COMPANY REGISTRATION NO: 3232514

LIVERPOOL VICTORIA
INSURANCE COMPANY LIMITED

REPORT AND
FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2010

CONTENTS

	Page
Directors, officers and registered office	1
Directors' report	2
Independent auditor's report	7
Statement of comprehensive income	9
Statement of changes in equity	10
Statement of financial position	11
Statement of cash flows	12
Notes to the financial statements	13

DIRECTORS, OFFICERS AND REGISTERED OFFICE

Directors

K W Abercromby	Resigned 9 November 2010
P M Bunker	
S V Castle	
S M Daniels	Resigned 31 March 2010
J B O'Roarke	
M J Rogers	
R A Rowney	Resigned 31 March 2010
M S Newton	Appointed 31 March 2010, resigned 31 January 2011
R C Dix	Appointed 1 April 2010, resigned 31 January 2011
P W Moore	Appointed 10 November 2010
R A Warner	Appointed 28 February 2011
J M Webber	Appointed 16 March 2011

Secretary
P B Cassidy

Registered office
County Gates
Bournemouth
BH1 2NF

Tel: 01202 292333
Fax: 01202 751825

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

DIRECTORS' REPORT

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

1. Results and dividends
The profit on ordinary activities for the year after taxation is £10,863,000 (2009: £13,025,000 profit) as set out on page 9. The directors proposed and paid no dividends in the current year (2009: £nil).

2. Principal activities
The principal activity of the Company is to carry on general insurance business through 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 2010 results for the Company show a profit after taxation of £10,863,000. This continues the profitable trend reported in 2009 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 (KPI) below):

1. Premium income growth: The Company has seen significant premium income growth in 2010. Growth has been seen primarily in the Motor line of business through both the broker and direct channels. UK motor market conditions prevalent in 2010 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 2010 have been relatively strong. The Company has benefited from having a spread of investment risk across a broad range of investment classes and from proactive asset allocation during the year. Funds under management have also increased significantly during the year.

3. Expenditure: Investment in staff, systems and infrastructure has continued ensuring that the Company is well placed to deliver its profitable growth strategy. In addition continued significant expenditure was incurred on direct marketing activities (including TV commercials) aimed at promoting the new LV= brand. Notwithstanding this the Company still delivered an improved expense ratio in 2010. The improved expense ratio was achieved as a result of 1. Cost saving initiatives coming to fruition and 2. Economies of scale due to the substantial growth of the business in 2010.

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

5. The Company owns Highway Insurance Group Plc (HIG) which was acquired in October 2008. The results of this Group are not consolidated with those of the Company. During 2010 the company made capital contributions of £40m to HIG to support its business activities.

6. Broker division: The ABC Broker division (which was launched in 2007) offers both personal lines and commercial products under the ABC Insurance brand. This brand has continued to grow in 2010 writing Premiums of £284m (2009: £113m).

The management views 2010 as a consolidation year where a step change has occurred in the growth of the Company whilst at the same time maintaining profitability.

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

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

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

"To become a top five general insurer in its target markets and to be active in all major channels: direct, broker, affinity and white-label. It will be focused on three core products, namely Motor, Home and Commercial supported by minor offerings such as Road Rescue, Travel and Pet and will utilise a range of strong brands including LV=, Highway, ABC and Britannia Rescue. The Company will operate best-practice processes and technology in order to provide superior customer service through a people-focused and empowered culture. 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: 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, 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 the insurance companies return to acceptable underwriting and investment returns. The timing and extent of this increasing price competition are not easy to predict. The impacts of Solvency 2 on the level of capital and therefore returns on capital will also need to be carefully assessed and managed.

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

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 protections.

(e) Future outlook
It is projected that the Company will continue to grow its top line in 2011 and 2012. 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.

(f) Significant post balance sheet events
On 27 January 2011 a £4million capital contribution was made from Liverpool Victoria Friendly Society. There have been no other events of significance affecting the Company since the balance sheet date

