COMPANY REGISTRATION NO: 03730662

HIGHWAY
INSURANCE COMPANY LIMITED

REPORT AND
FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2010

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DIRECTORS, OFFICERS AND REGISTERED OFFICE

Directors

K W Abercromby	Resigned 09 November 2010
P M Bunker	
S V Castle	
S M Daniels	Resigned 31 March 2010
R C Dix	Appointed 01 April 2010, Resigned 31 January 2011
P A Horton	
P W Moore	Appointed 10 November 2010
M S Newton	Appointed 31 March 2010, Resigned 31 January 2011
J B O'Roarke	
M J Rogers	
R A Rowney	Resigned 31 March 2010
R A Warner	Appointed 28 February 2011
J M Webber	Appointed 16 March 2011

Secretary
P B Cassidy

Registered office
County Gates
Bournemouth
BH1 2NF

Tel: 01202 292333
Fax: 01202 751825

Independent Auditors
PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
31 Great George Street
Bristol
BS1 5QD

DIRECTORS' REPORT

The Directors present their annual report and the audited financial statements of Highway Insurance Company Limited (the 'Company', 'HICO') for the year to 31 December 2010.

1. Results and dividends
The profit on ordinary activities for the year after taxation was £13,234,000 (2009: £36,367,000 loss) as set out on page 9. The Directors proposed and paid no dividends in the current year (2009: £nil).

2. Principal activities
The principal activity of the Company is to carry on general insurance business through the broker distribution channel. The primary sources of premium income are from the sale of motor insurance products. Motor insurance products include private car, specialist, fleet, motorcycle and commercial vehicles.

The Company was acquired by Liverpool Victoria Insurance Company (as part of the Highway Group) in October 2008. This is therefore the second full year of operations for the company from within the LV= Group of companies. All material integration activities were completed during 2009, therefore 2010 has been largely a "business as usual" year.

3. Business review and developments

(a) Results & performance
The 2010 results for the Company show a profit after taxation of £13,234,000. During 2010 the Company has continued re-underwriting and re-pricing the existing insurance portfolio. Whilst good price increases have been achieved in 2010 underlying volume growth has been moderate as the company has concentrated upon margins rather than business volume growth. The benefits of these actions can be seen in the 2010 loss ratio improvement and will continue to be seen in future years.

The following factors have had a material effect on the result for the year (see also the Key Performance Indicators (KPI) below):

1. Premium income growth: The Company has seen significant premium income growth in 2010. Growth has been seen across all product lines. UK motor market conditions prevalent in 2010 have allowed the Company to implement significant price increases whist at the same time materially growing its business volumes.

2. Investment returns: Overall investment returns in 2010 have been relatively strong. The Company has benefited from having a spread of investment risk across a broad range of investment classes and from proactive asset allocation during the year. Funds under management have also increased significantly during the year.

3. Expenditure: Investment in staff, systems and infrastructure has continued ensuring that the Company is well placed to deliver its profitable growth strategy. Notwithstanding this the Company still delivered a much improved expense ratio in 2010. The improved expense ratio was achieved as a result of 1. Integration synergies and other cost saving initiatives coming to fruition and 2. Economies of scale due to the substantial growth of the business in 2010.

4. Underwriting and Claims: During 2010 the Company has continued to develop its products and improve pricing and underwriting activities. In addition significant work has been done in the claims area aimed at improving the efficiency of claims processes and reducing claims leakage. As a result in 2010 the Company has delivered a much improved loss ratio compared to 2009. This being achieved even though the results were adversely impacted by material adverse weather events in both January and December of 2010.

Management views 2010 as a year when the Company is starting to achieve the underlying underwriting trends and margins that it needs for continued sustainable profitable growth.

(b) Business environment
At the beginning of 2010 UK insurance market prices were expected to move upwards. In part in response to the fact that the insurance cycle was on the upturn anyway (due to poor underwriting margins) but also due to the fact that the insurance market would need to respond to the significantly lower and more unpredictable investment income returns expected. In relation to the Motor market, in particular these expectations have overall been exceeded in 2010 with the market supporting significant price increases. Most companies are currently prioritising margin improvement over market share, capital is more expensive and capacity is leaving the market. Early signs in 2011 are that this may continue (particularly given the adverse weather impacts at the end of 2010) for a period though the rate of price increases will slow. However as 2011 develops it is expected that ultimately more competition will be seen returning to the market as market underwriting results improve. In addition the continued and increasing impact of the internet in general and aggregators (such as Money Supermarket and Confused.com) in particular will ensure that competitive market pricing returns sooner rather than later.

On 1 March 2011, the European Court of Justice issued judgement that, with effect from 21 December 2012, gender may no longer be used as a differentiating factor in the pricing of insurance contracts. Whilst this does not have any financial reporting impact for 2010, it will affect the pricing of motor insurance contracts in future periods and detailed assessment of the full impact will be performed during 2011.

(c) Strategy
The Company is a major part of the Liverpool Victoria General Insurance Group (LVGIG). The long term objective of LVGIG (and its subsidiaries) is as follows:

“To become a top five general insurer in its target markets and to be active in all major channels: direct, broker, affinity and white-label. It will be focused on three core products, namely Motor, Home and Commercial supported by minor offerings such as Road Rescue, Travel and Pet, and will utilise a range of strong brands including LV=, Highway, ABC and Britannia Rescue. The Company will operate best-practice processes and technology in order to provide superior customer service through a people-focused and empowered culture. LVGIG will ultimately deliver attractive and consistent returns to the members of the ultimate parent company.”

Highway will make its contribution to the LVGIG strategic objectives through leveraging the broker distribution channel.

(d) Principal risks and uncertainties
UK Insurance Market: The UK motor insurance market moves in a cyclical manner and is currently supporting price increases as most companies are aiming for underwriting margin rather than market share – the main driver of this being the depressed investment income levels. It is anticipated that whilst 2011 may well see further price increases in the early part of the year at some point the market will see increasing price competition as the insurance companies return to acceptable underwriting and investment returns. The timing and extent of this increasing price competition are not easy to predict. The impacts of Solvency 2 on the level of capital and therefore the returns on capital will also need to be carefully assessed and managed.

Economic Environment: The current financial and economic environment, in particular that in the financial services industry, has meant that expectations from investment income over the next few years are very uncertain. The Company will also need to pay particular attention to credit risk and increased claims leakage through fraud.

Business Change: The Company is going through a number of material transformation processes (including a full review of its systems and telephony strategy) as it positions itself for the future. Such change carries with it an element of risk; however management has mitigated this risk through a disciplined project management approach.

Distribution: The increasing influence of the internet and aggregators has changed and continues to change the operating environment. Companies need to be able to respond very quickly to the changing circumstances.

Exceptional Weather Events: Exceptional weather events will always present a risk to an insurance company. The company mitigates this risk as far as is economically possible through the placing of reinsurance protections.

(e) Future outlook

It is projected that the Company will continue to report profits in 2011 as the price increases achieved in 2010 fully earn through. In addition it will continue to grow its top line in 2011 and 2012. This growth will come in part from anticipated price increases but also from increased volumes from broker operations. However it should be noted that the volume growth will be moderated to ensure that margins are preserved.

(f) Significant post balance sheet events

There have been no events of significance affecting the Company since the balance sheet date.

(g) Key performance indicators
The Board sets key performance indicators (KPI) and targets for its main operating entities, which it monitors on a regular basis throughout the year. These KPI change from time to time as objectives and priorities change. During 2010, the KPI were focused on premium income growth, and improving profitability.

The Company uses many detailed KPI to monitor performance. The main high level ones are as follows:

KPI	2010	2009	Comments
Premiums receivable	£373m	£287m	Premiums receivable is showing strong year on year growth (by 30%) due to a combination of: 1. Strong material price increases across the product range. 2. Material business volume growth. 3. Good support from the broker market in response to the new ownership and a new strategic approach.
Loss ratio	85.6%	101.3%	The overall net loss ratio at 85.6% has improved significantly over 2009. This is as a result of the strong price increases achieved during 2009 & 2010 earning through. In addition the Company has taken a very disciplined approach to claims management which has reduced claims leakage. Finally this loss ratio improvement has been achieved notwithstanding the adverse weather impacts suffered in 2010.
Expense ratio	18.1%	25.1%	The expense ratio at 18.1% has improved significantly compared to 2009. The Company is now benefiting from the integration and investment activities made in previous years, increased operational efficiency and economies of scale (i.e. the significant price increases implemented in 2010 have had a favourable impact).
Combined ratio	103.6%	126.4%	The combined ratio of 103.6% is a significant improvement over 2009 and should compare well to UK market averages in 2010. The reasons for this are that both the Loss ratio and Expense ratio have both shown significant improvements for the reasons noted above.
Investment return	£31m	£10m	Total Investment return includes 1. Investment income and 2. Net fair value gains/losses on financial assets. Total Investment return is higher than in 2009 by £21m (up 300% - though it should be noted that 2009 was a particularly poor year for the company in relation to investment returns). The Company has benefited from having a spread of investment risk across a broad range of investment classes and from proactive asset allocation during the year. In additional the Company has benefited from the higher level of funds under management due to the higher premium volumes.
Net assets	£187m	£134m	Net assets have been increased during 2010 to £187m reflecting the post tax profits made by the Company in 2010 and capital injections amounting to £40m received from the parent (Highway Insurance Group Plc).

