COMPANY REGISTRATION NUMBER: 0003232514

LIVERPOOL VICTORIA
INSURANCE COMPANY LIMITED

REPORT AND
FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2013

CONTENTS

DIRECTORS, OFFICERS AND REGISTERED OFFICE

Directors

P M Bunker	
S V Castle	
J B O'Roarke	
M J Rogers	
P W Moore	
R A Warner	
S R Haynes	
W M Mayall	Resigned 31 December 2013
S C A Fernandes	
P A Horton	

Company secretary

R S Small	Appointed 1 January 2013
P B Cassidy	Resigned 1 January 2013

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

STRATEGIC REPORT

1. Results and dividends

The profit on ordinary activities for the year after taxation is £45,571,000 (2012: £65,252,000) as set out on page 10. The directors have declared and paid interim dividends of £32,000,000 in the current year (2012: £37,500,000).

2. Principal activities

The principal activity of the Company is to carry on general insurance business through both the direct and broker distribution channels. The primary sources of premium income are from the sale of Motor and Home products. Motor insurance products include Private Car, Specialist Car, Fleet, Motorcycle and Commercial Vehicles. The Company also underwrites Road Rescue, Pet and Travel Insurance, and Commercial Insurance for Small and Medium Size Enterprises ('SME').

3. Business review and developments

(a) Results and performance

The 2013 results for the Company show a profit before taxation of £58,542,000 (2012: £ 85,750,000), which was underpinned by an improved underwriting profit and a favourable investment return. It is the sixth successive year that the Company has reported a profitable result. This coupled with the fact that in 2013 the Company has paid dividends, demonstrates that the Company's results are developing in line with its strategic objectives.

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

1. Premium written: Due to very competitive market conditions during 2013, particularly in Motor (which has seen large price reductions), premium rates continued to weaken throughout 2013. As a result of these competitive market price conditions, the Company reported a small reduction in premium written, even though underlying business volumes have increased.

2. Underwriting result: The Company's underwriting profit improved during 2013, reflecting a relatively benign year for Home insurance claims (despite the adverse weather events experienced in the latter part of the year). In addition the Motor account benefitted from favourable prior year reserves run off which mitigated, to a certain extent, the current year price driven pressure on margins.

3. Investment returns: 2013 was a challenging year for the financial markets, with the overall returns remaining depressed driven by continued low underlying interest rates (although equities had a buoyant year). The Company's investment return of 3.2% is expected to compare favourably against external market benchmarks. It has also benefited from an active but conservative management of its portfolio, as well as a spread of investment risk across a broad range of investment holdings, sectors, ratings and maturities.

4. Expenditure: In response to the competitive market conditions the Company has maintained strong cost disciplines through controlling acquisition costs and operating expenses during the year. Nevertheless, our investment in staff, systems, marketing and infrastructure has continued to ensure that the Company is well placed to deliver its profitable growth strategy. Even though the overall expenditure has gone up at a rate lower than that of the increasing policy volumes, (benefiting from good cost management processes and economies of scale), the lower earned premiums have led to a slightly higher expense ratio in 2013 compared to 2012.

5. Underwriting and Claims: During 2013 the Company continued to develop its products and enhance its pricing, and underwriting processes, which have contributed to an improvement in the personal injury ('PI') claims frequency. This improvement can also be attributed to the implementation of the Legal Aid, Sentencing and Punishment of Offenders Act ('LASPO') aimed at reducing claims costs to the industry. The Company's new claims system, which has had a phased introduction, is now also reducing average claims cost through improved efficiencies in handling and the settlement of claims and in reducing leakage. This is in line with the Company's policy "*to settle valid claims in full as rapidly as possible, while at the same time adopting a rigorous and challenging approach to suspect claims*".

3. Business review and developments (continued)

6. Direct Division: The Direct Division operates under the LV= brand and the Britannia Rescue brand. Under the LV= brand it offers personal lines products including Motor, Home, Travel and Pet insurance. Road Rescue is offered under the Britannia Rescue brand. The Direct Division has continued to grow, increasing the overall number of in-force policies by 11.3% and writing premiums of £824.1m (2012: £829.7m).

   Broker Division: The Broker Division offers both personal lines (primarily Motor) and Commercial SME products under the ABC Insurance brand. During 2013 this division wrote premiums of £304.0m (2012: £323.2m). This was less than 2012, as the achievement of underwriting margin targets was prioritised over pursuing business volume growth.

Management views 2013 as a year where it has been able to demonstrate that it can deliver strong and sustainable profits and dividends in a difficult and competitive market.

(b) Business environment
2013 was a challenging year for UK motor insurers as motor rates continued to weaken and investment returns remained subdued. Despite these conditions, the Company delivered continued growth in its target market segments and now has over 3.7 million policies across an increasingly broad range of product lines.

Competitive pressures are expected to continue into the early part of 2014. However, Management believes that market rates are likely to readjust to more sustainable levels during the course of that year.

(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 (‘The Group’)) is as follows:

“*To maintain its position as 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 SME supported by more minor lines such as Road Rescue, Travel and Pet and will utilise a range of strong brands including LV=, Highway, ABC and Britannia Rescue. The Group will operate best-practice processes and technology in order to provide superior customer service through a people-focused and empowered culture. The Group aims to deliver attractive and consistent returns to the members of Liverpool Victoria Friendly Society (‘LVFS’).”

(d) Principal risks and uncertainties
UK Insurance Market - Pricing: The UK motor insurance market moves in a cyclical manner and is currently experiencing severe price competition. The main reason for this is that many insurance companies have started to anticipate the future potential benefit of the recent LASPO legislative changes, resulting in assumed lower claims costs and hence motor premium rates have decreased sharply across the market in 2013. These benefits have however in reality been slow to materialise and it is likely that the market may have over-estimated the level of savings (and therefore price reductions that can be afforded). Management believes therefore that motor premium rates are likely to readjust to more sustainable levels during the course of 2014.

UK Insurance Market – Claims: The introduction of LASPO is anticipated to reduce claims costs and leakage across the industry. To date the Company has seen some benefit, with a reducing PI frequency and average cost deflation being experienced primarily on the Broker private car products. The use of periodic payment orders (‘PPOs’ see p23) to settle large disability claims is also becoming more common; again this trend is likely to continue into the future. The introduction of LASPO has also resulted in a reduction of referral income. Management is monitoring and managing this area very closely.

Economic Environment: The financial environment during the course of 2013 has been volatile with some of the traditional market assumptions and movements breaking down. Although the markets have moved into 2014 with an optimistic outlook for the next twelve months, significant uncertainties around the interest rate, credit spread and yield levels still remain. Investment income is predicted to remain relatively low (by historical standards) for the next few years.
The Company is paying, and will continue to pay, particular attention to credit risk and increased claims leakage through fraud. Capital management and cash flow also remain a material consideration at all times.

3. Business review and developments (continued)

Regulatory: A number of legal and regulatory developments affected the UK insurance market during 2013. These include:
1. Implementation of LASPO – the banning of referral fees, reduced fixed solicitor's costs and extension of the Road Traffic Accident Portal;
2. Continued uncertainty in relation to the Ogden discount rate – the rate used by insurance companies to calculate a discounted lump-sum value of future cost of care, loss of earnings and pensions for large personal injury claims;
3. New proposed timescales for Solvency II implementation.
Management continually monitors all developments and takes appropriate action to ensure that the Company is well prepared. As part of its usual risk management processes, the Group reviews the document when published and assesses its internal products, processes and controls against the risks that the FCA identifies. Conclusions from that review form part of the Group's view on the risks that it faces in the market.

Business Change: The Company is still going through a number of material transformation processes (including a full review of some of its core systems) as it continues to prepare 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 increased influence of the internet and of aggregators has changed and continues to change the business operating environment. Social media are also becoming a material factor influencing the way the Company conducts its business, and are therefore being monitored closely. Finally, insurance specific developments in telematics, although still in their early stages, are another potential driver of material market transformation in the future. The Company is ensuring that it is prepared to respond very quickly to changing circumstances.

Exceptional Weather Events: Exceptional weather events will always present a risk to an insurance company which underwrites property. The Company mitigates this risk as far as is economically possible through the purchase of reinsurance protection.

A statement of how the Company manages its principal types of risk is disclosed in note 5 of the financial statements.