(g) Key performance indicators

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

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

KPI	2010	2009	Comments
Premiums receivable	£810m	£524m	Premium receivable is showing a strong year on year increase of (55%) due to a combination of: 1. Strong price increases across the product range (Particularly motor) 2. Robust underlying business volume growth
Loss ratio	76.9%	67.0%	The overall net loss ratio for 2010 has increased when compared to 2009. However it should be noted that there was a material prior year reserve release in 2009 which favourably impacted the 2009 loss ratio. The 2010 loss ratio of 76.9% is nevertheless a strong result particularly given the adverse weather impacts suffered in 2010.
Expense ratio	27.3%	37.0%	The net expense ratio (including other income) of 27.3% has reduced materially when compared to 2009. 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 have had a favourable impact.)
Combined ratio	104.2%	104.0%	The combined ratio of 104.2% has remained consistent with 2009. This ratio is expected to compare well with UK market averages for 2010. The long-term objective is to operate at a below target combined ratio of 100%. Improvements in the Combined Ratio are anticipated (primarily from further improvements in the Expense Ratio) over the next few years.
Investment return	£43m	£36m	Total investment return includes 1. Investment income and 2. Net fair value gains/losses on financial assets Total investment return is higher than in 2009 (up 19%). The Company has benefitted from having a spread of investment risk across a broad range of investment classes and from proactive asset allocation during the year. In addition the company has benefited from the higher level of funds under management due to the higher premium volumes.
Net assets	£518m	£447m	Net assets have increased during 2010 to £518m reflecting the post tax profits made by the Company in 2010 and capital injections (£60m) received from LVFS.

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 Liverpool Victoria General Insurance Group Limited. The ultimate parent company is Liverpool Victoria Friendly Society Limited ('LVFS'), an incorporated Friendly Society registered under the Friendly Societies Act 1992.

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

7. Charitable and political donations
No charitable or political donations have been made during 2010 (2009: £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. Statement of Directors' responsibilities
The Directors are responsible for preparing the Directors Report and the financial statements in accordance with applicable law and regulations.

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

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

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

Bv order of the board

P B Cassidy
Secretary
24 March 2011

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

Respective responsibilities of directors and auditors

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

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

Scope of the audit of the financial statements

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

Opinion on financial statements

In our opinion the financial statements:

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

Opinion on other matter prescribed by the Companies Act 2006

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

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

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

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

24 March 2011

STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2010

	Note	2010 £000	2009 £000
Insurance contract premium revenue	6	**655,251**	461,574
Insurance contract premium ceded to reinsurers	6	**(17,230)**	(14,223)
Net premium revenue		**638,021**	447,351
Investment income	7	**22,760**	25,923
Net fair value gains on financial assets at fair value through income	8	**19,941**	9,778
Other income	9	**20,088**	14,281
Total income		**700,810**	497,333
Insurance claims and loss adjustment expenses	10	**(496,501)**	(300,813)
Insurance claims and loss adjustment expenses recoverable from reinsurers	10	**6,005**	1,165
Net insurance claims		**(490,496)**	(299,648)
Other operating and administrative expenses	11	**(194,534)**	(179,884)
Total claims and expenses		**(685,030)**	(479,532)
Profit before tax		**15,780**	17,801
Income tax expense	14	**(4,917)**	(4,776)
Profit for the year		**10,863**	13,025
Total comprehensive income for the year		**10,863**	13,025

The notes on pages 13 to 46 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 2010

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

	Attributable to equity holder of the Company			
	Share capital	Accumulated losses	Capital reserve	Total
	£000	£000	£000	£000
Balance at 1 January 2009	344,908	(124,766)	214,044	434,186
Profit for the year	-	13,025	-	13,025
Balance at 31 December 2009	344,908	(111,741)	214,044	447,211

The notes on pages 13 to 46 are an integral part of the financial statements.

STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2010

	Note	2010 £000	2009 £000
Assets			
Investments in group undertakings	15	**301,012**	280,056
Intangible assets	16	**18,692**	18,872
Deferred acquisition costs	17	**56,381**	34,123
Financial assets			
- Fair value through income	18	**796,545**	550,214
- Loans and other receivables	18	**26,596**	90,792
Insurance receivables	19	**134,281**	93,649
Reinsurance assets	20	**28,306**	21,700
Prepayments and accrued income	21	**5,456**	9,198
Deferred tax asset	22	**5,121**	10,038
Cash and cash equivalents	23	**57,105**	19,643
Total assets		**1,429,495**	1,128,285
Liabilities			
Insurance contract liabilities	24	**876,045**	638,907
Financial liabilities			
- Derivative financial instruments	25	**57**	1,679
Insurance payables	26	**8,244**	6,181
Trade and other payables	27	**27,075**	34,307
Total liabilities		**911,421**	681,074
Equity			
Share capital	28	**344,908**	344,908
Capital reserve	29	**274,044**	214,044
Accumulated losses	30	**(100,878)**	(111,741)
Total equity		**518,074**	447,211
Total liabilities and equity		**1,429,495**	1,128,285

The notes on pages 13 to 46 are an integral part of the financial statements.
These financial statements were approved by the Board of Directors on 24 March 2011.
Signed on behalf of the Board of Directors