4. Directors and their interests
The present members of the Board and the members who served during the year are listed on page 1.

5. Parent company
The Company is a wholly owned subsidiary of Highway Insurance Group Plc. The ultimate parent company is Liverpool Victoria Friendly Society Limited ('LVFS'), an incorporated Friendly Society registered under the Friendly Societies Act 1992.

6. Employees
The Company did not directly employ any staff during 2010. Instead it utilised the staff and premises of Liverpool Victoria Friendly Society Limited in carrying out its activities and incurred the cost of staff through intercompany management charges.

7. Charitable and political donations
No charitable or political donations have been made by the Company during 2010 (2009: £702 of charitable donations).

8. Disclosure of information to auditor
Each Director at the date of this report confirms that:

- so far as he is aware, there is no relevant audit information of which the Company's auditor is unaware, and
- he has taken all the steps that he ought to have taken as a director in order to make himself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

9. Statement of Directors' responsibilities
The Directors are responsible for preparing the Directors Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable IFRSs as adopted by the European Union have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on a going concern basis unless it is inappropriate to presume that the Company will continue in business.

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

By order of the board

P B Cassidy
Secretary

24 March
2011

We have audited the financial statements of Highway Insurance Company Limited for the year ended 31 December 2010 which comprise the Statement of Comprehensive Income, the Statement of Changes in Equity, the Statement of Financial Position, the Statement of Cashflows and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

Respective responsibilities of directors and auditors

As explained more fully in the Statement of Directors Responsibilities set out on page 5, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the Company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2010 and of its profit and cash flows for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception
We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

David Roper (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
31 Great George Street
Bristol
BS1 5QD

24 March
2011

HIGHWAY INSURANCE COMPANY LIMITED

STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2010

	Note	2010 £000	2009 £000
Insurance contract premium revenue	6	**316,273**	257,118
Insurance contract premium ceded to reinsurers	6	**(5,613)**	(21,552)
Net premium revenue		**310,660**	235,566
Investment income	7	**16,016**	9,936
Net fair value gains on financial assets at fair value through income	8	**14,833**	450
Other income	9	**4,253**	423
Total income		**345,762**	246,375
Insurance claims and loss adjustment expenses	10	**(259,698)**	(265,431)
Insurance claims and loss adjustment expenses recoverable from reinsurers	10	**(6,191)**	26,754
Net insurance claims		**(265,889)**	(238,677)
Finance costs	11	**(465)**	(580)
Other operating and administrative expenses	12	**(60,362)**	(59,475)
Total claims and expenses		**(326,716)**	(298,732)
Profit/(loss) before tax		**19,046**	(52,357)
Income tax (expense)/credit	15	**(5,812)**	15,990
Profit/(loss) for the year		**13,234**	(36,367)
Total comprehensive income/(loss) for the year		**13,234**	(36,367)

All balances relate to continuing business.
The notes on pages 13 to 43 are an integral part of the financial statements.

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2010

	Attributable to equity holder of the Company			
	Ordinary shares	**Accumulated losses**	**Capital reserve**	**Total**
	£000	**£000**	**£000**	**£000**
Balance at 1 January 2010	75,000	(51,101)	110,000	133,899
Capital contributions	-	-	40,000	40,000
Profit for the year	-	13,234	-	13,234
Balance at 31 December 2010	**75,000**	**(37,867)**	**150,000**	**187,133**

	Attributable to equity holder of the Company			
	Share capital	Accumulated losses	Capital reserve	Total
	£000	£000	£000	£000
Balance at 1 January 2009	75,000	(14,734)	20,000	80,266
Capital contributions	-	-	90,000	90,000
Loss for the year	-	(36,367)	-	(36,367)
Balance at 31 December 2009	75,000	(51,101)	110,000	133,899

The notes on pages 13 to 43 are an integral part of the financial statements.

STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2010

	Note	**2010** **£000**	2009 £000
Assets			
Deferred acquisition costs	16	**27,866**	17,194
Financial assets			
- Fair value through income	17	**600,780**	384,227
- Loans and other receivables	17	**2,185**	7,182
Insurance receivables	18	**43,619**	37,297
Reinsurance assets	19	**58,254**	105,614
Prepayments and accrued income	20	**3,884**	7,207
Deferred tax assets	21	**10,556**	15,098
Current tax asset	22	**-**	6,048
Cash and cash equivalents	23	**50,109**	89,114
Total assets		**797,253**	668,981
Liabilities			
Insurance contract liabilities	24	**588,780**	512,090
Financial liabilities			
- Derivative financial instruments	25	**123**	106
- Other financial liabilities	26	**10,282**	10,662
Insurance payables	27	**617**	3,703
Trade and other payables	28	**10,318**	8,521
Total liabilities		**610,120**	535,082
Equity			
Share capital	29	**75,000**	75,000
Capital reserve	30	**150,000**	110,000
Accumulated losses	31	**(37,867)**	(51,101)
Total equity		**187,133**	133,899
Total liabilities and equity		**797,253**	668,981

The notes on pages 13 to 43 are an integral part of the financial statements.

These financial statements were approved by the Board of Directors on 24 March 2011

Signed on behalf of the Board of Directors

PW Moore
Director

HIGHWAY INSURANCE COMPANY LIMITED

CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2010

	Note	2010 £000	2009 £000
Cash and cash equivalents at 1 January	23	**89,114**	139,367
Cash flows arising from:			
Operating activities			
Cash used in operating activities	32	**(84,588)**	(140,423)
Finance cost paid		**(465)**	(580)
Group relief		**1,271**	(3,795)
Income tax refund received	22	**4,777**	4,545
Net cash flows used in operating activities		**(79,005)**	(140,253)
Financing activities			
Proceeds from capital contribution	30	**40,000**	90,000
Net cash flows from financing activities		**40,000**	90,000
Net decrease in cash and cash equivalents		**(39,005)**	(50,253)
Cash and cash equivalents at 31 December	23	**50,109**	89,114

The notes on pages 13 to 43 are an integral part of the financial statements.

1. General information

Highway Insurance Company Limited is a company limited by shares, domiciled and incorporated in the United Kingdom. The Company underwrites general insurance risks, including motor risks. All contracts of insurance are written in the United Kingdom and Republic of Ireland.

2. Basis of presentation

These accounts of Highway Insurance Company Limited have been prepared in accordance with International Financial Reporting Standards (IFRS), as endorsed by the European Union ('EU') and the International Financial Reporting Interpretations Committee ('IFRIC') and also with those parts of the Companies Act 2006 applicable to companies reporting under IFRS.

These accounts have been prepared under the historic cost convention, as modified by the revaluation of financial assets and liabilities at fair value through income.

The preparation of the accounts in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the accounts are disclosed in note 4.

3. Accounting policies

Premiums

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

Reinsurance contracts

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

An impairment review is performed at the statement of financial position date. Impairment occurs when there is evidence that the Company will not recover outstanding amounts under the contract, such losses being recorded immediately in the statement of comprehensive income.

Investment income

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

Fair value gains and losses on financial assets

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

Unrealised gains and losses on financial assets represent the difference between the valuation of fair value investments at the statement of financial position date and their purchase price or, if they have been previously revalued, their valuation at the last statement of financial position 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.

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

- Current income tax
Current income tax liabilities and assets are measured at the amount expected to be paid to or recovered from the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the statement of financial position date

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

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

Foreign currencies
Monetary assets and liabilities denominated in foreign currencies are translated to the functional currency of the company 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 recognised within the statement of comprehensive income.

