Committee plays a key role in respect of the Group's regulatory compliance, receiving reports from the Group Director of Corporate Governance on a wide range of issues including regulatory change. In 2006 the Committee oversaw 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 and reviewed its money laundering policy and the response of the business to a report commissioned into the group's audit function. 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.

CORPORATE GOVERNANCE

REMUNERATION AND NOMINATION COMMITTEE

Sitting as the Remuneration Committee, the membership is the Society's independent non-executive directors and the Committee usually meets quarterly. John Woolhouse chairs the Committee even though, as Chairman of the Board, he is not regarded as independent under the Code. This is felt to be appropriate and in the best interests of the Society in view of John's experience and knowledge of the Society and its remuneration approach and practices.

On behalf of the Board, the Committee determine 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 right calibre. In addition to salary and pension entitlements, this is achieved by means of an annual bonus plan and a long-term incentive plan for its senior executives. Senior executive remuneration and bonus entitlements are reviewed on an annual basis by the Committee, which takes into account business results, 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 time the non-executive directors give to the Group's affairs and appropriate market comparisons.

In its capacity as Nomination Committee it 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 and this is the process used for the recruitment of Mike Rogers, Dennis Holt and Mark Austen. The Committee also recommends appointments to the Board.

The Group Chief Executive is a member of the Committee when it sits as the Nomination Committee and is normally in attendance when it sits as the Remuneration Committee, except when his own remuneration is being considered.

CORPORATE GOVERNANCE

THE LIFE SUPERVISORY BOARD

The Life Supervisory Board normally met quarterly, chaired by John Woolhouse. Its membership is shown in the table below. Its responsibilities were to monitor and supervise (on behalf of the Group) the management (including the investment and bonus policy) of the life funds and of the life business operations of the Society. This included matters such as: risk management policies; approval of reinsurance policy and contracts; approval of claims and underwriting philosophies; and oversight of solvency maintenance.

The Life Supervisory Board also acted as the With Profits Committee for Liverpool Victoria Friendly Society Limited in order to assess compliance with the Principles and Practices of Financial Management (“PPFM”).

The Life Supervisory Board ceased to operate with effect from the end of 2006, its role as the With-Profits Committee being taken over by a new Board committee established specifically for that purpose. Its other functions have reverted to the Society’s Board.

BOARD AND COMMITTEE MEMBERSHIP AND ATTENDANCE IN 2006

Director	Liverpool Victoria Friendly Society Board	Group Audit & Compliance Committee	Remuneration and Nomination Committee (sitting as the Remuneration Committee)	Remuneration and Nomination Committee (sitting as the Nomination Committee)	Life Supervisory Board
	15 meetings	4 meetings	6 meetings	3 meetings	5 meetings
J Woolhouse	15	4	6	3	5
M Austen ¹	4/4	1/1	N/A	N/A	N/A
D Holt ²	4/4	1/1	N/A	N/A	N/A
G Nott	14	4	5	2	5
B Rose	15	4	5	2	5
M Rogers ³	7/7	N/A	N/A	2/2	2/2
S Daniels	15	N/A	N/A	N/A	5
M Berryman ⁴	0/0	N/A	N/A	0/0	0/0
I Cordwell ⁵	13/13	N/A	N/A	N/A	4/4

¹ Mark Austen was appointed on 20 September 2006

² Dennis Holt was appointed on 20 September 2006

³ Mike Rogers was appointed on 5 June 2006

⁴ Malcolm Berryman resigned on 16 January 2006

⁵ Ian Cordwell resigned on 21 November 2006

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 nation-wide basis.

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

COMPLAINTS POLICY

The Society aims to provide an excellent standard of service to members and customers but recognises that there may be occasions where service falls below expectations. The Society's policy is to deal promptly, fairly and honestly with any complaint received. In addition, systems and processes are in place to ensure any necessary preventative action is swiftly taken. Where 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

ENVIRONMENTAL POLICY

The Society's environmental policy forms an integral part of its corporate business strategy. Looking after the environment benefits both the Society and its members and is consistent with membership and mutuality.

EXTERNAL CONSULTANCY SERVICES

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

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

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.

John Woolhouse chairs the Remuneration Committee. In 2006 the other members were Gillian Nott and Barry Rose. By invitation, the meetings are also attended by the Group Chief Executive, except when his own remuneration is being considered. Neil Tune of Hays HR Services plc, the company that provides Human Resource services to LV= may also attend meetings. 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

LV='s approach to remuneration policy is the same for all employees and is designed to support recruitment, motivation and retention. Remuneration is considered in the context of the financial services sector and the Liverpool Victoria Group's individual businesses. The objective continues to be to 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.

DIRECTORS' REPORT ON REMUNERATION

REMUNERATION POLICY FOR NON-EXECUTIVE DIRECTORS

Non-executive directors are appointed for a period of three years. Their performance is reviewed annually and they may be re-appointed for further periods of three years. Their original dates of appointment are shown in the list of directors on pages 16 and 17. Fees for the non-executive directors are determined by the Society's Board, based on the time devoted to the Group affairs and appropriate market comparisons.

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

REMUNERATION POLICY FOR EXECUTIVE DIRECTORS

The remuneration of the Society's executive directors comprises salary, an annual cash bonus based upon performance, participation in long term incentive plans with returns based on 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 aims 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 HayGroup, Watson Wyatt LLP and McLagan Partners. The Remuneration Committee does not specifically appoint these advisers for the purposes of the consideration of remuneration.

John Woolhouse did not participate in any bonus or incentive schemes and was not a member of the Society's staff pension scheme while he was he acting Group Chief Executive prior to the appointment of Mike Rogers.

DIRECTORS' REPORT ON REMUNERATION

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 INCENTIVE SCHEME

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

In 2006, the Group Annual Bonus Scheme rewarded employees on the basis of Group Results, local results and personal contribution. For the executive directors, the Scheme can pay a maximum of 54% of salary (up to 22.5% for Steven Daniels). The Group results were linked to sales performance of the Group in terms of Value Created.

In addition to the Group Annual Bonus Scheme, Steven Daniels participated in the Investment Bonus Scheme in 2006 which is based on the total performance of relevant funds compared to benchmark performance and the contribution made by asset allocation. These elements are measured over one and three years. Under the Investment Bonus Scheme, Steven Daniels could receive up to 250% of salary.

In 2007 Steven Daniels will participate in the investment bonus scheme only, under which he can receive up to 250% of salary, part of which will depend on his personal performance.

In 2007, bonus pools will be created for distribution under the Group Annual Bonus scheme, dependent on the performance of individual SBUs against their business plan targets. The Group Chief Executive will assess SSU performance. The potential bonus pool will be reduced if performance is between 85% and 90% of target and increased by 20% for performance over 110% of target. Acceptable personal performance and on-target business unit performance would produce a bonus of between 6% and 55% of salary, depending on grade. For outstanding personal performance the potential percentages achievable are doubled.

DIRECTORS' REPORT ON REMUNERATION

LONG TERM INCENTIVE SCHEME

The 2006 Long Term Incentive Scheme was developed to reflect market practice and to provide longer-term management focus, motivation and retention. The Committee believes that a significant element of executives' remuneration should be linked to the delivery of longer-term targets. Metrics are set by the Board and no payment was made in respect of performance in 2006.

The Long Term Incentive Scheme is currently under review to ensure it rewards performance in a manner aligned to business goals.

Neither the Annual nor the Long Term Incentive Schemes is a contractual entitlement 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 10 to the accounts.

Ian Cordwell, who resigned as director in November 2006, received compensation for loss of office as disclosed in note 10 to the accounts.

DIRECTORS' LOANS

At 31 December 2006 and 31 December 2005 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 21 March 2007.

John Woolhouse
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 2006.

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 2006, of recent events and of likely future developments is contained in the Chairman's statement and the Group Chief Executive's Statement.

The Board sets key performance indicators 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 2006, the KPIs were focused on financial results and significant change objectives, which have been 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 16 and 17.

On 16 January 2006, Malcolm Berryman resigned as a Director and Ian Cordwell resigned on 21 November 2006. Mike Rogers was appointed to the Board (as Group Chief Executive) on 5 June and Dennis Holt and Mark Austen were appointed on 20 September 2006. No Board Directors had any interest in the shares of any of the Society's subsidiaries as at 31 December 2006. The Society maintained liability insurance cover for its Directors and Officers during the year.

BOARD OF DIRECTORS' REPORT

BONUS DECLARATION

The Society is declaring annual bonus rates for the year ended 31 December 2006 at 1.5% of the sum assured for Industrial Branch business and at 3.0% of the sum assured for conventional Ordinary Branch life business. Interim bonus rates will also be at these levels. Terminal bonus rate changes in 2006 maintained the Society's position at or near the top of the market for most products.

FIXED ASSETS

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

MARGIN OF SOLVENCY

The Society had, at 31 December 2006, the required capital resource requirement as prescribed by the Financial Services Authority, for each class of business.

BOARD OF DIRECTORS' REPORT

MANAGEMENT OF RISK

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

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 (ICA). Further information on these risks can be found at note 3 to the accounts.

The Liverpool Victoria Group recognises the critical importance of having efficient and effective risk management systems in place and these take the form of:

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

CHARITABLE CONTRIBUTIONS

No charitable donations were made by the Society during the year but payments from its Charities Aid Foundation account amounted to almost £40,000. Payments for the benefit of members from the Care and Support Fund amounted to £78,000 and the Society provided a members' telephone helpline at a cost of £56,000. No political donations were made.

EQUAL OPPORTUNITIES

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

BOARD OF DIRECTORS' REPORT

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

PERSONS EMPLOYED BY THE SOCIETY AND ITS SUBSIDIARIES

The average number of persons employed by the Society and its subsidiaries and the aggregate employee costs are shown in note 9 to the accounts.

MEMBERSHIP

As at 31 December 2006, the Society had one million members.

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 2006 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.

BOARD OF DIRECTORS' REPORT

RESPONSIBILITIES OF THE BOARD OF DIRECTORS

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

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

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

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

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

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

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

By order of the Board of directors

V J Jerrard, Secretary

21 March 2007

AUDITORS' REPORT

We have audited the accounts of Liverpool Victoria Friendly Society Limited for the year ended 31 December 2006, which comprise Income and Expenditure Accounts, the Balance Sheets and Notes 1 to 36. 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 law and United Kingdom Accounting Standards 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. 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.