(e) Future outlook
It is projected that the Company will steadily continue to increase its premium income in 2014 and beyond. This growth will come from moderate price and volume increases in both the Direct and Broker operations. However, it should be noted that the volume growth will not be pursued at the expense of lower margins. The Company therefore expects to continue to deliver underwriting profits in 2014.

(f) Significant post statement of financial position events
There have been no events of significance affecting the Company since the statement of financial position date.

3. Business review and developments (continued)

(g) Key performance indicators ('KPIs')
The Board sets KPIs and targets for its main operating businesses, which it monitors on a regular basis throughout the year. These KPIs change from time to time as objectives and priorities change.

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

KPI	2013	2012	Comments
Premiums written	£1,128.1m	£1,152.9m	As a result of competitive market conditions and material price reductions in the Motor market, the Company reported a small reduction in the premium written of 2.2%. Underlying policy counts did however increase slightly.
Underwriting loss ratio	76.0%	76.4%	An overall loss ratio of 76.0% was an improvement on the previous year, reflecting a relatively benign year, despite adverse weather in December. Pressures on the 2013 loss ratio, due to reducing Motor market prices, were largely mitigated by favourable prior year claims reserve run off.
Expense ratio *	22.6%	22.3%	Although the Company benefited from good cost management processes and economies of scale during 2013, lower earned premiums led to a small year on year increase of the expense ratio.
Combined ratio	98.5%	98.7%	An overall combined ratio of 98.5%, which delivered a £16m underwriting profit, is considered by management to be a good result at this stage in the Market cycle. It is an improvement on 2012.
Investment return	£44.7m	£73.7m	Total investment return includes: 1. Investment income and 2. Net fair value gains/losses on financial assets 2013 was a challenging year for the investment markets, with overall returns remaining depressed in line with the underlying low interest rates, although it should be noted that the buoyant equity markets mitigated the impact. The Company achieved a total investment return of £44.7m (which equates to 3.2%) in 2013. This result was helped by a small (i.e. c.5.0%) exposure the UK equity market.
Net assets	£602.1m	£588.5m	The post tax profit of £45.6m has increased the Company's net assets, but has been partly offset by a £32.0m dividend paid in the year, meaning the Company's net assets have increased overall by £13.6m.

* Expense ratio excludes amortisation of goodwill and investment management costs but, includes interest earned from selling policies on instalments and ancillary income derived from the sale of the principal products.

The Company also uses a range of non-financial KPIs which are disclosed and managed at ultimate parent company level.

On behalf of the Board of Directors

S V Castle
Director

28 March 2014

DIRECTORS' REPORT

As permitted by section 414C(11) of the Companies Act 2006, certain information is not included in the Directors' Report because it has instead been shown in the Strategic Report. This information is:

- Results and dividends;
- Principal activities of the Company;
- Business review and future prospects;
- Principal risks and uncertainties.

1. Directors and their interests

The Directors of the Company who were in office during the year and up to the date of signing the financial statements are listed on page 1.

2. Parent company

The Company is a wholly owned subsidiary of Liverpool Victoria General Insurance Group. The ultimate parent company is Liverpool Victoria Friendly Society Limited ('LVFS'), a friendly society incorporated under the Friendly Societies Act 1992.

3. Employees

The Company did not directly employ any staff during 2013. Instead it utilised the staff and premises of LVFS in carrying out its activities and incurred the cost of staff through management charges.

4. Disclosure of information to auditors

Each Director at the date of this report confirms that:

- so far as the Director is aware, there is no relevant audit information of which the Company's auditors are unaware, and;
- he has taken all 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.

5. Directors' indemnity statement

The Directors have the benefit of an indemnity which constitutes a "qualifying third party indemnity provision" as defined by Section 234 of the Companies Act 2006. The indemnity was in force throughout the last financial year and is currently in force. LVFS also purchased and maintained throughout the year on behalf of its subsidiaries Directors' and Officers' liability insurance in respect of the Company and its Directors. It is available for inspection at the registered office of the Company details of which are provided on page 1.

6. Directors' responsibilities statement

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 results 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.

Approved by the Board of Directors and signed by order of the Board

R S Small
Company Secretary

28 March 2014

Report on the financial statements

Our opinion

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2013 and of its profit and cash flows for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

This opinion is to be read in the context of what we say below.

What we have audited

The financial statements for the year ended 31 December 2013, which are prepared by Liverpool Victoria Insurance Company Limited, comprise:

- the Statement of Comprehensive Income;
- the Statement of Changes in Equity;
- the Statement of Financial Position;
- the Statement of Cash Flows; and
- related notes.

The financial reporting framework that has been applied in their preparation comprises applicable law and IFRSs as adopted by the European Union.
In applying the financial reporting framework, the Directors have made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.

What an audit of financial statements involves

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) (ISAs (UK and Ireland)). 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.

In addition, we read all the financial and non-financial information in the Report and Financial Statements to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on matter prescribed by the Companies Act 2006

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

Other matters on which we are required to report by exception

Adequacy of accounting records and information and explanations received

Under the Companies Act 2006 we are required to report to you if, in our opinion:
- we have not received all the information and explanations we require for our audit; or
- 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.

We have no exceptions to report arising from this responsibility.

Directors' remuneration

Under the Companies Act 2006 we are required to report if, in our opinion, certain disclosures of directors' remuneration specified by law have not been made. We have no exceptions to report arising from this responsibility.

Responsibilities for the financial statements and the audit

Our responsibilities and those of the directors

As explained more fully in the Directors' Responsibilities Statement, 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 ISAs (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.

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

28 March 2014

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

(b) Legislation in the United Kingdom governing the preparation and dissemination of insurance annual returns may differ from legislation in other jurisdictions.

STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2013

	Note	**2013** **£000**	2012 £000
Insurance contract premium revenue	6	**1,149,670**	1,127,022
Insurance contract premium ceded to reinsurers	6	**(31,354)**	(27,126)
Net premium revenue		**1,118,316**	1,099,896
Investment income	7	**50,321**	48,317
Net fair value (losses)/gains on financial assets at fair value through income	8	**(5,577)**	25,355
Other income	9	**30,179**	32,306
Total income		**1,193,239**	1,205,874
Insurance claims and loss adjustment expenses	10	**(849,416)**	(859,592)
Insurance claims and loss adjustment expenses recoverable from reinsurers	10	**(415)**	19,158
Net insurance claims		**(849,831)**	(840,434)
Other operating and administrative expenses	11	**(284,866)**	(279,690)
Total claims and expenses		**(1,134,697)**	(1,120,124)
Profit before tax		**58,542**	85,750
Income tax expense	14	**(12,971)**	(20,498)
Profit for the year attributable to owners		**45,571**	65,252
Total comprehensive income for the year		**45,571**	65,252

All balances relate to continuing business.

The notes on pages 14 to 48 are an integral part of the financial statements.

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2013

		Attributable to equity holder of the Company			
		Share capital	**Retained earnings**	**Capital reserve**	**Total**
	Note	**£000**	**£000**	**£000**	**£000**
Balance at 1 January 2013		**344,908**	**3,032**	**240,544**	**588,484**
Dividends	33	**-**	**-**	**(32,000)**	**(32,000)**
Profit for the year	34	**-**	**45,571**	**-**	**45,571**
Balance at 31 December 2013		**344,908**	**48,603**	**208,544**	**602,055**

		Attributable to equity holder of the Company			
		Share capital	Retained earnings	Capital reserve	Total
	Note	£000	£000	£000	£000
Balance at 1 January 2012		344,908	(62,220)	278,044	560,732
Dividends	33	-	-	(37,500)	(37,500)
Profit for the year	34	-	65,252	-	65,252
Balance at 31 December 2012		344,908	3,032	240,544	588,484

The notes on pages 14 to 48 are an integral part of the financial statements.

STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2013

	Note	2013 £000	2012 £000
Assets			
Intangible assets	15	**18,152**	18,332
Deferred acquisition costs	16	**72,720**	73,240
Investments in group undertakings	17	**301,012**	301,012
Prepayments and accrued income	18	**20,907**	20,047
Financial assets			
- Fair value through income	19	**1,199,241**	1,262,218
- Derivative financial instruments	20	**5,258**	1,435
Loans and other receivables	21	**26,037**	25,175
Reinsurance assets	22	**50,301**	54,296
Insurance receivables	23	**183,100**	184,078
Cash and cash equivalents	24	**251,389**	120,605
Total assets		**2,128,117**	2,060,438
Liabilities			
Insurance contract liabilities	25	**1,431,753**	1,366,956
Provisions	26	**1,156**	250
Deferred tax liability	27	**707**	663
Current tax liability	28	**6,407**	11,783
Financial liabilities			
- Other	29	**6,360**	-
Insurance payables	30	**14,027**	18,001
Trade and other payables	31	**65,652**	74,301
Total liabilities		**1,526,062**	1,471,954
Equity			
Share capital	32	**344,908**	344,908
Capital reserve	33	**208,544**	240,544
Retained earnings	34	**48,603**	3,032
Total equity		**602,055**	588,484
Total liabilities and equity		**2,128,117**	2,060,438

The notes on pages 14 to 48 are an integral part of the financial statements.

These financial statements were approved by the Board of Directors on 28 March 2014.

Signed on behalf of the Board of Directors

P W Moore
Director

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2013

	Note	**2013** **£000**	2012 £000
Cash and cash equivalents at 1 January	24	**113,759**	194,136
Cash flows arising from:			
Operating activities			
Cash generated from operating activities	35	**51,955**	200,459
Net decrease/(increase) in investments at fair value through income		**53,577**	(288,021)
Dividend income received	7	**3,094**	15,353
Interest income received		**71,484**	39,374
Group relief paid	28	**-**	(1,472)
Income tax paid	28	**(18,303)**	(8,570)
Net cash flows generated from/(used in) operating activities		**161,807**	(42,877)
Financing activities			
Dividends paid	33	**(32,000)**	(37,500)
Net cash flows used in financing activities		**(32,000)**	(37,500)
Net increase/(decrease) in cash and cash equivalents		**129,807**	(80,377)
Cash and cash equivalents at 31 December	24	**243,566**	113,759

The notes on pages 14 to 48 are an integral part of the financial statements.

1. General information

Liverpool Victoria Insurance Company Limited is a company limited by shares, domiciled and incorporated in the United Kingdom. The Company underwrites general insurance risks, including motor and household risks. All contracts of insurance are written in the United Kingdom or the Channel Islands.

2. Basis of presentation

These accounts 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 principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all years presented, unless otherwise stated. Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). Unless otherwise noted, the financial statements are presented in thousands of pounds sterling, which is the Group's presentation currency.

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.

After making enquiries, the directors have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future. The Company therefore continues to adopt the going concern basis in preparing its financial statements.

Insurance contracts are accounted for in accordance with the Statement of Recommended Practice issued by the Association of British Insurers in December 2005, and amended in December 2006.

Restatement

Bank overdrafts totalling £6,846,000 have been reclassified from cash and cash equivalents to trade and other payables. Provisions totalling £250,000 which were previously included in insurance receivables have been reclassified to provisions. Amounts due to policy holders totalling £7,920,000 which were previously included in trade and other payables have been reclassified to insurance payables.

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 statement of financial position 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 some of the insurance risk in its general insurance business to reinsurers. 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. Reinsurance premiums are recognised in the same period as the underlying contract to which they relate.

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.

3. Accounting policies (continued)

Investment income
Investment income includes dividends (on an ex-dividend basis), interest from investments at fair value and interest on other receivables. Investment expenses are included on an accruals basis.

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 purchase price.

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 re-valued, 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 recognised. 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 sterling at rates of exchange ruling at the statement of financial position date. 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 ('DAC')
The costs of acquiring new business, which are incurred during the financial year, but where the benefit of such costs will be obtained in the following year, are deferred and recognised as an asset to the extent that they are recoverable out of margins in future matching revenues. Acquisition costs comprise 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.

3. Accounting policies (continued)

Liability adequacy test

At each statement of financial position 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, 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 an unexpired risk provision.

Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the net identifiable assets of the acquired book of business at the acquisition date. Goodwill is reviewed for impairment at the end of the first full year of acquisition. Thereafter, it is tested at each statement of financial position date for impairment against the value in use and carried in the statement of financial position at cost less accumulated impairment losses.

Other intangibles

Where an acquisition takes place that gives access to existing customers or distribution channels, then the present value of these is recognised as an intangible asset. The carrying value of the asset is amortised over its expected economic life, and is assessed as and when impairment may be indicated.

The expected economic life of other intangibles is determined by reference to the future revenue streams arising from the acquired business and is within the range of 10 to 20 years.

Investments in group undertakings

The subsidiaries are held in the Company's statement of financial position at cost less any provision for impairment. An assessment of the realisable value is made at the year end and, if the Directors assess that there has been a permanent fall in that value below the carrying value, a provision is made to bring the carrying value down to the assessed realisable value.

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.

Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the statement of financial position only when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Financial assets at fair value through income

All investments of the Company classified as fair value are designated as fair value through income at inception. 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.

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.

3. Accounting policies (continued)

Loans and other receivables
Loans and other receivables are recognised when due and comprise amounts due to the Company from Group undertakings and other receivables. Where there is objective evidence that the carrying value is impaired then the impairment loss will be recognised in the statement of comprehensive income. Loans and other receivables are initially recognised at fair value and then 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
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;

(iv) the disappearance of an active market for that financial asset; or

(v) observable data indicating that there is a measurable decrease in the estimated future cash flow from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the group, including:

- adverse changes in the payment status of issuers or debtors in the group; or
- national or local economic conditions that correlate with defaults on the assets in the group.

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.

If there is objective evidence that an impairment loss has been incurred, the carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in the statement of comprehensive income for the period.

If in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as improved credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in the statement of comprehensive income for the period.

3. Accounting policies (continued)

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 statement of cash flows, cash and cash equivalents are as defined above but are shown net of outstanding bank overdrafts.

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.

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.

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.

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

Dividend distribution
Dividend distribution to the Company's equity shareholder is recognised in equity in the period in which the dividend is paid.

Consolidation
The accounts present information about the Company as an individual undertaking and not about its group. The Company has not prepared group accounts as it is exempt from the requirement to do so by section 400 of the Companies Act 2006, as it is a subsidiary undertaking of Liverpool Victoria General Insurance Group Limited, a company incorporated in England and is included in the consolidated financial statements of LVGIG..

CHANGES IN ACCOUNTING POLICIES

(i) New and amended standards adopted by the Company

The following standards have been adopted by the Company for the first time for the financial year beginning on or after 1 January 2013 and have an impact on the Company:

3. Accounting policies (continued)

Amendment to IAS 1, 'Financial statement presentation' regarding other comprehensive income. The main change resulting from these amendments is a requirement for entities to group items presented in 'other comprehensive income' ('OCI') on the basis of whether they are potentially re-classifiable to profit or loss subsequently (reclassification adjustments). There is no such re-classifiable item in the Company's accounts; therefore the impact on the Company is not material.

IFRS 13, 'Fair value measurement', aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRSs. The requirements, which are largely aligned between IFRSs and US GAAP, do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards within IFRSs. The amendment has had only a minor impact on some of the disclosures given in the Company's financial statements.

Amendments to IAS 36, 'Impairment of assets', on the recoverable amount disclosures for non-financial assets. This amendment removed certain disclosures of the recoverable amount of the cash generating unit which had been included in IAS 36 by the issue of IFRS 13. The amendment is not mandatory for the Company until 1 January 2014, however the Company has decided to early adopt the amendment as of 1 January 2013.

Other than as set out above, no new or amended accounting standards and interpretations were adopted for the 2013 financial year.

(ii) New standards and interpretations not yet adopted

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after 1 January 2014, and have not been applied in preparing these financial statements. None of these is expected to have a significant effect on the financial statements of the Company, except the following:

IFRS 9, 'Financial instruments', addresses the classification, measurement and recognition of financial assets and financial liabilities. IFRS 9 was issued in November 2009 and October 2010 and replaces the parts of IAS 39 that relate to the classification and measurement of financial instruments. IFRS 9 requires financial assets to be classified into two measurement categories: those measured at fair value and those measured at amortised cost. The determination is made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument. For financial liabilities, the standard retains most of the IAS 39 requirements. The main change is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than the income statement, unless this creates an accounting mismatch. The Company is yet to assess IFRS 9's full impact. The Company will also consider the impact of the remaining phases of IFRS 9 when completed by the International Accounting Standards Board.

There are no other IFRSs or IFRIC interpretations that are not yet effective that would be expected to have a material impact on the Company.

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 financial statements.