Deferred acquisition costs
The costs of acquiring new business, which are incurred during the financial year, but where the benefit of such costs will be obtained in subsequent accounting periods, are deferred and recognised as an asset to the extent that they are recoverable out of margins in future matching revenues. In respect of insurance contracts, acquisition costs comprise of all direct and indirect costs incurred in writing new contracts.

Deferred acquisition costs are written off in line with the recognition of premiums. Commissions and other acquisition costs that relate to serving new contracts and renewing existing contracts are capitalised as an intangible asset. All other costs are expensed when they are incurred. The asset is subsequently amortised over the life of the policy as the premium is earned.

Liability adequacy test
At each balance sheet date liability adequacy tests are performed to ensure the adequacy of insurance contract liabilities, net of related DAC. In performing these tests current best estimates of future contractual cash flows and claims handling and administration expenses as well as investment income from the assets backing such liabilities are used. Any deficiency is immediately charged to the statement of comprehensive income initially by writing off DAC and by subsequently establishing a provision for losses arising from liability adequacy tests. Any DAC written off as a result of this test cannot subsequently be reinstated.

Derivative financial instruments
Derivatives are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently re-measured at their fair value.

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

Financial assets at fair value through income
Financial assets at fair value through income has two sub categories:
- financial assets held for trading; and
- those designated at fair value through income at inception.

All investments of the Company classified as fair value are designated as fair value through income at inception. This is in accordance with the Company's documented investment strategy and consistent with investment risk being assessed on a portfolio basis. Such assets are valued at market prices, or prices consistent with market ratings should no price be available. Any unrealised or realised gains or losses are taken to the statement of comprehensive income, as fair value gains or losses, or realised gains or losses respectively, as they occur.

Collective Investment Schemes
Collective Investment Schemes are included within financial assets at fair value though income and their accounting treatment is consistent with that of financial assets at fair value through income.

Insurance receivables and payables
Insurance receivables and payables are recognised when due and include amounts due from or to agents, brokers and insurance contract holders. Where there is objective evidence that the carrying value is impaired then the impairment loss will be recognised in the statement of comprehensive income. Insurance receivables and payables are initially recognised at fair value and subsequently held at amortised cost.

Amounts recoverable from or due to reinsurers
Amounts recoverable from or due to reinsurers are measured consistently with the amounts associated with the reinsured insurance contracts and in accordance with the terms of each reinsurance contract. Reinsurance liabilities are primarily premiums payable for reinsurance contracts and are recognised as an expense when due.

Impairment of assets

(a) Financial assets carried at amortised cost.

The Company assesses at each statement of financial position whether there is objective evidence that a financial asset or group of financial assets is impaired. Impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that have occurred after initial recognition of the asset and that loss event has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. Objective evidence that a financial asset or group of financial assets is impaired includes observable data that comes to the attention of the Company about the following events:

(i) significant financial difficulty of the issuer or debtor;

(ii) a breach of contract, such as a default or delinquency in payments;

(iii) it becoming probable that the issuer or debtor will enter bankruptcy or other financial reorganisation;

The Company first assesses whether objective evidence of impairment exists for individually significant financial assets and if no such individual impairment exists it collectively considers impairments of groups of assets with similar credit risks.

Where there is objective evidence that the carrying value is impaired, the loss is recognised in the statement of comprehensive income for the period.

(b) Non-Financial assets

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset’s carrying amount exceeds its recoverable amount.

The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows.

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

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

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

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

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

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

Trade and other payables
Trade and other payables are recognised when due and include amounts due to group undertakings and accruals. They are initially recognised at fair value and subsequently held at amortised cost.

Share capital
Shares are classified as equity when there is no obligation to transfer cash or other assets.

CHANGES IN ACCOUNTING POLICIES

(i) Standards, amendments to published standards and interpretations effective on or after 1 January 2010

In 2010 there are no standards, amendments to published standards and interpretations relevant to the Company's operations.

In April 2009 the IASB issued its second annual amendments to IFRSs. The IASB uses the annual improvements process to make necessary, but non-urgent, amendments to IFRSs that will not be included as part of major projects. The improvements comprise 15 amendments to 12 standards. The amendments primarily remove inconsistencies and clarify wording.

These amendments have had only a minor impact on some of the disclosures given in the financial statements.

(ii) Standards, amendments to published standards and interpretations early adopted by the Company

In 2010, the Company did not early adopt any new, revised or amended standards.

(iii) Standards and interpretations effective in 2010 but not relevant to the Company's operations

IFRS 3 (revised), 'Business combinations'
IAS 27, 'Consolidated and separate financial statements'
IFRIC 17, 'Distribution of non-cash assets to owners'
IFRIC 18, 'Transfers of assets from customers'
IFRIC 9 & IAS 39, 'Reassessment of embedded derivatives'
IFRIC 16, 'Hedges of a net investment in a foreign operation'
IAS 1 'Presentation of financial statements'
IFRS 2 'Group cash-settled share-based payment transactions'
IFRS 5 'Non-current assets held for sale and discontinued operations'
IAS 36 (amendment), 'Impairment of assets'

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

The following standards and amendments to existing standards have been published and are mandatory for the Company's accounting periods beginning on or after 1 January 2011 or later periods, and the Company has not early adopted them:

Revised IAS 24 (revised), 'Related party disclosures', issued in November 2009. It supersedes IAS 24, 'Related party disclosures', issued in 2003. IAS 24 (revised) is mandatory for periods beginning on or after 1 January 2011. Earlier application, in whole or in part, is permitted. However, the standard has not yet been endorsed by the EU. The revised standard clarifies and simplifies the definition of a related party and removes the requirement for government-related entities to disclose details of all transactions with the government and other government-related entities. The company will apply the revised standard from 1 January 2011.

IFRS 9, 'Financial instruments', issued in November 2009. This standard is the first step in the process to replace IAS 39, 'Financial instruments: recognition and measurement'. IFRS 9 introduces new requirements for classifying and measuring financial assets and is likely to affect the group's accounting for its financial assets. The standard is not applicable until 1 January 2013 but is available for early adoption. However, the standard has not yet been endorsed by the EU.

'Prepayments of a minimum funding requirement' (amendments to IFRIC 14). The amendments correct an unintended consequence of IFRIC 14, 'IAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interaction'. Without the amendments, entities are not permitted to recognise as an asset some voluntary prepayments for minimum funding contributions. This was not intended when IFRIC 14 was issued, and the amendments correct this. The amendments are effective for annual periods beginning 1 January 2011. Earlier application is permitted. The amendments should be applied retrospectively to the earliest comparative period presented.

IFRIC 19, 'Extinguishing financial liabilities with equity instruments', effective 1 July 2010. The interpretation clarifies the accounting by an entity when the terms of a financial liability are renegotiated and result in the entity issuing equity instruments to a creditor of the entity to extinguish all or part of the financial liability (debt for equity swap). It requires a gain or loss to be recognised in profit or loss, which is measured as the difference between the carrying amount of the financial liability and the fair value of the equity instruments issued. If the fair value of the equity instruments issued cannot be reliably measured, the equity instruments should be measured to reflect the fair value of the financial liability extinguished.

4. Significant accounting judgements, estimates and assumptions

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

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

Valuation of general insurance contract liabilities

The estimation of the ultimate liability arising from claims made under insurance contracts is the Company's most critical accounting estimate. For general insurance contracts, estimates are made for the expected ultimate cost of claims as at the statement of financial position date and the cost of claims incurred but not yet reported to the Company. It can take a significant period of time before the ultimate cost of claims can be established with certainty, and the final outcome may be better or worse than that provided. While management believes that the insurance contract liabilities carried at year end are adequate, the application of statistical techniques requires significant judgment.

The estimation of these claims is based on historical experience projected forward. Where possible, the Company adopts multiple techniques to provide a best estimate of the required level of provisions. This assists in developing greater understanding of the trends inherent in the data being projected. The Company's estimates of losses and loss expenses are reached after a review of several commonly accepted actuarial projection methodologies, as well as more bespoke methods and a number of different bases to determine these provisions. These include methods based upon the following:

- The development of previously paid claims, where payments to date are extrapolated for each prior year;
- Estimates based upon a projection of claims numbers and average cost;
- Incurred claims development, where incurred claims to date for each year are extrapolated based upon observed development of earlier years;
- Expected loss ratios.

There are several sources of uncertainty that need to be considered in the estimate of the liability that the Company will ultimately pay for such claims. In particular, household insurance policies are exposed to claims for subsidence and motor insurance policies are exposed to claims for bodily injury.

