COMPANY REGISTRATION NO: 0003232514

LIVERPOOL VICTORIA
INSURANCE COMPANY LIMITED

REPORT AND
FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2011

CONTENTS

LIVERPOOL VICTORIA INSURANCE COMPANY LIMITED

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	Appointed 28 February 2011	
J M Webber	Appointed 16 March 2011	Resigned 12 August 2011
S Haynes	Appointed 25 October 2011	
M S Newton	Resigned 31 January 2011	
R C Dix	Resigned 31 January 2011	

Company secretary
P B Cassidy

Registered office
County Gates
Bournemouth
BH1 2NF

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Independent Auditors
PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
31 Great George Street
Bristol
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DIRECTORS' REPORT

The Directors present their annual report and the audited financial statements of Liverpool Victoria Insurance Company Limited (the 'Company', 'LVIC') for the year to 31 December 2011.

1. Results and dividends

The profit on ordinary activities for the year after taxation is £38,658,000 (2010: £10,863,000) as set out on page 9. The directors proposed and paid no dividends in the current year (2010: £nil).

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. 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 & performance

The 2011 results for the Company show a profit after taxation of £38,658,000. This continues the profitable trend reported in 2010 and demonstrates that the Company 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 the Key Performance Indicators ('KPIs') below):

1. Premium income growth: The Company has seen significant premium income growth in 2011. Growth has been seen primarily in the Motor line of business through both the broker and direct channels. UK motor market conditions prevalent in 2011 have allowed the Company to implement significant price increases whilst at the same time growing its business volumes.

2. Investment returns: Overall investment returns in 2011 have been relatively weak. The financial markets in 2011 have been volatile and have been impacted by low confidence levels. Uncertainty around the outlook for the UK economy, the impact of the Eurozone difficulties and wider global considerations have all contributed to 2011 being a very difficult year for the investment markets. The Company has benefited from having a spread of investment risk across a broad range of investment classes and from proactive asset allocation during the year. Funds under management have also increased significantly during the year.

3. Expenditure: Investment in staff, systems and infrastructure has continued ensuring that the Company is well placed to deliver its profitable growth strategy. In addition continued significant expenditure was incurred on direct marketing activities (including TV commercials) aimed at promoting the LV= brand. Notwithstanding this the Company still delivered an improved expense ratio in 2011. The improved expense ratio was achieved as a result of good cost management processes and economies of scale due to the substantial growth of the business in 2011.

4. Underwriting and Claims: During 2011 the Company has continued to develop its products and improve pricing and underwriting activities. In addition significant work has been done in the claims area aimed at improving the efficiency of claims processes and reducing claims leakage. In our Motor business the benefits of a reduction in the frequency of car accidents were offset by a further increase in personal injury ('PI') claims and attempted fraud. We have adopted a strongly proactive strategy to claims management. Our policy is to settle valid claims in full as rapidly as possible, while at the same time adopting a rigorous and challenging approach to suspect claims. As a result in 2011 the Company has delivered a good overall loss ratio. This was achieved even though the 2011 results were impacted by adverse claims run off from the December 2010 freeze event.

5. Direct Division: The Direct Division operates under two brands, the LV= brand and the Britannia 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 significantly during 2011 writing premiums of £736m (2010:£526m).
   Broker Division: The Broker Division offers both personal lines (primarily Motor) and Commercial SME products under the ABC Insurance brand. This brand has continued to grow in 2011 writing Premiums of £325m (2010: £284m).

6. The Company owns Highway Insurance Group Limited ('HIG') which was acquired in October 2008. The results of this Group are not consolidated with those of the Company.

7. During the year the Company received a capital contribution of £4m from its parent company Liverpool Victoria General Insurance Group Limited ('LVGIG').

The management views 2011 as a year where it has been able to demonstrate that it can to deliver sustainable profits even as it continues to grow.

(b) Business environment
At the beginning of 2011 the UK insurance market prices were expected to move upwards in the early part of the year but with increasing price competition building up as the year progressed. In relation to the Motor market, which is the Company's major line of business, these expectations have overall been exceeded in 2011 with the market supporting strong price increases. Most companies are currently continuing to prioritise margin improvement over market share. Early indications in 2012 are that this may continue (particularly given the uncertainties surrounding investment returns and the cost of capital), however as 2012 develops it is expected that ultimately more competition will be seen returning to the market as market underwriting results improve. In addition the continued and increasing impact of the internet in general and aggregators (such as Compare the Market.com) in particular will ensure that competitive market pricing returns sooner rather than later.

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

(c) Strategy
The Company is a major part of the 'LVGIG'. The long term objective of LVGIG (and its subsidiaries) is as follows:

"To become a top five general insurer in its target markets and to be active in all major channels: direct, broker, affinity and white-label. It will be focused on three core products, namely Motor, Home and Commercial supported by 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 Company will operate best-practice processes and technology in order to provide superior customer service through a people-focused and empowered culture. The Company will ultimately deliver attractive and consistent returns to members of Liverpool Victoria Friendly Society ('LVFS').

LVIC will make its contribution to the LVGIG strategic objectives through utilising its LV=, ABC and Britannia brands.

(d) Principal risks and uncertainties
UK Insurance Market - Pricing: The UK motor insurance market moves in a cyclical manner and is currently supporting price increases as most companies are aiming for underwriting margin rather than market share – the main driver of this being to make up for past losses, increasing claims inflation, investment return uncertainties and tight capital. It is anticipated that whilst the market may well see further price increases in the early part of 2011 at some point the market will see increasing price competition as insurance companies return to normalised underwriting and investment returns. The timing and extent of this increasing price competition are not easy to predict.

UK Insurance Market – Claims: The UK Motor market continues to see increased PI claims driven by referral fee processes and claims management companies. Whilst referral fees will at some point be banned this is not now likely to occur in 2012. We anticipate that increased PI claims activity will continue during 2012. We are proactively managing our claims to limit the impact of this market characteristic as much as possible. The use of periodic payment orders ('PPOs') to settle large disability claims is also becoming more common, again this trend is likely to continue into the future. Management is monitoring and managing this area very closely.

Economic Environment: The current depressed financial and wider economic environment has meant that expectations from investment income over the next few years are very uncertain. The Company will also need to pay particular attention to credit risk and increased claims leakage through fraud. Capital management will be a material consideration in the future

Regulatory: There are a number of legal and regulatory developments which are likely to impact the UK market in 2012. These include the current Office of Fair Trading ('OFT') review of general insurance, the banning of referral fees, and the implementation of the gender directive. Finally work continues on preparing for the Solvency II capital regime. Management is continually monitoring these developments and taking appropriate action to ensure that the Company is well prepared.

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

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

Exceptional Weather Events: Exceptional catastrophic weather events will always present a risk to an insurance company. The company mitigates this risk as far as is economically possible through the placing of reinsurance 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 continue to increase its premium income in 2012 and 2013. This growth will come in part from anticipated price increases but also from moderate increased volumes both from 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 expects to deliver an underwriting profit in 2012.