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

4. Significant accounting judgements, estimates and assumptions (continued)

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, motor insurance policies are exposed to claims for bodily injury and household insurance policies are exposed to claims for subsidence.

Estimation of the ultimate cost of 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 of coverage of the protection offered in the insurance contracts issued by the Company. This factor is exacerbated by the Company's bodily injury claims. The current case law 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. A recent legislative development is the prevalence of Periodic Payment Order ('PPO') settlements. These settlements have an annuity-type structure, i.e. they are typically paid annually over the claimant's life. Courts may decide that a claim should be settled on a PPO basis, but in some cases the claimant will request such a settlement. Market data analysis suggests that circa 35% of claims costing in excess of £1m are now settling on a PPO basis and therefore these claims are representing a greater proportion of the liabilities year-on-year. As it is unclear whether a large claim will settle on a PPO basis or on the traditional lump sum basis, there is further uncertainty in the bodily injury projections. A further complexity of PPO claims is that due to the annuity-type structure of the claim payments, the estimation of ultimate claims cost now involves projecting mortality rates, discount rates and benefit indexation rates, which is unlike all other general insurance liabilities.

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 year. 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 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.

4. Significant accounting judgements, estimates and assumptions (continued)

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 the Company and across the wider LVFS group. The Board's 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 the Company's best estimate is assessed.

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

5. Capital management and risk management and control

The Company maintains a capital structure which consists of a combination of share capital, retained earnings and a capital reserve, 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 implemented;
(iii) To give confidence to policyholders and other stakeholders who have relationships with the Company; and
(iv) To comply with capital requirements imposed by its UK regulator, the Prudential Regulatory Authority ('PRA').

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 amount 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 PRA imposes two separate capital requirements on the Company: the Minimum Capital Requirement ('MCR') as defined in the PRA regulations and reported publicly in the Company's annual PRA return; and Individual Capital Guidance ('ICG'), which is entity specific and is derived using a more risk-related approach as set out in the PRA regulations. The ICG is calculated and updated by the PRA 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.

As at 31 December 2013, the Company disclosed regulatory capital of £503,850,000 (2012: £473,794,000) being the pillar 1 capital resources per the 2013 PRA return.

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

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 PRA's 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.
- A statement of Risk Strategy and Appetite, which is reviewed annually and adopted by the Directors.
- Regular reviews of risks by senior managers, where frequency of review is determined by the potential impact of the risk and its likelihood.

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 claims reserves. 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 and large single claims arising from either the motor business (injury claims) or SME business (liability and/or property claims). There is also a risk that the prices charged for unexpired risks to which the Company is contractually committed may prove to be insufficient to absorb the cost of the claims which they will generate and any related DAC. 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 those resulting from storms or floods as well as risks such as subsidence. The Company has entered into reinsurance contracts which provide protection against catastrophic weather events.

Motor business is exposed to the risk of large bodily injury claims, where the claim amounts can be significant due to the cost of care required for the claimant. The Company has entered into excess of loss reinsurance contracts which reduce its exposure to large claims. The Company's retention is £5.0m per claim, with the first layer of reinsurance between £5.0m and £10.0m being 80% placed. (2012 : £5.0m per claim; £5.0m-£10.0m layer 100% placed).

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

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

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

	2013			2012		
	Gross £000	**Reinsurance £000**	**Net £000**	Gross £000	Reinsurance £000	Net £000
Motor	**720,480**	**(33,581)**	**686,899**	663,514	(31,329)	632,185
Household	**68,277**	**-**	**68,277**	57,711	(226)	57,485
Travel	**1,758**	**-**	**1,758**	991	-	991
Commercial	**78,507**	**(4,338)**	**74,169**	60,537	(8,028)	52,509
Other	**3,545**	**-**	**3,545**	3,438	-	3,438
	872,567	**(37,919)**	**834,648**	786,191	(39,583)	746,608

The claims provision is the estimated cost of outstanding claims from expired risks. The provision is calculated largely from using our own historic claims development data. How much the past claim development will reflect future claims development will be impacted by the following factors:

- Changes in actuarial processes and methodology.
- Changes in risk profile.
- Changes in underwriting, rating and policy conditions.
- Changes in legislation and regulation (e.g. PPOs, Ministry of Justice reforms, changes to the Ogden discount rate, etc).
- Changes in other external factors (e.g. claims farming/accident management firms).

It is therefore very important that the impact of these items on claims development is understood. Whilst every effort has been made to ensure the claims provision appropriately allows for such changes, there remains uncertainty in the eventual reserve outcome as a result. This uncertainty can change from year to year depending on the timing and magnitude of these items.

The Company has identified three specific areas of uncertainty that it has explicitly allowed for within the claims provision but where the outcome could be worse than the amount allowed for. These are:

- Uncertainty in the proportion of claims identified by the Company as being likely to settle on a PPO basis that actually settle on a PPO basis.
- Uncertainty in relation to the Ogden discount rate.
- Uncertainty in the frequency and severity of attritional personal injury ('PI') claims due to legislative changes, e.g. LASPO, and a change in our claims systems.

The claims provision includes a specific allowance for claims identified as having the potential to settle on a PPO basis. This allowance is based on the mean cost of claims derived from a range of scenarios based on the PPO settlement rate for these claims. If all of these claims were to settle as PPOs, the reserves would deteriorate by an estimated £4.2m from the position shown above.

The Ogden discount rate is set by the Lord Chancellor. It is currently 2.5% but a revision is under consideration with a decision possible in 2014. Whilst there are many views across the industry in terms of what the change should be, the general consensus is that a change is now unlikely. Despite this, the claims provision has included an allowance for a change in the Ogden discount rate, using a scenario based approach as for PPOs. The allowance is broadly equivalent to a reduction in the discount rate to 2% (2012: 1.75%). If the discount rate was to reduce to 1.5%, the claims provision would deteriorate by £6.1m. A reduction to 1% would lead to a deterioration of £12.1m. However, it is believed that a reduction in the discount rate would reduce the propensity for claims to settle as PPOs; therefore the actual impact may be lower than the figures quoted here.

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

LASPO was implemented in April 2013 and there are early signs that this is having a positive impact on PI claims frequency and severity. However, the uncertainty in PI frequency and severity is perceived to be higher than previous year ends due to the short period of time that has elapsed since this change. In addition to this, the Company has changed its claims system during 2012/2013, which has added an additional layer of uncertainty due to further changes in claims development.

The claims provision is also sensitive to the number and cost of large motor claims (defined as greater than £1.0m), which have been incurred but not reported and reserved. We would typically expect a number of large claims from expired risks to be identified in the future, either from being newly reported or from existing claims increasing in magnitude above the £1.0m threshold. The claims provision allows for £26.0m of late reported/reserved large claims above £1.0m. Therefore, if six new claims were reported, each with £5.0m above the £1.0m threshold, for example, this would lead to a £4.0m deterioration in the reserves, whereas four new claims of this type would lead to a £6.0m improvement.

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

The tables below reflect the cumulative incurred claims including both claims notified and incurred but not reported ('IBNR') for each successive accident year at each statement of financial position date, together with the cumulative payments to date. The Company aims to maintain appropriate reserves in order to protect against adverse future claims experience and developments.

