COMPANY REGISTRATION NO 597740

LIVERPOOL VICTORIA LIFE COMPANY LIMITED

REPORT AND ACCOUNTS

FOR THE YEAR ENDED 31 DECEMBER 2006

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LIVERPOOL VICTORIA LIFE COMPANY LIMITED

DIRECTORS' REPORT

The directors submit their annual report and the audited accounts for the year to 31 December 2006

1. Results and dividends
The profit on ordinary activities for the year after taxation was £3,134,000 (2005 £15,032,000) The directors did not approve any dividends in the current year (2005 £nil)

2. Principal activities
The principal activity of the company is to carry on insurance business which is Life business, in respect of business contracted with an individual

3. Business review
The results of the Company and its financial position are set out in the financial statements that follow this report

The Company has continued to develop its life & health protection business while also administering the RNPFN and other closed funds

During 2006 we built a strong market position in Pension Term Assurance and were obviously disappointed with the Government decision to withdraw this product The Treasury is reviewing this position and we will continue to lobby for its re-instatement Sales of protection business were £17.5m of new annual premiums compared with £16 7m in 2005

The protection market continues to be extremely competitive We are looking to defend and grow our protection business by building on the flexibility and added value features of our product, and the effectiveness of our direct distribution We successfully introduced our Online Application Capability for protection, and will continue to develop our internet-based capabilities to ensure our customers and IFA continue to receive the best possible service

The financial position of the RNPFN fund has improved somewhat over recent times following careful financial management and, as a consequence, the benchmark equity and property backing ratio within the fund has now been increased to 36%, opening up the potential for better long-term returns for policyholders

As a result of the new FSA rules regarding actuarial provisions for protection business, the Company released some £88m (net of tax) of such provisions in 2006 Further releases are anticipated in 2007

The focus of the Company for 2007 will be to continue to develop its life & health protection business, while maintaining an orderly run-off of the RNPFN fund

The Company's operations through subsidiary companies are reviewed below

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

3. Business Review (continued)
The Group's medium term ambition is to grow the General Insurance business into a top 5 player in our chosen personal lines markets In support of that ambition, ABC Insurance Solutions Ltd was acquired along with its highly experienced management team in September 2006

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

The Group has entered into an agreement to acquire Britannia Road Rescue Services from the Civil Service Motoring Association, subject to approval by their members and the FSA This acquisition complements the Group s motor insurance offering and Britannia's high quality service along with a sizeable base of over 300,000 customers offers additional opportunities to grow profitably the motor insurance business

Banking
Bank had another unsatisfactory year as credit experience remained poor (though did not worsen) Strong action has been taken to address the position First, the Bank sold some £100m of credit card advances to Morgan Stanley The Group still offers cards under its brand names to customers and Morgan Stanley now underwrites these, paying us for such sales In addition, a strategic review of the business has been initiated and the options that are emerging from this process are currently being evaluated While the Group is keen to de-risk the banking business, this is not at any price and it is important to be able to offer tailored products suitable to the Group's customer base, so the choice of an appropriate partner is important It may be some years before the Group has completely extricated itself from the current situation

Whole of-market financial advice
Financial advice businesses in the UK continue to struggle in current market conditions Losses continue to be made but a strategic review during 2006 identified significant operational efficiencies that could be achieved These are now being rolled out with a view to eliminating losses in the medium term

Retail investment
The provision of Individual Savings Accounts, Child Trust Funds and Open Ended Investment Companies is an element of the Group's proposition on retail investment At present, it is a minor part of the overall business of the Group and critical mass has not been achieved Accordingly small losses continue to be made

Financial consequences and corporate structure
Losses, principally within Banking and Whole-of-Market operations, have resulted in the Company making a provision of £49 9m against investments in subsidiary companies in its 2006 results The Company has also indemnified its banking subsidiary for losses that may be incurred on certain contracts and has set aside a provision of £35 4m for this

With effect from 1 January 2007, the corporate structure was amended to collect together the General Insurance businesses under one holding company, Liverpool Victoria General Insurance Group Limited As a consequence, Liverpool Victoria Banking Services Limited, Liverpool Victoria Financial Advice Services Limited, Liverpool Victoria Portfolio Managers Limited and Frizzell Financial Services Limited have been repositioned as direct subsidiaries of the Company This required finance of some £64 4m, which was provided through an extension to the subordinated loan from the Company's shareholder, Liverpool Victoria Friendly Society Limited

LIVERPOOL VICTORIA LIFE COMPANY LIMITED

DIRECTORS' REPORT

4. Directors

The directors who served during the year are as follows

J P Bannon BSc ARCS FIA	
M L Berryman BSc (Hons) FIA	(resigned 16 January 2006)
R M Cook BA AIA FIAA	(appointed 25 January 2007)
I D Cordwell BA FCA	(resigned 21 November 2006)
S M Daniels BSc (Hons) FIA	
G Nott OBE *	(resigned 14 March 2007)
M J Rogers MA (Hons) (Cantab)	(appointed 5 June 2006)
B M Rose FIA *	(resigned 14 March 2007)
R J Spragg BSc (Hons) FFA	
J T Woolhouse FIA *	(resigned 14 March 2007)

* Non Executive Directors

5. Directors' interests

The company is a wholly owned subsidiary of Liverpool Victoria Friendly Society Limited, an incorporated Friendly Society registered under the Friendly Societies Act 1992 The directors at 31 December 2006 had no interests in the share capital of the company at the beginning or end of the year

6. Statement of disclosure of information to auditors

Each of the persons who is a director at the date of this report confirms that

1) so far as each of them is aware, there is no information relevant to the audit of the Company's financial statements for the year ended 31 December 2006 of which the auditors are unaware, and

2) the director has taken all steps that he/she ought to have taken in his/her duty as a director in order to make him/herself aware of any relevant audit information and to establish that the Company's auditors are aware of that information

7. Auditors

Pursuant to section 386 of the Companies Act 1985, the company has elected to dispense with the obligation of appointing auditors annually