(f) Key performance indicators

The Board sets key performance indicators (KPIs) and targets for its main operating entities, 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	2011	2010	Comments
Premiums written	£1,061m	£810m	Premium written is showing strong year on year growth of 31% due to a combination of: 1. Strong price increases across the product range (Particularly motor) 2. Robust underlying business volume growth
Loss ratio	73.0%	76.9%	The Company delivered an improved loss ratio in 2011 down 3.9% compared to 2010. A reported loss ratio of 73% for 2011 will, we feel, compare well to our competitors in the market. This result was achieved notwithstanding the fact that the 2011 loss ratio was impacted by adverse claims run off from the 2010 December freeze event.
Expense ratio	24.8%	27.3%	The net expense ratio (including other income) of 24.8% is a year on year improvement of 2.5%. The Company is now benefiting from the investments made in previous years, increased operational efficiency and economies of scale (i.e. the significant price increases implemented in 2010 and 2011 have had a favourable impact.)
Combined ratio	97.8%	104.2%	The combined ratio of 97.8% has improved materially (by 6.4%) compared with 2010. Improvements in both the loss ratio and expense ratio have contributed to this overall result. The long-term objective is to maintain the combined ratio at about this level in future years.
Investment return	£29m	£43m	Total investment return includes: 1. Investment income and 2. Net fair value gains/losses on financial assets Total investment return is significantly lower than in 2010 (down £14m. 33%). This is representative of the depressed market conditions in 2011. In terms of average returns 2011 saw a return of 2.9% whereas 2010 reported a 6.0% return. The lower average returns were mitigated to an extent by the increased funds under management in 2011 (up 34%).
Net assets	£561m	£518m	Net assets have increased during 2011 to £561m reflecting the post tax profits made by the Company in 2011 and a small capital injection of £4m received from LVFS in January 2011.

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

5. Parent company
The Company is a wholly owned subsidiary of LVGIG. The ultimate parent company is LVFS, an incorporated Friendly Society registered under the Friendly Societies Act 1992.

6. Employees
The Company did not directly employ any staff during 2011. Instead it utilised the staff and premises of LVFS in carrying out its activities and incurred the cost of staff through intercompany management charges.

7. Charitable and political donations
No charitable or political donations have been made during 2011(2010: £nil).

8. Disclosure of information to auditor
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 auditor is 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.

9. Director's 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, the ultimate parent company, also purchased and maintained throughout the year on behalf of its subsidiaries Directors' and Officers' liability insurance in respect of LVIC and its Directors. It is available for inspection at the registered office of LVIC details of which are provided on page 1.

10. 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 of the profit or loss of the company for that period. In preparing these financial statements, the Directors are required to:

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

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

By order of the board

P B Cassidy
Company Secretary

24 February 2012

We have audited the financial statements of Liverpool Victoria Insurance Company Limited for the year ended 31 December 2011 which comprise the Statement of Comprehensive Income, the Statement of Changes in Equity, the Statement of Financial Position, the Statement of Cash Flows and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

Respective responsibilities of directors and auditors

As explained more fully in the Directors' Responsibilities Statement set out on page 6, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

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

Scope of the audit of the financial statements

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

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2011 and of its profit and cash flows for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

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

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

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

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

24 February 2012

STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2011

	Note	2011 £000	2010 £000
Insurance contract premium revenue	6	**934,823**	655,251
Insurance contract premium ceded to reinsurers	6	**(19,622)**	(17,230)
Net premium revenue		**915,201**	638,021
Investment income	7	**29,370**	22,760
Net fair value (losses)/gains on financial assets at fair value through income	8	**(706)**	19,941
Other income	9	**27,653**	20,088
Total income		**971,518**	700,810
Insurance claims and loss adjustment expenses	10	**(678,118)**	(496,501)
Insurance claims and loss adjustment expenses recoverable from reinsurers	10	**10,368**	6,005
Net insurance claims		**(667,750)**	(490,496)
Other operating and administrative expenses	11	**(254,711)**	(194,534)
Total claims and expenses		**(922,461)**	(685,030)
Profit before tax		**49,057**	15,780
Income tax expense	14	**(10,399)**	(4,917)
Profit for the year		**38,658**	10,863
Total comprehensive income for the year		**38,658**	10,863

The notes on pages 13 to 45 are an integral part of the financial statements.
All balances relate to continuing business.

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2011

		Attributable to equity holder of the Company			
		Share capital	**Accumulated losses**	**Capital reserve**	**Total**
	Note	**£000**	**£000**	**£000**	**£000**
Balance at 1 January 2011		344,908	(100,878)	274,044	518,074
Capital contributions	30	-	-	4,000	4,000
Profit for the year	31	-	38,658	-	38,658
Balance at 31 December 2011		**344,908**	**(62,220)**	**278,044**	**560,732**

		Attributable to equity holder of the Company			
		Share capital	Accumulated losses	Capital reserve	Total
	Note	£000	£000	£000	£000
Balance at 1 January 2010		344,908	(111,741)	214,044	447,211
Capital contributions	30	-	-	60,000	60,000
Profit for the year	31	-	10,863	-	10,863
Balance at 31 December 2010		344,908	(100,878)	274,044	518,074

The notes on pages 13 to 45 are an integral part of the financial statements.

STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2011

	Note	2011 £000	2010 £000
Assets			
Investments in group undertakings	15	**301,012**	301,012
Intangible assets	16	**18,512**	18,692
Deferred acquisition costs	17	**66,069**	56,381
Financial assets			
- Fair value through income	18	**950,277**	796,545
- Loans and other receivables	18	**24,010**	26,596
Insurance receivables	19	**170,439**	134,281
Reinsurance assets	20	**40,875**	28,306
Prepayments and accrued income	21	**3,907**	5,456
Deferred tax asset	22	**-**	5,121
Cash and cash equivalents	23	**194,136**	57,105
Total assets		**1,769,237**	1,429,495
Liabilities			
Insurance contract liabilities	24	**1,127,760**	876,045
Derivative financial instruments	25	**-**	57
Insurance payables	26	**8,669**	8,244
Deferred tax liability	22	**556**	-
Current tax liability	27	**1,434**	-
Trade and other payables	28	**70,086**	27,075
Total liabilities		**1,208,505**	911,421
Equity			
Share capital	29	**344,908**	344,908
Capital reserve	30	**278,044**	274,044
Accumulated losses	31	**(62,220)**	(100,878)
Total equity		**560,732**	518,074
Total liabilities and equity		**1,769,237**	1,429,495

The notes on pages 13 to 45 are an integral part of the financial statements.
These financial statements were approved by the Board of Directors on 24 February 2012.