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 OPINION

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

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

OPINION

In our opinion the accounts give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the Society's and the Group's affairs as at 31 December 2006 and of the income and expenditure of the Society and the Group for the year then ended, and have been properly prepared in accordance with the Friendly Societies Act 1992 and the regulations made under it.

In our opinion the 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 for the financial year.

Ernst & Young LLP
Registered Auditor
1 More London Place
London SE1 2AF
21 March 2007

GROUP INCOME AND EXPENDITURE ACCOUNTS

TECHNICAL ACCOUNT – GENERAL BUSINESS

year ended 31 December 2006

	Notes	2006 £m	2005 £m
Earned premiums, net of reinsurance			
Gross premiums written	4a	350.8	386.7
Outward reinsurance premiums		(8.7)	(8.5)
Change in the provision for unearned premiums – gross amount		18.4	4.9
Change in the provision for unearned premiums – reinsurers' share		0.5	0.3
		361.0	383.4
Claims incurred, net of reinsurance			
Claims paid	6		
– gross amount		(280.1)	(289.9)
– reinsurers' share		0.2	0.5
Change in the provision for claims			
– gross amount		(41.0)	(44.5)
– reinsurers' share		(2.5)	(3.0)
		(323.4)	(336.9)
Net operating expenses	8a	(89.1)	(62.1)
Change in the equalisation provision		(3.2)	1.7
Balance on the technical account – general business		(54.7)	(13.9)

NON TECHNICAL ACCOUNT

year ended 31 December 2006

	Notes	2006 £m	2005 £m
Balance on the general business technical account		(54.7)	(13.9)
Investment income	7a	37.2	36.7
Unrealised (losses)/gains on investments	7c	(0.7)	2.7
Other income		2.7	1.2
		(15.5)	26.7
Investment expenses and charges	7b	(5.0)	(7.8)
(Deficit)/surplus of income over expenditure on ordinary activities		(20.5)	18.9
Deficit/(surplus) transferred to the group technical account – long term business		20.5	(18.9)
Balance on the non-technical account		–	–

INCOME AND EXPENDITURE ACCOUNTS

TECHNICAL ACCOUNT – LONG TERM BUSINESS

year ended 31 December 2006

	Notes	Group		Society	
		2006 £m	2005 Restated £m	2006 £m	2005 Restated £m
Earned premiums, net of reinsurance					
Gross premiums written	4b	293.0	304.5	102.5	109.5
Outward reinsurance premiums		(23.7)	(21.9)	–	(0.1)
		269.3	282.6	102.5	109.4
Investment income	7a	733.5	596.3	512.5	394.0
Unrealised gains on investments	7c	–	461.4	–	326.9
Other technical income		9.2	11.0	–	–
Total Technical Income		1,012.0	1,351.3	615.0	830.3
Claims incurred, net of reinsurance					
Claims paid					
– gross amount		(649.6)	(529.7)	(396.6)	(317.0)
– reinsurers' share		22.3	16.1	32.6	17.0
		(627.3)	(513.6)	(364.0)	(300.0)
Change in the provision for claims					
– gross amount		(33.2)	1.6	(19.1)	0.8
		(660.5)	(512.0)	(383.1)	(299.2)
Change in technical provisions, net of reinsurance					
Long term business provision for insurance contracts, net of reinsurance					
– gross amount	19	233.5	(406.3)	16.1	(318.4)
– reinsurers' share		(68.7)	(10.9)	6.5	33.6
		164.8	(417.2)	22.6	(284.8)
Technical provisions for linked liability insurance contracts, net of reinsurance					
– gross amount		6.8	(25.3)	–	–
– reinsurers' share		(4.4)	(1.4)	–	–
		2.4	(26.7)	–	–
Technical provisions for linked liability investment contracts, net of reinsurance					
– gross amount		(16.4)	(24.1)	–	–
– reinsurers' share		–	–	–	–
		(16.4)	(24.1)	–	–
		150.8	(468.0)	22.6	(284.8)
Other expenditure					
Net operating expenses	8b	(218.2)	(164.6)	(77.9)	(102.2)
Write down of investment in subsidiaries	14	–	–	(10.1)	(0.4)
Investment expenses and charges	7b	(10.3)	(13.3)	(3.9)	(5.0)
Unrealised losses on investments	7c	(119.9)	–	(64.9)	–
Other technical charges		(31.6)	(17.2)	–	–
		(380.0)	(195.1)	(156.8)	(107.6)
Total Technical Charges		(889.7)	(1,175.1)	(517.3)	(691.6)
(Deficit)/surplus transferred from the non-technical account – general business		(20.5)	18.9	–	–
Actuarial gains in pension liability	27	4.7	10.5	4.7	10.5
Surplus of technical income over technical charges before taxation		106.5	205.6	102.4	149.2
Tax attributable to the long term and general businesses	11	(16.2)	(83.3)	(19.0)	(68.9)
Surplus on technical account – long term business		90.3	122.3	83.4	80.3
Transfer to the fund for future appropriations	19	(90.3)	(122.3)	(83.4)	(80.3)
Balance on the technical account – long term business		–	–	–	–

There are no recognised gains or losses for the current financial year and the preceding financial year other than as stated in the group and society technical accounts and the group non-technical account, other than the restatement for FRS 26 and change in accounting policy for fixed assets.

BALANCE SHEETS

as at 31 December 2006

	Notes	Group		Society	
		2006 £m	2005 Restated £m	2006 £m	2005 Restated £m
Assets					
Intangible assets					
Goodwill	12	27.8	32.4	27.8	32.4
Investments					
Land and buildings	13	754.8	758.7	690.1	684.6
Investments in group undertakings and participating interests	14	–	–	593.6	589.4
Other financial investments	15	6,519.5	6,559.3	3,530.5	3,447.1
		7,274.3	7,318.0	4,814.2	4,721.1
Present value of acquired in-force business	16	44.5	47.4	–	–
Assets held to cover linked liability contracts					
Assets held to cover linked liability insurance contracts	15	183.7	186.1	–	–
Assets held to cover linked liability investment contracts	15	178.6	184.1	–	–
		362.3	370.2	–	–
Reinsurers share of technical provisions					
Provision for unearned premiums		5.1	4.6	–	–
Long term business provisions for insurance contracts		63.9	132.6	291.2	284.7
Claims outstanding		3.1	5.6	–	–
Technical provisions for linked liability insurance contracts		1.0	5.4	–	–
		73.1	148.2	291.2	284.7
Debtors					
Arising from direct insurance operations		86.3	100.7	2.2	9.0
Arising from reinsurance operations		10.4	18.8	–	–
Other debtors	17	48.3	47.7	34.8	80.8
		145.0	167.2	37.0	89.8
Other assets					
Tangible assets	18	7.0	5.8	0.9	1.4
Cash at bank and in hand		81.0	96.9	9.6	13.9
		88.0	102.7	10.5	15.3
Prepayments and accrued income					
Accrued interest and rent		44.3	40.7	16.8	17.2
Deferred acquisition costs					
– general business		10.6	14.0	–	–
– long term business		108.2	100.9	–	–
Other prepayments and accrued income		16.3	16.3	10.4	7.3
		179.4	171.9	27.2	24.5
Total assets		8,194.4	8,358.0	5,207.9	5,167.8

BALANCE SHEETS CONTINUED

as at 31 December 2006

	Notes	Group		Society	
		2006 £m	2005 Restated £m	2006 £m	2005 Restated £m
Liabilities					
Fund for future appropriations	19	1,262.7	1,172.4	1,410.1	1,326.7
Technical provisions					
Provision for unearned premiums		179.5	197.9	–	–
Long term business provisions for insurance contracts	19 & 20	5,186.0	5,419.5	3,570.1	3,586.2
Claims outstanding		458.2	384.3	30.2	11.1
Equalisation provision		4.6	1.4	–	–
		5,828.3	6,003.1	3,600.3	3,597.3
Technical provisions for linked liabilities					
Technical provisions for linked liability insurance contracts	20	184.7	191.5	–	–
Technical provisions for linked liability investment contracts	20	178.6	184.1	–	–
		363.3	375.6	–	–
Provisions for other risks					
	21	189.0	95.5	124.2	87.0
Creditors					
Arising from direct insurance operations		10.7	11.8	5.4	6.5
Arising from reinsurance operations		6.0	23.9	–	–
Debenture loans	22	9.5	9.7	9.5	9.7
Borrowings	23	271.5	321.3	–	–
Deposits by banks	24	0.5	2.4	–	–
Banking customer accounts	25	126.8	170.4	–	–
Other creditors including taxation and social security	26	66.4	108.1	29.3	54.0
		491.4	647.6	44.2	70.2
Accruals and deferred income					
		57.8	50.8	27.2	73.6
Total liabilities excluding the pension liability					
		8,192.5	8,345.0	5,206.0	5,154.8
Pension liability					
	27	1.9	13.0	1.9	13.0
Total liabilities					
		8,194.4	8,358.0	5,207.9	5,167.8

The accounts were approved by the Board of directors on 21 March 2007 and were signed on its behalf by:

V J Jerrard
Secretary

NOTES TO THE ACCOUNTS

31 December 2006

1. ACCOUNTING POLICIES

Basis of presentation

The Group accounts which consolidate the results of the Society and its subsidiary companies have been prepared in accordance with The Friendly Societies (Accounts and Related Provisions) Regulations 1994 (“the Regulations”) and in accordance with applicable accounting standards. In addition the Statement of Recommended Practice on Accounting for Insurance Business, issued by the Association of British Insurers in December 2005 and amended in December 2006 (the ‘ABI SORP’) has been adopted, except for investments in group undertakings which have been included at the lower of cost and an assessment of net realisable value instead of current value.

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

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

a. Change in accounting policies

FRS 25 “Financial instruments: disclosure and presentation” and FRS 26 “Financial instruments: recognition and measurement”

The provisions of Financial Reporting Standard (FRS) 25 “Financial instruments: disclosure and presentation” and Financial Reporting Standard (FRS) 26 “Financial instruments: recognition and measurement” have been adopted in full in these accounts.

The Group has elected not to take the exemption from the requirement to restate comparative information for FRS 26. The Group have restated the opening balance sheets and the technical accounts – long term business for 2005.

Linked presentation can no longer be adopted for the Group’s borrowings securitised on its loan and credit card portfolios. The securitised assets and liabilities are presented gross in the balance sheet and have had the effect of increasing loans within financial investments by £321.3m and increasing borrowings by £321.3m.