Analysis of claims development – gross of reinsurance

Accident year	2004 £m	2005 £m	2006 £m	2007 £m	2008 £m	2009 £m	2010 £m	2011 £m	2012 £m	2013 £m	Total £m
Initial estimate of gross provision	314.5	336.2	366.4	373.4	331.2	375.9	523.5	620.0	803.7	833.7	
One year later	307.4	332.4	347.5	315.8	296.6	362.8	548.3	632.9	766.4		
Two years later	286.7	315.2	325.4	290.9	280.2	356.8	555.5	624.7			
Three years later	281.0	300.5	310.8	285.3	278.0	353.4	551.9				
Four years later	270.8	296.0	303.3	284.8	277.4	357.8					
Five years later	269.5	293.1	303.1	284.7	277.8						
Six years later	269.6	295.1	302.1	286.0							
Seven years later	269.7	293.1	302.9								
Eight years later	269.7	295.7									
Nine years later	269.7										
Current estimate of cumulative claims	269.7	295.7	302.9	286.0	277.8	357.8	551.9	624.7	766.4	833.7	4,566.6
Cumulative payments to date	(269.3)	(293.2)	(300.2)	(281.0)	(270.4)	(330.1)	(494.9)	(524.2)	(571.1)	(376.3)	(3,710.7)
Liability recognised for 2004 to 2013 accident years	0.4	2.5	2.7	5.0	7.4	27.7	57.0	100.5	195.3	457.4	855.9
Liability recognised in respect of prior accident years											2.5
Claims handling provision											14.2
Provision as at 31 December 2013											**872.6**

Analysis of claims development – net of reinsurance

Accident year	2004 £m	2005 £m	2006 £m	2007 £m	2008 £m	2009 £m	2010 £m	2011 £m	2012 £m	2013 £m	Total £m
Initial estimate of net provision	314.5	336.2	366.4	369.1	327.5	372.6	518.2	613.8	792.5	822.4	
One year later	307.4	332.4	345.4	311.4	291.7	356.9	542.8	619.7	762.2		
Two years later	286.7	313.1	324.0	288.6	276.4	345.7	549.4	618.4			
Three years later	279.1	299.8	309.8	283.0	274.9	342.1	541.7				
Four years later	270.8	295.5	303.3	282.6	273.8	347.3					
Five years later	269.5	293.1	302.9	283.5	275.1						
Six years later	269.6	295.1	302.1	284.4							
Seven years later	269.7	293.1	302.9								
Eight years later	269.7	295.7									
Nine years later	269.7										
Current estimate of cumulative claims	269.7	295.7	302.9	284.4	275.1	347.3	541.7	618.4	762.2	822.4	4,519.8
Cumulative payments to date	(269.3)	(293.2)	(300.2)	(280.3)	(269.8)	(330.0)	(488.3)	(523.1)	(571.1)	(376.3)	(3,701.6)
Liability recognised for 2004 to 2013 accident years	0.4	2.5	2.7	4.1	5.3	17.3	53.4	95.3	191.1	446.1	818.2
Liability recognised in respect of prior accident years											2.2
Claims handling provision											14.2
Provision as at 31 December 2013											**834.6**

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

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. Exposures to individual companies and to equity shares in aggregate are monitored by Investment and Asset & Liability 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 quarterly by the Board's 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.

The Company monitors interest rate risk by calculating the mean duration of the investment portfolio. The mean duration is an indicator of the sensitivity of the assets to changes in current interest rates. The mean duration of the assets is determined by means of projecting expected cash flows from the assets held. The liabilities are undiscounted and so unaffected in current value by changes in interest rates.

The Company manages this risk through an active use of gilt yield hedges, in the form of contracts for differences.

Credit spread risk
In addition to interest rate risk, described above, a widening of corporate bonds spreads over and above risk-free yields will lead to a fall in the fair value of the Company's portfolio of corporate bonds and vice-versa.

The Company monitors credit spread risk by regularly reviewing its exposure to corporate bonds by both credit rating and duration. The liabilities are undiscounted and so unaffected in current value by changes in credit spreads.

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

Currency risk
Although the Company operates only within the UK, it has exposure to foreign currencies through its investment portfolio. Its main currency exposures are the Euro and 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. The Company purchases forward foreign exchange contracts to hedge the exposure to foreign exchange movements. The Company's exposure to foreign exchange risk is summarised below:

As at 31 December 2013	USD £000	Euro £000	Total £000
Financial assets at fair value through income			
Debt and other fixed income securities	**2,530**	**999**	**3,529**
Derivative financial instruments	**(2,530)**	**(1,001)**	**(3,531)**
Total exposure	**-**	**(2)**	**(2)**

The Company did not have any exposure to foreign exchange risk in 2012.

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

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 indicated 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. The sensitivities in the table can be impacted by the use of derivative financial instruments, which are detailed in note 21.

	Impact on profit before tax 2013 £000	**Impact on equity 2013 £000**	Impact on profit before tax 2012 £000	Impact on equity 2012 £000
Interest rate risk				
+ 50 basis points shift in yield curve	**(584)**	**(448)**	(66)	(50)
- 50 basis points shift in yield curve	**584**	**448**	66	50
Credit spread risk				
100 basis points widening in all credit spreads	**(24,922)**	**(19,127)**	(21,593)	(16,303)
100 basis points tightening in all credit spreads	**26,025**	**19,974**	22,562	17,034
Equity price risk (including derivatives)				
20% increase in equity markets	**15,107**	**11,595**	1,774	1,339
20% decrease in equity markets	**(15,107)**	**(11,595)**	(1,774)	(1,339)

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 counterparties, 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. Intermediary debt at 31 December 2013 was £39.3 million (2012: £36.7 million), 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.

Exposure to policyholder risk is managed by a credit default policy. The policy servicing function monitors the ageing of policyholder balances, where policies are sold on instalment terms, and will cancel policies at the point of default. When the debt goes into arrears it is managed to ensure it is collected where possible.

In addition to the above the Company also monitors the debt via the Asset & Liability and Intermediary Collection Committees and provides against older debts.

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

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

Credit risk exposure 2013	**AAA** £000	**AA** £000	**A** £000	**BBB** £000	**Below BBB** £000	**Not rated** £000	**Total** £000
Debt and other fixed income securities	316,083	219,646	312,347	246,781	2,207	255	1,097,319
Short term bank deposits	-	32,995	129,453	81,983	-	-	244,431
Insurance receivables	-	-	-	-	-	183,100	183,100
Reinsurance assets	-	36,472	12,343	694	792	-	50,301
Total exposure	**316,083**	**289,113**	**454,143**	**329,458**	**2,999**	**183,355**	**1,575,151**

Credit risk exposure 2012	AAA £000	AA £000	A £000	BBB £000	Below BBB £000	Not rated £000	Total £000
Debt and other fixed income securities	378,563	94,906	319,171	232,386	-	-	1,025,026
Short term bank deposits	-	12,622	105,676	-	-	-	118,298
Insurance receivables	-	-	-	-	-	184,078	184,078
Reinsurance assets	-	38,214	13,339	978	-	1,765	54,296
Total exposure	378,563	145,742	438,186	233,364	-	185,843	1,381,698

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

Age analysis of assets past due/impaired 2013	**<31days** £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
Insurance receivables	**4,571**	**487**	**61**	**87**	**5,206**	**370**	**5,576**

Age analysis of assets past due/impaired 2012	<31days £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
Insurance receivables	2,637	412	45	19	3,113	456	3,569

Collateral

For over-the-counter transactions undertaken by the Group, collateral is received from the counterparty and is repayable if the contract terminates or the contract's fair value decreases. At 31 December 2013, the fair value of such collateral held was £6.4m (2012: £nil).

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

Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting obligations associated with its financial and insurance contract liabilities. The Company is exposed to daily calls on its 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 payment profile of which 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 and policy holders.

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:

	2013			Restated 2012		
	Within 1 year	**Over 1 year**	**Total**	Within 1 year	Over 1 year	Total
Maturity profile of financial assets	**£000**	**£000**	**£000**	£000	£000	£000
Financial assets						
- Fair value through income	**165,353**	**1,033,888**	**1,199,241**	313,652	948,566	1,262,218
- Derivative financial instruments	**5,258**	**-**	**5,258**	1,435	-	1,435
Loans and other receivables	**26,037**	**-**	**26,037**	25,175	-	25,175
Reinsurance assets	**681**	**37,238**	**37,919**	1,691	37,892	39,583
Insurance receivables	**183,100**	**-**	**183,100**	184,078	-	184,078
Accrued interest	**19,307**	**-**	**19,307**	19,530	-	19,530
Cash and cash equivalents	**251,389**	**-**	**251,389**	120,605	-	120,605
	651,125	**1,071,126**	**1,722,251**	666,166	986,458	1,652,624

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

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

Maturity profile of financial liabilities 2013	Within 1 year £000	1-3 years £000	3-5 years £000	Over 5 years £000	Total £000
Insurance contract liabilities	**425,696**	**254,487**	**128,029**	**64,355**	**872,567**
Provisions	**1,156**	**-**	**-**	**-**	**1,156**
Financial Liabilities					
- Other	**6,360**	**-**	**-**	**-**	**6,360**
Insurance payables	**14,027**	**-**	**-**	**-**	**14,027**
Trade and other payables	**65,652**	**-**	**-**	**-**	**65,652**
	512,891	**254,487**	**128,029**	**64,355**	**959,762**

Maturity profile of financial liabilities 2012	Within 1 year £000	1-3 years £000	3-5 years £000	Over 5 years £000	Total £000
Insurance contract liabilities	311,239	327,380	106,438	41,134	786,191
Provisions	-	250	-	-	250
Insurance payables	18,001	-	-	-	18,001
Trade and other payables	74,301	-	-	-	74,301
	403,541	327,630	106,438	41,134	878,743

Fair value estimation

The following fair value estimation tables present the Company's assets and liabilities measured at fair value by level of the fair value measurement hierarchy at 31 December 2013.