Estimation of the ultimate cost of subsidence claims is complex. It is difficult to know the incurred date of a subsidence claim; indeed the claim may have been incurred over a period of time rather than on one particular day. Because of this, subsidence figures cannot reliably be split by accident month. Significant factors that affect the trends that influence the subsidence process stem mainly from the impact of the much drier weather conditions, tree root activity, the upturn in the housing market and the additional extensive press publicity generating anxiety and overreactions to minor cracking. Due to this uncertainty, it is not possible to determine the future development of subsidence claims with the same degree of reliability as with other types of claim.

Estimation of the ultimate bodily injury claims is a complex process and cannot be done using conventional actuarial techniques. Significant factors that affect the trends that influence the bodily injuries estimation process are inconsistent court resolutions and jurisprudence that have broadened the intent and scope coverage of the protection offered in the insurance contracts issued by the Company. This factor is exacerbated by the geographical diversification of the Company's bodily injury claims. The current case law in all the territories in which the Company is exposed to these claims can be characterised as still evolving; it is unlikely that any firm direction will emerge in the courts' compensation methods in the near future. Due to this uncertainty, it is not possible to determine the future development of bodily injury claims with the same degree of reliability as with other types of claims.

Large claims impacting each relevant business class are generally assessed separately, being measured either at the face value of the loss adjusters' estimates or projected separately in order to allow for the future development of large claims.

Provisions are initially calculated gross of any reinsurance recoveries. A separate estimate is made of the amounts that will be recoverable from reinsurers based upon the gross provisions and having due regard to collectability.

Claims provisions are subject to close scrutiny, both within HICO and across the wider Group. The Reserving Committee operates as a forum for the discussion and challenge of the actuarial best estimate and booked claims provisions. External actuaries are also engaged on an annual basis to calculate an independent best estimate of the ultimate cost of claims, against which HICO's best estimate is assessed.

Other
The judgments, estimations and assumptions around financial assets and claims judgments are discussed in Note 5.

5. Capital management and risk management and control

The Company maintains an efficient capital structure from a combination of equity, consistent with the Company's risk profile and the regulatory and market requirements of its business.

The Company retains capital to meet four key objectives:

(i) To ensure financial stability;
(ii) To enable the Company's strategy to be developed;
(iii) To give confidence to consumers and other stakeholders who have relationships with the Company; and
(iv) To comply with capital requirements imposed by its UK regulator, the FSA.

At least annually, these objectives are reviewed and benchmarks are set by which to judge the adequacy of the Company's capital. The capital position is monitored against those benchmarks to ensure that sufficient capital is available to the Company. 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 Company above its potential needs, plans would be developed to return such excess to shareholders.

Consistent with other insurers in the non-life industry, the FSA imposes two separate capital requirements on the Company of any significance: the Minimum Capital Requirement (MCR) as defined in the FSA regulations and reported publicly in the Company's Annual FSA return; and Individual Capital Guidance (ICG), which is entity specific and is derived using a more risk-related approach as set out in the FSA regulations. The ICG is calculated and updated by the FSA following its reviews on a regular basis of the Company's own Individual Capital Assessment (ICA).

The Company complied with all externally imposed capital requirements to which it was subject throughout the reporting period.

The Company had capital available of £187,133,000 (2009: £133,899,000), being net assets available to the Company.

Risk management and control
The principal types of risk, which are detailed below, have been identified and risk appetite for each of these has been set by reference to the Financial Service Authority's Individual Capital Assessment (ICA) capital requirements.

The Company 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 LVFS 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.

5. Capital management and risk management and control (continued)

Insurance risk

The Company's insurance activities are primarily concerned with the pricing, accepting and management of risks from its policyholders. In accepting risks the Company is committing to paying claims and therefore these risks must be understood. The Company manages these risks through its underwriting strategy, reinsurance arrangements and proactive claims handling.

For a portfolio of insurance contracts where the theory of probability is applied to pricing and provisioning, the principal risk that the Company faces under its insurance contracts is the risk that actual claims exceed the carrying value of the Company's insurance liabilities. The risk arises from the inherent uncertainties as to the occurrence, amount and timing of insurance claims. For general insurance contracts this is primarily represented by exposure to risks which may lead to significant claims in terms of frequency or value. These would include significant weather events, subsidence, substantial medical claims and major accidents on a single policy. Procedures are in place to measure, monitor and control exposure to all these risks.

Experience shows that the larger the portfolio of similar insurance contracts, the smaller the relative variability about the expected outcome will be. In addition, a more diversified portfolio is less likely to be affected by a change in any subset of the portfolio. The company has developed its insurance underwriting strategy to diversify the type of insurance risks accepted and within each of these categories to achieve a sufficiently large population of risks to reduce the variability of the expected outcome.

Property business (domestic and commercial) is exposed to catastrophic risks such as result from storms or floods as well as risks such as subsidence. The Group has entered into reinsurance contracts which provide protection against the catastrophic weather events.

Motor business is exposed to the risk of large personal injury claims, where the claim amounts can be significant due to the cost of care required for the claimant. The Group has entered into excess of loss reinsurance contracts which reduce its exposure to large claims. The reinsurance retention is £5.0m per claim (2009: £3.0m per claim).

Post the introduction of the Ministry of Justice's road traffic accident process for handling personal injury claims there has been a decrease in the ratio of Personal Injury claims as a percentage of fault motor accidents. Further initiatives are being put in place to mitigate this increased threat to the Company.

Commercial business is exposed to large individual property losses and also to liabilities arising from employment and commercial activities. The Group has entered into reinsurance contracts which provide protection against these liabilities.

The Company has entered into Quota Share and Excess of Loss reinsurance contracts which reduce the Company's exposure to large claims.

5. Capital management and risk management and control (continued)

i) The table below sets out the concentration of GI contract liabilities by type of contract:

	2010			2009		
	Gross	**Reinsurance**	**Net**	Gross	Reinsurance	Net
	£000	**£000**	**£000**	£000	£000	£000
Motor	**392,798**	**(58,254)**	**334,544**	371,485	(101,836)	269,649
Household	**180**	**-**	**180**	1,318	-	1,318
	392,978	**(58,254)**	**334,724**	372,803	(101,836)	270,967

ii) The table below sets out the impact on the GI claims provision and profits before tax for movements in key assumptions:

Sensitivity analysis for the change in the assumptions used in the GI claims provision	**Impact on profit before tax £m**	**Impact on GI claims provision £m**
Impact of 5% higher PI claims inflation than assumed in reserve projections for capped PI claims	**5**	**5**
Impact of Ogden discount rate reducing from 2.5% to 0.5%	**17**	**17**

1. Impact based on 5% increase in capped PI (<£100k) claims inflation for 2010 accident year. Claims farming activity has led to large increases in PI claims frequency / average cost inflation across the motor insurance industry in recent years and has added additional uncertainty to the ultimate cost inflation for this claim type.

2. Impact based on estimated increase required to known case reserves from changing the Ogden discount rate from 2.5% to 0.5%.

5. Capital management and risk management and control (continued)

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

Analysis of claims development – gross of reinsurance

Accident year	2002	2003	2004	2005	2006	2007	2008	2009	2010	Total
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
Initial estimate of gross provision	53,236	135,592	186,443	185,332	184,529	186,732	208,387	225,373	253,170	
One year later	59,370	142,293	179,817	191,271	179,987	196,802	243,594	229,505		
Two years later	55,748	131,910	179,586	179,300	179,697	198,483	219,979			
Three years later	51,812	121,188	169,009	171,572	179,460	200,687				
Four years later	49,379	116,269	167,018	166,653	173,910					
Five years later	51,737	117,182	165,215	164,192						
Six years later	52,065	116,385	166,407							
Seven years later	53,023	116,714								
Eight years later	51,051									
Current estimate of cumulative claims	51,051	116,714	166,407	164,192	173,910	200,687	219,979	229,505	253,170	1,575,615
Cumulative payments to date	(50,850)	(111,849)	(156,273)	(157,018)	(162,728)	(164,505)	(174,012)	(149,754)	(83,940)	(1,210,929)
Liability recognised for 2002 to 2010 accident years	201	4,865	10,134	7,174	11,182	36,182	45,967	79,751	169,230	364,686
Liability recognised in respect of prior accident years										18,868
Claims handling provision										9,424
Provision as at 31 December 2010										**392,978**