P W Moore
Director

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2010

	Note	2010 £000	2009 £000
Cash and cash equivalents at 1 January	23	**19,643**	149,117
Cash flows arising from:			
Operating activities			
Cash used in operating activities	31	**(1,582)**	(45,517)
Net cash flows used in operating activities		**(1,582)**	(45,517)
Investing activities			
Writedown of investment in subsidiary	15	**19,044**	-
Capital contribution to subsidiary	15	**(40,000)**	(83,957)
Net cash flows used in investing activities		**(20,956)**	(83,957)
Financing activities			
Proceeds from capital contribution	29	**60,000**	-
Net cash flows from financing activities		**60,000**	-
Net increase/(decrease) in cash and cash equivalents		**37,462**	(129,474)
Cash and cash equivalents at 31 December	**23**	**57,105**	19,643

The notes on pages 13 to 46 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.

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.

3. Accounting policies

Premiums

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

Reinsurance contracts

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

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

Investment income

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

Fair value gains and losses on financial assets

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

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

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

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

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

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

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

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

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

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

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 are determined by reference to acquired business and are 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.

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, policy loans, loans and advances to customers (including those that are securitised), 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.

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

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

Impairment of assets

(a) Financial assets carried at amortised cost.

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

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

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

(iii) 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.

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

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

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 the Liverpool Victoria Group.

CHANGES IN ACCOUNTING POLICIES

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

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

IFRS 3 (revised), 'Business combinations', and consequential amendments to IAS 27, 'Consolidated and separate financial statements', IAS 28, 'Investments in associates', and IAS 31, 'Interests in joint ventures', are effective prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009.

The revised standard continues to apply the acquisition method to business combinations but with some significant changes compared with IFRS 3. For example, all payments to purchase a business are recorded at fair value at the acquisition date, with contingent payments classified as debt subsequently remeasured through the statement of comprehensive income. There is a choice on an acquisition-by-acquisition basis to measure the non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets. All acquisition-related costs are expensed.

IAS 27 (revised) requires the effects of all transactions with non-controlling interests to be recorded in equity if there is no change in control and these transactions will no longer result in goodwill or gains and losses. The standard also specifies the accounting when control is lost. Any remaining interest in the entity is re-measured to fair value, and a gain or loss is recognised in profit or loss. IAS 27 (revised) has had no impact on the current period, as none of the non-controlling interests have a deficit balance; there have been no transactions whereby an interest in an entity is retained after the loss of control of that entity, and there have been no transactions with non-controlling interests.

The changes by IFRS 3 and IAS 27 will affect future acquisitions or loss of control of subsidiaries and transactions with non-controlling interests made by the Company.

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

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

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

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

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

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

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

The following standards and amendments to existing standards have been published and are mandatory for the Company's accounting periods beginning on or after 1 January 2010 or later periods, but the Company has not early adopted them:

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

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

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

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

4. Significant accounting judgements, estimates and assumptions

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

Valuation of general insurance contract liabilities

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

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

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

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

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

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

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

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

Claims provisions are subject to close scrutiny, both within 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 FSA.

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

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

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

The Company had capital available of £518,074,000 (2009: £447,211,000) being net assets available to the company.

Risk management and control

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

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

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

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

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

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

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

Property business (domestic and commercial) is exposed to catastrophic risks such as result from storms or floods as well as risks such as subsidence. The 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 (2009: £3.0m per claim).

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

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

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

	2010			2009		
	Gross	**Reinsurance**	**Net**	Gross	Reinsurance	Net
	£000	**£000**	**£000**	£000	£000	£000
Motor	**356,950**	**(18,127)**	**338,823**	287,079	(12,936)	274,143
Household	**63,203**	**-**	**63,203**	59,337	-	59,337
Travel	**1,689**	**-**	**1,689**	2,431	(12)	2,419
Commercial	**23,146**	**-**	**23,146**	2,789	(220)	2,569
Other	**2,117**	**-**	**2,117**	12,713	-	12,713
	447,105	**(18,127)**	**428,978**	364,349	(13,168)	351,181

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

Sensitivity analysis for the change in the assumptions used in the GI claims provision	**Impact on profit before tax £m**	**Impact on GI claims provision £m**
December Freeze event costing 50% higher than projected	**10**	**10**
5% higher capped PI claims inflation for 2010 accident year	**6**	**6**
Ogden discount rate reducing from 2.5% to 0.5%	**8**	**8**

1. The December Freeze event is estimated to have cost £20m across all accounts. A 50% increase in this estimate would increase reserves by £10m. This assumes no benefit from our aggregate catastrophe reinsurance programme.