Signed on behalf of the Board of Directors

P W Moore
Director

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2011

	Note	2011 £000	2010 £000
Cash and cash equivalents at 1 January	23	**57,105**	19,643
Cash flows arising from:			
Operating activities			
Cash generated/(used) in operating activities	32	**136,319**	(1,582)
Group relief received	14	**(3,288)**	-
Net cash flows from/(used) in operating activities		**133,031**	(1,582)
Investing activities			
Write down of investment in subsidiary	15	**-**	19,044
Capital contribution to subsidiary	15	**-**	(40,000)
Net cash flows used in investing activities		**-**	(20,956)
Financing activities			
Proceeds from capital contribution	30	**4,000**	60,000
Net cash flows from financing activities		**4,000**	60,000
Net increase in cash and cash equivalents		**137,031**	37,462
Cash and cash equivalents at 31 December	**23**	**194,136**	57,105

The notes on pages 13 to 45 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 of Liverpool Victoria Insurance Company Limited have been prepared in accordance with International Financial Reporting Standards (IFRS), as endorsed by the European Union ('EU') and the International Financial Reporting Interpretations Committee ('IFRIC') and also with those parts of the Companies Act 2006 applicable to companies reporting under IFRS.

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

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

Comparative numbers within notes 7, 8 and 23 have been restated to align with Liverpool Victoria Friendly Society Limited.

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

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

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

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

Unrealised gains and losses on financial assets represent the difference between the valuation of fair value investments at the statement of financial position date and their purchase price or, if they have been previously revalued, their valuation at the last statement of financial position date. An adjustment is made to unrealised gains and losses for the prior year's unrealised element included in the current year's realised gains and losses.

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

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

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

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

Foreign currencies
Monetary assets and liabilities denominated in foreign currencies are translated to the functional currency of the company at rates of exchange ruling at the end of the year. Purchases and sales of investments denominated in foreign currencies are translated at the rates prevailing at the dates of the respective transactions. Exchange gains and losses are recognised within the statement of comprehensive income.

Deferred acquisition costs (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 subsequent accounting periods, are deferred and recognised as an asset to the extent that they are recoverable out of margins in future matching revenues. In respect of insurance contracts, acquisition costs comprise of all direct and indirect costs incurred in writing new contracts.

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

Liability adequacy test
At each 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 and claims handling and administration expenses as well as investment income from the assets backing such liabilities are used. Any deficiency is immediately charged to the statement of comprehensive income initially by writing off DAC and by subsequently establishing a provision for losses arising from liability adequacy tests. Any DAC written off as a result of this test cannot subsequently be reinstated.

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, distribution channels or the right to charge for investment or policy administration services then the present value of these is recognised as an intangible asset. The carrying value of the asset is amortised over its expected economic life, and is assessed as and when impairment may be indicated.

The expected economic life of other intangibles earned by the Company is determined by reference to 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 permanent diminution in value. 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 consolidated 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
Financial assets at fair value through income has two sub categories:
- financial assets held for trading; and
- those designated at fair value through income at inception.

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

Loans and receivables
Loans and receivables are measured at amortised cost using the effective interest rate method. Loans and receivables include deposits with credit institutions, loans and advances to customers, loans and advances to banks and other loans.

The Company assesses at each statement of financial position date whether a loan or receivable, or a group of loans or receivables, is impaired. For loans and receivables, the amount of any impairment loss is measured as the difference between the carrying amount and the present value of future cash flows. The carrying amount of the asset is reduced by the impairment loss and the loss is recorded in the statement of comprehensive income.

Trade 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. Trade and other receivables are initially recognised at fair value and then subsequently held at amortised cost.

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.

Trade and other receivables
Trade 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. Trade 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
(a) Financial assets carried at amortised cost.

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

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

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

(iii) 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.

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

Where there is objective evidence that the carrying value is impaired then the impairment loss will be recognised in the statement of comprehensive income.

(b) Non-Financial assets

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows.

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

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

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

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

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

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

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

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

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 Friendly Society Limited (LVFS), a company incorporated in England and is included in the consolidated accounts of Liverpool Victoria Friendly Society Limited.

CHANGES IN ACCOUNTING POLICIES

(i) Standards, amendments to published standards and interpretations effective on or after 1 January 2011

The following amendments to published standards are mandatory for the Company's accounting periods beginning on or after 1 January 2011:

In May 2010 the IASB issued its annual amendments to IFRSs. The IASB uses the annual improvements process to make necessary, but non-urgent, amendments to IFRSs that will not be included as part of major projects.
This set of amendments includes changes to six standards and one IFRIC and is based on the exposure draft issued in August 2009 with an additional change to IFRS 1, 'First-time adoption of International Accounting Standards', which was exposed as part of the 'Rate regulated activities' proposals issued in July 2009.

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

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

In 2011, the Company did not early adopt any new, revised or amended standards.

(iii) Standards and interpretations effective in 2011 but not relevant to the Company's operations

IAS 24 (revised) 'Related party disclosures'.
'Classification of rights issues' (amendment to IAS 32).
Amendment to IFRS 1, 'First time adoption on financial instrument disclosures'.
Amendment to IFRIC 14 'Prepayments of a minimum funding requirement'.
IFRIC 19 'Extinguishing financial liabilities with equity instruments'.
IFRIC 16 'Hedges of a net investment in a foreign operation'.

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

The following standards and amendments to existing standards have been published and are mandatory for the Company's accounting periods beginning on or after 1 January 2012 or later periods, and the Company has not early adopted them:

Amendment to IFRS 7, Financial Instruments: Disclosures on derecognition, issued in October 2010. The amendment applies to annual periods beginning on or after 1 July 2011. Earlier application is permitted. These amendments are as part the IASB's comprehensive review of the off statement of financial position activities. The amendments will promote transparency in the reporting of transfer transactions and improve users' understanding of the risk exposures relating to transfers of financial assets and the effect of those risks on an entity's financial position, particularly those involving securitisation of financial asset. The change is not expected to have a material impact on the Company's financial statements.

IAS 19 (revised 2011) 'Employee benefits', issued in June 2011. This amendment makes significant changes to the recognition and measurement of defined benefit pension expense and termination benefits, and to the disclosures for all employee benefits. The changes will affect most entities that apply IAS 19. They could significantly change a number of performance indicators and might also significantly increase the volume of disclosures.
The amendment applies to annual periods beginning on or after 1 January 2013. The change is not expected to have an impact on the Company's financial statements.
Amendment to IAS 1 'Financial statement presentation, on other comprehensive income (OCI)', issued in June 2011. This amendment changes the disclosure of items presented in other comprehensive income (OCI) in the statement of comprehensive income. The IASB originally proposed that all entities should present profit or loss and OCI together in a single statement of comprehensive income. The proposal has been withdrawn and IAS 1 will still permit profit or loss and OCI to be presented in either a single statement or in two consecutive statements. The Company is yet to assess the full impact of amendments and intends to adopt the amended IAS 1 no later than the accounting period beginning on or after 1 January 2013.
Amendment to IFRS 1 'First time adoption' on hyperinflation and fixed dates, issued in December 2010. These amendments are based on two exposure drafts. The first amendment replaces references to a fixed date of '1 January 2004' with 'the date of transition to IFRSs', thus eliminating the need for companies adopting IFRSs for the first time to restate derecognition transactions that occurred before the date of transition to IFRSs. The second amendment provides guidance on how an entity should resume presenting financial statements in accordance with IFRSs after a period when the entity was unable to comply with IFRSs because its functional currency was subject to severe hyperinflation. The amendments apply to annual periods beginning on or after 1 July 2011 and are not expected to have any impact on the Company's financial statements.