8. Employees

The company utilised the staff and premises of Liverpool Victoria Friendly Society Limited in carrying out its activities in 2006 Costs not directly recharged were paid by way of a management charge

9. Statement of directors' responsibilities

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

Company law requires the directors to prepare accounts for each financial year which give a true and fair view of the state of affairs of the company as at the end of the financial year and of the profit and loss of the company for that period In preparing those accounts, the directors are required to

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

The directors are responsible for keeping proper accounting records, which disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the accounts comply with the Companies Act 1985 They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities

By Order of the Board
V J Jerrard
Secretary
14 March 2007

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF LIVERPOOL VICTORIA LIFE COMPANY LIMITED

We have audited the company's accounts for the year ended 31 December 2006 which comprise the Profit and Loss Account, Balance Sheet, and the related notes 1 to 24 These accounts have been prepared under the accounting policies set out therein

This report is made solely to the company's members, as a body, in accordance with Section 235 of the Companies Act 1985 Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditors' report and for no other purpose To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed

Respective responsibilities of directors and auditors

The directors' responsibilities for the preparation of the accounts in accordance with applicable United Kingdom law and Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities

Our responsibility is to audit the accounts in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland)

In addition, we report to you our opinion as to whether the accounts give a true and fair view and are properly prepared in accordance with the Companies Act 1985 We also report to you whether in our opinion the information given in the directors' report is consistent with the accounts

We also report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed

We read the directors' report and consider the implications for our report if we become aware of any apparent misstatements within it

Basis of audit opinion

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

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

Opinion

In our opinion

- the accounts give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the company's affairs as at 31 December 2006 and of its profit for the year then ended,
- the accounts have been properly prepared in accordance with the Companies Act 1985, and
- the information given in the directors' report is consistent with the accounts

Ernst & Young LLP

Ernst & Young LLP
Registered auditor
London
14 March 2007

LIVERPOOL VICTORIA LIFE COMPANY LIMITED

PROFIT AND LOSS ACCOUNT

for the year ended 31 December 2006

TECHNICAL ACCOUNT – LONG TERM BUSINESS

	Notes	2006 £000	Restated 2005 £000
Earned premiums, net of reinsurance			
Gross premiums written	3	190,488	194,996
Outward reinsurance premiums		(23,659)	(21,718)
		166,829	173,278
Investment income	4	184,247	157,660
Unrealised gains on investments	4	-	136,886
Other technical income		218	198
		351,294	468,022
Claims incurred, net of reinsurance			
Claims paid			
– gross amount		(285,617)	(229,668)
– reinsurers' share		22,274	16,118
		(263,343)	(213,550)
Change in the provision for claims			
– gross amount		(14,108)	852
		(277,451)	(212,698)
Change in technical provisions, net of reinsurance			
Long-term business provision for insurance contracts, net of reinsurance			
– gross amount	12 & 13	210,906	(121,607)
– reinsurers' share		(68,630)	(10,798)
		142,276	(132,405)
Technical provisions for linked liability insurance contracts, net of reinsurance			
– gross amount	12 & 13(b)&(c)	6,776	(25,293)
– reinsurers' share		(4,399)	(1,433)
		2,377	(26,726)
Technical provisions for linked liability investment contracts	12 & 13(b)&(c)	(16,454)	(24,170)
		128,199	(183,301)
Net operating expenses	5	(41,780)	(39,245)
Investment expenses	4	(3,809)	(3,656)
Unrealised losses on investments	4	(57,119)	-
Tax attributable to the long-term business	9	(10,354)	(13,468)
		(113,062)	(56,369)
Balance on the technical account – long-term business		88,980	15,654

LIVERPOOL VICTORIA LIFE COMPANY LIMITED

PROFIT AND LOSS ACCOUNT

for the year ended 31 December 2006

NON-TECHNICAL ACCOUNT

	Notes	2006 £000	2005 £000
Balance on the technical account – long-term business		88,980	15,654
Tax attributable to balance on long-term business technical account	9(a)	38,134	6,709
Shareholders' pre-tax profit from long-term business		127,114	22,363
Investment income	4	261	621
Write down of investment in subsidiaries	10(b)	(49,909)	-
Investment expenses	4	(947)	(1,406)
Unrealised gains on investments	4	-	163
Other charges	14	(35,440)	-
Profit on ordinary activities before tax		41,079	21,741
Tax on profit on ordinary activities	9	(37,945)	(6,709)
Retained profit for the financial year	16 & 17	3,134	15,032

All of the amounts above are in respect of continuing operations

There are no recognised gains or losses for the current financial year and the preceding financial year other than as stated in the technical and the non-technical accounts Accordingly, no statements of total recognised gains and losses are given

The inclusion of unrealised gains and losses in the profit and loss account to reflect the marking to market in the balance sheet is deemed not to be a departure from the unmodified historical cost basis of accounting Accordingly, a separate note of historical cost profits and losses is not given

LIVERPOOL VICTORIA LIFE COMPANY LIMITED

BALANCE SHEET

at 31 December 2006

ASSETS

	Notes	2006 £000	Restated 2005 £000
Investments			
Land and buildings	10(a)	64,747	74,020
Shares in group undertakings	10(b)	324,810	374,719
Other financial investments	10(c)	1,910,113	1,958,720
		2,299,670	2,407,459
Assets held to cover linked liability contracts			
Assets held to cover linked liability insurance contracts	10(c)	183,721	186,098
Assets held to cover linked liability investment contracts	10(c)	178,644	184,108
		362,365	370,206
Reinsurers' share of technical provisions			
Long term business provision		63,378	132,008
Technical provision for linked liability insurance contracts		990	5,389
		64,368	137,397
Debtors			
Debtors arising out of direct insurance operations			
– policyholders		1,819	1,936
– intermediaries		204	254
Debtors arising out of reinsurance operations		8,176	17,131
Other debtors including taxation		18,229	15,339
		28,428	34,660
Other assets			
Cash at bank and in hand		1,870	1,878
Prepayments and accrued income			
Accrued interest and rent		17,648	15,249
Deferred acquisition costs		108,181	100,957
Other prepayments and accrued income		-	164
		125,829	116,370
Total assets		2,882,530	3,067,970