Banking

The adoption of FRS 26 has resulted in an additional transfer to the fund for future appropriations of £4.6m in the 2005 Group technical account – long term business and a reduction in the Group Fund for Future Appropriation in the balance sheet of £6.0m.

Life

The impact of the reclassification of insurance contracts to investments contracts under FRS 26 has resulted in no overall impact in the 2005 Group technical account - long term business. Movements consist of £(18.5)m for claims, £18.5m for the changes in the technical provision for linked liability investment contracts. Changes in technical provisions for linked liabilities are now analysed into those for insurance contracts and those for investment contracts. Technical provisions for linked liabilities and assets held

to cover linked liabilities are now analysed into those relating to insurance contracts and those relating to investment contracts.

The adoption of FRS 25 and 26 has had no impact on the Society’s technical account – long term business or balance sheet.

Fixed assets – computers and equipment

The Group has changed its accounting policy for fixed asset computers and equipment and will now be expensing them in year of acquisition to reflect the speed of change in information technology. The impact of this adjustment is a reduction of fixed assets and the fund for future appropriation of £0.7m.

b. Product classification

The Group issues contracts that transfer insurance risk or 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

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 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.

c. Earned premiums

Long term business

Premiums on long term 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 2006

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. Claims

Long term 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. Claims on with profits business include bonuses payable. Claims 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 provisions for outstanding claims, including provisions for claims incurred but not reported and related claims handling costs, together with any other adjustments to claims from previous years. Where applicable, deductions are made for recoveries.

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 technical account-general business in future years.

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

e. Fee income from investment contracts

Fees from investment contracts for investment management and other policy administration charges are recognised as income when due for payment. Premiums and claims are not recognised in the technical account – long term business but are recorded as contributions and deductions to the investment contract provisions recorded in the balance sheet.

f. Investment income and expenses

Investment income and expenses include dividends, interest on deposits, interest on loan advances to customers and rents, together with realised gains and losses on investments, less related expenses. Dividends are included on an ex-dividend basis. Interest receivable on loan advances to customers is calculated on an actuarial basis. Interest on deposits, rents and expenses are included on an accruals basis. Realised gains and losses on investments are calculated as the difference between net sales proceeds and original cost. Interest income for financial assets that are not classified as "fair value through profit or loss" is recognised using the effective interest method.

g. Unrealised gains and 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.

h. Other technical income and other technical charges

Commission earned from financial intermediary services is taken to income when receivable. These items are recognised in the group technical account – long term business, other technical income.

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

i. Deferred acquisition costs

Long term business

The method of calculating the long term business provision assumes that acquisition costs, comprising all direct and indirect costs arising from the conclusion of non participating insurance contracts, will be recovered from future premiums payable. The balance of acquisition costs to be recovered from margins in future premiums is shown as deferred acquisition costs in these accounts.

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

General business

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

NOTES TO THE ACCOUNTS CONTINUED

31 December 2006

j. Operating lease payments

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

k. Deferred taxation

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

l. Foreign currencies

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

m. Goodwill

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

Goodwill is reviewed for impairment at the end of the first full year after acquisition. Subsequent impairment reviews are performed when there are indicators of impairment.

n. Land and buildings

Land and buildings are freehold and leasehold investment properties held for long term rental yields and capital growth. Changes in fair value are recorded as unrealised gains or losses in the technical accounts.

All investment properties are valued annually at market value. They were valued as at 31 December 2006, by qualified professional valuers working for the company of DTZ Debenham Tie Leung, Chartered Surveyors, acting in the capacity of external valuers. All such valuers are Chartered Surveyors, being members of The Royal Institution of Chartered Surveyors. All valuations were carried out in accordance with the RICS Appraisal and Valuation Standards. The valuation reports are dated 5 January 2007.

No depreciation is provided in respect of freehold properties or leasehold properties with over twenty years to expiry. This is a departure from the requirements of the Regulations which requires all properties to be depreciated. Such properties are not held for consumption, but for investment. Depreciation is only one amongst many factors reflected in the annual valuation of properties and, accordingly, the amount of

depreciation which might otherwise have been charged cannot be separately identified or quantified. The directors consider that this policy results in the accounts giving a true and fair view.

o. Investments in group undertakings and participating interests

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

Investments in associated undertakings are accounted for as financial investments and are shown at their estimated current value. Movements in the value of associated undertakings are accounted for in line with the Society's accounting policy for unrealised gains and losses on investments designated as at fair value through the technical account – long term business.

p. Other financial investments

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 and re-evaluates at every reporting date.

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. 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 market value supplied 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. Changes in the fair value of derivative instruments are recognised immediately in unrealised gains on investments in the income statement for the period. These include forward foreign exchange contracts, financial futures, swap options, interest rate swap and cap contracts. There are no designated hedging relationships within the Group that qualify for hedge accounting.

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 and other loans.

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.

NOTES TO THE ACCOUNTS CONTINUED

31 December 2006

q. Present value of acquired in-force business

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

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

Any amortisation or impairment charge is recorded in the Group technical account – long term business in other technical charges.

r. Fixed assets

Fixed assets are depreciated on a straight line basis over their estimated useful lives. The periods used are as follows:

Land* Not depreciated

Freehold buildings* 50 years

Leasehold property* 10 years or lease term if shorter

Fixtures, fittings and motor vehicles 4 to 10 years

Provision is made for any impairments in fixed assets.

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

s. Fund for future appropriations

The fund for future appropriations represents the excess of assets over and above the long term business provision and other liabilities. It represents amounts that have yet to be formally declared as bonuses for the policyholders together with the free assets of the Society and Group. Any surplus or deficit arising through the technical accounts (for the Society and for the Group) is transferred to or from the fund.

t. Long term business provision

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

Participating business

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

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

Since the realistic liabilities include an allowance for future bonuses to with-profits policyholders that will be payable out of returns on non participating business, an 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.

The principal assumptions are given in note 20.

Non participating business

The provision is calculated to comply with the reporting requirements under the Integrated Prudential Sourcebook using a gross premium valuation method or a method at least as prudent as the gross premium method. The principal assumptions are given in note 20. The Society and relevant subsidiaries have adopted the modified statutory solvency basis approach in the determination of profit on non participating business.

Provisions for non participating business will either be included within the long term business provision, the technical provision for linked liability insurance contracts or the technical provision for linked liability investment contracts depending upon the product classification. The technical provision in respect of linked business is determined by reference to the value of the underlying assets that are held to meet those liabilities.

Changes to estimation technique

The determination of the long term business provision 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 new provisions have the following effects on determination of the long term business provision:

- allowance is made for a prudent lapse rate assumption for all classes of long term business (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 long term business, unless they are directly attributable to one particular contract (previously they were set at an individual contract level).

The effect of these changes together with other changes of assumption are discussed further in note 20.

NOTES TO THE ACCOUNTS CONTINUED

31 December 2006

u. 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.

v. Equalisation provision

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

w. Provision for bad and doubtful debts – banking

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

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

x. Pensions

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

y. 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 for the period over the period of the borrowings using the effective interest method.

NOTES TO THE ACCOUNTS CONTINUED

31 December 2006

2. Capital management

The Society retains capital within its Fund for Future Appropriations 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 2006								
Fund for future appropriations	1,410.1	–	–	–	1,410.1	–	(147.4)	1,262.7
Shareholder funds	–	–	–	491.2	491.2	264.6	(755.8)	–
Adjustments onto regulatory basis:								
FFA 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
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

Available Capital Resources 2005 restated

Fund for future appropriations	1,326.7	–	–	–	1,326.7	–	(154.3)	1,172.4
Shareholder funds	–	–	–	488.1	488.1	354.0	(842.1)	–
Adjustments onto regulatory basis:								
FFA adjustment	367.1	139.8	–	(0.1)	506.8	–	–	506.8
Adjustments to assets	(32.4)	(2.0)	–	(99.0)	(133.4)	(0.1)	–	(133.5)
Adjustment for subsidiary values	(185.7)	–	–	(194.1)	(379.8)	–	376.8	(3.0)
Other adjustments	(9.0)	–	–	–	(9.0)	–	6.0	(3.0)
Internal Loans	–	–	–	45.5	45.5	–	(45.5)	–
RNPFN Fund not available to the Group	–	(137.8)	–	–	(137.8)	–	–	(137.8)
Total Available Capital Resources	1,466.7	–	–	240.4	1,707.1	353.9	(659.1)	1,401.9

With-profits Liabilities on a Realistic Basis 2005

Options and guarantees	520.2	130.4	–	0.1	650.7	–	–	650.7
Other policyholder obligations	2,774.3	994.4	–	284.4	4,053.1	–	–	4,053.1
Total with-profits liabilities	3,294.5	1,124.8	–	284.5	4,703.8	–	–	4,703.8
Linked liabilities	–	–	293.0	77.2	370.2	–	–	370.2
Non participating life assurance	7.0	–	299.1	277.0	583.1	–	–	583.1
Technical provision in the balance sheet	3,301.5	1,124.8	592.1	638.7	5,657.1	–	–	5,657.1

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 LVLC.

NOTES TO THE ACCOUNTS CONTINUED

31 December 2006

2. Capital management (continued)

Movements in capital during the year are analysed below.

	Society's With-profits business (1)	RNPFN With-profits business	RNPFN non participating	Other non participating (2)	Total Life Business	Other Activities	Consolidation Adjustments	Group Total
	£m	£m	£m	£m	£m	£m	£m	£m
Movements in capital								
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 £1,496.2 million (2005 restated: £1,401.9 million), representing the aggregation of the solvency capital of all group businesses. This capital is available to meet risks and regulatory requirements set by reference to regulatory guidance as prescribed by the FSA.

For the Group's with-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 include only amounts relating to policyholders.

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

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

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

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.

NOTES TO THE ACCOUNTS CONTINUED

31 December 2006

2. Capital management (continued)

Sensitivity analysis

i) Sensitivity of Society funds

The sensitivity of the Society's fund for future appropriations at 31 December 2006 to a 20% fall in global equity markets or a fall in fixed interest yields of 17.5% is as follows:

	2006	Equities down 20%	Fixed interest yields down 17.5%	2005	Equities down 20%	Fixed interest yields down 17.5%
	£m	£m	£m	£m	£m	£m
Long-term savings	3,278.9	3,059.8	3,400.0	3,550.0	3,348.0	3,641.0

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

ii) Sensitivity of insurance liabilities

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

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

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

Financial guarantees and options

a) With-profits business

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

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

The material guarantees and options in with-profits 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.