Amendment to IAS 12 ‘Income taxes’ on deferred tax, issued in December 2010. Currently IAS 12, 'Income taxes', requires an entity to measure the deferred tax relating to an asset depending on whether the entity expects to recover the carrying amount of the asset through use or sale. It can be difficult and subjective to assess whether recovery will be through use or through sale when the asset is measured using the fair value model in IAS 40 Investment Property. Hence this amendment introduces an exception to the existing principle for the measurement of deferred tax assets or liabilities arising on investment property measured at fair value. As a result of the amendments, SIC 21, 'Income taxes- recovery of revalued non-depreciable assets', would no longer apply to investment properties carried at fair value. The amendments also incorporate into IAS 12 the remaining guidance previously contained in SIC 21, which is accordingly withdrawn. The amendments apply to annual periods beginning on or after 1 January 2012 and are not expected to have any impact on the Company’s financial statements.

IFRS 9 ‘Financial Instruments’ on ‘classification and measurement’ of financial assets, issued in November 2009. This is the first part of a new standard on classification and measurement of financial assets that will replace IAS 39. IFRS 9 has two measurement categories: amortised cost and fair value. All equity instruments are measured at fair value. A debt instrument is at amortised cost only if the entity is holding it to collect contractual cash flows and the cash flows represent principal and interest. Otherwise it is at fair value through profit or loss.

IFRS 9 ‘Financial Instruments’ on ‘classification and measurement’ of financial liabilities, issued in October 2010. These are further additions to IFRS 9 dealing with financial liabilities. The additions, which are part of the IASB's plan to replace IAS 39, retain most of the IAS 39 requirements. These include amortised cost accounting for most financial liabilities, with bifurcation of embedded derivatives. The main change in the additions 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. This change will mainly affect financial institutions.

The Company is yet to assess IFRS 9’s full impact and intends to adopt IFRS 9 no later than the accounting period beginning on or after 1 January 2013.

IFRS 10 ‘Consolidated financial statements’, issued in May 2011. This standard builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements. The standard provides additional guidance to assist in determining control where this is difficult to assess. This new standard might impact the entities that a group consolidates as its subsidiaries. The Company is yet to assess IFRS 10’s full impact and intends to adopt IFRS 10 no later than the accounting period beginning on or after 1 January 2013.

IFRS 11 ‘Joint arrangements’, issued in May 2011. This standard provides for a more realistic reflection of joint arrangements by focusing on the rights and obligations of the arrangement, rather than its legal form. There are two types of joint arrangements: joint operations and joint ventures. Joint operations arise where a joint operator has rights to the assets and obligations relating to the arrangement and hence accounts for its interest in assets, liabilities, revenue and expenses. Joint ventures arise where the joint operator has rights to the net assets of the arrangement and hence equity accounts for its interest. Proportional consolidation of joint ventures is no longer allowed. The Company is yet to assess IFRS 11’s full impact and intends to adopt IFRS 11 no later than the accounting period beginning on or after 1 January 2013.

IFRS 12 ‘Disclosure of interests in other entities’ This standard includes the disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special purpose vehicles and other off statement of financial position vehicles. The Company is yet to assess IFRS 12’s full impact and intends to adopt IFRS 12 no later than the accounting period beginning on or after 1 January 2013.

IFRS 13 ‘Fair value measurement’, issued in May 2011. This standard 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 or US GAAP. The Company is yet to assess IFRS 13’s full impact and intends to adopt IFRS 13 no later than the accounting period beginning on or after 1 January 2013.

IAS 27 (revised) 'Separate financial statements', issued in May 2011. This standard includes the provisions on separate financial statements that are left after the control provisions of IAS 27 have been included in the new IFRS 10. The Company is yet to assess the full impact of the amendments and intends to adopt the amended IAS 27 no later than the accounting period beginning on or after 1 January 2013.

IAS 28 (revised) 'Investments in associates and joint ventures', issued in May 2011. This standard includes the requirements for joint ventures, as well as associates, to be equity accounted following the issue of IFRS 11. The Company is yet to assess the full impact of the amendments and intends to adopt the amended IAS 28 no later than the accounting period beginning on or after 1 January 2013.

4. Significant accounting judgements, estimates and assumptions

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

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

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

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

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

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

Estimation of the ultimate cost of subsidence claims is complex. It is difficult to know the incurred date of a subsidence claim; indeed the claim may have been incurred over a period of time rather than on one particular day. Because of this, subsidence figures cannot reliably be split by accident 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.

Estimation of the ultimate bodily injury claims is a complex process and cannot be done using conventional actuarial techniques. Significant factors that affect the trends that influence the bodily injuries estimation process are inconsistent court resolutions and jurisprudence that have broadened the intent and scope 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.

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

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

Claims provisions are subject to close scrutiny, both within LVIC and across the wider Group. The Reserving Committee operates as a forum for the discussion and challenge of the actuarial best estimate and booked claims provisions. External actuaries are also engaged on an annual basis to calculate an independent best estimate of the ultimate cost of claims, against which LVIC'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 an efficient capital structure from a combination of equity, consistent with the Company's risk profile and the regulatory and market requirements of its business.

The Company retains capital to meet four key objectives:

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

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

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

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

The Company had capital available of £560,732,000 (2010: £518,074,000) being net assets available to the company.

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 FSA's Individual Capital Assessment (ICA) capital requirements.

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

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

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

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

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

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

Motor business is exposed to the risk of large personal injury claims, where the claim amounts can be significant due to the cost of care required for the claimant. The Company has entered into excess of loss reinsurance contracts which reduce its exposure to large claims. The reinsurance retention is £5.0m per claim (2010: £5.0m per claim).

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.

The table below sets out the concentration of General Insurance ('GI') contract liabilities by type of contract:

	2011			2010		
	Gross	**Reinsurance**	**Net**	Gross	Reinsurance	Net
	£000	**£000**	**£000**	£000	£000	£000
Motor	**477,860**	**(26,358)**	**451,502**	356,950	(18,127)	338,823
Household	**53,858**	**-**	**53,858**	63,203	-	63,203
Travel	**990**	**-**	**990**	1,689	-	1,689
Commercial	**37,231**	**(1,510)**	**35,721**	23,146	-	23,146
Other	**2,930**	**-**	**2,930**	2,117	-	2,117
	572,869	**(27,868)**	**545,001**	447,105	(18,127)	428,978

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 reform, 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 the exposure to ‘PPOs’ as the key area of uncertainty relating to the claims provision as at 31 December 2011. 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 the claims. If all of these claims settled as ‘PPOs’, the reserves would deteriorate by £15m from the position shown above.