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

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

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

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

Analysis of claims development – gross of reinsurance

Accident year	2002	2003	2004	2005	2006	2007	2008	2009	2010	Total
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
Initial estimate of gross provision	219,831	261,358	214,496	336,199	366,424	373,433	331,232	375,855	523,463	
One year later	219,337	260,538	207,359	332,356	347,467	315,798	296,601	362,775		
Two years later	203,883	253,531	186,722	315,195	325,394	290,942	280,207			
Three years later	200,240	235,158	180,960	300,488	310,784	285,256				
Four years later	191,223	230,094	170,751	295,996	303,307					
Five years later	189,873	226,416	169,483	293,147						
Six years later	188,833	226,455	169,625							
Seven years later	187,729	226,194								
Eight years later	187,801									
Current estimate of cumulative claims	187,801	226,194	169,625	293,147	303,307	285,256	280,207	362,775	523,463	**2,631,775**
Cumulative payments to date	(187,576)	(223,752)	(167,932)	(285,379)	(292,476)	(266,242)	(244,865)	(280,087)	(249,438)	**(2,197,747)**
Liability recognised for 2002 to 2010 accident years	225	2,442	1,693	7,768	10,831	19,014	35,342	82,688	274,025	**434,028**
Liability recognised in respect of prior accident years										**1,280**
Claims handling provision										**11,797**
Provision as at 31 December 2010										**447,105**

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

Analysis of claims development – net of reinsurance

Accident year	2002	2003	2004	2005	2006	2007	2008	2009	2010	Total
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
Initial estimate of net provision	219,831	259,391	214,496	336,199	366,424	369,064	327,519	372,585	518,208	
One year later	219,337	258,424	207,359	332,356	345,400	311,412	291,686	356,861		
Two years later	203,883	253,243	186,722	313,070	324,029	288,643	276,448			
Three years later	200,240	234,652	179,101	299,787	309,750	282,958				
Four years later	191,223	229,014	170,751	295,465	303,307					
Five years later	189,118	226,415	169,483	293,147						
Six years later	188,833	226,455	169,625							
Seven years later	187,729	226,194								
Eight years later	187,801									
Current estimate of cumulative claims	187,801	226,194	169,625	293,147	303,307	282,958	276,448	356,861	518,208	**2,614,549**
Cumulative payments to date	(187,576)	(223,752)	(167,932)	(285,379)	(292,476)	(266,128)	(244,794)	(280,133)	(249,438)	**(2,197,608)**
Liability recognised for 2002 to 2010 accident years	225	2,442	1,693	7,768	10,831	16,830	31,654	76,728	268,770	**416,941**
Liability recognised in respect of prior accident years										**241**
Claims handling provision										**11,797**
Provision as at 31 December 2010										**428,978**

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

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

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

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's exposure to foreign exchange risk 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**

The Company was not exposed to foreign exchange risk in 2009.

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 2010 £000	**Impact on equity 2010 £000**	Impact on profit before tax 2009 £000	Impact on equity 2009 £000
Interest rate risk				
+ 50 basis points shift in yield curve	(7,686)	(5,562)	(4,786)	(3,446)
- 50 basis points shift in yield curve	9,153	6,590	4,786	3,446
Equity price risk (including derivatives)				
10% increase in equity markets	6,456	4,648	7,336	5,282
10% decrease in equity markets	(6,456)	(4,648)	(7,336)	(5,282)

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

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

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

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

Exposure to insurance intermediaries risk is managed via a stringent credit policy. The Company's credit control function monitors the ageing and collectability of debtor balances, with credit evaluations performed on all relevant counterparties. The Company does not require collateral in respect of financial assets. Intermediary debt at 31 December 2010 was £38.4 million (2009: £20.5 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 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	25,553	-	-	-	-	25,553
Reinsurance assets	1,777	14,092	11,544	-	893	28,306
Total	**162,472**	**14,092**	**11,544**	**-**	**893**	**189,001**

Credit risk exposure 2009	AAA £000	AA £000	A £000	BBB £000	Not rated £000	Total £000
Debt and other fixed income securities	232,886	69,025	110,575	35,289	22,438	470,213
Short term bank deposits	20,000	-	-	-	-	20,000
Deposits with credit institutions	-	3,442	39,965	-	-	43,407
Reinsurance assets	4,324	7,359	9,973	44	-	21,700
Total	257,210	79,826	160,513	35,333	22,438	555,320

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

	<31days	**31 to 60 days**	**61 to 90 days**	**>90 days**	**Total past due but not impaired**	**Past due and impaired**	**Total**
Age analysis of assets past due/impaired 2010	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**
Financial assets							
Insurance receivables	**3,294**	**948**	**244**	**615**	**5,101**	**(595)**	**4,506**