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 or 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 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.

Specific valuation techniques used to value financial instruments classified as level 3 include:

- Quoted market prices or dealer quotes for similar instruments (unlisted shares).
- 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.

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

Fair value estimation (continued)
If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3.

There were no changes to the valuation techniques during the year.

There were no transfers between levels 1 and 2 during the year.

The Company's policy is to recognise transfers into and out of fair value hierarchy levels as of the date of the event or change in circumstances that caused the transfer.

The Company outsources the valuation of the derivatives and other investment holdings to third parties who are independent and qualified valuers. As at 31 December 2013, the fair values of the Derivatives and other investment holdings have been determined by SuperDerivatives Inc. and individual holding private equity General Partners. The investment team monitors the valuation on a monthly basis and report directly to the Chief Investment Officer.

Any changes to fair value are recognised within net gains/losses on investments within the statement of comprehensive income with the exception of investment contract liabilities where the movement is recognised within the gross change in contract liabilities.

The following table presents the Company's assets and liabilities measured at fair value at 31 December:

	2013				2012			
	Level 1	**Level 2**	**Level 3**	**Total**	Level 1	Level 2	Level 3	Total
	£000	**£000**	**£000**	**£000**	£000	£000	£000	£000
Fair value through income								
Shares, other variable yield securities and units in unit trusts	**30,910**	**70,279**	**733**	**101,922**	151,755	85,437	-	237,192
Debt and other fixed income securities	**117,959**	**979,360**	**-**	**1,097,319**	108,108	916,918	-	1,025,026
Derivative financial instruments	**-**	**37**	**5,221**	**5,258**	771	-	664	1,435
Collateral received	**(6,360)**	**-**	**-**	**(6,360)**	-	-	-	-
Total	**142,509**	**1,049,676**	**5,954**	**1,198,139**	260,634	1,002,355	664	1,263,653

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

Movement in Level 3 Financial Instruments measured at fair value:

	Fair value through income	**Derivative financial instruments**	**Total**
	£000	**£000**	**£000**
Balance at 1 January 2013	**-**	**664**	**664**
Total gain recorded in statement of comprehensive income	**-**	**4,453**	**4,453**
Purchases	**733**	**415**	**1,148**
Sales	**-**	**(311)**	**(311)**
Balance at 31 December 2013	**733**	**5,221**	**5,954**

	Fair value through income	Derivative financial instruments	Total
	£000	£000	£000
Total gain recorded in statement of comprehensive income	-	664	664
Balance at 31 December 2012	-	664	664

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

Information about fair value measurements using significant unobservable inputs (Level 3):

Description	**Fair value at 31 December 2013 £000**	**Valuation technique(s)**	**Unobservable Inputs**	**Range of unobservable inputs (probability weighted average)**	**Relationship of unobservable inputs to fair value**
Financial assets					
Derivative financial instruments					
Gilt yield hedge	**5,221**	Mark-to-model	Gilt repo rates	The range on market gilt repo rates offered can be up to 10bps	A gilt repo rate increase will result in a lower contract value
Financial Assets held at fair value through income					
Shares, other variable yield securities and units in unit trusts					
- UK unlisted	**733**	Recent arm's length transaction	Price per unit	Distributions or calls since last valuation	Contractual purchase and exit price

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

Strategic risk
Strategic risk is the risk arising from ineffective, inefficient, or inadequate senior management process for the development and implementation of business strategy in relation to the business environment and the group's capabilities.

The strategic risks of the business are assessed and managed by the business risk committees which then report these and other significant risks to the LVFS Group Executive Risk Committee, where the risks are reviewed and challenged. The LVFS Chief Risk Officer reports on a group basis all strategic risks to the LVFS board's risk committee.

Group risk
Group risk is the risk of contagion incurred from its membership of a group of firms. The LVFS Group Executive 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.

6. Net premium revenue

	2013	2012
	£000	£000
Insurance contracts		
Premiums written	**1,128,091**	1,152,896
Change in unearned premium reserve	**21,579**	(25,874)
Premium revenue arising from insurance contracts issued	**1,149,670**	1,127,022
Reinsurance contracts		
Premiums payable	**(29,023)**	(28,832)
Change in unearned premium reserve	**(2,331)**	1,706
Premium revenue ceded to reinsurers on insurance contracts issued	**(31,354)**	(27,126)
Net premium revenue	**1,118,316**	1,099,896
Motor	**812,556**	835,395
Property	**136,294**	125,375
Commercial	**96,827**	77,206
Other	**72,639**	61,920
	1,118,316	1,099,896

Other premium revenue includes Travel, Legal and Pet Insurance.

7. Investment income

	2013	2012
	£000	£000
Income from investments and cash and cash equivalents		
- Interest income	**47,227**	32,964
- Dividend income	**3,094**	15,353
	50,321	48,317

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

	2013	2012
	£000	£000
(Losses)/gains on financial assets at fair value through income		
- Debt securities	**(26,730)**	15,838
- Equity securities	**16,047**	12,978
- Derivative financial instruments	**5,106**	(3,461)
	(5,577)	25,355

Net fair value (losses)/gains on financial assets at fair value through income include net realised gains of £3,199,000 (2012: £9,137,000) and net unrealised losses of £8,776,000 (2012: £16,218,000 gains).

9. Other income

	2013	2012
	£000	£000
Interest income	**24,034**	22,033
Other income	**6,145**	10,273
	30,179	32,306

Other income is primarily comprised of fee and commission income.

10. Insurance claims and loss adjustment expenses

	2013 £000	2012 £000
Gross insurance claims		
Claims paid during the year	**708,089**	604,397
Claims management costs	**54,951**	41,873
Movement in claims liabilities	**86,376**	213,322
	849,416	859,592
Reinsurers' share of gross insurance claims		
Current year claims and loss adjustment expenses	**(1,249)**	(7,443)
Movement in reinsurers' share of claims liabilities	**1,664**	(11,715)
	415	(19,158)
Net insurance claims	**849,831**	840,434

Included within claims incurred is a decrease of £34.1m in respect of motor insurance business (2012: £21.4m increase) and a release of £1.1m in respect of property insurance business (2012: £5.4m release), being the difference between the provision for claims outstanding at the beginning of the year less payments made in respect of claims incurred in prior years and the claims outstanding at the end of the year in respect of those claims.

11. Other operating and administrative expenses

	2013 £000	2012 £000
Investment management expenses and charges	**2,249**	1,700
Acquisition expenses	**146,296**	145,630
Movement in deferred acquisition costs	**520**	(7,171)
Auditors' remuneration	**207**	203
Amortisation of intangibles	**180**	180
Impairment of insurance receivables	**1,129**	1,132
Administrative expenses	**134,285**	138,016
	284,866	279,690

12. Auditors' remuneration

	2013 £000	2012 £000
Audit of the Company	**182**	182
Audit related assurance services	**25**	21
	207	203

There were no other services carried out by the Auditors in respect of the Company.

13. Directors' emoluments

All directors are remunerated by LVFS or LV Insurance Management Limited.

The details of Directors' emoluments below include the total emoluments of those directors who have a LVFS 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 LVFS group.

The aggregate amount of Directors' emoluments was as follows:

	2013	2012
	£000	£000
a) Aggregate emoluments	**8,179**	6,589

c) Emoluments of the Directors were as follows:

	Fees and Salaries	**Bonus**	**Deferred bonus ***	**Other benefits**	**Long term incentive plan**	**Compen-sation for loss of office**	**2013 Total**	2012 Total
	£000	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	£000
Highest paid Director	**518**	**378**	**46**	**131**	**1,291**	**-**	**2,364**	2,622
All Directors	**2,967**	**1,400**	**84**	**502**	**2,716**	**510**	**8,179**	6,589

* Deferred bonus represents the amount of the 2013 performance bonus payable over the next three years in line with the new "variable pay deferral" scheme implemented by the LVFS board's remuneration committee in 2012.