The claims provision is also sensitive to the number and cost of large motor claims (defined as greater than £1m), 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 £1m threshold. Again, whilst the claims provision allows for an expected level of late reported / reserved large claims, a higher number observed will lead to a deterioration in reserves. As an example, reserves would increase by £5m, assuming one large claim (exceeding our reinsurance retention of £5m) is incurred above the level expected.

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 strong reserves in order to protect against adverse future claims experience and developments. As claims develop and the ultimate costs become more certain, adverse claims experiences are eliminated which results in a release from earlier accident years.

Analysis of claims development – gross of reinsurance

Accident year	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	Total
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
Initial estimate of gross provision	219,831	261,358	314,496	336,199	366,424	373,433	331,232	375,855	523,463	619,998	
One year later	219,337	260,538	307,359	332,356	347,467	315,798	296,601	362,775	548,340		
Two years later	203,883	253,531	286,722	315,195	325,394	290,942	280,207	356,767			
Three years later	200,240	235,158	280,960	300,488	310,784	285,256	278,036				
Four years later	191,223	230,094	270,751	295,996	303,307	284,795					
Five years later	189,873	226,416	269,483	293,147	303,068						
Six years later	188,833	226,455	269,625	295,091							
Seven years later	187,729	226,194	269,684								
Eight years later	187,801	226,235									
Nine years later	187,812										
Current estimate of cumulative claims	187,812	226,235	269,684	295,091	303,068	284,795	278,036	356,767	548,340	619,998	**3,369,826**
Cumulative payments to date	(187,612)	(223,883)	(269,016)	(291,288)	(297,907)	(273,481)	(254,519)	(299,049)	(415,369)	(298,836)	**(2,810,961)**
Liability recognised for 2002 to 2011 accident years	200	2,352	668	3,803	5,161	11,314	23,517	57,718	132,970	321,162	**558,865**
Liability recognised in respect of prior accident years											**358**
Claims handling provision											**13,646**
Provision as at 31 December 2011											**572,869**

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

Analysis of claims development – net of reinsurance

Accident year	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**Total**
	£000	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**
Initial estimate of net provision	219,831	259,391	314,496	336,199	366,424	369,064	327,519	372,585	518,208	613,816	
One year later	219,337	258,424	307,359	332,356	345,400	311,412	291,686	356,861	542,840		
Two years later	203,883	253,243	286,722	313,070	324,029	288,643	276,448	345,679			
Three years later	200,240	234,652	279,101	299,787	309,750	282,958	274,907				
Four years later	191,223	229,014	270,751	295,465	303,307	282,636					
Five years later	189,118	226,415	269,483	293,147	302,928						
Six years later	188,833	226,455	269,625	295,091							
Seven years later	187,729	226,194	269,684								
Eight years later	187,801	226,235									
Eight years later	187,813										
Current estimate of cumulative claims	187,813	226,235	269,684	295,091	302,928	282,636	274,907	345,679	542,840	613,816	**3,341,629**
Cumulative payments to date	(187,613)	(223,883)	(269,016)	(291,288)	(297,907)	(273,007)	(254,519)	(299,049)	(415,369)	(298,675)	**(2,810,326)**
Liability recognised for 2002 to 2011 accident years	200	2,352	668	3,803	5,021	9,629	20,388	46,630	127,471	315,141	**531,303**
Liability recognised in respect of prior accident years											**52**
Claims handling provision											**13,646**
Provision as at 31 December 2011											**545,001**

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. During the year the Company appointed Threadneedle Asset Management ('TAM') to replace Liverpool Victoria Asset Management Limited as its investment manager. All TAM dealings are transacted on an arm's length basis. Exposures to individual companies and to equity shares in aggregate are monitored by Investment and Risk Committees in order to ensure compliance with the relevant regulatory limits for solvency purposes and with guidelines set for each internal fund. Securities held are primarily listed and traded on recognised stock exchanges, predominantly in the UK.

Limits on the Company's exposure to equities are defined both in aggregate terms and by geography, industry and counterparty. The level of investment holdings is reviewed monthly by the Investment Committee. Tactical asset allocation meetings are held weekly, and strategic asset allocation meetings quarterly, to discuss investment return and concentration and to agree any changes required.

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

Interest rate risk – fair value
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.

Price risk
The Company holds a significant portfolio of equities and Collective Investment Schemes which are subject to price movements.

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

Currency risk
The company operates within the UK, however it has exposure to foreign currencies through its investment portfolio. Its main currency exposure is the Swedish Krona.

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 did not have any exposure to foreign exchange risk in 2011. The Company's exposure to foreign exchange risk in 2010 is summarised below:

As at 31 December 2010	**Sterling** £000	**Swedish Krona** £000	**Total** £000
Financial assets at fair value through income			
Shares, other variable yield securities and units in unit trusts	659,519	1,884	661,403
Financial liabilities			
Derivative financial instruments	1,804	(1,861)	(57)
Total	661,323	23	661,346

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.

	Impact on profit before tax 2011 £000	**Impact on equity 2011 £000**	Impact on profit before tax 2010 £000	Impact on equity 2010 £000
Interest rate risk				
+ 50 basis points shift in yield curve	(6,454)	(4,744)	(7,686)	(5,562)
- 50 basis points shift in yield curve	6,595	4,847	9,153	6,590
Equity price risk (including derivatives)				
10% increase in equity markets	4,555	3,348	6,456	4,648
10% decrease in equity markets	(4,555)	(3,348)	(6,456)	(4,648)

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

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

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

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

Exposure to insurance intermediaries risk is managed via a stringent credit policy. The Company's credit control function monitors the ageing and collectability of debtor balances, with credit evaluations performed on all relevant counterparties. The Company does not require collateral in respect of financial assets. Intermediary debt at 31 December 2011 was £39.2 million (2010: £38.4 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 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 Risk Committee 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 2011	**AAA £000**	**AA £000**	**A £000**	**BBB £000**	**Not rated £000**	**Total £000**
Short term bank deposits	-	35,997	150,515		-	186,512
Reinsurance assets	1,872	20,607	15,974	-	2,422	40,875
Total	**1,872**	**56,604**	**166,489**	**-**	**2,422**	**227,387**

Credit risk exposure 2010	AAA £000	AA £000	A £000	BBB £000	Not rated £000	Total £000
Debt and other fixed income securities	135,142	-	-	-	-	135,142
Short term bank deposits	25,550	-	-	-	-	25,550
Reinsurance assets	1,777	14,092	11,544	-	893	28,306
Total	162,469	14,092	11,544	-	893	188,998

The tables below show the age analysis of the company's past due and/or impaired assets