	<31days	31 to 60 days	61 to 90 days	>90 days	Total past due but not impaired	Past due and impaired	Total
Age analysis of assets past due/impaired 2009	£000	£000	£000	£000	£000	£000	£000
Financial assets							
Insurance receivables	1,557	421	125	456	2,559	(235)	2,324

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

Liquidity risk
Liquidity 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

	2010			2009		
	Within 1 year	**Over 1 year**	**Total**	Within 1 year	Over 1 year	Total
	£000	**£000**	**£000**	£000	£000	£000
Investments in group undertakings	**-**	**301,012**	**301,012**	-	280,056	280,056
Intangible assets	**-**	**18,692**	**18,692**	-	18,872	18,872
Deferred acquisition costs	**56,381**	**-**	**56,381**	34,123	-	34,123
Financial assets	**714,376**	**108,765**	**823,141**	90,792	550,214	641,006
Insurance receivables	**134,281**	**-**	**134,281**	93,649	-	93,649
Reinsurance assets	**17,824**	**10,482**	**28,306**	11,801	9,899	21,700
Prepayments and accrued income	**5,456**	**-**	**5,456**	9,198	-	9,198
Deferred tax asset	**3,109**	**2,012**	**5,121**	13	10,025	10,038
Cash and cash equivalents	**57,105**	**-**	**57,105**	19,643	-	19,643
Total assets	**988,532**	**440,963**	**1,429,495**	259,219	869,066	1,128,285

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 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**

	Within 1 year	1-3 years	3-5 years	Over 5 years	No term	Total
Maturity profile of financial liabilities 2009	£000	£000	£000	£000	£000	£000
Insurance contract liabilities	459,077	120,453	46,811	12,566	-	638,907
Insurance payables	6,181	-	-	-	-	6,181
Trade and other payables	34,307	-	-	-	-	34,307
Derivative financial instruments	1,679	-	-	-	-	1,679
	501,244	120,453	46,811	12,566	-	681,074

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

Fair value estimation

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

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

The following table presents the Company's assets and liabilities measured at fair value at 31 December 2010.

		2010			2009	
31 December 2010	**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	**14,922**	**646,481**	**661,403**	12,051	62,938	74,989
Debt and other fixed income securities	**135,142**	**-**	**135,142**	145,547	324,666	470,213
Other	**-**	**-**	**-**	5,012	-	5,012
Total	**150,064**	**646,481**	**796,545**	162,610	387,604	550,214

		2010			2009	
Liabilities	**Level 1**	**Level 2**	**Total**	Level 1	Level 2	Total
	£000	**£000**	**£000**	£000	£000	£000
Derivative financial instruments	**-**	**57**	**57**	1,679	-	1,679
Total	**-**	**57**	**57**	1,679	-	1,679

There have not been any movement of assets between categories in 2010 or 2009.

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.

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

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

	2010 £000	2009 £000
Insurance contracts:		
Premiums written	**809,633**	524,328
Change in unearned premiums reserve	**(154,382)**	(62,754)
Premium revenue arising from insurance contracts issued	**655,251**	461,574
Reinsurance contracts:		
Premiums payable	**(18,877)**	(16,749)
Change in unearned premiums reserve	**1,647**	2,526
Premium revenue ceded to reinsurers on insurance contracts issued	**(17,230)**	(14,223)
Net premium revenue	**638,021**	447,351
Motor	**456,065**	287,420
Property	**104,866**	105,521
Other	**77,090**	54,410
	638,021	447,351

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

7. Investment income

	2010 £000	2009 £000
Income from investments and cash and cash equivalents		
-Interest income	**18,766**	22,862
-Dividend income	**4,000**	3,061
-Charge from group undertakings and participating interests	**(6)**	-
	22,760	25,923

8. Net fair value gains on financial assets held at fair value through income

	2010 £000	2009 £000
Gains on financial assets at fair value through income		
-Debt securities	**7,325**	19,732
-Equity securities	**12,877**	272
-Derivative financial instruments	**(261)**	(10,226)
	19,941	9,778

Net fair value gains on financial assets held at fair value through income include net realised gains of £19,878,000 (2009: £4,246,000 losses) and net unrealised gains of £63,000 (2009: £14,024,000 gains).

9. Other income

	2010 £000	2009 £000
Interest income	**12,518**	9,765
Other income	**7,570**	4,516
	20,088	14,281

Other income is primarily comprised of fee and commission income.