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 2013 or 2012.

d) Pension arrangements
The LV= Employee Pension Scheme is administered at LVFS group level and incorporates both a defined benefit and defined contribution pension scheme. The defined benefit scheme was closed to new employees on 31 December 2009 and closed to future accrual on 30 June 2013 at which point existing members were eligible to join the defined contribution scheme.

LVFS made contributions to the defined benefit pension scheme of an average of 18.3% of pensionable salaries for the period to 30 June 2013 (2012: 17.8%) subject to annual allowance limits, in respect of all permanent staff, including directors. This included contributions on behalf of directors of £56,300 (2012: £101,882).

In addition there were £128,188 of contributions to the defined contribution pension scheme (2012: £44,634).

Further details of the LV= Employee Pension Scheme are disclosed within the financial statements of LVFS.
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	2013	2012
Accrued pension at end of the year	**£000**	£000
All Directors	**223**	134

14. Income tax expense

a) Current year tax expense

	2013 £000	2012 £000
Current year tax expense		
Corporation tax	**12,907**	16,434
Group relief	**-**	3,919
Adjustment to current tax in respect of prior years	**20**	38
Total current tax	**12,927**	20,391
Deferred tax		
Temporary differences	**44**	107
Total deferred tax	**44**	107
Total income tax expense	**12,971**	20,498

b) Reconciliation of tax expense

The tax assessed for the year is lower than the standard rate of corporation tax in the UK of 23.25%. The differences are explained below:

	2013 £000	2012 £000
Profit before tax	**58,542**	85,750
Profit multiplied by standard rate of corporation tax in the UK of 23.25% (2012: 24.5%)	**13,611**	21,009
Effects of:		
Impact of change in UK corporation tax rate on deferred tax	**(111)**	(55)
Adjustment to current tax in respect of prior years	**20**	38
Income not subject to corporation tax	**(549)**	(494)
Total income tax expense for the year	**12,971**	20,498

The standard rate of corporation tax in the UK changed from 24% to 23% with effect from 1 April 2013. Accordingly, the profits for this accounting period are taxed at an effective rate of 23.25%.

15. Intangible assets

	Goodwill £000	Other £000	Total £000
Cost			
At 1 January 2013	15,812	3,375	**19,187**
At 31 December 2013	15,812	3,375	**19,187**
Accumulated amortisation			
At 1 January 2013	-	(855)	**(855)**
Amortisation charge for the year	-	(180)	**(180)**
At 31 December 2013	-	(1,035)	**(1,035)**
Net book value at 31 December 2013	**15,812**	**2,340**	**18,152**
Net book value at 31 December 2012	15,812	2,520	18,332

The Company does not carry out an individual impairment review of the goodwill, instead it relies on the cash generating unit assessment carried out by LVGIG Group. The full disclosure of this assessment is included in the LVGIG Group consolidated accounts. There is currently no indication that impairment is required.

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

Other intangibles primarily comprise customer books recognised on acquisitions.

16. Deferred acquisition costs

	2013 £000	2012 £000
At 1 January	**73,240**	66,069
Acquisition expenses deferred	**146,296**	145,630
Amortisation	**(146,816)**	(138,459)
At 31 December	**72,720**	73,240

17. Investments in group undertakings

	2013 £000	2012 £000
At 1 January	**301,012**	301,012
Balance at 31 December	**301,012**	301,012

Name	**Incorporated and domiciled**	**Principal activity**	**Percentage of shares held**	**Type of shares held**
Highway Insurance Group Limited	England and Wales	General insurance holding company	100% directly held	Ordinary
Highway Insurance Company Limited	England and Wales	General insurance	100% indirectly held	Ordinary

Key assumptions used in the impairment testing of investments in group undertakings
The recoverable amount of the investments in group undertakings has been determined using cash flow predictions based on financial plans approved by Management covering a five-year period, with a terminal growth rate of 2% applied thereafter. The forecast cash flows have been discounted at a pre-tax rate of 10%. Both the growth rate and the discount rate are consistent with the ranges observed in the market place. Based on the above assumptions, the recoverable amount exceeded the carrying amount by £219.3m. A two percentage point increase in the discount rate would reduce the recoverable amount by £102.4m; the discount rate would need to be increased by 6.1% to reduce the recoverable amount to zero.

17. Investments in group undertakings (continued)

For the general insurance business the cash flows used in the financial plans are most sensitive to changes in the loss ratio. A 1% increase in the loss ratio would reduce the recoverable amount by £47.0m, the loss ratio would need to increase by 4.7% to reduce the recoverable amount to equal the carrying amount. Key loss ratio assumptions are based on a combination of historic and current market place trends and Management judgement.

18. Prepayments and accrued income

	2013	2012
	£000	£000
Accrued interest	**19,307**	19,530
Prepayments	**1,600**	517
	20,907	20,047

Accrued interest includes £16,826,000 (2012: £17,139,000) of interest relating to fixed income securities.

19. Financial assets

	2013	2012
	£000	£000
Fair value through income		
Shares, other variable yield securities and units in unit trusts	**101,922**	237,192
Debt and other fixed income securities	**1,097,319**	1,025,026
	1,199,241	1,262,218

20. Derivative financial instruments

The Company utilises the following derivative instruments for hedging the effects of changes in the FTSE 100 index on its equity and movements in the yield curve on the market value of its fixed interest portfolio. Fair values are estimated using current market index data and are included in assets/liabilities as set out in the following table.

		2013			2012	
	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 contract	**2,563**	**37**	**-**	-	-	-
Contracts for differences (gilt yield hedge)	**973,760**	**5,221**	**-**	914,000	664	-
Futures (FTSE 100)	**-**	**-**	**-**	49,777	771	-
	976,323	**5,258**	**-**	963,777	1,435	-

The carrying amounts disclosed above reasonably approximate fair value at the statement of financial position date.

As a result of the use of the above derivative instruments, a significant proportion of the Company's asset portfolio was hedged against the stock market and gilt yield movements.

21. Loans and other receivables

	2013 £000	2012 £000
Amounts due from group undertakings	**22,450**	22,450
Other receivables	**3,587**	2,725
	26,037	25,175

22. Reinsurance assets

	2013 £000	2012 £000
Reinsurers' share of provision for unearned premiums	**12,382**	14,713
Reinsurers' share of claims outstanding	**37,919**	39,583
	50,301	54,296

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

23. Insurance receivables

	2013 £000	Restated 2012 £000
Receivables arising from insurance and reinsurance contracts		
- Due from policyholders	**143,743**	147,373
- Due from agents, brokers and intermediaries	**39,348**	36,700
- Due from reinsurers	**9**	5
	183,100	184,078

As at 31 December 2013 overdue insurance receivables arising from insurance contracts were provided at £369,000 (2012: £456,000).

24. Cash and cash equivalents

	2013 £000	Restated 2012 £000
Bank balances	**6,958**	2,307
Short term bank deposits	**244,431**	118,298
Cash and cash equivalents per statement of financial position	**251,389**	120,605
Bank overdrafts	**(7,823)**	(6,846)
Cash and cash equivalents per statement of cash flows	**243,566**	113,759

25. Insurance contract liabilities

a) Analysis of insurance contract liabilities

	2013			2012		
	Gross £000	**Reinsurance £000**	**Net £000**	Gross £000	Reinsurance £000	Net £000
General insurance claims liabilities	**872,567**	**(37,919)**	**834,648**	786,191	(39,583)	746,608
General insurance unearned premiums	**559,186**	**(12,382)**	**546,804**	580,765	(14,713)	566,052
	1,431,753	**(50,301)**	**1,381,452**	1,366,956	(54,296)	1,312,660

b) Movement in general insurance claims liabilities

	2013			2012		
	Gross	**Reinsurance**	**Net**	Gross	Reinsurance	Net
	£000	**£000**	**£000**	£000	£000	£000
OCR	**766,095**	**(20,965)**	**745,130**	567,921	(12,748)	555,173
IBNR	**20,096**	**(18,618)**	**1,478**	4,948	(15,120)	(10,172)
Balance at 1 January	**786,191**	**(39,583)**	**746,608**	572,869	(27,868)	545,001
Movement in claims incurred in prior accident years	**(41,145)**	**11,726**	**(29,419)**	15,398	(7,927)	7,471
Claims incurred in the current accident year	**835,610**	**(11,311)**	**824,299**	802,321	(11,231)	791,090
Claims paid during the year	**(708,089)**	**1,249**	**(706,840)**	(604,397)	7,443	(596,954)
	86,376	**1,664**	**88,040**	213,322	(11,715)	201,607
Balance at 31 December	**872,567**	**(37,919)**	**834,648**	786,191	(39,583)	746,608
OCR	**831,312**	**(21,849)**	**809,463**	766,095	(20,965)	745,130
IBNR	**41,255**	**(16,070)**	**25,185**	20,096	(18,618)	1,478
Balance at 31 December	**872,567**	**(37,919)**	**834,648**	786,191	(39,583)	746,608

c) Movement in general insurance unearned premiums

	2013			2012		
	Gross	**Reinsurance**	**Net**	Gross	Reinsurance	Net
	£000	**£000**	**£000**	£000	£000	£000
Balance at 1 January	**580,765**	**(14,713)**	**566,052**	554,891	(13,007)	541,884
Premiums written in the year	**1,128,091**	**(29,023)**	**1,099,068**	1,152,896	(28,832)	1,124,064
Premiums earned during the year	**(1,149,670)**	**31,354**	**(1,118,316)**	(1,127,022)	27,126	(1,099,896)
Balance at 31 December	**559,186**	**(12,382)**	**546,804**	580,765	(14,713)	566,052