5. Capital management and risk management and control (continued)

Analysis of claims development – net of reinsurance

Accident year	2002	2003	2004	2005	2006	2007	2008	2009	2010	Total
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
Initial estimate of net provision	51,186	97,983	131,137	147,968	147,013	136,698	179,310	205,361	249,269	
One year later	53,267	105,894	129,780	141,447	129,289	151,532	191,179	207,205		
Two years later	49,716	99,605	129,114	126,098	143,012	151,542	187,540			
Three years later	47,660	93,489	127,858	129,688	141,621	158,143				
Four years later	46,052	98,517	122,428	127,975	140,424					
Five years later	46,612	90,224	122,009	128,755						
Six years later	46,749	88,283	123,039							
Seven years later	47,572	88,968								
Eight years later	45,854									
Current estimate of cumulative claims	45,854	88,968	123,039	128,755	140,424	158,143	187,540	207,205	249,269	1,329,197
Cumulative payments to date	(45,683)	(88,075)	(120,213)	(124,891)	(130,047)	(132,288)	(146,478)	(140,533)	(83,939)	(1,012,147)
Liability recognised for 2002 to 2010 accident years	171	893	2,826	3,864	10,377	25,855	41,062	66,672	165,330	317,050
Liability recognised in respect of prior accident years										8,250
Claims handling provision										9,424
Provision as at 31 December 2010										**334,724**

Market risk

Market risk is the risk of adverse or favourable impacts due to fluctuations in bond yields, equity prices, interest rates, or exchange rates. The Company has defined policies and procedures in place to control the major components of market risk. The Company has appointed Liverpool Victoria Asset Management Limited (LVAM) as its investment manager. All LVAM dealings are transacted on an arm's length basis. Exposures to individual companies and to equity shares in aggregate are monitored by Investment and Risk Committees in order to ensure compliance with the relevant regulatory limits for solvency purposes and with guidelines set for each internal fund. Securities held are primarily listed and traded on recognised stock exchanges, predominantly in the UK.

Limits on the Company's exposure to equities are defined both in aggregate terms and by geography, industry and counterparty. The level of investment holdings is reviewed monthly by the Investment Committee. 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.

Interest rate risk

The fair value of the Company's portfolio of fixed income securities is inversely correlated to changes in market rates. Thus if interest rates fall the fair value of the portfolio would tend to rise and vice-versa.

5. Capital management and risk management and control (continued)

Price risk

The Company holds a significant portfolio of equities and Collective Investment Schemes (including hedge funds) which are subject to price movements.

The Company's objective is to earn competitive relative returns by investing in a diverse portfolio of high quality securities. The Company's holdings are diversified across industries and concentrations in any one company or industry are limited by parameters established by the Investment Committee.

Currency risk

The Company operates within the UK, however it has exposure to foreign currencies through its investment portfolio and financial liabilities. Its main currency exposures are the Euro and the US dollar.

The Company's general policy is to run no foreign exchange risk. However our Investment Managers may from time to time run a small exposure having agreed any such exposure with the Investment Committee. An open Euro position is maintained to hedge the subordinated note and other minor insurance liabilities. The Company purchases forward foreign exchange contracts to hedge the exposure to foreign exchange movements.

The Company also invests in a number of Collective Investment Schemes, which are predominantly hedge funds. The Investment Managers and Investment Committee apply a stringent process to the selection and subsequent management of these funds. While these funds are not rated their selection for the portfolio is based upon a demonstrable track record of performance. The portfolio is well diversified. Not only are assets spread over a large number of investment managers but also between a number of different strategies. Strategies utilised include macro, long/short equity and relative value. When compared to the overall hedge fund universe the Company's portfolio is considered to be lower return and lower volatility.

The Company's exposure to foreign exchange risk is summarised below:

As at 31 December 2010	Sterling £000	USD £000	Euro £000	Other £000	Total £000
Deferred acquisition costs	**27,866**	**-**	**-**	**-**	**27,866**
Financial assets at fair value through income					
Shares, other variable yield securities and units in unit trusts	**486,316**	**6,828**	**31**	**2,139**	**495,314**
Debt and other fixed income securities	**102,047**	**-**	**3,419**	**-**	**105,466**
Loans and other receivables	**2,185**	**-**	**-**	**-**	**2,185**
Receivables					
Receivables arising out of broker insurance operations - intermediaries	**40,727**	**-**	**2,684**	**-**	**43,411**
Receivables arising out of reinsurance operations	**208**	**-**	**-**	**-**	**208**
Reinsurers' share of insurance contract liabilities	**58,254**	**-**	**-**	**-**	**58,254**
Other assets					
Prepayments and accrued income	**3,884**	**-**	**-**	**-**	**3,884**
Deferred tax asset	**10,556**	**-**	**-**	**-**	**10,556**
Cash and cash equivalents	**31,716**	**572**	**17,821**	**-**	**50,109**
Insurance contracts	**(574,931)**	**-**	**(13,849)**	**-**	**(588,780)**
Financial liabilities					
Subordinated note	**-**	**-**	**(10,282)**	**-**	**(10,282)**
Derivative financial instruments	**9,108**	**(7,123)**	**-**	**(2,108)**	**(123)**
Total	**197,936**	**277**	**(176)**	**31**	**198,068**

5. Capital management and risk management and control (continued)

As at 31 December 2009	Sterling £000	USD £000	Euro £000	Other £000	Total £000
Deferred acquisition costs	17,194	-	-	-	17,194
Financial assets at fair value through income					
Shares, other variable yield securities and units in unit trusts	9,760	29,638	-	-	39,398
Debt and other fixed income securities	339,280	-	5,549	-	344,829
Loans and other receivables	7,182	-	-	-	7,182
Receivables					
Receivables arising out of broker insurance operations					
- intermediaries	26,695	-	2,180	-	28,875
Receivables arising out of reinsurance operations	8,422	-	-	-	8,422
Reinsurers' share of insurance contract liabilities	105,614	-	-	-	105,614
Other assets					
Prepayments and accrued income	7,207	-	-	-	7,207
Deferred tax asset	15,098	-	-	-	15,098
Current tax asset	6,048	-	-	-	6,048
Cash and cash equivalents	72,794	2,025	14,295	-	89,114
Insurance contracts	(500,273)	-	(11,817)	-	(512,090)
Financial liabilities					
Subordinated note	-	-	(10,662)	-	(10,662)
Derivate financial instruments	31,232	(31,338)	-	-	(106)
Total	129,059	325	(455)	-	128,929

Sensitivity analysis to market risks

The table below shows the results of sensitivity testing on the Company's pre-tax profit and equity. The sensitivity analysis indicates the effect of changes in market risk factors arising from the impact of the changes in these factors on the Company's financial assets and liabilities.

	Impact on profit before tax 2010 £000	**Impact on equity 2010 £000**	Impact on profit before tax 2009 £000	Impact on equity 2009 £000
Interest rate risk				
+ 50 basis points shift in yield curve	**(5,796)**	**(4,173)**	(3,520)	(2,534)
- 50 basis points shift in yield curve	**6,897**	**4,966**	3,520	2,534
Equity price risk (including derivatives)				
10% increase in equity markets	**5,517**	**3,972**	3,954	2,847
10% decrease in equity markets	**(5,517)**	**(3,972)**	(3,954)	(2,847)

5. Capital management and risk management and control (continued)

Credit risk

Credit risk is the risk that a counterparty fails to meet its contractual obligations in full as they fall due, resulting in a financial loss to the Company. The key areas of exposure to credit risk for the Company are in relation to its investment portfolio and reinsurance programme and amounts due from insurance intermediaries and policyholders.

The Company structures the levels of credit risk it accepts by placing limits on its exposure to a single counterparty, or groups of counterparty, and to geographical and industry segments.

Investments are primarily allowed only in liquid securities and with counterparties that have a credit rating equal to investment grade or better. Given their high credit ratings, management does not expect any counterparty to fail to meet its obligations. Counterparty exposure is subject to daily review.

Reinsurance exposures are monitored regularly. The Company assesses the credit worthiness of all reinsurers by reviewing public rating information and from internal investigations.

Exposure to insurance intermediaries risk is managed via a stringent credit policy. The Company's credit control function monitors the ageing and collectability of debtor balances, with credit evaluations performed on all relevant counterparties. The Company does not require collateral in respect of financial assets. Intermediary debt at 31 December 2010 was £43.4m (2009: £28.9m), all of which was not rated.

The Company also reduces its exposure to credit risk related to intermediaries by diversification through the use of a significant number of brokers.

In addition to the above the Company also monitors the debt via the Risk Committee and Intermediary Collection Committees and provides against older debts.