NOTES TO THE ACCOUNTS CONTINUED

31 December 2006

3. Risk management and control

The Society 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 Liverpool Victoria Group recognises the critical importance of having efficient and effective risk management systems in place and these take the form of:

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

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.

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.

Sensitivity analysis for the change in long term business provision for insurance contracts

	£m
Increase in mortality rates by 5%	(9.9)
Increase in morbidity rates by 5%	18.0
Persistency reduces by 5%	(30.3)
Increase in expenses by 10%	34.9

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.

Sensitivity analysis for the change in the outstanding claims provisions

	£m
Single storm event (1 in 200 year probability)	(35.0)
Subsidence event (based on worst year to date)	(5.0)
Increase in substantial personal injury claims by 10%	(13.0)
Increase in major accidents on a single policy	(2.5)

NOTES TO THE ACCOUNTS CONTINUED

31 December 2006

3. Risk management and control (continued)

b. 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 on contractual obligations. For with-profits contracts the aim is to achieve growth in excess of its obligations.

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.

The table below summarises the Group's exposure to interest rates for assets and liabilities based on contractual maturity or repricing date. Financial assets and liabilities which are not exposed to interest rate risk are not included.

Interest rate risk exposure 2006	Within 1 year		1 – 5 years		5 – 15 years		15 – 25 years		> 25 years	
	£m	%	£m	%	£m	%	£m	%	£m	%
Debt and other fixed income securities										
– fixed rate	147.5	7.0	368.3	5.0	935.6	6.0	317.9	5.7	380.5	4.4
– variable rate	–	–	49.9	6.4	31.2	6.1	–	–	67.2	6.5
Other	35.7	–	–	–	–	–	–	–	–	–
Deposits with credit institutions	581.6	5.0	–	–	–	–	–	–	–	–
Loans secured by mortgages	0.1	9.3	0.4	9.3	0.2	9.3	–	–	–	–
Loans secured by policies	1.9	9.7	–	–	–	–	–	–	–	–
Other loans	262.7	7.8	240.5	7.8	11.5	7.8	–	–	–	–
	1,029.5		659.1		978.5		317.9		447.7	

Interest rate risk exposure 2005	Within 1 year		1 – 5 years		5 – 15 years		15 – 25 years		> 25 years	
	£m	%	£m	%	£m	%	£m	%	£m	%
Debt and other fixed income securities										
– fixed rate	59.2	6.6	191.4	7.7	1,366.8	8.3	428.4	6.7	231.4	5.3
– variable rate	14.8	8.0	25.1	3.8	36.4	6.5	–	–	51.5	6.7
Other	55.9	–	–	–	–	–	–	–	–	–
Deposits with credit institutions	572.3	4.5	–	–	–	–	–	–	–	–
Loans secured by mortgages	0.2	9.3	0.7	9.3	0.5	9.3	–	–	–	–
Loans secured by policies	2.3	9.7	–	–	–	–	–	–	–	–
Other loans	390.3	8.0	297.8	8.0	14.8	8.0	–	–	–	–
	1,095.0		515.0		1,418.5		428.4		282.9	

NOTES TO THE ACCOUNTS CONTINUED

31 December 2006

3. Risk management and control (continued)

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.

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

	2006					2005				
	Euro	US Dollar	Yen	Other	Total	Euro	US Dollar	Yen	Other	Total
Equity securities	344.7	231.6	182.4	109.5	868.2	222.8	237.2	197.2	149.5	806.7
Debt securities	8.4	5.1	4.7	–	18.2	9.4	5.3	6.9	–	21.6
	353.1	236.7	187.1	109.5	886.4	232.2	242.5	204.1	149.5	828.3

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).

Sensitivity analysis for the change in long term business provision for insurance contracts

	£m
Reduction in equity values by 20%	(272.3)
Property values fall by 12.5%	(64.6)
Fixed interest yields fall by 17.5% of the 15 year gilt yield	155.8

c. 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.

The table below shows the credit profile of the Group's assets.

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							
– fixed rate	1,883.9	84.8	113.4	67.1	–	0.6	2,149.8
– variable rate	73.5	30.7	31.8	12.3	–	–	148.3
Other	–	–	–	–	–	35.7	35.7
Deposits with credit institutions	202.8	378.8	–	–	–	–	581.6
Loans secured by mortgages	–	–	–	–	–	0.7	0.7
Loans secured by policies	–	–	–	–	–	1.9	1.9
Other loans	–	–	–	–	–	514.7	514.7
	2,160.2	494.3	145.2	79.4	–	553.6	3,432.7
Reinsurance assets							
– non linked	–	55.7	–	5.1	0.7	2.4	63.9
– linked	–	1.0	–	–	–	–	1.0
	2,160.2	551.0	145.2	84.5	0.7	556.0	3,497.6

NOTES TO THE ACCOUNTS CONTINUED

31 December 2006

3. Risk management and control (continued)

Credit risk exposure 2005	AAA £m	AA £m	A £m	BBB £m	Below BBB £m	Not rated £m	Total £m
Debt and other fixed income securities							
– fixed rate	2,139.4	39.7	61.6	30.4	0.1	5.5	2,276.7
– variable rate	72.8	24.5	25.9	5.1	–	–	128.3
Other	–	–	–	–	–	55.9	55.9
Deposits with credit institutions	204.3	368.0	–	–	–	–	572.3
Loans secured by mortgages	–	–	–	–	–	1.4	1.4
Loans secured by policies	–	–	–	–	–	2.3	2.3
Other loans	–	–	–	–	–	702.9	702.9
	2,416.5	432.2	87.5	35.5	0.1	768.0	3,739.8
Reinsurance assets							
– non linked	–	123.3	–	6.9	–	2.4	132.6
– linked	–	5.4	–	–	–	–	5.4
	2,416.5	560.9	87.5	42.4	0.1	770.4	3,877.8

d. 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.

e. 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 Liverpool Victoria 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 & Compliance Committee and Board.

NOTES TO THE ACCOUNTS CONTINUED

31 December 2006

4. Earned premiums segmental analysis

All business is written in the UK.

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

	Gross premiums written		Gross premiums earned	
	2006 £m	2005 £m	2006 £m	2005 £m
Motor	226.1	260.9	243.1	267.8
Property damage	115.0	114.3	116.0	111.0
Other	9.7	11.5	10.1	12.8
	350.8	386.7	369.2	391.6

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

	Group		Society		
	2006 £m	2005 £m	2006 £m	2005 £m	
Single premiums					
Investments and savings	– with-profits	13.9	15.7	13.5	15.1
Pensions and annuities	– with-profits	3.3	5.8	3.3	5.8
	– non participating	11.6	10.6	–	–
Life and health protection	– non participating	0.4	0.5	–	–
		29.2	32.6	16.8	20.9
Periodic premiums					
Investments and savings	– with-profits	108.4	116.5	60.6	60.8
	– non participating	0.1	0.1	–	–
	– unit linked	13.1	15.0	–	–
Pensions and annuities	– with-profits	18.3	20.4	10.2	11.5
	– non participating	8.4	8.1	–	–
	– unit linked	0.5	0.5	–	–
Life and health protection	– with-profits	16.6	18.5	14.1	15.4
	– non participating	82.9	76.5	0.8	0.9
	– unit linked	15.5	16.3	–	–
		263.8	271.9	85.7	88.6
		293.0	304.5	102.5	109.5

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

	Group		Society		
	2006 £m	2005 £m	2006 £m	2005 £m	
Single premiums					
Investments and savings	– with-profits	13.9	15.7	13.5	15.1
Pensions and annuities	– with-profits	3.3	5.8	3.3	5.8
	– non participating	11.6	10.6	–	–
Life and health protection	– non participating	0.4	0.5	–	–
		29.2	32.6	16.8	20.9
Periodic premiums					
Investments and savings	– with-profits	4.3	4.5	4.3	4.5
Pensions and annuities	– with-profits	0.5	0.5	0.5	0.5
	– non participating	3.2	0.1	–	–
Life and health protection	– non participating	11.3	14.1	–	–
	– unit linked	2.9	3.6	–	–
		22.2	22.8	4.8	5.0
		51.4	55.4	21.6	25.9

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.

NOTES TO THE ACCOUNTS CONTINUED

31 December 2006

5. Segmental reporting

	Turnover		Surplus/(deficit) of technical income over technical charges before taxation		Net assets	
	2006	2005	2006	2005	2006	2005
	£m	£m	£m	Restated £m	£m	Restated £m
Long term business	293.0	304.5	223.1	173.3	6,225.1	6,230.8
General insurance	350.8	386.7	(19.1)	20.7	104.8	127.9
Banking	36.3	43.2	(78.7)	(30.4)	4.1	61.8
Financial intermediary	6.3	7.1	(12.1)	(4.4)	5.8	5.7
Other	52.8	71.7	(6.7)	46.4	45.0	33.1
	739.2	813.2	106.5	205.6	6,384.8	6,459.3

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

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

Net assets for long term business and Group represent the fund for future appropriations combined with the long term business provision net of reinsurance.

6. Movement in prior year's technical provision for claims outstanding – general business

Included within claims incurred is a release of £40.6m in respect of motor insurance business (2005: £16.3m) and a release of £14.4m in respect of property insurance business (2005: £1.0m), 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.