25. Insurance contract liabilities (continued)

Details of the methodologies used for the premium and claims provisions for motor and household products administered on the main underwriting system are provided below.

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 generated each month-end by a system driven calculation. However, the aggregated case reserves may be deemed to be over or understated 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 statement of financial position date, known as 'pure IBNR' and the cost of any over or understatement 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 for motor products are:

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

The claim types modelled for household products are:

- Accidental Damage (Buildings and Contents separately)
- Escape Of Water (Buildings and Contents separately)
- Fire (Buildings and Contents separately)
- Theft (Buildings and Contents separately)
- Weather (Buildings and Contents separately)
- Subsidence (Buildings only)
- Freezer Failure (Contents only)
- Personal Possessions
- Caravans

Unearned Premium Reserve ('UPR')

The UPR is that proportion of premium received on in-force contracts that relates to unexpired risks at the statement of financial position date. This calculation is based on either a daily or monthly pro-rata basis and forms part of the insurance contract liabilities balance in the statement of financial position.

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26. Provisions

	2013 £000	Restated 2012 £000
Balance at 1 January	**250**	-
Additions	**906**	250
Balance at 31 December	**1,156**	250

The majority of the provision held is in relation to on-going litigation.

27. Deferred tax liability

	2013 £000	2012 £000
At 1 January	**663**	556
Current year charge	**44**	107
At 31 December	**707**	663

Analysis of deferred taxation temporary differences:

	£000	£000
Accelerated capital allowances	**(19)**	(27)
Intangible fixed assets	**726**	690
	707	663

Analysis of the deferred tax balance is as follows:

	£000	£000
Deferred tax liability expected to be recovered after more than 12 months	**711**	640
Deferred tax asset expected to be recovered within 12 months	**(4)**	23
Net deferred tax liability	**707**	663

The valuation and recoverability of deferred tax assets relating to capital allowances in excess of depreciation is dependent on the availability of future taxable profits within the Company. Management forecasts currently support the future recoverability of the deferred tax asset recognised in the statement of financial position as at 31 December.

The calculation of deferred tax balances at the year end also takes into account the reduction in the UK main corporation tax rate to 23%, effective from 1 April 2013, and the two further reductions to 21% and 20% substantively enacted on 2 July 2013 that will be effective from 1 April 2014 and 1 April 2015 respectively.

28. Current tax liability

	2013 £000	2012 £000
At 1 January	**11,783**	1,434
Amounts recorded in the statement of comprehensive income	**12,927**	20,391
Payments made in respect of group relief	**-**	(1,472)
Income tax paid	**(18,303)**	(8,570)
At 31 December	**6,407**	11,783

29. Other financial liabilities

	2013	2012
	£000	£000
Collateral received	**6,360**	**-**
	6,360	-

30. Insurance payables

		Restated
	2013	2012
	£000	£000
Due to reinsurers	**7,910**	10,063
Due to policy holders	**6,088**	7,920
Due to intermediaries	**29**	18
	14,027	18,001

31. Trade and other payables

		Restated
	2013	2012
	£000	£000
Bank overdrafts	**7,823**	6,846
Amounts owed to group undertakings	**27,687**	38,062
Accruals and deferred income	**13,625**	12,275
Other taxes and social security costs	**15,698**	16,357
Other payables	**819**	761
	65,652	74,301

32. Share capital

	2013 £000	2012 £000
Ordinary shares, allotted and fully paid		
344,907,680 (2012: 344,907,680) ordinary shares of £1 each	**344,908**	344,908

33. Capital reserve

	2013 £000	2012 £000
Balance at 1 January	**240,544**	278,044
Dividends paid	**(32,000)**	(37,500)
Balance at 31 December	**208,544**	240,544

The Company paid the following interim dividends to LVGIG during 2013:

	2013 £000
31 December 2013	**32,000**
Total dividends paid for the year	**32,000**

The Company paid the following interim dividends to LVGIG during 2012:

	2012 £000
13 December 2012	13,000
19 December 2012	15,000
27 December 2012	9,500
Total dividends paid for the year	37,500

The capital reserve is distributable in future periods, subject to the provisions of the Companies Act 2006.

34. Retained earnings

	2013 £000	2012 £000
Balance at 1 January	**3,032**	(62,220)
Profit for the year	**45,571**	65,252
Balance at 31 December	**48,603**	3,032

35. Cash generated from operating activities

	2013 £000	Restated 2012 £000
Profit before tax	**58,542**	85,750
Investment income	**(50,321)**	(48,317)
Interest income received	**(24,034)**	(22,033)
Losses/(gains) on financial assets recorded in the statement of comprehensive income	**5,577**	(25,355)
Non-cash items		
Expenses deferred during the year	**520**	(7,171)
Amortisation of intangible assets	**180**	180
Changes in working capital		
Increase in loans and other receivables	**(862)**	(1,165)
Decrease/(increase) in reinsurance assets	**3,995**	(13,421)
Decrease/(increase) in insurance receivables	**978**	(13,639)
Increase in prepayments and accrued income	**(1,083)**	(517)
Increase in insurance contract liabilities	**64,797**	239,196
Increase in provisions	**906**	250
Increase in collateral received	**6,360**	-
(Decrease)/increase in insurance payables	**(3,974)**	1,412
(Decrease)/increase in trade and other payables	**(9,626)**	5,289
Cash generated from operating activities	**51,955**	200,459

36. Contingent liabilities

As at 31 December 2013 and 2012 a contingent liability of £24.0m existed in respect of a fixed charge over certain assets of the Company which have been charged to the trustees of the Ockham Pension Scheme as part of its deficit funding arrangements agreed with LVFS. The charge will only crystallise in the event of the insolvency of LVFS or the Company or proceedings being started by their creditors.
No claims under this liability have been made and no insolvency proceedings have commenced against either LVFS or the Company during the course of 2012 and 2013.

37. Related party transactions

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

Key management personnel of the Group include all Directors, executive and non-executive, and senior management (the Board and the Executive Committee).

The summary of the compensation of key management personnel for the year is as follows:

	2013	2012
	£000	£000
Short-term employee benefits	**4,953**	4,309
Post-employment benefits	**185**	146
Other long-term benefits	**2,716**	2,280
Termination benefits	**510**	-
	8,364	6,735

The following transactions have taken place between the Company and LV Insurance Management Limited:

	2013	2012
	£000	£000
Management charge to the Company	**228,825**	219,285
	228,825	219,285

The following transactions have taken place between the Company and Liverpool Victoria General Insurance Group Limited:

	2013	2012
	£000	£000
Dividend to Liverpool Victoria General Insurance Group Limited	**(32,000)**	(37,500)
	(32,000)	(37,500)

Balances outstanding between the Company and other LV= group companies:

	2013	2012
	£000	£000
Payable by the Company to LVFS	**(27,687)**	(38,062)
Payable to the Company by Highway Insurance Group Limited	**22,450**	22,450
	(5,237)	(15,612)

38. Ultimate parent company

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

The immediate parent company is Liverpool Victoria General Insurance Group Limited, a limited liability company, incorporated in the UK.

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

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

The smallest company whose accounts this company is consolidated into is Liverpool Victoria General Insurance Group 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/annual-report