10. Insurance claims and loss adjustment expenses

	2010 £000	2009 £000
Gross insurance claims		
Claims paid during the year	**390,988**	304,679
Claims management costs	**22,757**	15,339
Movement in claims liabilities	**82,756**	(19,205)
	496,501	300,813
Reinsurers' share of gross insurance claims		
Current year claims and loss adjustment expenses	**(1,046)**	-
Movement in reinsurer's share of claims liabilities	**(4,959)**	(1,165)
	(6,005)	(1,165)
Net insurance claims	**490,496**	299,648

Included within claims incurred is a release of £29.3 million in respect of motor insurance business (2009: £61.9 million release) and a release of £9.8 million in respect of property insurance business (2009: £4.3 million release), being the difference between the provision for claims outstanding at the beginning of the year less payments made in respect of claims incurred in prior years and the claims outstanding at the end of the year in respect of those claims.

11. Other operating and administrative expenses

	2010 £000	2009 £000
Investment management expenses and charges	**703**	807
Acquisition expenses	**106,957**	72,870
Movement in deferred acquisition expenses	**(22,258)**	(8,830)
Write down of deferred acquisition expenses	**-**	4,200
Auditor's remuneration	**104**	100
Amortisation of intangibles	**180**	180
Impairment of insurance receivables	**919**	657
Administrative expenses	**107,929**	109,900
	194,534	179,884

12. Auditor's remuneration

	2010 £000	2009 £000
Fees payable to Company's auditor for the audit of the Company's accounts	**57**	55
Fees payable to the Company's auditor for other services pursuant to legislation	**47**	45
	104	100

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

13. Directors' emoluments

All directors are remunerated by LVFS.

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

The aggregate amount of Directors' emoluments was as follows:

	2010 £000	2009 £000
a) Aggregate emoluments	**4,016**	3,684

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

c) Emoluments of the Directors were as follows:

	Salary £000	Bonus £000	Other Benefits £000	Compensation for loss of office £000	2010 Total £000	2009 Total £000
Highest paid Director	**477**	**650**	**120**	**-**	**1,247**	997
All Directors	**2,134**	**1,367**	**223**	**292**	**4,016**	3,684

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 2009 or 2010.

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

LVFS makes contributions to the LV= Employee Pension Scheme of 19% of pensionable salaries (2009: 20.6% of pensionable salaries) in respect of all permanent staff, including executive directors. This included amounts on behalf of executive directors of £222,845 (2009 £326,143).

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

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

Accrued pension at end of period	2010 £000	2009 £000
All Directors	**90**	164

14. Income tax expense

a) Current year tax expense

	2010	2009
	£000	£000
Deferred tax		
Prior year adjustment	**309**	(31)
Temporary differences	**4,608**	4,807
Total deferred tax	**4,917**	4,776
Total income tax expense	**4,917**	4,776

b) Reconciliation of tax expense

	2010	2009
	£000	£000
Profit before tax	**15,780**	17,801
Profit multiplied by standard rate of corporation tax in the UK of 28% (2009: 28%)	**4,418**	4,984
Effects of:		
Impact of change in UK corporation tax rate on deferred tax	**190**	-
Adjustment to deferred tax in respect of prior years	**309**	(31)
Deferred tax on intangibles acquired	**-**	(177)
Total income tax expense for the year	**4,917**	4,776

15. Investments in group undertakings

	2010	2009
	£000	£000
At 1 January 2009	**280,056**	196,099
Capital contributions	**40,000**	83,957
Write down	**(19,044)**	-
Balance at 31 December 2009	**301,012**	280,056

The company made the following contributions to Highway Insurance Group Plc during 2010 and 2009:

	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**

	2009
	£000
24 February 2009	10,000
25 September 2009	4,000
19 October 2009	25,000
26 November 2009	10,000
18 December 2009	35,000
Total contribution for the year	84,000

The company has written down its investment in its subsidiary Liverpool Victoria Insurance Services Company Limited to £1 being the equity of the company.

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

16. Intangible assets

	Goodwill £000	Other £000	Total £000
Cost			
At 1 January 2010	15,812	3,375	**19,187**
At 31 December 2010	15,812	3,375	**19,187**
Accumulated amortisation			
At 1 January 2010	-	(315)	**(315)**
Amortisation charge for the year	-	(180)	**(180)**
At 31 December 2010	-	**(495)**	**(495)**
Net book value at 31 December 2010	**15,812**	**2,880**	**18,692**
Net book value at 31 December 2009	15,812	3,060	18,872

The goodwill resulting from the purchase of the Britannia Road Rescue business in 2008 has been tested for impairment using a discounted cash flow model of future business. In testing for impairment an estimate of the market value of the general insurance business is made by using a discounted cash flow model of future business and comparing this to the total goodwill. The cash flows are based on current plans, with a terminal value calculated at the end of the planning horizon. The discounted cash flow results are calculated using a 12% pa discount rate and are further reduced by 15%; these reflect the inherent uncertainty in future cash flows on business that has yet to be written.