The Company's exposure to credit risk by investment grade is summarised below:

Credit risk exposure 2010	**AAA £000**	**AA £000**	**A £000**	**BBB £000**	**Below BBB £000**	**Not rated £000**	**Total £000**
Debt and other fixed income securities	**103,704**	**1,167**	**595**	**-**	**-**	**-**	**105,466**
Short term bank deposits	**34,451**	**-**	**-**	**-**	**-**	**-**	**34,451**
Reinsurance assets	**1,056**	**15,446**	**35,595**	**-**	**-**	**6,157**	**58,254**
Total	**139,211**	**16,613**	**36,190**	**-**	**-**	**6,157**	**198,171**

Credit risk exposure 2009	AAA £000	AA £000	A £000	BBB £000	Below BBB £000	Not rated £000	Total £000
Debt and other fixed income securities	189,727	47,509	66,918	30,520	-	10,155	344,829
Short term bank deposits	84,651	-	-	-	-	-	84,651
Reinsurance assets	18,646	8,101	70,918	-	-	7,949	105,614
Total	293,024	55,610	137,836	30,520	-	18,104	535,094

5. Capital management and risk management and control (continued)

The table below shows the aged analysis of the Company's past due and/or impaired assets:

Age analysis of assets past due/ impaired	<31 days £000	31 to 60 days £000	61 to 90 days £000	>90 days £000	Total past due but not impaired £000	Past due and impaired £000	Total £000
2010 Insurance receivables	**4,195**	**1,001**	**381**	**525**	**6,102**	**1,284**	**7,386**
2009 Insurance receivables	3,352	(499)	(540)	1,402	3,715	2,428	6,143

Liquidity risk
Liquidity risk is the risk that the Group will encounter difficulty in meeting obligations associated with its financial and insurance liabilities. The Company is exposed to daily calls on its available cash resources from claims arising from insurance contracts it has underwritten.

The Company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities as they fall due. The most significant payments made are claims. The profile of claim payments is predictable. The Company maintains cash and liquid deposits to meet demands on a daily basis. In normal circumstances, the majority of claims are settled from cash received from intermediaries.

The Company forecasts cash flows on a daily basis to ensure that sufficient liquid funds exist to meet its short term cash outflows. Any surplus funds are invested to achieve a higher rate of return.

The majority of investments are held in assets that are traded in active markets.

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

		2010			2009	
Maturity profile of financial assets	**Within 1 year**	**Over 1 year**	**Total**	Within 1 year	Over 1 year	Total
	£000	**£000**	**£000**	£000	£000	£000
Deferred acquisition costs	**27,866**	**-**	**27,866**	17,194	-	17,194
Financial assets	**508,705**	**92,075**	**600,780**	57,927	326,300	384,227
Insurance receivables	**43,619**	**-**	**43,619**	37,297	-	37,297
Loans and other receivables	**2,185**	**-**	**2,185**	7,182	-	7,182
Reinsurance assets	**24,568**	**33,686**	**58,254**	41,512	64,102	105,614
Prepayments and accrued income	**3,884**	**-**	**3,884**	7,207	-	7,207
Deferred tax asset	**10,026**	**530**	**10,556**	10,795	4,303	15,098
Current tax asset	**-**	**-**	**-**	6,048	-	6,048
Cash and cash equivalents	**50,109**	**-**	**50,109**	89,114	-	89,114
Total assets	**670,962**	**126,291**	**797,253**	274,276	394,705	668,981

5. Capital management and risk management and control (continued)

The table below summarises the estimated maturity profile of the financial liabilities and equity of the company based on remaining undiscounted obligations:

	Within 1 year	**1-3 years**	**3-5 years**	**Over 5 years**	**No term**	**Total**
Maturity profile of financial liabilities 2010	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**
Insurance contract liabilities	**355,620**	**130,766**	**55,328**	**47,066**	**-**	**588,780**
Financial liabilities	**123**	**-**	**-**	**10,282**	**-**	**10,405**
Insurance payables	**617**	**-**	**-**	**-**	**-**	**617**
Trade and other payables	**10,318**	**-**	**-**	**-**	**-**	**10,318**
	366,678	**130,766**	**55,328**	**57,348**	**-**	**610,120**

	Within 1 year	1-3 years	3-5 years	Over 5 years	No term	Total
Maturity profile of financial liabilities 2009	£000	£000	£000	£000	£000	£000
Insurance contract liabilities	279,276	127,605	54,138	51,071	-	512,090
Financial liabilities	106	-	-	10,662	-	10,768
Insurance payables	3,703	-	-	-	-	3,703
Trade and other payables	8,521	-	-	-	-	8,521
	291,606	127,605	54,138	61,733	-	535,082

Strategic risk
Strategic risk is the risk arising from the implementation of the 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 Company Audit, Risk & Compliance Committee and Board.

The Company has not identified any current strategic risks.

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

The Company has not identified any significant Group risks.

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 Company's escalation criteria. Operational risks are assessed in terms of their probability and impact in accordance with Company policy.

5. Capital management and risk management and control (continued)

Fair value estimation

Effective 1 January 2009, the company adopted the amendment to IFRS 7. This requires, for financial instruments held at fair value, disclosure of fair value measurements by level of the following fair value measurement hierarchy:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1)
- Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (Level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (Level 3).

The following tables present the Company's assets and liabilities measured at fair value at 31 December 2010:

		2010		
	Level 1	**Level 2**	**Level 3**	**Total**
	£000	**£000**	**£000**	**£000**
Fair value through income				
Shares, other variable yield securities and units in unit trusts	**15,447**	**473,009**	**6,858**	**495,314**
Debt and other fixed income securities	**102,500**	**2,966**	**-**	**105,466**
	117,947	**475,975**	**6,858**	**600,780**
Forward exchange derivatives	**-**	**(123)**	**-**	**(123)**
	-	**(123)**	**-**	**(123)**

		2009		
	Level 1	Level 2	Level 3	Total
	£000	£000	£000	£000
Fair value through income				
Shares, other variable yield securities and units in unit trusts	9,760	-	29,638	39,398
Debt and other fixed income securities	126,778	218,051	-	344,829
	136,538	218,051	29,638	384,227
Forward exchange derivatives	-	(106)	-	(106)
	-	(106)	-	(106)

The fair value of financial instruments included in the Level 1 category are based on published quoted bid market prices in an active market at the year end date. A market is regarded as an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency and those prices represent actual and regularly occurring market transactions on an arm's length basis.

Level 2 financial instruments are not traded in an active market, their fair value is determined using valuation techniques. These valuation techniques apply data from observable current market transactions where it is available, and for some assets pricing is obtained via pricing services. Where prices have not been determined by reference to an active market, financial assets with fair values are based on broker quotes.

If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3. The financial instruments in level 3 include £6,858,000 (2009: £29,638,000).

5. Capital management and risk management and control (continued)

Specific valuation techniques used to value financial instruments include:

- Quoted market prices or dealer quotes for similar instruments.
- The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows based on observable yield curves.
- The fair value of forward exchange contracts is determined using forward exchange rates at the statement of financial position date, with the resulting value discounted back to present value.
- Other techniques, such as discounted cash flow analysis, are used to determine fair value for the remaining financial instrument.

There has been no movement between levels during the year.

Movement in level 3 financial instruments measured at fair value:

Fair value through income:
Shares, other variable yield securities and units in unit trusts

	2010	2009
	£000	£000
Balance at 1 January	**29,638**	46,748
Total gains/(loss) recorded in comprehensive income	**(4,336)**	(11,112)
Purchases	**-**	16,468
Sales	**(18,444)**	(22,466)
Balance at 31 December	**6,858**	29,638

Sensitivities of level 3 investments
Changing the inputs for the Company's level 3 assets and liabilities would not significantly change the fair value.

6. Net premium revenue

	2010	2009
	£000	£000
Insurance contracts:		
Premiums written	**372,788**	286,807
Change in unearned premium reserve	**(56,515)**	(29,689)
Premium revenue arising from insurance contracts issued	**316,273**	257,118
Reinsurance contracts:		
Premiums payable	**(1,835)**	(7,988)
Change in unearned premium reserve	**(3,778)**	(13,564)
Premium revenue ceded to reinsurers on insurance contracts issued	**(5,613)**	(21,552)
Net premium revenue	**310,660**	235,566
Motor	**308,608**	232,797
Property	**193**	2,769
Legal expenses	**1,859**	-
	310,660	235,566

7. Investment income

	2010	2009
	£000	£000
Income from investments and cash and cash equivalents:		
- Interest income	**14,302**	2,726
- Dividend income	**1,714**	7,210
	16,016	9,936

8. Net fair value gains/(losses) on financial assets held at fair value through income

	2010	2009
	£000	£000
Gains on financial assets held at fair value through income		
- Debt securities	**5,676**	5,687
- Equity securities	**8,329**	(629)
- Derivative financial instruments	**828**	(4,608)
	14,833	450

Net fair value gains on financial assets held at fair value through income include net realised gains of £15,680,000 (2009: £5,335,000) and net unrealised losses of £847,000 (2009: £4,886,000).