Age analysis of assets past due/impaired 2011	**<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**
Financial assets							
Insurance receivables	**2,637**	**574**	**133**	**287**	**3,631**	**(316)**	**3,315**

Age analysis of assets past due/impaired 2010	<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
Financial assets							
Insurance receivables	3,294	948	244	615	5,101	(595)	4,506

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

Liquidity risk

Liquidity risk is the risk that the Group 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 profile of claim payments is predictable. The Company maintains cash and liquid deposits to meet demands on a daily basis. In normal circumstances, the majority of claims are settled from cash received from intermediaries 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

	2011			2010		
	Within 1 year	**Over 1 year**	**Total**	Within 1 year	Over 1 year	Total
	£000	**£000**	**£000**	£000	£000	£000
Deferred acquisition costs	**66,069**	**-**	**66,069**	56,381	-	56,381
Financial assets	**974,287**	**-**	**974,287**	714,376	108,765	823,141
Insurance receivables	**170,439**	**-**	**170,439**	134,281	-	134,281
Reinsurance assets	**13,018**	**27,857**	**40,875**	17,824	10,482	28,306
Cash and cash equivalents	**194,136**	**-**	**194,136**	57,105	-	57,105
Total assets	**1,417,949**	**27,857**	**1,445,806**	979,967	119,247	1,099,214

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.

	Within 1 year	**1-3 years**	**3-5 years**	**Over 5 years**	**No term**	**Total**
Maturity profile of financial liabilities 2011	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**
Insurance contract liabilities	**823,563**	**198,847**	**80,536**	**24,814**	**-**	**1,127,760**
Insurance payables	**8,669**	**-**	**-**	**-**	**-**	**8,669**
Trade and other payables	**70,086**	**-**	**-**	**-**	**-**	**70,086**
	902,318	**198,847**	**80,536**	**24,814**	**-**	**1,206,515**

	Within 1 year	1-3 years	3-5 years	Over 5 years	No term	Total
Maturity profile of financial liabilities 2010	£000	£000	£000	£000	£000	£000
Insurance contract liabilities	648,823	156,464	50,254	20,504	-	876,045
Insurance payables	8,244	-	-	-	-	8,244
Trade and other payables	27,075	-	-	-	-	27,075
Derivative financial instruments	57	-	-	-	-	57
	684,199	156,464	50,254	20,504	-	911,421

Fair value estimation

For financial instruments held at fair value, the fair value measurements by level of the following fair value measurement hierarchy are classified as:

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

The following table presents the Company's assets and liabilities measured at fair value at 31 December 2011.

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

		2011			2010	
31 December 2011	**Level 1**	**Level 2**	**Total**	Level 1	Level 2	Total
	£000	**£000**	**£000**	£000	£000	£000
Fair value through income						
Shares, other variable yield securities and units in unit trusts	**34,385**	**915,892**	**950,277**	14,922	646,481	661,403
Debt and other fixed income securities	**-**	**-**	**-**	135,142	-	135,142
Total	**34,385**	**915,892**	**950,277**	150,064	646,481	796,545

		2011			2010	
Liabilities	**Level 1**	**Level 2**	**Total**	Level 1	Level 2	Total
	£000	**£000**	**£000**	£000	£000	£000
Derivative financial instruments	**-**	**-**	**-**	-	57	57
Total	**-**	**-**	**-**	-	57	57

There have not been any movement of assets between categories in 2011 or 2010.

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.

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

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

The Company has not identified any current strategic risks.

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

The Company has not identified any significant Group risks.

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

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

6. Net premium revenue

	2011	2010
	£000	£000
Insurance contracts:		
Premiums written	**1,060,774**	809,633
Change in unearned premiums reserve	**(125,951)**	(154,382)
Premium revenue arising from insurance contracts issued	**934,823**	655,251
Reinsurance contracts:		
Premiums payable	**(22,450)**	(18,877)
Change in unearned premiums reserve	**2,828**	1,647
Premium revenue ceded to reinsurers on insurance contracts issued	**(19,622)**	(17,230)
Net premium revenue	**915,201**	638,021

Motor	**701,109**	456,064
Property	**114,779**	104,865
Other	**99,313**	77,092
	915,201	638,021

Other premiums receivable includes commercial, travel, legal and pet insurance.

7. Investment income

	2011	2010
	£000	£000
Income from investments and cash and cash equivalents		
-Interest income	**3,344**	18,416
-Dividend income	**26,026**	4,350
-Charge from group undertakings and participating interests	**-**	(6)
	29,370	22,760

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

	2011	2010
	£000	£000
(Losses)/gains on financial assets at fair value through income		
-Debt securities	**(892)**	3,407
-Equity securities	**(530)**	16,795
-Derivative financial instruments	**716**	(261)
	(706)	19,941

Net fair value gains on financial assets held at fair value through income include net realised gains of £4,005,000 (2010: £19,878,000 gains) and net unrealised losses of £4,711,000 (2010: £63,000 gains).

9. Other income

	2011 £000	2010 £000
Interest income	**17,390**	12,518
Other income	**10,263**	7,570
	27,653	20,088

Other income is primarily comprised of fee and commission income.

10. Insurance claims and loss adjustment expenses

	2011 £000	2010 £000
Gross insurance claims		
Claims paid during the year	**521,733**	390,988
Claims management costs	**30,621**	22,757
Movement in claims liabilities	**125,764**	82,756
	678,118	496,501
Reinsurers' share of gross insurance claims		
Current year claims and loss adjustment expenses	**(627)**	(1,046)
Movement in reinsurer's share of claims liabilities	**(9,741)**	(4,959)
	(10,368)	(6,005)
Net insurance claims	**667,750**	490,496

Included within claims incurred is an increase of £11.9m in respect of motor insurance business (2010: £29.3m release) and an increase of £9.8m in respect of property insurance business (2010: £9.8m 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

	2011 £000	2010 £000
Investment management expenses and charges	**1,338**	703
Acquisition expenses	**126,967**	106,957
Movement in deferred acquisition expenses	**(9,688)**	(22,258)
Auditor's remuneration	**170**	104
Amortisation of intangibles	**180**	180
Impairment of insurance receivables	**567**	919
Administrative expenses	**135,177**	107,929
	254,711	194,534

12. Auditor's remuneration

	2011	2010
	£000	£000
Fees payable to Company's auditor for the audit of the Company's accounts	**150**	57
Fees payable to the Company's auditor for other services pursuant to legislation	**20**	47
	170	104

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

13. Directors' emoluments

All directors are remunerated by LVFS and LVIM.