LIVERPOOL VICTORIA LIFE COMPANY LIMITED

BALANCE SHEET

at 31 December 2006

LIABILITIES

	Notes	2006 £000	Restated 2005 £000
Capital and reserves			
Called up share capital	11	404,719	404,719
Profit and loss account	16	86,486	83,352
Shareholders' funds – equity interests	17	491,205	488,071
Subordinated liabilities	19	18,000	18,000
Technical provisions			
Long-term business provision – gross	12&13	1,906,349	2,117,255
Claims outstanding		22,963	9,104
		1,929,312	2,126,359
Technical provisions for linked liabilities			
Technical provision for linked liability insurance contracts	12&13(b)	184,711	191,487
Technical provision for linked liability investment contracts	12&13(b)	178,644	184,108
		363,355	375,595
Provisions for other risks	14	50,429	596
Creditors			
Creditors arising out of direct insurance operations - policyholders		2,006	3,518
Creditors arising out of direct insurance operations - intermediaries		820	485
Creditors arising out of reinsurance operations		889	18,777
Other creditors including taxation and social security	15	24,781	33,711
		28,496	56,491
Accruals and deferred income		1,733	2,858
Total liabilities		2,882,530	3,067,970

These accounts were approved by the Board of Directors on 14 March 2007
Signed on behalf of the Board of Directors

Director R. J. [signature]

LIVERPOOL VICTORIA LIFE COMPANY LIMITED

NOTES TO THE ACCOUNTS

31 December 2006

1. Accounting Policies

Basis of presentation
The accounts have been prepared in accordance with the provisions of section 255 of and Schedule 9A to the Companies Act 1985 and in accordance with applicable accounting standards and the Statement of Recommended Practice on Accounting for Insurance Business issued by the Association of British Insurers in December 2005, as amended in December 2006 ("the SORP"), except for investments in group undertakings, which have been included at the lower of cost and an assessment of net realisable value instead of current value

Basis of 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 228 of the Companies Act 1985, as it is a subsidiary undertaking of Liverpool Victoria Friendly Society Limited, a company incorporated in England and is included in the consolidated accounts of that company

Change in accounting policy
FRS 25 "Financial instruments disclosure and presentation" and FRS 26 "Financial instruments recognition and measurement"
The provisions of Financial Reporting Standard (FRS) 25 "Financial instruments disclosure and presentation" and Financial Reporting Standard (FRS) 26 ""Financial instruments recognition and measurement" have been adopted in full in these accounts

The Company has elected not to take the exemption from the requirement to restate comparative information for FRS 26 The Company has restated the opening balance sheet and the technical account for 2005

The impact of the reclassification of insurance contracts to investments contracts has had the effect of reducing an amount of claims paid net of premiums received and increasing an equal value of technical provisions for linked liabilities in the technical account - long term business

The adoption of FRS 25 and 26 has resulted in the following changes to the 2005 technical account - long term business

- a charge of £17,000 in respect of gross premiums written
- a credit of £18,483,000 in respect of gross claims paid
- a charge of £18,466,000 in respect of technical provisions for linked liabilities

Changes in technical provisions for linked liabilities are now analysed into those for insurance contracts and those for investment contracts The impact on the balance sheet is to split assets held to cover linked liabilities into assets held to cover linked liability insurance contracts and assets held to cover linked liability investment contracts This has resulted in the separate disclosure of a figure for assets held to cover linked liability investment contracts in 2005 of £184,108,000 Technical provisions for linked liabilities are now analysed into those for insurance contracts and those for investment contracts

Product classification
The Company issues contracts that transfer insurance risk or financial risk or both

Insurance contracts are those contracts that transfer significant insurance risk Such contracts may also transfer financial risk As a general guideline, the Company defines as significant insurance risk the possibility of having to pay benefits on the occurrence of an insured event that are at least 10% more than the benefits payable if the insured event did not occur

Investment contracts are those contracts that transfer financial risk with no significant insurance risk

All with-profits contracts have been classified as insurance contracts as these contracts entitle the holder to receive, as a supplement to guaranteed benefits, additional benefits or bonuses

- that are likely to be a significant portion of the total contractual benefits,
- whose amount or timing is contractually at the discretion of the Company, and
- that are contractually based on
  - i) the performance of a specified pool of contracts or a specified type of contract,
  - ii) realised and/or unrealised investment returns on a specified pool of assets held by the fund, or
  - iii) the unallocated surplus of the fund that issues the contract

UK regulations, the Company's Principles and Practices of Financial Management ("PPFM") document and the terms and conditions of these contracts set out the bases for the determination of the amounts on which the additional discretionary benefits are based and within which the Company may exercise its discretion as to the quantum and timing of their payment to contract holders

Earned premiums
Premiums on long term insurance contracts (including all with-profits contracts) are recognised as income when due for payment, except for linked insurance contracts which are accounted for when the corresponding liabilities are recognised For single premium business, this is the date from which the policy is effective For regular premium contracts, this is the date when payments are due

Reinsurance premiums payable are accounted for when due for payment

Claims
Maturity claims and annuities are accounted for when due for payment Surrenders are accounted for on the earlier of the date when paid or when the policy ceases to be included within the long term business provision Death claims and other claims are accounted for when notified Claims on with-profits business include bonuses payable Claims include related internal and external claims handling costs and an additional provision is made for claims incurred but not yet notified

Reinsurance recoveries are accounted for in the same period as the related claim

Bonuses
Bonuses charged to the technical account in a given year are the value of new reversionary bonuses and terminal bonuses declared in respect of that year

Segmental reporting
In the opinion of the directors, the Company operates in one business segment being that of long-term insurance business in the United Kingdom

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

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

Income on fixed-interest investments is adjusted for purchased and sold accrued interest

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

Realised and unrealised gains and losses on policyholder fund investments are dealt with through the technical account, whilst those on shareholder fund investments are dealt with through the non-technical account