9. Other Income

	2010	2009
	£000	£000
Commissions receivable	**3,976**	423
Deposit interest receivable	**277**	-
	4,253	423

10. Insurance claims and loss adjustment expenses

	2010	2009
	£000	£000
Gross insurance claims		
Claims paid during the year	**229,039**	202,810
Movement in claims liabilities	**20,175**	47,482
Claims management costs	**10,484**	15,139
	259,698	265,431
Reinsurers share of gross insurance claims		
Claims paid during the year	**(15,991)**	(31,147)
Movement in reinsurers share on claims liabilities	**43,582**	4,393
Commuation charge from Highway Insurance Company (Guernsey)	**(21,400)**	-
	6,191	(26,754)
Net insurance claims	**265,889**	238,677

Included within claims incurred is a release of £28.1 million in respect of motor insurance business (2009: £19.9 million increase), 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.

11. Finance costs

	2010 £000	2009 £000
Interest payable to group undertakings	**465**	580
	465	580

12. Other operating and administrative expenses

	2010 £000	2009 £000
Investment management expenses and charges	**951**	800
Acquisition expenses	**53,054**	39,873
Movement in deferred acquisition expenses	**(10,672)**	(4,152)
Administrative expenses	**17,029**	22,954
	60,362	59,475

13. Auditor's remuneration

	2010 £000	2009 £000
Fees payable to Company's auditor for the audit of the Company's accounts	**69**	97
Fees payable to the Company's auditor for other services pursuant to legislation	**23**	33
	92	130

14. Directors' emoluments

During 2010 all Directors were remunerated by Liverpool Victoria Friendly Society (2009: by Liverpool Victoria Friendly Society and Highway Group Service Ltd, formerly known as Highway Group Services Plc) in respect of their executive roles within the Group.

The details of directors' emoluments below include the total emoluments of those directors who have a group role, as well as providing service to the Company. It is not possible to make an accurate apportionment of these emoluments in respect of each of the subsidiaries within the Group.

The aggregate amount of Directors' emoluments was as follows:

	2010	2009
	£000	£000
a) Aggregate emoluments	**4,418**	4,572

b) There were £11,000 of contributions to the defined contribution pension scheme (2009:£nil).

c) Emoluments of the Directors were as follows:

	Salaries	**Bonuses**	**Other benefits**	**Compensation for loss of office**	**Total 2010**	Total 2009
	£000		**£000**	**£000**	**£000**	£000
Highest paid Director	**477**	**650**	**120**	**-**	**1,247**	997
All Directors	**2,404**	**1,487**	**235**	**292**	**4,418**	4,572

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

LVFS has made no contributions to personal pension arrangements during 2010 or 2009.

d) Pension arrangements
S M Daniels*, P M Bunker, P A Horton, M S Newton*, S V Castle, J B O'Roarke, R A Rowney* and K W Abercromby* are members of the LV= Employee Pension Scheme, which is a defined benefit scheme administered at group level.

LVFS makes contributions to the LV= Employee Pension Scheme of 19% of pensionable salaries (2009: 20.6% of pensionable salaries) in respect of all permanent staff, including executive directors. This included amounts on behalf of executive directors of £274,000 (2009: £381,000).

*Pro rata for the part of the year until appointing/resigning as a director.

	2010	2009
Accrued pension at end of period	**£000**	£000
All Directors	**112**	181

15. Income tax expense/(credit)

a) Current year tax expense/(credit)

	2010 £000	2009 £000
Current year tax expense/(credit):		
Group relief	-	(6,591)
Prior year adjustment	1,271	(3,834)
Total current tax	1,271	(10,425)
Deferred tax expense/(credit)		
Deferred tax credit	5,616	(9,238)
Prior year adjustment	(1,075)	3,673
Total movement in deferred tax	4,541	(5,565)
Total income tax expense/(credit)	5,812	(15,990)

b) Reconciliation of tax expense/(credit)

	2010 £000	2009 £000
Profit/(loss) before tax	19,046	(52,357)
(Profit)/loss multiplied by standard rate of corporation tax in the UK of 28% (2009: 28%)	5,333	(14,660)
Effects of:		
Expenses not deductable for tax purposes	-	8
Impact of change in UK corporation tax rate on deferred tax	282	-
Adjustments in respect of IFRS accounting	-	(1,178)
Adjustments to tax charge in respect of prior years	197	(160)
Total income tax expense/(credit) for the year	5,812	(15,990)

16. Deferred acquisition costs

	2010 £000	2009 £000
At 1 January	17,194	15,948
Acquisition expenses deferred	53,054	39,873
Liability adequacy test impairment	-	(2,907)
Amortisation	(42,382)	(35,720)
At 31 December	27,866	17,194

17. Financial assets

	2010 £000	2009 £000
Fair value through income		
Shares, other variable yield securities and units in unit trusts	495,314	39,398
Debt and other fixed income securities	105,466	344,829
	600,780	384,227
Loans and other receivables		
Amounts due from group undertakings	1,414	6,806
Other receivables	771	376
	2,185	7,182
	602,965	391,409

18. Insurance receivables

	2010	2009
	£000	£000
Receivables arising from insurance and reinsurance contracts:		
- Due from intermediaries	**43,411**	28,875
- Due from reinsurers	**208**	8,422
	43,619	37,297

As at 31 December 2010 overdue insurance receivables arising from insurance contracts were provided at £1,284,000 (2009: £2,428,000).

19. Reinsurance assets

	2010	2009
	£000	£000
Reinsurers' share of provision for unearned income	**-**	3,778
Reinsurers' share of claims outstanding	**58,254**	101,836
	58,254	105,614

Amounts due from reinsurers in respect of claims already paid by the Company on the contracts that are reinsured are included in insurance receivables.

20. Prepayments and accrued income

	2010	2009
	£000	£000
Accrued interest	**3,465**	7,207
Prepayments	**419**	-
	3,884	7,207

21. Deferred tax

	2010	2009
	£000	£000
At 1 January	**15,098**	9,533
Amounts recorded in the statement of comprehensive income	**(4,542)**	5,565
At 31 December	**10,556**	15,098

Analysis of deferred taxation temporary differences:

	2010	2009
	£000	£000
Advanced capital allowances	**664**	865
Taxable losses carried forward	**9,892**	14,233
	10,556	15,098

Deferred tax asset expected to be recovered after more than one year is £530,000 (2009: £4,303,000).

Deferred tax balances have been measured taking into account the change in the rate of UK corporation tax from 28% to 27%. This change was substantively enacted on 20 July 2010 and will be effective from 1 April 2011.

22. Current tax

	2010	2009
	£000	£000
At 1 January	**6,048**	6,759
Amounts recorded in the income statement	**(1,271)**	3,834
Tax refund received	**(6,048)**	(750)
Group relief received	**1,271**	(3,795)
At 31 December	-	6,048

23. Cash and cash equivalents

	2010	2009
	£000	£000
Bank balances	**15,658**	4,463
Short term bank deposits	**34,451**	84,651
Cash and cash equivalents	**50,109**	89,114

Of the bank balance £20,323,000 (2009: £0) is placed with LVFS and (£4,665,000) represents the other bank balances.