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

	2010 £000	2009 £000
At 1 January	**34,123**	29,493
Acquisition expenses deferred	**106,957**	72,870
Liability adequacy test impairment	**-**	(4,200)
Amortisation	**(84,699)**	(64,040)
At 31 December	**56,381**	34,123

18. Financial assets

	2010 £000	2009 £000
Fair value through income		
Shares, other variable yield securities and units in unit trusts	**661,403**	74,989
Debt and other fixed income securities	**135,142**	470,213
Other	**-**	5,012
	796,545	550,214
Loans and other receivables		
Amounts due from group undertakings	**25,300**	47,000
Deposits with credit institutions	**-**	43,407
Other receivables	**1,296**	385
	26,596	90,792
	823,141	641,006

19. Insurance receivables

	2010 £000	2009 £000
Receivables arising from insurance and reinsurance contracts:		
Due from policy holders	**95,794**	73,150
Due from agents, brokers and intermediaries	**38,441**	20,499
Due from reinsurers	**46**	-
	134,281	93,649

As at 31 December 2010 overdue insurance receivables arising from insurance contracts were provided at £595,000 (2009: £235,000).

20. Reinsurance assets

	2010 £000	2009 £000
Reinsurers' share of provision for unearned premiums	**10,179**	8,532
Reinsurers' share of claims outstanding	**18,127**	13,168
	28,306	21,700

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

	2010 £000	2009 £000
Accrued interest	**4,867**	9,027
Prepayments	**589**	171
	5,456	9,198

22. Deferred tax

	2010 **£000**	2009 £000
At 1 January	**10,038**	14,814
Amounts recorded in statement of comprehensive income	**(4,917)**	(4,776)
At 31 December	**5,121**	10,038

Analysis of deferred taxation temporary differences:

	2010 **£000**	2009 £000
Accelerated capital allowances	**49**	63
Trading losses carried forward	**5,540**	9,975
Intangible fixed assets	**(468)**	-
	5,121	10,038

Deferred tax asset expected to arise after more than one year is £2,012,000 (2009: £10,025,000).

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

Further reductions to the UK corporation tax rate were announced in the June 2010 Budget. The changes which are expected to be enacted separately each year, propose to reduce the rate by 1% per annum to 24% by 1 April 2014. The changes had not been substantively enacted at the balance sheet date and therefore are not recognised in these financial statements. The impact of these proposed changes would have the effect of reducing the deferred tax asset to £5,015,000.

23. Cash and cash equivalents

	2010 **£000**	2009 £000
Bank balances	**31,552**	(357)
Short term bank deposits	**25,553**	20,000
Cash and cash equivalents	**57,105**	19,643

Of the bank balance £ 32,036,000 (2009: £0) is placed with LVFS and (£486,000) represents the other bank balances.

24. Insurance contract liabilities

a) Analysis of insurance contract liabilities

	2010			2009		
	Gross	**Reinsurance**	**Net**	Gross	Reinsurance	Net
	£000	**£000**	**£000**	£000	£000	£000
General insurance claims liabilities	**447,105**	**(18,127)**	**428,978**	364,349	(13,168)	351,181
General insurance unearned premiums	**428,940**	**(10,179)**	**418,761**	274,558	(8,532)	266,026
	876,045	**(28,306)**	**847,739**	638,907	(21,700)	617,207

b) Movement in general insurance claims liabilities

	2010			2009		
	Gross	**Reinsurance**	**Net**	Gross	Reinsurance	Net
	£000	**£000**	**£000**	£000	£000	£000
OCR	**348,027**	**(9,997)**	**338,030**	279,263	(8,832)	270,431
IBNR	**16,322**	**(3,171)**	**13,151**	104,291	(3,171)	101,120
Balance at 1 January	**364,349**	**(13,168)**	**351,181**	383,554	(12,003)	371,551
Movement in claims incurred in prior accident years	**(45,520)**	**18**	**(45,502)**	(95,818)	1,425	(94,393)
Claims incurred in the current accident year	**519,264**	**(6,023)**	**513,241**	381,292	(2,590)	378,702
Claims paid during the year	**(390,988)**	**1,046**	**(389,942)**	(304,679)	-	(304,679)
	82,756	**(4,959)**	**77,797**	(19,205)	(1,165)	(20,370)
Balance at 31 December	**447,105**	**(18,127)**	**428,978**	364,349	(13,168)	351,181
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 31 December	**447,105**	**(18,127)**	**428,978**	364,349	(13,168)	351,181