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

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

No depreciation is provided in respect of freehold properties or leasehold properties with over twenty years to expiry This is a departure from the requirements of FRS 15 "Tangible Fixed Assets", which requires all properties to be depreciated Such properties are not held for consumption, but for investment Depreciation is only one amongst many factors reflected in the annual valuation of properties and, accordingly, the amount of depreciation which might otherwise have been charged cannot be separately identified or quantified The directors consider that this policy results in the accounts giving a true and fair view

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

Other financial investments
The Company classifies its investments into the following categories financial assets at fair value through profit or loss and loans and receivables The classification will depend upon the purpose for which the investments were acquired Management determines the classification of its investments at initial recognition and re-evaluates at every reporting date

Financial assets at fair value through profit or loss has two sub categories financial assets held for trading and those designated at fair value through profit or loss at inception All securities of the Company classified as fair value are designated at fair value through profit or loss at inception This is in accordance with the Company's documented investment strategy and consistent with investment risk being assessed on a portfolio basis

Financial assets at fair value through profit or loss include listed and unlisted investments, units in authorised unit trusts and other investments Listed investments and units in authorised unit trusts are included at bid value Unlisted investments and other investments are shown at estimated market value supplied by external fund managers

Derivatives are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently re-measured at their fair value Changes in the fair value of derivative instruments are recognised immediately in unrealised gains on investments in the income statement for the period These include swap options There are no designated hedging relationships within the Company that qualify for hedge accounting

Loans and receivables are measured at amortised cost using the effective interest rate method Loans and receivables include deposits with credit institutions and policy loans

Hedging contracts
These are included in the accounts at market value The resulting gains or losses are recognised in the technical account as realised or unrealised profit/loss on investments

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

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

The realistic liabilities are based on the aggregate value of policy asset shares reflecting the premiums, investment return, expenses and charges applied to each policy Allowance is also made for policy-related liabilities such as guarantees, options and future bonuses calculated using a stochastic model simulating future investment returns, asset mix and bonuses The results are then adjusted to exclude the shareholder's share of future bonuses and the associated tax liability

Since the realistic liabilities include an allowance for future bonuses to with-profits policyholders that will be payable out of returns on non-participating business, an amount within the with-profits fund is recognised representing the value of non-participating business Such an amount is not recognised for business written outside with-profits funds

The principal assumptions are given in note 13

ii) Non-participating business
The provision is calculated to comply with the reporting requirements under the Integrated Prudential Sourcebook using a gross premium valuation method or a method at least as prudent as the gross premium method The principal assumptions are given in note 13 The Company has adopted the modified statutory solvency basis approach in the determination of profit on non participating business

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

Changes to estimation technique
The determination of the long term business provision reflects the provisions of the Prudential Requirements for Insurers (Amendment) Instrument 2006 (2006/62), which made certain changes to the regulatory reserving rules from 31 December 2006 This represents a change to an estimation technique The new provisions have the following effects on determination of the long term business provision
- allowance is made for a prudent lapse rate assumption for all classes of long term business (previously such allowance was only made for with-profits business),
- provisions for expenses are set at a homogenous risk group level for all classes of long term business, unless they are directly attributable to one particular contract (previously they were set at an individual contract level)

The effect of these changes together with other changes of assumption are discussed further in note 13

Deferred taxation

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

Deferred acquisition costs

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

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

Aggregated basis

The Company's balance sheet is stated on an aggregated basis which includes the assets and liabilities of both the long-term business fund and the shareholders' fund

2. Risk management and control

The company seeks to create value for the Group's members by maintaining an appropriate balance between the capital available to support risk, and the level and type of risk it takes on in order to achieve returns for policyholders

Seven principal types of risk, which are detailed below, have been identified and risk appetite for each of these has been set based on the amount necessary to meet the Financial Services Authority's Individual Capital Assessment (ICA) capital requirements

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

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

Insurance risk
Insurance risk is the risk that arises from the inherent uncertainties as to the occurrence, amount and timing of insurance liabilities

Life insurance risk arises from risks in life insurance contracts such as mortality, morbidity, persistency and expense variances Systems are in place to measure, monitor and control exposure to these risks These are documented in policies for underwriting, pricing, claims and reinsurance

Life and pensions
Protection and annuity business is at risk from adverse changes in mortality experience from the time when the policies were underwritten In the case of policies that pay out on death, the risk is that mortality experience worsens whereas, for annuities, the risk is that mortality experience improves These two types of business therefore to some extent offset each other in a risk sense On protection business, the Company uses underwriting procedures, backed up with medical screening if appropriate, designed to price accurately for such risks and reassurance is in place to limit the quantum of risk retained on each policy The Company's annuity business is relatively small and is not generally reassured

Income protection and critical illness business is at risk from morbidity rates Where there is an increased incidence of ill health or an increase in the duration of such ill health, the Company is exposed to higher claims than expected The Company has underwriting procedures, including medical and financial screening if appropriate, to price accurately for such risks and reinsurance is in place to limit the quantum of risk retained on each policy

Persistency risk is influenced by the ability to recover acquisition costs from margins within the products The risk is greater in early years but reduces significantly as time passes For with-profits liabilities there is an allowance built in to allow future withdrawals Exposure in future years occurs where withdrawals are lower than assumed resulting in higher future guaranteed payouts

Higher than expected expense costs will increase the value of reserves required The Company is exposed to the risk that its liabilities are not sufficient to cover future expenses

Sensitivity analysis for the change in long term business provision for insurance contracts	**£000**
Increase in mortality rates by 5%	(15,500)
Increase in morbidity rates by 5%	18,000
Persistency reduces by 5%	(30,100)
Increase in expenses by 10%	14,700

Market risk
Market risk is the risk of adverse impact due to fluctuations in equity prices, interest rates, exchange rates or property prices It arises due to fluctuations in liabilities arising from products sold and the value of investments held

The Company has defined policies and procedures in place to control the major components of market risk Exposures to individual companies and to equity shares in aggregate are monitored in order to ensure compliance with the relevant regulatory limits for solvency purposes and with guidelines set for each fund Investments held are primarily listed and traded on the UK and other recognised stock exchanges