7a. Investment income

	Group technical account long term business		Society technical account long term business		Group non-technical account	
	2006	2005	2006	2005	2006	2005
	£m	Restated £m	£m	£m	£m	£m
Land and buildings	33.9	38.0	30.6	32.9	–	–
Investments at fair value through profit and loss	238.0	193.0	141.1	105.9	8.1	11.4
Investments not at fair value through profit and loss	54.3	63.1	10.9	11.0	29.1	25.3
Gains on realisation of investments at fair value through profit and loss	391.6	292.0	314.2	234.0	–	–
Pension scheme income	15.7	10.2	15.7	10.2	–	–
	733.5	596.3	512.5	394.0	37.2	36.7

7b. Investment expenses and charges

	Group technical account long term business		Society technical account long term business		Group non-technical account	
	2006	2005	2006	2005	2006	2005
	£m	Restated £m	£m	£m	£m	£m
Investment management expenses and charges	6.7	5.8	3.9	5.0	2.3	3.3
Interest payable	3.6	7.5	–	–	–	–
Losses on realisation of investments	–	–	–	–	2.7	4.5
	10.3	13.3	3.9	5.0	5.0	7.8

NOTES TO THE ACCOUNTS CONTINUED

31 December 2006

7c. Investment activity account

		Group technical account long term business		Society technical account long term business		Group non-technical account	
		2006	2005 Restated	2006	2005	2006	2005
		£m	£m	£m	£m	£m	£m
Investment income	7a	733.5	596.3	512.5	394.0	37.2	36.7
Net unrealised investment (losses)/gains		(119.9)	461.4	(64.9)	326.9	(0.7)	2.7
Investment expenses and charges	7b	(10.3)	(13.3)	(3.9)	(5.0)	(5.0)	(7.8)
Investment return for the year		603.3	1,044.4	443.7	715.9	31.5	31.6

8. Expenses

a. Group – general business – net operating expenses

	2006 £m	2005 £m
Acquisition costs	26.6	29.2
Movement in deferred acquisition costs	3.4	(2.0)
Administrative expenses	59.1	34.9
	89.1	62.1

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

	Group		Society	
	2006 £m	2005 Restated £m	2006 £m	2005 Restated £m
Acquisition costs	45.1	51.3	6.9	15.0
Movement in deferred acquisition costs	(7.3)	(7.5)	–	–
Administrative expenses	180.4	120.8	71.0	87.2
	218.2	164.6	77.9	102.2

Net operating expenses are stated after crediting management charges of £91.0m (2005: £86.4m) in the Society in respect of the administration of its subsidiaries.

Net operating expenses include £68.0m (2005: £4.2m) for Group and £21.3m (2005: £0.1m) for Society in respect of ongoing losses on uneconomic contracts relating to banking, unused premises and outsourcing.

c. Costs incurred during the year included the following:

	Group		Society	
	2006 £m	2005 Restated £m	2006 £m	2005 Restated £m
Depreciation on tangible fixed assets	0.8	1.2	0.4	0.6
Operating lease rental charges:				
– Land and buildings	3.5	3.4	0.7	0.7

d. Auditor's remuneration

	Group		Society	
	2006 £m	2005 £m	2006 £m	2005 £m
Audit fees – accounts	0.5	0.5	0.3	0.3
Other services supplied pursuant to legislation - Financial Services Authority returns	0.5	0.5	0.2	0.2
Total audit fees	1.0	1.0	0.5	0.5
Tax fees	–	–	–	–
Actuarial fees	–	–	–	–
All other services	–	0.1	–	0.1
	1.0	1.1	0.5	0.6

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

NOTES TO THE ACCOUNTS CONTINUED

31 December 2006

9. Staff costs

	Group		Society	
	2006 £m	2005 £m	2006 £m	2005 £m
Wages and salaries	47.4	50.8	47.4	50.8
Social security costs	3.9	4.1	3.9	4.1
Other pension costs	10.1	10.2	10.1	10.2
	61.4	65.1	61.4	65.1

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

	Group		Society	
	2006 Number	2005 Number	2006 Number	2005 Number
Member contact	1,417	1,397	1,417	1,397
Administration	322	491	322	491
	1,739	1,888	1,739	1,888

10. Directors' emoluments

The aggregate amount of directors' emoluments was as follows:

	2006 £m	2005 £m
a. Aggregate emoluments	1.5	1.3
b. Contributions to money purchase pension schemes	–	0.1

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

	Salary £'000	Bonus £'000	Other Benefits £'000	Total 2006 £'000	Total 2005 £'000
M.J. Rogers	270	146	101	517	–
S.M. Daniels	205	65	10	280	389
I.D. Cordwell	217	50	25	292	246
J.T. Woolhouse*	273	–	–	273	111
B.M. Rose	58	–	–	58	42
G. Nott	43	–	–	43	22
M.E. Austen	11	–	–	11	–
D. Holt	11	–	–	11	–
M.L. Berryman	–	–	–	–	428
S.A. Maran	–	–	–	–	58
N. McAndrew	–	–	–	–	16
	1,088	261	136	1,485	1,312

* £175,000 reflects additional payments made whilst acting as Group Chief Executive as well as Chairman.

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.

Compensation for loss of office payments in 2005 were £481,000 and are not included in the table above.

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

Funded unapproved retirement benefit scheme	2006 £'000	2005 £'000
M.L. Berryman	–	80

d. Pension arrangements

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

The Society makes contributions to the Liverpool Victoria (1994) Staff Pension Scheme of 7.2% of pensionable salaries (2005: 7.2%) in respect of all permanent staff, including executive directors.

Accrued pension at end of period	2006 £'000	2005 £'000
S.M. Daniels	64	60
I.D. Cordwell	42	38

NOTES TO THE ACCOUNTS CONTINUED

31 December 2006

11. Taxation

Group	2006 £m	2005 £m
Current year:		
Corporation tax	9.6	21.4
Deferred tax	10.6	61.4
Prior year:		
Corporation tax	(4.0)	0.5
	16.2	83.3
<hr/>		
Society	2006 £m	2005 £m
Current year:		
Corporation tax at 20%	9.6	7.2
Deferred tax at 20%	9.4	61.2
Prior year:		
Corporation tax	–	0.5
	19.0	68.9

12. Goodwill

	Group £m	Society £m
Cost:		
At 1 January 2006	71.5	50.9
Additions	9.9	–
At 31 December 2006	81.4	50.9
Amortisation:		
At 1 January 2006	39.1	18.5
Charge for the year	4.6	4.6
Impairment in year	9.9	–
At 31 December 2006	53.6	23.1
Net book value at 31 December 2006	27.8	27.8
Net book value at 31 December 2005	32.4	32.4

Additions and impairment for the year are explained in note 28.

NOTES TO THE ACCOUNTS CONTINUED

31 December 2006

13. Land and buildings

Group	Market value		Cost	
	2006 £m	2005 £m	2006 £m	2005 £m
Freeholds	596.2	576.6	351.1	376.3
Long leaseholds	158.6	182.1	115.8	139.8
	754.8	758.7	466.9	516.1

Society	Market value		Cost	
	2006 £m	2005 £m	2006 £m	2005 £m
Freeholds	531.5	502.5	312.0	323.2
Long leaseholds	158.6	182.1	115.8	139.8
	690.1	684.6	427.8	463.0

Owner occupied properties in the Group, not held as investments, are shown in note 18.

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

	Group		Society	
	2006 £m	2005 £m	2006 £m	2005 £m
At 1 January	758.7	697.8	684.6	580.6
Additions	118.6	83.0	118.6	83.0
Disposals	(223.1)	(120.9)	(203.4)	(62.9)
Revaluation adjustment	100.6	98.8	90.3	83.9
At 31 December	754.8	758.7	690.1	684.6

14. Investments in group undertakings and participating interests

Society	2006 £m	2005 £m
Shares in subsidiaries		
Cost less provisions at 1 January	543.9	544.1
Additions	19.3	0.2
Impairment write off	(10.1)	(0.4)
	553.1	543.9
Loan stock in subsidiaries		
Cost at 1 January	45.5	45.5
Redemption	(5.0)	–
	40.5	45.5
Shares and loan stock in subsidiaries at 31 December	593.6	589.4

In accordance with Financial Reporting Standard 11 “Impairment of Fixed Assets and Goodwill”, the Society has examined the carrying value of its subsidiaries and after an impairment write off of £10.1m no further provision for impairment was considered necessary.

NOTES TO THE ACCOUNTS CONTINUED

31 December 2006

15. Other financial investments

Group	2006				2005 Restated			
	Assets held to cover linked investment contracts £m	Other investments held £m	Assets held to cover linked liability insurance contracts £m	Total financial investments £m	Assets held to cover linked investment contracts £m	Other investments held £m	Assets held to cover linked liability insurance contracts £m	Total financial investments £m
Fair value through profit or loss								
Shares, other variable yield securities and units in unit trusts								
– UK listed	151.4	2,303.6	96.4	2,551.4	151.9	2,105.9	92.6	2,350.4
– UK unlisted	–	29.5	–	29.5	–	32.6	–	32.6
– Overseas listed	–	798.0	–	798.0	–	737.3	–	737.3
– Overseas unlisted	–	70.2	–	70.2	–	69.4	–	69.4
Debt and other fixed income securities								
– UK listed	14.3	2,152.3	78.9	2,245.5	13.5	2,256.0	81.8	2,351.3
– Overseas listed	10.8	34.8	7.0	52.6	13.1	32.4	8.2	53.7
Other	0.4	35.0	0.3	35.7	0.8	54.6	0.5	55.9
	176.9	5,423.4	182.6	5,782.9	179.3	5,288.2	183.1	5,650.6

Loans and receivables

Deposits with credit institutions	1.7	578.8	1.1	581.6	4.8	564.5	3.0	572.3
Loans secured by mortgages	–	0.7	–	0.7	–	1.4	–	1.4
Loans secured by policies	–	1.9	–	1.9	–	2.3	–	2.3
Other loans	–	514.7	–	514.7	–	702.9	–	702.9
	1.7	1,096.1	1.1	1,098.9	4.8	1,271.1	3.0	1,278.9
	178.6	6,519.5	183.7	6,881.8	184.1	6,559.3	186.1	6,929.5

Society	2006				2005 Restated			
	Assets held to cover linked investment contracts £m	Other investments held £m	Assets held to cover linked liability insurance contracts £m	Total financial investments £m	Assets held to cover linked investment contracts £m	Other investment held £m	Assets held to cover linked liability insurance contracts £m	Total financial investments £m
Fair value through profit or loss								
Shares, other variable yield securities and units in unit trusts								
– UK listed	–	1,735.8	–	1,735.8	–	1,642.9	–	1,642.9
– UK unlisted	–	29.5	–	29.5	–	32.6	–	32.6
– Overseas listed	–	798.0	–	798.0	–	737.3	–	737.3
– Overseas unlisted	–	70.2	–	70.2	–	69.4	–	69.4
Debt and other fixed income securities								
– UK listed	–	774.7	–	774.7	–	733.0	–	733.0
– Overseas listed	–	26.2	–	26.2	–	23.2	–	23.2
Other	–	12.7	–	12.7	–	29.7	–	29.7
	–	3,447.1	–	3,447.1	–	3,268.1	–	3,268.1
Loans and receivables								
Deposits with credit institutions	–	81.2	–	81.2	–	176.6	–	176.6
Loans secured by policies	–	0.6	–	0.6	–	0.7	–	0.7
Other loans	–	1.6	–	1.6	–	1.7	–	1.7
	–	83.4	–	83.4	–	179.0	–	179.0
	–	3,530.5	–	3,530.5	–	3,447.1	–	3,447.1