24. Insurance contract liabilities

a) Analysis of insurance contracts

	2010			2009		
	Gross £000	**Reinsurance £000**	**Net £000**	Gross £000	Reinsurance £000	Net £000
General insurance claims liabilities	**392,978**	**(58,254)**	**334,724**	372,803	(101,836)	270,967
General insurance unearned premiums	**195,802**	**-**	**195,802**	139,287	(3,778)	135,509
	588,780	**(58,254)**	**530,526**	512,090	(105,614)	406,476

b) Movement in general insurance claims liabilities

	2010			2009		
	Gross £000	**Reinsurance £000**	**Net £000**	Gross £000	Reinsurance £000	Net £000
OCR	**409,624**	**(103,248)**	**306,376**	360,281	(117,412)	242,869
IBNR	**(36,821)**	**1,412**	**(35,409)**	(32,053)	11,183	(20,870)
Balance at 1 January	**372,803**	**(101,836)**	**270,967**	328,228	(106,229)	221,999
Movement in claims incurred in prior accident years	**(24,356)**	**8,001**	**(16,355)**	24,922	(6,745)	18,177
Claims incurred in the current accident year	**273,570**	**(3,902)**	**269,668**	225,370	(20,009)	205,361
Claims paid during the year	**(229,039)**	**15,991**	**(213,048)**	(202,810)	31,147	(171,663)
Commutation of quota share reinsurance	**-**	**23,492**	**23,492**	-	-	-
	20,175	**43,582**	**63,757**	47,482	4,393	51,875
Balance at 31 December	**392,978**	**(58,254)**	**334,724**	375,710	-101,836	273,874
OCR	**428,263**	**(51,467)**	**376,796**	409,624	(103,248)	306,376
IBNR	**(35,285)**	**(6,787)**	**(42,072)**	(36,821)	1,412	(35,409)
Balance at 31 December	**392,978**	**(58,254)**	**334,724**	372,803	(101,836)	270,967

c) Movement in general insurance unearned premiums

	2010			2009		
	Gross £000	**Reinsurance £000**	**Net £000**	Gross £000	Reinsurance £000	Net £000
Balance at 1 January	**139,287**	**(3,778)**	**135,509**	109,598	(17,342)	92,256
Premiums written in the year	**372,788**	**(1,835)**	**370,953**	286,807	(7,988)	278,819
Premiums earned during the year	**(316,273)**	**5,613**	**(310,660)**	(257,118)	21,552	(235,566)
Balance at 31 December	**195,802**	**-**	**195,802**	139,287	(3,778)	135,509

Details of the methodologies used for the premium and claims provisions for products administered on the main underwriting system are provided below. These products represent over 90% of the Company's liabilities.

Outstanding Claims Reserve (OCR)

The purpose of the OCR is to ensure adequate reserves are in place for known claims. It is calculated by aggregating the case reserves for all known claims and is calculated as part of the quarterly actuarial reserve review. However, the aggregated case reserves may be deemed to be over- or under-stated against the expected ultimate settlement cost of the known claims and this is allowed for in the IBNR calculation.

Incurred But Not Reported Reserve (IBNR)

The purpose of the IBNR reserve is to reflect the additional claims cost from claims incurred but not reported before the balance sheet date, known as 'pure IBNR' and the cost of any over- or under-statement in the OCR, known as Incurred But Not Enough Reported (IBNER).

IBNR is calculated as part of the quarterly actuarial reserve reviews using a combination of statistical/actuarial techniques.

These projections are performed on homogeneous groups of claim types. Otherwise, the projections would be prone to error from changes in mix by claim type. The claim types modelled are:-

- Accidental Damage
- Fire & Theft
- Windscreen
- Third Party Property Damage
- Third Party Personal Injury

Unearned Premium Reserve (UPR)

The UPR is a provision for the claims and expenses attributable to the unexpired risk from business written prior to the balance sheet date.

25. Derivative financial instruments

The Company utilises the following derivative instruments for hedging the effect of changes in exchange rate borrowings on its fixed rate bond portfolio. Fair values are estimated using current market interest rate data and are included in assets or liabilities as set out in the following table:

	2010			2009		
	Contract/ notional amount	**Fair value - asset**	**Fair value - liability**	Contract/ notional amount	Fair value - asset	Fair value - liability
	£000	**£000**	**£000**	£000	£000	£000
Forward exchange derivatives	**9,108**	**-**	**(123)**	31,338	-	(106)
	9,108	**-**	**(123)**	31,338	-	(106)

26. Other financial liabilities

	2010	2009
	£000	£000
Subordinated note	**10,282**	10,662
	10,282	10,662

€12,000,000 subordinated note is repayable in 2034. Interest is payable at the 3 month euro deposit rate plus a margin of 3.65%.

27. Insurance payables

	2010	2009
	£000	£000
Due to intermediaries	**-**	4
Due to reinsurers	**617**	3,699
	617	3,703

28. Trade and other payables

	2010	2009
	£000	£000
Trade payables	**434**	95
Other taxes and social security costs	**4,772**	3,307
Other payables	**126**	123
Accruals and deferred income	**4,986**	4,996
	10,318	8,521

29. Share capital

	2010 £000	2009 £000
Authorised		
N/a (2009: 75,000,000) ordinary shares of £1 each	**n/a**	75,000
Allotted and fully paid		
75,000,000 (2009: 75,000,000) ordinary shares of £1 each	**75,000**	75,000

During 2010 the Company adopted new Articles of Association in line with the Companies Act 2006 and no longer has an authorised share capital.

30. Capital reserve

	2010 £000	2009 £000
Balance at 1 January	**110,000**	20,000
Additions	**40,000**	90,000
Balance at 31 December	**150,000**	110,000

The Company received the following capital contributions from Highway Insurance Group Plc during 2010 and 2009:

	£000
24 February 2009	10,000
25 September 2009	10,000
19 October 2009	25,000
26 November 2009	10,000
18 December 2009	35,000
Total 2009	90,000
16 July 2010	15,000
22 October 2010	10,000
15 December 2010	10,000
20 December 2010	5,000
Total 2010	**40,000**

These amounts are distributable in future periods, subject to the provisions of the Companies Act 2006.

31. Accumulated losses

	2010 £000	2009 £000
Balance at 1 January	**(51,101)**	(14,734)
Profit/(loss) for the year	**13,234**	(36,367)
Balance at 31 December	**(37,867)**	(51,101)

32. Cash generated from operating activities

	2010	2009
	£000	£000
Profit/(loss) before tax	**19,046**	(52,357)
Investment income	**(16,016)**	(9,936)
Gains on financial assets recorded in the statement of comprehensive income	**(14,833)**	(450)
Exchange gains on financial assets recorded in the statement of comprehensive income	**(380)**	(718)
Finance costs	**465**	580
Purchase of investments at fair value through income	**(1,325,456)**	(334,085)
Sales of investments at fair value through income	**1,139,770**	175,457
Non cash items		
Expenses deferred during the year	**(53,054)**	(39,873)
Amortisation of deferred acquisition costs	**42,382**	35,720
Changes in working capital		
Decrease in reinsurance assets	**47,360**	17,957
(Increase)/decrease in insurance and other receivables	**(2,596)**	8,935
Decrease/(increase) in other prepayments and accrued income	**3,323**	(5,193)
Increase in insurance contract liabilities	**76,690**	77,171
(Decrease)/increase in insurance payables	**(3,086)**	1,951
Increase/(decrease) in trade and other payables	**1,797**	(15,582)
Cash used in from operating activities	**(84,588)**	(140,423)

33. Related party transactions

The Company did not directly enter into transactions with key management personnel, all transaction have been settled by LVFS instead. All transactions are carried out on an arm's length basis. Details of significant transactions carried out during the year with related parties are as follows:

The following transactions have taken place between the Company and other Group companies:

	2010 **£000**	2009 £000
Short-term employee benefits	**4,126**	4,076
Post employee benefits	**112**	181
Termination benefits	**292**	-
	4,530	4,257

	2010 **£000**	2009 £000
Reinsurance transactions with group undertakings (Highway Insurance Guernsey Limited)	**(1,616)**	(13,115)
Capital contribution (Highway Insurance Group Plc)	**40,000**	90,000
Management charge from group undertakings (Liverpool Victoria Insurance Management Limited)	**(26,484)**	(25,556)
	11,900	51,329

Balances outstanding between the Company and other Group companies:

	2010 **£000**	2009 £000
Insurance balances receivable by the Company (Highway Insurance Guernsey Limited)	**-**	6,529
Other balances receivable by the Company (LVFS)	**1,414**	6,806
	1,414	13,335

34. Ultimate parent company

The ultimate parent company is Liverpool Victoria Friendly Society Limited, a UK incorporated Friendly Society registered under the Friendly Societies Act 1992.

The immediate parent company is Highway Insurance Group Plc, a limited liability company, incorporated in the UK.

Both the ultimate and immediate parent companies are registered at the below address.

The largest and smallest company whose accounts this company is consolidated into is Liverpool Victoria Friendly Society Limited.

The consolidated accounts of Liverpool Victoria Friendly Society Limited are available to the public and may be obtained from:
The Company Secretary
County Gates
Bournemouth
BH1 2NF

or at www.lv.com/aboutus/report