Market risk (continued)

Limits on the Company's exposure to equities are defined both in aggregate terms and by geography, industry and counterparty Tactical asset allocation meetings are held weekly, and strategic asset allocation meetings quarterly, to discuss investment return and concentration and to agree any changes required

Equity price risk

The Company is exposed to equity price risk from daily fluctuations in the market values of the equity portfolio These assets are used to support contractual liabilities arising from unit-linked contracts and with-profits contracts and therefore the price movements are matched with corresponding movements on contractual obligations

Property price risk

The Company is exposed to property price risk on the commercial properties it holds as investments Values of properties are determined from future value of cash flows and the Company enters into leases following an assessment of the tenants' ability to pay the rent and service charges

Interest rate risk

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

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

Interest rate risk exposure 2006

	Within 1 year		1 – 5 years		5 – 15 years	
	£000	%	£000	%	£000	%
Debt and other fixed income securities						
-fixed rate	90,823	7 2	287,120	5 1	566,268	6 1
-variable rate	-	-	49,894	6 4	27,413	6 0
Deposits with credit institutions	72,520	5 0	-	-	-	-

	15 – 25 years		> 25 years	
	£000	%	£000	%
Debt and other fixed income securities				
-fixed rate	168,952	5 6	139,834	4 4
-variable rate	-	-	31,282	6 8
Deposits with credit institutions	-	-	-	-

Interest rate risk exposure 2005

	Within 1 year		1 – 5 years		5 – 15 years	
	£000	%	£000	%	£000	%
Debt and other fixed income securities						
-fixed rate	12,726	9 2	52,127	9 1	1,041,179	9 0
-variable rate	15,317	8 0	25,090	3 8	32,385	6 5
Deposits with credit institutions	71,855	4 6	-	-	-	-

	15 – 25 years		> 25 years	
	£000	%	£000	%
Debt and other fixed income securities				
-fixed rate	232,556	7 5	97,727	6 4
-variable rate	-	-	12,381	6 9
Deposits with credit institutions	-	-	-	-

Asset liability matching

The Company manages its financial positions with an asset liability management (ALM) framework that has been developed to achieve long term investment returns in excess of its obligations under insurance and investment contracts The principal technique of the company's ALM is to match assets to the liabilities arising from insurance contracts by reference to the type of benefits payable to contract holders

The company's ALM is integrated with the management of the financial risks associated with the Company's other financial assets and liabilities not directly associated with insurance and investment liabilities

Currency risk

The company is exposed to foreign exchange risk within the investment portfolios supporting the Company's operations from purchased investments that are denominated or payable in currencies other than sterling

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

			2006						2005		
	Euro	US Dollar	Yen	Other	Total		Euro	US Dollar	Yen	Other	Total
Debt securities	8,355	5,095	4,715	-	18,165		9,422	5,268	6,885	-	21,575

Some foreign debt securities are denominated in sterling so bear no currency risk and have not been included within the above table

Derivative risk

Derivatives are used to reduce exposure to fluctuations in interest rates and exchange rates and for efficient portfolio management purposes The principal derivatives used are interest rate contracts (including interest rate swaps and options), forward foreign exchange contracts and equity derivatives (index futures and options)

Sensitivity analysis for the change in long term business provision for insurance contracts	**£000**
Reduction in equity values by 20%	(53,000)
Property values fall by 12 5%	(27,000)
Fixed interest yields fall by 17 5% of the 15 year gilt yield	34,900

Credit risk

Credit risk is the risk of loss due to counterparties failing to meet all or part of their obligations in a timely fashion

The principal credit risks arise from exposure to counterparties through exposure to corporate bonds, reinsurer s share of insurance liabilities, amounts due from reinsurers in respect of claims already paid, amounts due from insurance contract holders, amounts due from insurance intermediaries and counterparty risk with respect to derivative transactions

Policies are in place to control the major components of credit risk, including counterparty default and concentration risk The Company places limits on its exposure to a single counterparty, or groups of counterparties, and to geographical and industry segments

Reinsurance is used to manage insurance risk This does not, however, discharge the Company's liability as primary insurer If a reinsurer fails to pay a claim, the Company remains liable for the payment to the policyholder The creditworthiness of reinsurers is considered by reviewing their financial strength prior to finalisation of any contract and on an annual basis

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

Credit risk exposure 2006	AAA £000	AA £000	A £000	BBB £000	Below BBB £000	Not rated £000	Total £000
Debt and other fixed income securities							
-fixed rate	1,123,724	37,565	56,386	34,739	-	583	1,252,997
-variable rate	73,469	16,582	12,881	5,657	-	-	108,589
Other	-	-	-	-	-	21,596	21 596
Deposits with credit institutions	24,100	48,420	-	-	-	-	72,520
Loans secured by policies	-	-	-	-	-	1,263	1,263
Reinsurance assets							
-non-linked	-	55,166	-	5,132	680	2,400	63,378
-linked	-	990	-	-	-	-	990

Credit risk (continued)

Credit risk exposure 2005	AAA £000	AA £000	A £000	BBB £000	Below BBB £000	Not rated £000	Total £000
Debt and other fixed income securities							
-fixed rate	1,412,281	6,739	10,141	6,692	-	461	1,436,314
-variable rate	72,793	4,838	6,324	1,219	-	-	85.174
Other	-	-	-	-	-	26,503	26,503
Deposits with credit institutions	28,000	36,355	-	-	-	7,500	71,855
Loans secured by policies	-	-	-	-	-	1,585	1,585
Reinsurance assets							
-non-linked	-	121,940	-	-	6,875	3,193	132,008
-linked	-	5,389	-	-	-	-	5,389

Liquidity risk
Liquidity risk is the risk that the firm does not have sufficient available liquid assets to meet its obligations as they fall due

Sources of liquidity risk have been identified and systems are in place to measure, monitor and control liquidity exposures These are documented in liquidity policies

Liquidity is maintained at a prudent level, with a buffer to cover contingencies including the provision of temporary liquidity to subsidiary companies