NOTES TO THE ACCOUNTS CONTINUED

31 December 2006

15. Other financial investments Continued

Group	2006				2005 Restated			
	Assets held to cover linked investment contracts £m	Other investments held £m	Assets held to cover linked liability insurance contracts £m	Total financial investments £m	Assets held to cover linked investment contracts £m	Other investments held £m	Assets held to cover linked liability insurance contracts £m	Total financial investments £m
Cost								
Shares, other variable yield securities and units in unit trusts								
– UK listed	117.6	1,803.2	76.2	1,997.0	119.3	1,622.7	73.9	1,815.9
– UK unlisted	–	63.0	–	63.0	–	33.7	–	33.7
– Overseas listed	–	682.7	–	682.7	–	584.0	–	584.0
– Overseas unlisted	–	99.5	–	99.5	–	93.3	–	93.3
Debt and other fixed income securities								
– UK listed	11.1	2,186.0	71.3	2,268.4	10.6	2,164.4	72.2	2,247.2
– Overseas listed	8.8	35.2	5.7	49.7	10.7	30.2	6.6	47.5
Other	0.3	34.1	0.2	34.6	0.6	51.1	0.4	52.1
	137.8	4,903.7	153.4	5,194.9	141.2	4,579.4	153.1	4,873.7
Deposits with credit institutions	1.7	578.8	1.1	581.6	4.8	564.5	3.0	572.3
Loans secured by mortgages	–	0.7	–	0.7	–	1.4	–	1.4
Loans secured by policies	–	1.9	–	1.9	–	2.3	–	2.3
Other loans	–	514.7	–	514.7	–	702.9	–	702.9
	1.7	1,096.1	1.1	1,098.9	4.8	1,271.1	3.0	1,278.9
	139.5	5,999.8	154.5	6,293.8	146.0	5,850.5	156.1	6,152.6

Society	2006				2005 Restated			
	Assets held to cover linked investment contracts £m	Other investments held £m	Assets held to cover linked liability insurance contracts £m	Total financial investments £m	Assets held to cover linked investment contracts £m	Other investments held £m	Assets held to cover linked liability insurance contracts £m	Total financial investments £m
Cost								
Shares, other variable yield securities and units in unit trusts								
– UK listed	–	1,377.4	–	1,377.4	–	1,276.9	–	1,276.9
– UK unlisted	–	63.0	–	63.0	–	33.7	–	33.7
– Overseas listed	–	682.7	–	682.7	–	584.0	–	584.0
– Overseas unlisted	–	99.5	–	99.5	–	93.3	–	93.3
Debt and other fixed income securities								
– UK listed	–	780.3	–	780.3	–	697.1	–	697.1
– Overseas listed	–	26.4	–	26.4	–	21.7	–	21.7
Other	–	11.6	–	11.6	–	26.8	–	26.8
	–	3,040.9	–	3,040.9	–	2,733.5	–	2,733.5
Deposits with credit institutions	–	81.2	–	81.2	–	176.6	–	176.6
Loans secured by policies	–	0.6	–	0.6	–	0.7	–	0.7
Other loans	–	1.6	–	1.6	–	1.7	–	1.7
	–	83.4	–	83.4	–	179.0	–	179.0
	–	3,124.3	–	3,124.3	–	2,912.5	–	2,912.5

Listed investments include unit trusts and open ended investment companies.

For loans and receivables at amortised cost the carrying value is a reasonable approximation of fair value.

Included within Other are derivatives that are used within the Group 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.

NOTES TO THE ACCOUNTS CONTINUED

31 December 2006

15. Other financial investments Continued

	2006		2005	
	Contract/notional amount £m	Fair value £m	Contract/notional amount £m	Fair value £m
Interest rate swaps	85.0	0.4	112.5	(0.8)
Interest rate caps	110.6	0.9	56.7	0.4
Swap options	228.3	9.2	241.7	12.0
	423.9	10.5	410.9	11.6

Included within Other loans for the Group are loans subject to securitised unsecured loans to banking customers. The maturity of these loans is analysed below:

Group	2006 £m	2005 £m
Remaining maturity		
– Over five years	29.7	51.4
– Five years or less but over one year	300.9	428.6
– One year or less but over three months	113.9	154.6
– Three months or less	41.4	52.8
– On demand	27.2	13.8
	513.1	701.2

Loans subject to securitisation amount to £307m (2005: £364m). 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 £295m (2005: £350m). The £12m (2005: £14m) 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	2006 £m	2005 £m
Interest receivable and similar income	22.5	25.1
Interest payable	(17.6)	(18.9)
Impairment losses on loans and advances	(15.0)	(18.7)

These are included within Investment income and Investment expenses and charges within the Long Term Technical Account.

16. Present value of acquired in-force business

Group	£m
Cost:	
At 1 January and 31 December 2006	63.4
Amortisation:	
At 1 January 2006	16.0
Charge for the year	2.9
At 31 December 2006	18.9
Net book value at 31 December 2006	44.5
Net book value at 31 December 2005	47.4

NOTES TO THE ACCOUNTS CONTINUED

31 December 2006

17. Other debtors

	Group		Society	
	2006 £m	2005 £m	2006 £m	2005 £m
Amounts due within one year				
Amounts due from group undertakings	–	–	5.0	57.1
Corporation tax	3.2	–	3.8	–
Other	25.6	24.4	6.5	6.5
	28.8	24.4	15.3	63.6
Amounts due after one year				
Deferred taxation	–	0.1	–	–
Other	19.5	23.2	19.5	17.2
	48.3	47.7	34.8	80.8

For other debtors at amortised cost the carrying value is a reasonable approximation of fair value.

18. Tangible assets

Group	Freehold property £m	Leasehold property, long £m	Leasehold property, short £m	Fixtures, fittings and motor vehicles £m	Total £m
Cost:					
At 1 January 2006 (restated)	2.8	9.7	2.1	4.4	19.0
Additions	–	2.0	0.1	–	2.1
Disposals	–	–	(0.2)	(0.3)	(0.5)
At 31 December 2006	2.8	11.7	2.0	4.1	20.6
Depreciation:					
At 1 January 2006 (restated)	1.3	6.8	1.0	4.1	13.2
Provided in the year	–	0.3	0.3	0.2	0.8
Disposals	–	–	(0.1)	(0.3)	(0.4)
At 31 December 2006	1.3	7.1	1.2	4.0	13.6
Net book value at 31 December 2006	1.5	4.6	0.8	0.1	7.0
Net book value at 31 December 2005 (restated)	1.5	2.9	1.1	0.3	5.8
Society					
Cost:					
At 1 January 2006 (restated)			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 (restated)			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
Net book value at 31 December 2005 (restated)			1.1	0.3	1.4

NOTES TO THE ACCOUNTS CONTINUED

31 December 2006

19. Fund for future appropriations and long term business provision

Group	2006			2005		
	Fund for future appropriations	Long term business provision	Total	Fund for future appropriations Restated	Long term business provision	Total Restated
	£m	£m	£m	£m	£m	£m
Balance at 1 January as previously stated	1,172.4	5,419.5	6,591.9	1,052.2	4,977.2	6,029.4
Restated for fixed asset prior year adjustment	-	-	-	(0.7)	-	(0.7)
Restated for FRS 26	-	-	-	(1.4)	-	(1.4)
Balance at 1 January as restated	1,172.4	5,419.5	6,591.9	1,050.1	4,977.2	6,027.3
Change in the year	90.3	(233.5)	(143.2)	122.3	406.3	528.6
Acquisition	-	-	-	-	36.0	36.0
Balance at 31 December as restated	1,262.7	5,186.0	6,448.7	1,172.4	5,419.5	6,591.9

Society	2006			2005		
	Fund for future appropriations	Long term business provision	Total	Fund for future appropriations	Long term business provision	Total
	£m	£m	£m	£m	£m	£m
Balance at 1 January	1,326.7	3,586.2	4,912.9	1,247.1	3,267.8	4,514.9
Restated for fixed asset prior year adjustment	-	-	-	(0.7)	-	(0.7)
Balance at 1 January as restated	1,326.7	3,586.2	4,912.9	1,246.4	3,267.8	4,514.2
Change in the year	83.4	(16.1)	67.3	80.3	318.4	398.7
Balance at 31 December as restated	1,410.1	3,570.1	4,980.2	1,326.7	3,586.2	4,912.9

The fund for future appropriations and long term business provisions have been restated for changes in accounting policy triggered by FRS 26 "Financial instruments: recognition and measurement" and the change in accounting policy in respect of fixed asset computers and equipment.

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

20. Long term business provision

The basis of the calculation of the long term business provision is described in note 1t. The long term business provision is calculated separately for each life operation. Material judgement is required in calculating the long term business provision. In particular there is discretion over the assumptions used. For participating business, the long term business provision is calculated in accordance with the FSA's realistic capital regime, adjusted to exclude the shareholder's share of the future bonuses 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 long term business provision depend on the circumstances prevailing in each of the life operations. The assumptions used in determining the long term business provision are estimated to give a result within the normal range of outcomes. To the extent that the ultimate cost differs to the amounts provided, for example where experience is worse than that assumed, the surplus or deficit will be credited or charged to the technical account in future years.

When valuing options and guarantees the asset model used was the 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 2006 representative of the nature and term of the guarantees inherent in with-profits business within the with-profits funds.

NOTES TO THE ACCOUNTS CONTINUED

31 December 2006

20. Long term business provision Continued

a) Society

i) Participating business

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

Interest Rates

The risk free interest rates assumed are:

Year	2006	2005
5	5.12%	4.34%
15	4.63%	4.18%
25	4.29%	4.14%
35	4.04%	4.12%

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% (2005: RPI plus 1.0%), where RPI is modelled as the nominal yields on cash less 0.8% (2005: cash less 0.8%).