c) Movement in general insurance unearned premiums

	2010			2009		
	Gross	**Reinsurance**	**Net**	Gross	Reinsurance	Net
	£000	**£000**	**£000**	£000	£000	£000
Balance at 1 January	**274,558**	**(8,532)**	**266,026**	211,804	(6,006)	205,798
Premiums written in the year	**809,633**	**(18,877)**	**790,756**	524,328	(16,749)	507,579
Premiums earned during the year	**(655,251)**	**17,230**	**(638,021)**	(461,574)	14,223	(447,351)
Balance at 31 December	**428,940**	**(10,179)**	**418,761**	274,558	(8,532)	266,026

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 balance sheet date, known as 'pure IBNR' and the cost of any over- or under-statement in the OCR, known as Incurred But Not Enough Reported (IBNER).

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

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

The claim types modelled 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 balance 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.

	2010			2009		
	£000	**£000**	**£000**	£000	£000	£000
	Contract/ notional amount	**Fair value - asset**	**Fair value - liability**	Contract/ notional amount	Fair value - asset	Fair value - liability
UK Equities derivative - options	**1,804**	**-**	**57**	1,679	-	1,679
	1,804	**-**	**57**	1,679	-	1,679

26. Insurance payables

	2010	2009
	£000	£000
Due to reinsurers	**8,241**	6,181
Due to policy holders	**3**	-
	8,244	6,181

27. Trade and other payables

	2010	2009
	£000	£000
Amounts owed to group undertakings	**-**	11,937
Other payables	**6,121**	4,029
Accruals and deferred income	**10,023**	11,322
Other taxes and social security costs	**10,713**	7,019
Trade creditors	**218**	-
	27,075	34,307

28. Share capital

	2010	2009
	£000	£000
Authorised		
N/a (2009: 375,000,000) ordinary shares of £1 each	**n/a**	375,000
Ordinary shares, allotted and fully paid		
344,907,680 (2009: 344,907,680) ordinary shares of £1 each	**344,908**	344,908

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

29. Capital reserve

	2010	2009
	£000	£000
Balance at 1 January 2010	214,044	214,044
Capital contributions	60,000	-
Balance at 31 December 2010	274,044	214,044

The Company received the following capital contributions from Liverpool Victoria General Insurance Group Limited 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.

30. Accumulated losses

	2010	2009
	£000	£000
Balance at 1 January	(111,741)	(124,766)
Profit for the year	10,863	13,025
Balance at 31 December	(100,878)	(111,741)

31. Cash generated/(used) in operating activities

	2010	2009
	£000	£000
Profit before tax	15,780	17,801
Investment income	(22,760)	(25,923)
Interest income received	26,920	30,068
Gains on financial assets recorded in the statement of comprehensive income	(19,941)	(9,778)
Purchase of investments at fair value through income	(3,766,405)	(611,239)
Sale of investments at fair value through income	3,540,298	326,612
(Purchase)/sales of financial derivatives	(1,905)	3,881
Non cash items		
Expenses deferred during the year	(22,258)	(4,630)
Amortisation of intangible assets	180	180
Changes in working capital		
Decrease in loan and receivables	64,196	252,779
Increase in reinsurance assets	(6,606)	(3,691)
Increase in insurance receivables	(40,632)	(16,323)
(Increase)/decrease in other prepayments and accrued income	(418)	393
Increase in insurance contract liabilities	237,138	43,549
Increase in insurance payables	2,063	610
Decrease in trade and other payables	(7,232)	(49,806)
Cash used in operating activities	(1,582)	(45,517)

32. 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:

	2010	2009
	£000	£000
Short-term employee benefits	**3,724**	3,684
Post-employment benefits	**90**	164
Termination benefits	**292**	-
	4,106	3,848

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

	2010	2009
	£000	£000
Management charge to the Company	**163,936**	149,323
	163,936	149,323

The following transactions have taken place between the company and Highway Insurance Group plc:

	2010	2009
	£000	£000
Capital contribution to Highway Insurance Group plc	**40,000**	84,000
	40,000	84,000

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

	2010	2009
	£000	£000
Capital contribution from Liverpool Victoria General Insurance Group Limited	**60,000**	-
	60,000	-

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

	2010	2009
	£000	£000
Payable by the Company to Liverpool Victoria Friendly Society	**-**	(11,937)
Payable to the Company by Highway Insurance Group plc	**25,300**	47,000
	25,300	35,063

33. 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