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

Senior managers are responsible for the identification, assessment, control and monitoring of operational risks and for reporting these to the Risk Committee in accordance with the Liverpool Victoria Group's escalation criteria

Operational risks are assessed in terms of their probability and impact in accordance with Group policy

Group risk
Group risk is the risk of contagion that the Company incurs from its membership of a group of firms The Group Risk Committee oversees the management of such risks

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

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

3. Analysis of premiums

	2006	Restated 2005
	£000	£000
(a) Gross premiums written		
All premiums are received from contracts written in the United Kingdom		
Individual business	189,984	194,996
Group contracts	504	-
	190,488	194,996
Regular premiums	178,095	183,333
Single premiums	12,393	11,663
	190,488	194,996
Premiums from non-profit contracts	102,488	94,915
Premiums from with-profits contracts	58,891	68,303
Premiums from linked contracts	29,109	31,778
	190,488	194,996
Premiums from life and annuity business	117,093	135,486
Premiums from permanent health business	44,746	41,596
Premiums from pension business	28,649	17,914
	190,488	194,996

The adoption of FRS 25 and 26 has resulted in a reduction in individual business, regular premiums, premiums from linked contracts and premiums from life and annuity business of £17,000 in 2005

3. Analysis of premiums (continued)

	2006 £000	2005 £000
(b) New business premiums		
Individual business	29,416	29,514
	29,416	29,514
Regular premiums	17,023	17,851
Single premiums	12,393	11,663
	29,416	29,514
Premiums from non-profit contracts	26,552	25,875
Premiums from linked contracts	2,864	3,639
	29,416	29,514
Premiums from life and annuity business	9,222	12,011
Premiums from permanent health business	5,333	6,349
Premiums from pension business	14,861	11,154
	29,416	29,514

Recurrent single premium contracts are included as new business, single premiums

Where regular premiums are received other than annually, the new business premiums are on an annualised basis

LIVERPOOL VICTORIA LIFE COMPANY LIMITED

NOTES TO THE ACCOUNTS

31 December 2006

4. Investment return summary

	2006 £000	Restated 2005 £000
Long-term insurance business		
Investment income:		
Income from land & buildings	3,335	5,086
Income from investments at fair value through profit and loss	98,949	89,974
Income from investments not at fair value through profit and loss	4,317	4,196
Gains on realisation of investments	77,646	58,404
	184,247	157,660
Investment expenses & charges:		
Investment management expenses	(3,809)	(3,656)
	(3,809)	(3,656)
Investment activity account		
Investment income	184,247	157,660
Unrealised (losses)/gains on investments	(57,119)	136,886
Investment expenses & charges	(3,809)	(3,656)
	123,319	290,890

	2006 £000	Restated 2005 £000
Shareholders' interest		
Investment income:		
Income from investments at fair value through profit and loss	-	437
Income from investments not at fair value through profit and loss	261	184
	261	621
Investment expenses & charges:		
Losses on realisation of investments	-	(450)
Interest on subordinated loan	(947)	(956)
	(947)	(1,406)
Investment activity account		
Investment income	261	621
Unrealised gains on investments	-	163
Investment expenses & charges	(947)	(1,406)
	(686)	(622)

5. Net operating expenses

	2006 £000	2005 £000
Acquisition expenses	38,194	36,279
Change in deferred acquisition expenses	(7,224)	(7,534)
Administrative expenses	10,800	10,489
Reinsurance commission	10	11
	41,780	39,245

Liverpool Victoria Friendly Society Limited, the parent society, is responsible for the management and administration of the company and recharges its costs by way of a management charge Auditors remuneration in respect of services to the company for the audit amounted to £287,000 (2005 £300,000) There were no other services carried out by the auditors in respect of this company

6. Commission

Acquisition expenses include commissions for direct insurance of £17,282,000 (2005 £17,851,000)

7. Staff costs

The Company has no employees but pays an administration charge to Liverpool Victoria Friendly Society Limited

8. Directors' emoluments

The directors received no emoluments in respect of services to the company Directors are remunerated by Liverpool Victoria Friendly Society Limited (LVFS) in respect of their executive roles within the LVFS group

The emoluments of directors who were also directors of LVFS are shown in the accounts of that company

9. Taxation

(a) Analysis of charge in period

	2006 £000	2005 £000
Long-term business technical account		
Corporation tax	-	14,145
Deferred tax	14,392	(677)
Adjustments in respect of prior years	(4,038)	-
	10,354	13,468
Non-technical account		
Corporation tax	78	-
Adjustments in respect of prior years	(267)	-
Tax on shareholders' profit at 30%	38,134	6,709
Tax on profit on ordinary activities	37,945	6,709

(b) Factors affecting tax charge for the period

The tax for the period is different to the standard rate of corporation tax in the UK (30%) The differences are explained below

	2006 £000	2005 £000
Profit on ordinary activities before tax	41,079	21,741
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 30%	12,324	6,522
Effects of		
Provisions against subsidiaries not deducted for tax purposes	14,973	-
Other charges not deducted for tax purposes	10,632	-
Adjustment to tax charge in respect of prior years	(267)	-
Other	283	187
Current tax charge for the period	37,945	6,709

10. Investments

(a) Land and buildings

Land and buildings were valued by independent Chartered Surveyors

	Current Value		Historical Cost	
	2006 £000	2005 £000	2006 £000	2005 £000
Freehold	64,747	74,020	39,112	53,087
	64,747	74,020	39,112	53,087

10. Investments (continued)

(b) Shares in group undertakings

	2006	2005
	£000	£000
At 1 January	374,719	374,719
Revaluation adjustment	(49,909)	-
Balance at 31 December	324,810	374,719

This represents the investment in shares in a subsidiary undertaking Additional information on the company's subsidiary undertakings is set out below

Name	**Country of incorporation**	**Proportion of share capital held**	**Nature of business**
Liverpool Victoria Insurance Company Limited	England	100%	General Insurance
Liverpool Victoria Banking Services Limited*	England	100%	Banking and Credit Finance
Liverpool Victoria Portfolio Managers Limited*	England	100%	Investment Management
Liverpool Victoria Financial Advice Services Limited*	England	100%	Financial Planning
Frizzell Financial Services Limited*	England	100%	Property Rentals