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

The aggregate amount of Directors' emoluments was as follows:

	2011	2010
	£000	£000
a) Aggregate emoluments	**5,486**	4,016

b) There were £70,000 of contributions to the defined contribution pension scheme (2010 :£11,000).

c) Emoluments of the Directors were as follows:

						2011	2010
	Salary	**Bonus**	**Other Benefits**	**Long Term Incentive Plan**	**Compen sation for loss of office**	**Total**	Total
	£000	**£000**	**£000**	**£000**	**£000**	**£000**	£000
Highest paid Director	**491**	**518**	**123**	**1,046**	**-**	**2,178**	1,247
All Directors	**2,116**	**1,381**	**196**	**1,673**	**120**	**5,486**	4,016

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 2011 or 2010.

d) Pension arrangements
P M Bunker, S V Castle, S Haynes and J B O'Roarke are members of the LV= Employee Pension Scheme, which is a defined benefit scheme administered at group level.

LVFS makes contributions to the LV= Employee Pension Scheme of 17.1% of pensionable salaries (2010: 19% of pensionable salaries) in respect of all permanent staff, including executive directors. This included amounts on behalf of executive directors of £147,000 (2010: £222,845).

M J Rogers is a member of the staff pension scheme for life assurance only.

	2011	2010
Accrued pension at end of the year	**£000**	£000
All Directors	**146**	90

14. Income tax expense

a) Current year tax expense

	2011 £000	2010 £000
Current year tax expense:		
Corporation tax	**1,434**	-
Group relief	**3,288**	-
Total current tax	**4,722**	-
Deferred tax		
Prior year adjustment	**(1,920)**	309
Temporary differences	**7,597**	4,608
Total deferred tax	**5,677**	4,917
Total income tax expense	**10,399**	4,917

b) Reconciliation of tax expense

The tax assesed for the year is lower than the standard rate of corporation tax in the UK (26.5%). The differences are explained below:

	2011 £000	2010 £000
Profit before tax	**49,057**	15,780
Profit multiplied by standard rate of corporation tax in the UK of 26.5% (2010: 28%)	**13,000**	4,418
Effects of:		
Impact of change in UK corporation tax rate on deferred tax	**97**	190
Adjustment to deferred tax in respect of prior years	**(1,920)**	309
Income not subject to Corporation Tax	**(778)**	-
Total income tax expense for the year	**10,399**	4,917

The standard rate of corporation tax in the UK changed from 28% to 26% with effect from 1 April 2011. Accordingly, the profits for this accounting period are taxed at an effective rate of 26.5%.

15. Investments in group undertakings

	2011 £000	2010 £000
At 1 January	**301,012**	280,056
Capital contributions	**-**	40,000
Write down	**-**	(19,044)
Balance at 31 December	**301,012**	301,012

The company made the following contributions to Highway Insurance Group Limited during 2010:

	2010 £000
16 July 2010	15,000
22 October 2010	10,000
15 December 2010	10,000
20 December 2010	5,000
Total contribution for the year	40,000

15. Investments in group undertakings (continued)

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 Group Services Limited	England and Wales	Management service company	100% directly held	Ordinary
Highway Insurance Company Limited	England and Wales	General Insurance	100% indirectly held	Ordinary

16. Intangible assets

	Goodwill £000	Other £000	Total £000
Cost			
At 1 January 2011	15,812	3,375	**19,187**
At 31 December 2011	15,812	3,375	**19,187**
Accumulated amortisation			
At 1 January 2011	-	(495)	**(495)**
Amortisation charge for the year	-	(180)	**(180)**
At 31 December 2011	-	**(675)**	**(675)**
Net book value at 31 December 2011	**15,812**	**2,700**	**18,512**
Net book value at 31 December 2010	15,812	2,880	18,692

The Company does not carry out an individual impairment review of the goodwill, instead it relies on the CGU assessment carried out by LV Group. There is currently no indication that impairment is required.

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

Other intangibles primarily comprises customer books recognised on acquisitions.

17. Deferred acquisition costs

	2011 £000	2010 £000
At 1 January	**56,381**	34,123
Acquisition expenses deferred	**126,967**	106,957
Amortisation	**(117,279)**	(84,699)
At 31 December	**66,069**	56,381

18. Financial assets

	2011 £000	2010 £000
Fair value through income		
Shares, other variable yield securities and units in unit trusts	**950,277**	661,403
Debt and other fixed income securities	**-**	135,142
	950,277	796,545
Loans and other receivables		
Amounts due from group undertakings	**22,450**	25,300
Other receivables	**1,560**	1,296
	24,010	26,596
	974,287	823,141

The carrying amounts disclosed above reasonably approximate fair value at the Statement of Financial Position date.

19. Insurance receivables

	2011 £000	2010 £000
Receivables arising from insurance and reinsurance contracts:		
Due from policy holders	**131,226**	95,794
Due from agents, brokers and intermediaries	**39,209**	38,441
Due from reinsurers	**4**	46
	170,439	134,281

As at 31 December 2011 overdue insurance receivables arising from insurance contracts were provided at £316,000 (2010: £595,000).

20. Reinsurance assets

	2011 £000	2010 £000
Reinsurers’ share of provision for unearned premiums	**13,007**	10,179
Reinsurers’ share of claims outstanding	**27,868**	18,127
	40,875	28,306

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

21. Prepayments and accrued income

	2011 £000	2010 £000
Accrued interest	**3,907**	4,867
Prepayments	**-**	589
	3,907	5,456

22. Deferred tax (liability)/asset

	2011	2010
	£000	£000
At 1 January	**5,121**	10,038
Current year charge	**(5,677)**	(4,917)
At 31 December	**(556)**	5,121

Analysis of deferred taxation temporary differences:

	£000	£000
Accelerated capital allowances	**36**	49
Trading losses carried forward	**-**	5,540
Temporary differences on expenses	**(592)**	(468)
	(556)	5,121

Analysis of the deferred tax balance

	£000	£000
Deferred tax (liability)/asset expected to be recovered after more than 12 months	**(563)**	2,013
Deferred tax asset expected to be recovered within 12 months	**7**	3,108
	(556)	5,121

Deferred tax balances have been measured taking into account the change in the rate of UK corporation tax from 26% to 25%. This change was substantively enacted on 5 July 2011 and will be effective from 1 April 2012.

In addition to the changes in rates of corporation tax disclosed above, a number of further changes to the UK corporation system were announced in the March 2011 Budget Statement. Further reductions to the main rate are proposed to reduce the rate by 1% per annum to 23% by 1 April 2014. The changes had not been substantively enacted at the statement of financial position date and therefore are not recognised in these financial statements.