Asset mix for assets backing asset shares at the valuation date:	2006	2005
Cash	6.0%	7.0%
Fixed interest	19.0%	20.0%
Equities	60.0%	58.0%
Property	15.0%	15.0%

Mortality rate tables	2006	2005
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	90% RM/FV92mc (YoB)	90% RM/FV92mc (YoB)

Per policy expenses – regular premiums	2006	2005
Conventional Life Business	£15.20	£15.20
Conventional Pensions Business	£20.20	£17.70
Conventional Industrial Branch Business	£15.40	£18.50
Non Unitised Accumulating Pensions Business	£10.20	£10.20
Unitised Accumulating Life Business	£32.40	£32.40
Unitised Accumulating Pensions Business	£41.80	£41.80
Unitised Accumulating Bond Business	£22.60	£22.60
Unitised Accumulating Life ISA Business	£32.40	£32.40
Annuities in Payment	£23.60	£17.00

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

NOTES TO THE ACCOUNTS CONTINUED

31 December 2006

20. Long term business provision Continued

Persistency – lapses, surrenders and paid up rates

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

Options and guarantees

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

Bonuses

The cost of bonuses incurred during the year ended 31 December 2006 was £83.7m (2005: £83.5m) of which £10.0m (2005: £31.6m) was included in the long term business provision and £73.7m (2005: £51.9m) was included in claims paid.

ii) Non participating business

Interest rate	2006	2005
Non-profit temporary assurances	5.30%	4.80%

Mortality rate tables	2006	2005
Non-profit temporary assurances	A67/70	A67/70

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

Options and guarantees

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

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

i) Participating business

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

Interest Rates

The risk free interest rates assumed are:

Year	2006	2005
5	5.12%	4.34%
15	4.63%	4.18%
25	4.29%	4.14%
35	4.04%	4.12%

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% (2005: RPI plus 1.0%), where RPI is modelled as the nominal yields on cash less 0.8% (2005: cash less 0.8%).

Asset mix for assets backing asset shares at the valuation date:	2006	2005
Equities	100.0%	100.0%

Mortality rate tables	2006	2005
Conventional Life Business	75% AM80	75% AM80
Reassurance Accepted Unitised Life Business	80% AM/F80	80% AM/F80

Per policy expenses – regular premiums	2006	2005
Conventional Life Business	£15.20	£15.20
Reassurance Accepted Unitised Life Business	£22.60	£22.60

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

NOTES TO THE ACCOUNTS CONTINUED

31 December 2006

20. Long term business provision Continued

Persistency – lapses, surrenders and paid up rates

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

Options and Guarantees

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

Bonuses

The cost of bonuses incurred during the year ended 31 December 2006 was £nil (2005: £0.1m) which was included in claims paid.

ii) Non participating business

Interest rate	2006	2005
Non-profit temporary assurances	3.12%	2.88%
Other assurances	3.12%	2.88%
Permanent health insurance:		
a) active lives	3.90%	3.60%
b) claims reserves	4.15%	3.70%
Annuities in payment	4.15%	2.96%
Mortality rate tables	2006	2005
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 both years standard inception/termination methodology was used for PHI business. Appropriate adjustments were made to the standard mortality/morbidity tables to take account of actual experience, reinsurers data and publicly available market data. Critical illness risk is based upon reinsurance rates.

Options and guarantees

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

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 had the effect of decreasing the long term business provision by £101.1m and reducing the charge in the long term technical account – life by £101.1m.

iii) Linked fund

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

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 2006 and 2005. They are included within the technical provision for linked liability insurance contracts.

Interest rate	2006	2005
Non-profits temporary assurances	0.32%	0.28%
Permanent health insurance		
a) active lives	1.10%	1.00%
b) claims reserves	1.35%	1.10%

NOTES TO THE ACCOUNTS CONTINUED

31 December 2006

20. Long term business provision Continued

c) Liverpool Victoria Life Company Limited – RNPFN fund

i) Participating business

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

Interest Rates

The risk free interest rates assumed are:

Year	2006	2005
5	5.12%	4.34%
15	4.63%	4.18%
25	4.29%	4.14%
35	4.04%	4.12%

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% (2005: RPI plus 1.0%), where RPI is modelled as the nominal yields on cash less 0.8% (2005: cash less 0.8%).

Asset mix for assets backing asset shares at the valuation date:	2006	2005
Cash	7.6%	5.3%
Gilts	46.4%	73.3%
Corporate bonds	15.8%	0.0%
Equities	24.3%	14.9%
Property	5.9%	6.5%

Mortality rate tables

	2006	2005
Conventional Life Business	AM92/AF92 ult.	AM92/AF92 ult.
Life Deferred Annuities	AM92/AF92 ult.	AM92/AF92 ult.
Pension Deferred annuities	AM92/AF92 ult.	AM92/AF92 ult.
Unitised with-profits Business	A67/70 ult.	A67/70 ult.
Annuities in payment	95% RV92av mc/lc c2026	95% RV92av mc/lc c2026

Per policy expenses – regular premiums

	2006	2005
Conventional Life Business	£13.19	£12.52
Pensions Deferred annuities	£24.70	£23.46
Life Deferred annuities	£12.70	£12.06
Unitised with-profits ISA	£12.89	£12.23
Unitised with-profits bond	£13.19	£12.52

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 £87.0m (2005: £91.7m).

Bonuses

The cost of bonuses incurred during the year ended 31 December 2006 was £21.1m (2005: £11.0m) of which £1.7m (2005: £1.8m) was included in the long term business provision and £19.4m (2005: £9.2m) was included in claims paid.

NOTES TO THE ACCOUNTS CONTINUED

31 December 2006

20. Long term business provision Continued

ii) Non participating business

Interest rate	2006	2005
Non-profits assurances	3.26%	3.00%
Non-profits general deferred annuities	3.26%	3.00%
Annuities in Payment (post 31/12/91)	3.26%	3.00%
Annuities in Payment (other)	4.08%	3.75%
Pension Deferred Annuities	4.08%	3.75%

Mortality rate tables	2006	2005
Non-profits assurances	A49/52	A49/52
Non-profits general deferred annuities	No mortality	No mortality
Annuities in Payment (post 31/12/91)	90% RV92av mc/lc	90% RV92av mc/lc
Annuities in Payment (other)	90% RV92av mc/lc	90% RV92av mc/lc
Pension Deferred Annuities	No mortality	No mortality

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

The provision for linked and unitised with-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 long term business provision.

Options and guarantees

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

iii) Linked fund

The technical 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 provision is included within the technical provision for linked liability investment contracts, the other is classified as an insurance product and the provision is included within the technical provision for linked liability insurance contracts.

Interest rate	2006	2005
Unit linked assurances	3.26%	3.00%

Mortality rate tables	2006	2005
Unit linked assurances	A67/70	A67/70

NOTES TO THE ACCOUNTS CONTINUED

31 December 2006

21. Provisions for other risks

	Group			Society		
	Deferred tax £m	Other provisions £m	Total £m	Deferred tax £m	Other provisions £m	Total £m
Balance at 1 January 2006	82.1	13.4	95.5	81.5	5.5	87.0
Charge to the technical account – long term business	9.1	88.8	97.9	5.9	31.7	37.6
Utilised during the year	–	(4.4)	(4.4)	–	(0.4)	(0.4)
Balance at 31 December 2006	91.2	97.8	189.0	87.4	36.8	124.2

Other provisions primarily relate to ongoing losses on uneconomic contracts relating to banking, unused premises and outsourcing £76.4m (2005: £8.4m) for Group and £21.8m (2005: £0.5m) for Society. In addition, provision has been made for decommissioning IT systems and compensation payable on customer complaints £21.4m (2005: £5.0m) for Group and £15.0m (2005: £5.0m) for Society.

Deferred taxation is made up as follows:

	Group		Society	
	2006 £m	2005 £m	2006 £m	2005 £m
(i) Analysis of deferred taxation timing differences				
Excess of depreciation	(1.1)	(0.5)	(1.0)	(0.5)
Timing differences on expenses	(6.3)	(9.5)	(7.2)	(10.1)
Timing differences on unrealised gains	97.1	92.1	95.6	92.1
Timing difference for change in actuarial basis	12.7	–	–	–
Tax losses	(11.2)	–	–	–
	91.2	82.1	87.4	81.5
(ii) Deferred taxation liability not provided				
Chargeable gains deferred by roll-over relief	0.4	0.4	–	–
(iii) Deferred taxation asset not recognised				
Excess of capital allowances	2.1	2.4	–	–
Timing differences on expenses	0.9	2.8	–	–
Timing differences on unrealised losses	–	1.3	–	–
Tax losses	2.0	10.8	–	–
	5.0	17.3	–	–

22. Debenture Loans

	Group		Society	
	2006 £m	2005 £m	2006 £m	2005 £m
Debenture loans, repayable otherwise than by instalments (unsecured)				
In less than five years:				
– loan notes at 5.5%	–	9.7	–	9.7
– loan notes at libor	9.5	–	9.5	–
	9.5	9.7	9.5	9.7

For debenture loans at amortised cost the carrying value is a reasonable approximation of fair value.

NOTES TO THE ACCOUNTS CONTINUED

31 December 2006

23. Borrowings

The table below summarises the Group's exposure to interest rates for borrowings based on contractual maturity or repricing date.

Group	2006		2005	
	£m	%	£m	%
With agreed maturity dates or periods of notice by remaining maturity				
– Over five years	11.5	5.2	9.6	4.9
– Five years or less but over one year	172.2	5.2	205.9	4.9
– One year or less but over three months	63.6	5.2	73.5	4.9
– Three months or less	20.6	5.2	32.3	4.9
On demand	3.6	5.2	–	–
	271.5		321.3	

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

For borrowings at amortised cost the carrying value is a reasonable approximation of fair value.

24. Deposits by banks

Group	2006 £m	2005 £m
With agreed maturity dates or periods of notice by remaining maturity		
– one year or less or repayable on demand	0.5	2.4

For deposits by banks at amortised cost the carrying value is a reasonable approximation of fair value.

25. Banking customer accounts

The table below summarises the Group's exposure to interest rates for banking customer accounts based on contractual maturity or repricing date.

Group	2006		2005	
	£m	%	£m	%
With agreed maturity dates or periods of notice by remaining maturity				
– Over five years	–	–	0.1	3.0
– Five years or less but over one year	21.5	4.9	50.1	5.1
– One year or less but over three months	36.0	4.9	49.4	5.1
– Three months or less but not repayable on demand	25.7	4.8	24.8	4.7
– Repayable on demand	43.6	4.9	46.0	4.4
	126.8		170.4	

For banking customer accounts at amortised cost the carrying value is a reasonable approximation of fair value.