* Held by Liverpool Victoria Insurance Company Limited

10. Investments (continued)
(c) Other financial investments

	Current Value 2006			
	Assets held to cover linked liability investment contracts £000	Other investments held £000	Assets held to cover linked liability insurance contracts £000	Total financial investments excluding group undertakings £000
Fair value through profit and loss				
Shares and other variable yield securities and units in unit trusts	151,369	567,769	96,375	815,513
Debt and other fixed-income securities	25,153	1,250,464	85,969	1,361,586
Other	397	20,942	257	21,596
	176,919	1,839,175	182,601	2,198,695
Loans and receivables				
Loans secured by policies	-	1,263	-	1,263
Deposits with credit institutions	1,725	69,675	1,120	72,520
	1,725	70,938	1,120	73,783
Total	178,644	1,910,113	183,721	2,272,478

	Restated Current Value 2005			
	Assets held to cover linked liability investment contracts £000	Other investments held £000	Assets held to cover linked liability insurance contracts £000	Total financial investments excluding group undertakings £000
Fair value through profit and loss				
Shares and other variable yield securities and units in unit trusts	151,859	462,996	92,640	707,495
Debt and other fixed-income securities	26,615	1,404,915	89,958	1,521,488
Other	774	25,249	480	26,503
	179,248	1,893,160	183,078	2,255,486
Loans and receivables				
Loans secured by policies	-	1,585	-	1,585
Deposits with credit institutions	4,860	63,975	3,020	71,855
	4,860	65,560	3,020	73,440
Total	184,108	1,958,720	186,098	2,328,926

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

10. Investments (continued)
(c) Other financial investments (continued)

	Historical Cost 2006			
	Assets held to cover linked liability investment contracts £000	Other investments held £000	Assets held to cover linked liability insurance contracts £000	Total financial investments excluding group undertakings £000
Fair value through profit and loss				
Shares and other variable yield securities and units in unit trusts	117,595	425,787	76,247	619,629
Debt and other fixed-income securities	19,945	1,275,107	77,029	1,372,081
Other	315	21,722	205	22,242
	137,855	1,722,616	153,481	2,013,952
Loans and receivables				
Loans secured by policies	-	1,263	-	1,263
Deposits with credit institutions	1,725	69,675	1,120	72,520
	1,725	70,938	1,120	73,783
Total	139,580	1,793,554	154,601	2,087,735

	Restated Historical Cost 2005			
	Assets held to cover linked liability investment contracts £000	Other investments held £000	Assets held to cover linked liability insurance contracts £000	Total financial investments excluding group undertakings £000
Fair value through profit and loss				
Shares and other variable yield securities and units in unit trusts	119,260	345,773	73,948	538,981
Debt and other fixed-income securities	21,293	1,345,512	78,836	1,445,641
Other	620	23,241	385	24,246
	141,173	1,714,526	153,169	2,008,868
Loans and receivables				
Loans secured by policies	-	1,585	-	1,585
Deposits with credit institutions	4,860	63,975	3,020	71,855
	4,860	65,560	3,020	73,440
Total	146,033	1,780,086	156,189	2,082,308

10. Investments (continued)
(c) Other financial investments (continued)

All financial investments apart from loans, deposits with credit institutions and other are 'listed' Listed investments include unit trusts and open ended investment companies

Included within "Other" is a derivative that is valued at £9,168,000 (2005 £11,983,000), the contract amount of which is £228,299,000 (2005 £241,721,000) It is a swap option held to reduce exposure to payouts under guaranteed annuity contracts Fair values are estimated using current market interest rate data and available market valuations

The restatement of assets held to cover linked liability investment contracts, to be included in other financial investments, is in respect of the implementation of FRS 25 and FRS26

11. Share capital

	2006 £000	2005 £000
Authorised:		
445,000,000 ordinary shares of £1 each (2005 445,000,000)	445,000	445,000
Allotted, called up and fully paid:		
404,719,363 ordinary shares of £1 each (2005 404,719,363)	404,719	404,719

12. Long-term business provision and provision for linked liabilities

	Technical long-term business provision £000	Provision for linked liabilities £000	Provision for linked liability insurance contracts £000	Provision for linked liability investment contracts £000
Balance at 1 January 2006 as previously stated	2,117,255	375,595	-	-
Restatement	-	(375,595)	191,487	184,108
Balance at 1 January 2006 as restated	2,117,255	-	191,487	184,108
Deposits received from policyholders under investment contracts	-	-	-	15
Payments made to policyholders of, and fees deducted from investment contracts	-	-	-	(21,933)
Change in technical provision as shown in the technical account	(210,906)	-	(6,776)	16,454
Balance at 31 December 2006	1,906,349	-	184,711	178,644

The restatement splitting the provision for linked liabilities is in respect of the implementation of FRS 25 and FRS26

13. Technical provisions

Material judgement is required in calculating the long term business provision In particular there is discretion over the assumptions used For participating business, the long term business provision is calculated in accordance with the FSA's realistic capital regime, adjusted to exclude the shareholder's share of the future bonuses and the associated tax liability Non-participating liabilities are valued using a gross premium method, where protection products written in the non-profit fund allow for a prudent level of lapses

In calculating realistic liabilities, account has also been taken of future management actions consistent with those set out in our Principles and Practice of Financial Management The most significant of these are changes to bonus assumptions and level of payouts

The assumptions used in determining the long term business provision are estimated to give a result within the normal range of outcomes To the extent that the ultimate cost differs from the amounts provided, for example where experience is worse than that assumed, the surplus or deficit will be credited or charged to the technical account in future years

When valuing options and guarantees the asset model used was the Barrie and Hibbert Market-Consistent Asset Model This is a deflator model based on published financial economic theory that is capable of market-consistent valuations for multiple asset classes in multiple currencies For this valuation it was calibrated to market data as at 31 December 2006 representative of the nature and term of the guarantees inherent in with-profits business within the with-profits funds