23. Cash and cash equivalents

	2011	2010
	£000	£000
Bank balances	**7,624**	31,602
Short term bank deposits	**186,512**	25,503
Cash and cash equivalents	**194,136**	57,105

24. Insurance contract liabilities

a) Analysis of insurance contract liabilities

	2011			2010		
	Gross	**Reinsurance**	**Net**	Gross	Reinsurance	Net
	£000	**£000**	**£000**	£000	£000	£000
General insurance claims liabilities	**572,869**	**(27,868)**	**545,001**	447,105	(18,127)	428,978
General insurance unearned premiums	**554,891**	**(13,007)**	**541,884**	428,940	(10,179)	418,761
	1,127,760	**(40,875)**	**1,086,885**	876,045	(28,306)	847,739

b) Movement in general insurance claims liabilities

	2011			2010		
	Gross	**Reinsurance**	**Net**	Gross	Reinsurance	Net
	£000	**£000**	**£000**	£000	£000	£000
OCR	**438,183**	**(13,256)**	**424,927**	348,027	(9,997)	338,030
IBNR	**8,922**	**(4,871)**	**4,051**	16,322	(3,171)	13,151
Balance at 1 January	**447,105**	**(18,127)**	**428,978**	364,349	(13,168)	351,181
Movement in claims incurred in prior accident years	**17,194**	**(4,347)**	**12,847**	(45,520)	18	(45,502)
Claims incurred in the current accident year	**630,303**	**(6,021)**	**624,282**	519,264	(6,023)	513,241
Claims paid during the year	**(521,733)**	**627**	**(521,106)**	(390,988)	1,046	(389,942)
	125,764	**(9,741)**	**116,023**	82,756	(4,959)	77,797
Balance at 31 December	**572,869**	**(27,868)**	**545,001**	447,105	(18,127)	428,978
OCR	**567,921**	**(12,748)**	**555,173**	438,183	(13,256)	424,927
IBNR	**4,948**	**(15,120)**	**(10,172)**	8,922	(4,871)	4,051
Balance at 31 December	**572,869**	**(27,868)**	**545,001**	447,105	(18,127)	428,978

c) Movement in general insurance unearned premiums

	2011			2010		
	Gross	**Reinsurance**	**Net**	Gross	Reinsurance	Net
	£000	**£000**	**£000**	£000	£000	£000
Balance at 1 January	**428,940**	**(10,179)**	**418,761**	274,558	(8,532)	266,026
Premiums written in the year	**1,060,774**	**(22,450)**	**1,038,324**	809,633	(18,877)	790,756
Premiums earned during the year	**(934,823)**	**19,622**	**(915,201)**	(655,251)	17,230	(638,021)
Balance at 31 December	**554,891**	**(13,007)**	**541,884**	428,940	(10,179)	418,761

24. Insurance contract liabilities (continued)

Details of the methodologies used for the premium and claims provisions for motor and household products 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 under-stated against the expected ultimate settlement cost of the known claims and this is allowed for in the IBNR calculation.

Incurred But Not Reported Reserve ('IBNR')

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

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

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

The claim types modelled 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 a provision for the claims and expenses attributable to the unexpired risk from business written prior to the statement of financial position sheet date. This is a system driven calculation based on a daily allocation method.

25. Derivative financial instruments

The company utilises the following derivative instruments for hedging the effect of changes in the FTSE 100 index on its portfolio. Fair values are estimated using current market index data and are included in assets/liabilities as set out in the following table.

	2011			2010		
	£000	**£000**	**£000**	£000	£000	£000
	Contract/ notional amount	**Fair value - asset**	**Fair value - liability**	Contract/ notional amount	Fair value - asset	Fair value - liability
Forward exchange contract	**-**	**-**	**-**	1,804	-	57
	-	**-**	**-**	1,804	-	57

The carrying amounts disclosed above reasonably approximate fair value at the Statement of Financial Position date.

26. Insurance payables

	2011	2010
	£000	£000
Due to reinsurers	**8,661**	8,241
Due to policy holders	**1**	3
Due to intermediaries	**7**	-
	8,669	8,244

27. Current tax liability

	2011	2010
	£000	£000
Amounts recorded in the income statement	**1,434**	-
At 31 December	**1,434**	-

28. Trade and other payables

	2011	2010
	£000	£000
Amounts owed to group undertakings	**36,252**	-
Accruals and deferred income	**11,570**	10,023
Other taxes and social security costs	**16,239**	10,713
Trade payables	**161**	218
Other payables	**5,864**	6,121
	70,086	27,075

29. Share capital

	2011	2010
	£000	£000
Ordinary shares, allotted and fully paid		
344,907,680 (2010: 344,907,680) ordinary shares of £1 each	**344,908**	344,908

30. Capital reserve

	2011	2010
	£000	£000
Balance at 1 January	274,044	214,044
Capital contributions	4,000	60,000
Balance at 31 December	**278,044**	274,044

The Company received the following capital contributions from LVGIG during 2011:

	2011
	£000
26 January 2011	4,000
Total contribution for the year	**4,000**

The Company received the following capital contributions from LVGIG during 2010:

	2010
	£000
22 September 2010	25,000
15 December 2010	35,000
Total contribution for the year	60,000

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

31. Accumulated losses

	2011	2010
	£000	£000
Balance at 1 January	(100,878)	(111,741)
Profit for the year	38,658	10,863
Balance at 31 December	(62,220)	(100,878)

32. Cash generated from/(used in) operating activities

	2011	2010
	£000	£000
Profit before tax	**49,057**	15,780
Investment income	**(29,370)**	(22,760)
Interest income received	**30,330**	26,920
Losses/(gains) on financial assets recorded in the statement of comprehensive income	**706**	(19,941)
Purchase of investments at fair value through income	**(669,541)**	(3,766,405)
Sale of investments at fair value through income	**514,386**	3,540,298
Sales/(purchase) of financial derivatives	**660**	(1,905)
Non cash items		
Expenses deferred during the year	**(9,688)**	(22,258)
Amortisation of intangible assets	**180**	180
Changes in working capital		
Decrease in loan and receivables	**2,586**	64,196
Increase in reinsurance assets	**(12,569)**	(6,606)
Increase in insurance receivables	**(36,158)**	(40,632)
Decrease/(increase) in other prepayments and accrued income	**589**	(418)
Increase in insurance contract liabilities	**251,715**	237,138
Increase in insurance payables	**425**	2,063
Increase/(decrease) in trade and other payables	**43,011**	(7,232)
Cash generated/(used) in operating activities	**136,319**	(1,582)

33. 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:

	2011	2010
	£000	£000
Short-term employee benefits	**3,693**	3,724
Post-employment benefits	**216**	90
Other long-term benefits	**1,673**	**-**
Termination benefits	**120**	292
	5,702	4,106

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

	2011	2010
	£000	£000
Management charge to the Company	**198,097**	163,936
	198,097	163,936

The following transactions have taken place between the Company and Highway Insurance Group Limited:

	2011	2010
	£000	£000
Capital contribution to Highway Insurance Group Limited	**-**	40,000
	-	40,000

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

	2011	2010
	£000	£000
Capital contribution from Liverpool Victoria General Insurance Group Limited	**4,000**	60,000
	4,000	60,000

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

	2011	2010
	£000	£000
Payable by the Company to Liverpool Victoria Friendly Society Limited	**(36,252)**	-
Payable to the Company by Highway Insurance Group Limited	**22,450**	25,300
	(13,802)	25,300

34. Ultimate parent company

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

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

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

or at www.lv.com/aboutus/report