26. Other creditors including taxation and social security

	Group		Society	
	2006 £m	2005 £m	2006 £m	2005 £m
Amounts falling due within one year				
Bank overdrafts	30.5	20.9	14.5	12.9
Trade creditors	0.1	4.8	–	–
Amounts owed to group undertakings	–	–	8.6	10.6
Corporation tax	–	17.2	–	6.4
Other taxes and social security costs	0.3	1.9	0.2	0.6
Other creditors	35.5	63.3	6.0	23.5
	66.4	108.1	29.3	54.0

For other creditors including taxation and social security at amortised cost the carrying value is a reasonable approximation of fair value.

NOTES TO THE ACCOUNTS CONTINUED

31 December 2006

27. Pensions

a. General

- i. The Society is responsible for the Liverpool Victoria (1994) Staff Pension Scheme (LV Scheme) a defined benefit pension scheme.
- ii. The last full actuarial assessment was performed as at 31 March 2006 and showed a surplus of £56.9m. The FRS17 figures, shown in paragraphs 27b to 27f, have been projected from that date with changed assumptions to reflect the requirements of the FRS.
- iii. Contributions made in 2006 were £2.5m (2005: £2.5m) by the Society (including special contributions) and £1.4m (2005: £1.3m) by Scheme members (excluding Additional Voluntary Contributions). The Society contributes at a rate of 7.2% of pensionable salaries. This rate is due to change from 1 April 2007. After that date the Society's contributions will be 20.6% less £5.2m per annum (on account of the funding surplus).

b. Financial assumptions

	2006 % per annum	2005 % per annum	2004 % per annum
Inflation	3.1	2.8	2.8
Rate of increase in salaries	4.6	4.3	4.3
Rate of increase of pensions in payment	3.1	2.8	2.8
Rate of increase for deferred pensioners	3.1	2.8	2.8
Discount rate	5.1	4.8	5.4

c. Scheme assets

	Expected real rate of return 2006 % per annum	Market Value 2006 £m	Expected real rate of return 2005 % per annum	Market Value 2005 £m	Expected real rate of return 2004 % per annum	Market Value 2004 £m
Equities	5.2	316	5.4	457	5.6	387
Bonds	1.7	328	1.5	156	2.0	149
Other	2.8	90	3.0	79	3.7	59
Total		734		692		595

d. Components of defined benefit cost for the years 2006 and 2005

	2006 £m	2005 £m
Analysis of amounts charged to net operating expenses:		
Current service cost	(10.1)	(9.7)
Past service costs	(0.2)	(0.1)
Total charged to net operating expenses	(10.3)	(9.8)
Analysis of other amounts credited to net operating expenses:		
Gain on settlements	–	–
Net gain credited to operating expenses	–	–
Analysis of the amount credited to investment income:		
Interest on pension scheme liabilities	(33.2)	(32.9)
Expected return on assets in the pension scheme	48.9	43.1
Net credit to investment income	15.7	10.2
Analysis of amounts recognised in the technical account – long term business:		
Gain on assets	18.1	78.5
Experience gain on liabilities	10.4	0.4
Loss on change of assumptions (financial and demographic)	(23.8)	(68.4)
Total amount recognised in the technical account before adjustment for tax	4.7	10.5
Total technical account – long term business credit before deduction for tax	10.1	10.9

NOTES TO THE ACCOUNTS CONTINUED

31 December 2006

27. Pensions Continued

e. History of experience gains and losses	2006	2005	2004	2003	2002
Gain on Scheme assets					
Amount (£million)	18.1	78.5	14.6	36.2	141.5
% of Scheme assets at end of year	2.5%	11.4%	2.5%	6.4%	27.7%
Experience gain/(loss) on Scheme liabilities					
Amount (£million)	10.4	0.4	(6.9)	22.3	1.1
% of Scheme liabilities at end of year	1.4%	0.1%	(1.1%)	3.8%	0.2%
Total actuarial gain/(loss) recognised in the technical account – long term business					
Amount (£million)	4.7	10.5	(6.4)	18.4	116.3
% of Scheme liabilities at end of year	0.6%	1.5%	(1.0%)	3.1%	20.9%

f. Reconciliation to the balance sheet

	2006 £m	2005 £m	2004 £m
Market value of Scheme assets	733.6	691.6	594.8
Actuarial value of Scheme liabilities	(735.8)	(706.4)	(623.0)
Deficit in the Scheme	(2.2)	(14.8)	(28.2)
Related deferred tax liability	0.3	1.8	3.4
Pension liability recognised in balance sheet	(1.9)	(13.0)	(24.8)

Analysis of the movement in deficit in the Scheme during the year:

	2006 £m	2005 £m
Deficit in the Scheme at beginning of year	(13.0)	(24.8)
Contributions paid	2.5	2.5
Current service cost	(10.1)	(9.7)
Past service cost	(0.2)	(0.1)
Settlement gain	–	–
Other financial income	15.7	10.2
Actuarial gain	4.7	10.5
Deferred tax credit	(1.5)	(1.6)
Deficit in the Scheme at end of year	(1.9)	(13.0)

28. Acquisition

During the year, the group acquired a 95% shareholding in ABC Insurance Solutions Limited. This effectively gave the group full economic ownership of businesses contained within the ABC group.

The group has used acquisition accounting to account for the purchase. The assets and liabilities acquired are not material in relation to the group. The net liabilities of the company at fair value and in accordance with the group's accounting policy were £0.2m and the costs of the transaction were £0.2m. The purchase consideration was £9.5m which gives rise to goodwill on acquisition of £9.9m. All of the goodwill from the acquisition has been written off in the year to reflect the nature of the payment, which was to secure the services of the ABC management team.

Loan notes were issued for shares in ABC Insurance Solutions Limited and these are redeemable in 2008. They carry interest at commercial rates.

NOTES TO THE ACCOUNTS CONTINUED

31 December 2006

29. Operating leases

Annual commitments under non-cancellable leases are as follows:

Group	Land and Buildings	
	2006 £m	2005 £m
Operating leases which expire:		
– within one year	0.2	0.1
– between two and five years	0.6	1.3
– over five years	2.2	1.9
	3.0	3.3

Society	Land and Buildings	
	2006 £m	2005 £m
Operating leases which expire:		
– within one year	0.2	0.1
– between two and five years	0.1	0.5
– over five years	0.1	0.1
	0.4	0.7

30. 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 £75m (2005: £125m), of which at least £30m (2005: £50m) relates to the Society.

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

31. Capital commitments

	Group & Society	
	2006 £m	2005 £m
Amounts contracted but not provided in the accounts:		
– Property investments	24.4	54.0
– Other financial investments	49.6	51.5
	74.0	105.5

32. Contingent liabilities

The Society has granted a contingent loan to the RNPFN fund, a closed fund within the Group, up to a maximum of £94.2m to be used in the event of a shortfall in the capital resources of that fund. No drawdown of this facility is anticipated.

NOTES TO THE ACCOUNTS CONTINUED

31 December 2006

33. Related party transactions

a. The Group has related party transactions, as defined within FRS 8, with Liverpool Victoria (1994) Staff Pension Scheme. The Society provides fund management and administration services to the Scheme.

During the year the following amounts were charged to the Pension Scheme for the following services:

	Fund Management Services		Administration Services		Total	
	2006 £m	2005 £m	2006 £m	2005 £m	2006 £m	2005 £m
Liverpool Victoria Friendly Society Limited	–	–	0.7	1.2	0.7	1.2
Liverpool Victoria Asset Management Limited	0.5	0.6	–	–	0.5	0.6

As at 31 December 2006 Liverpool Victoria (1994) Staff Pension Scheme owed Liverpool Victoria Friendly Society Limited £0.2m (2005: £nil) in respect of administration services and owed Liverpool Victoria Asset Management £0.1m (2005: £nil) in respect of fund management services.

b. Advantage has been taken of the exemption within Financial Reporting Standard 8, to not disclose related transactions within the Group.

c. The aggregate premiums payable for the year by the Group Executive Directors in respect of the Group's products was £42,872 (2005: £39,071).

d. The Group has continuing business relationships with other businesses that remain partly owned by M. Rutherford, who was an executive director during the year. In the year the Group issued a further £1.4m of loan notes and redeemed £6.0m of loan notes. Mr Rutherford was paid £0.3m of interest. At 31 December 2006, there was no balance owing to Mr Rutherford in respect of the loan notes.

In addition, during the year the Group paid £0.1m (2005: £0.1m) to companies associated with Mr Rutherford. The balance outstanding at the year end was £nil (2005: £nil).

A loan from a Group company to Bishops Court Group Services Limited, a company with which Mr Rutherford is associated, was repaid during the year. Interest was paid at a rate of 5.5% (gross) per annum and amounted to £0.1m in 2006.

e. On 1 September 2006, the Society acquired ABC Insurance Solutions Ltd. and its subsidiaries. As consideration, the Society issued loan notes to the five individuals who owned the company. The loan notes attract interest at LIBOR and are redeemable on 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 2006 the Society had loan notes owing to J. O'Roarke of £2.1m.

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

34. With-profits Actuary

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

a. The With-profits Actuary of the Society during the year was I.P. Blanchard, the Group Actuary of Liverpool Victoria Friendly Society.

b. Mr Blanchard, his son and his daughter are members of the Society.

c. The total emoluments of Mr Blanchard during the year were £113,789 (2005: £128,301) including car allowance and medical benefits.

d. Mr Blanchard did not receive, nor will receive, any other pecuniary benefit.

35. 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 2005 and is available on request from the Group Company Secretary, County Gates, Bournemouth, BH1 2NF.

NOTES

36. Subsidiary and associated undertakings

The principal subsidiary and associated undertakings of the Society and Group at 31 December 2006 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
Associates		
Sterling Business Consultants Limited	Internet Financial Information Services	30

* Owned by a subsidiary undertaking of the Society

CONTACT INFORMATION

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Liverpool Victoria Friendly Society Limited (LVFS) is authorised and regulated by the Financial Services Authority and entered on the Financial Services Authority Register, No. 110035. LVFS is a member of the ABI, AFS and ILAG.

Registered office: County Gates, Bournemouth BH1 2NF
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Lines are open 8am to 6pm Monday to Friday.

To help continually improve customer service, calls may be monitored and/or recorded.

For more information on our products and services visit our website at: www.liverpoolvictoria.co.uk

We are able to provide literature and communications in the following alternative formats: Braille, large print, audiotape.

Should you require this document in any of these formats, please contact us.

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