(a) Technical provisions – long-term business provision (non-RNPFN)

i) Participating business

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

Interest rates

The risk free interest rates assumed are

Year	2006	2005
5	5 12%	4 34%
15	4 63%	4 18%
25	4 29%	4 14%
35	4 04%	4 12%

Other assumptions

Best estimate assumptions are set for inflation, mortality, expenses and persistency The future expense inflation assumption is modelled as RPI plus 1 0% (2005 RPI plus 1 0%), where RPI is modelled as the nominal yields on cash less 0 8% (2005 nominal yields on cash less 0 8%)

13. Technical provisions (continued)

	2006	2005
Asset mix for assets backing asset shares at the valuation date:		
Equities	100 0%	100 0%
Mortality rate tables		
Conventional Life Business	75% AM80	75% AM80
Reassurance Accepted Unitised Life Business	80% AM/F80	80% AM/F80
Per policy expenses – regular premiums		
Conventional Life Business	£15 20	£15 20
Reassurance Accepted Unitised Life Business	£22 60	£22 60

A percentage of these amounts is used for paid up policies

Persistency – lapses, surrenders and paid up rates
A review of persistency is carried out annually Assumptions are adjusted where necessary to reflect more recent experience as evidenced in the persistency trend analysis, or to reflect expected future trends as a result of anticipated future events

Options and guarantees
There are no significant options or guarantees in the non-RNPFN with-profits fund

Bonuses
The cost of bonuses incurred during the year ended 31 December 2006 was £18,000 (2005 £144,000) of which £5,000 (2005 £6,000) was included in the long term business provision and £13,000 (2005 £138,000) was included in claims paid

(a) Technical provisions – long-term business provision (non-RNPFN)
ii) Non-participating business

	2006	2005
Interest rate		
Non-profit temporary assurances	3 12%	2 88%
Other assurances	3 12%	2 88%
Permanent health insurance		
a) active lives	3 90%	3 60%
b) claims reserves	4 15%	3 70%
Annuities in payment	4 15%	2 96%

13. Technical provisions (continued)

Mortality rate tables

Non-profit temporary assurances	TM92/TF92	TM92/TF92
Other assurances	AM92/AF92	AM92/AF92
Permanent health insurance		
a) active lives	CMIR12	CMIR12
b) claims reserves	CMIR12	CMIR12
Annuities in payment	90% RV92av mc/lc c2026	90% RV92av mc/lc c2026

In both years standard Inception/Termination methodology was used for permanent health insurance business

Appropriate adjustments were made to the standard mortality/morbidity tables to take account of actual experience, reinsurers data and publicly available market data

Critical illness risk is based upon reinsurance rates

Options and guarantees

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

Changes in estimation

Changes arising from the adoption of the Prudential Requirements for Insurers (Amendment) instrument 2006, as detailed in the accounting policy note, had the effect of decreasing the long term business provision by £101,100,000 and reducing the charge in the technical account - long term business by £101 100,000

(b) Technical provisions – linked liabilities (non-RNPFN)

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

The provisions for index-linked permanent health insurance claims and index-linked temporary assurances have been calculated using the same mortality and morbidity assumptions as used for the corresponding non-linked liabilities for both 2006 and 2005 They are included within the technical provision for linked liability insurance contracts

	2006	2005
Interest rate		
Non-profit temporary assurances	0 32%	0 28%
Permanent health insurance		
a) active lives	1 10%	1 00%
b) claims reserves	1 35%	1 10%

13. Technical provisions (continued)

(c) RNPFN technical provision – long term business provision (closed fund)

i) Participating business

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

Interest rates

The risk free interest rates assumed are

Year	2006	2005
5	5 12%	4 34%
15	4 63%	4 18%
25	4 29%	4 14%
35	4 04%	4 12%

Other assumptions

Best estimate assumptions are set for inflation, mortality, expenses and persistency The future expense inflation assumption is modelled as RPI plus 1 0% (2005 RPI plus 1 0%), where RPI is modelled as the nominal yields on cash less 0 8% (2005 nominal yields on cash less 0 8%)

	2006	2005
Asset mix for assets backing asset shares at the valuation date:		
Cash	7 6%	5 3%
Gilts	46 4%	73 3%
Corporate bonds	15 8%	0 0%
Equities	24 3%	14 9%
Property	5 9%	6 5%

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

Per policy expenses		
Conventional Life Business	£13 19	£12 52
Pensions Deferred annuities	£24 70	£23 46
Life Deferred annuities	£12 70	£12 06
Unitised with-profits ISA	£12 89	£12 23
Unitised with-profits bond	£13 19	£12 52

13. Technical provisions (continued)

Persistency – lapses, surrenders and paid up rates
A review of persistency is carried out annually Assumptions are adjusted where necessary to reflect more recent experience as evidenced in the persistency trend analysis, or to reflect expected future trends as a result of anticipated future events

Options and guarantees
The provisions held in respect of guaranteed annuity options are determined on a market consistent basis The total amount provided in respect of the future costs of financial options was £87,021,000 (2005 £91,664,000)

Bonuses
The cost of bonuses incurred during the year ended 31 December 2006 was £21,100,000 (2005 £11,000,000) of which £1,700,000 (2005 £1,800,000) was included in the long term business provision and £19,400,000 (2005 £9,200,000) was included in claims paid

(c) RNPFN technical provision – long term business provision (closed fund)
ii) Non-participating business

	2006	2005
Interest rate		
Non-profit assurances	3 26%	3 00%
Non-profit general deferred annuities	3 26%	3 00%
Annuities in Payment (post 31/12/91)	3 26%	3 00%
Annuities in Payment (other)	4 08%	3 75%
Pension Deferred Annuities	4 08%	3 75%
Mortality rate tables		
Non-profit assurances	A49/52	A49/52
Non-profit general deferred annuities	No mortality	No mortality
Annuities in Payment (post 31/12/91)	90% RV92av mc/lc	90% RV92av mc/lc
Annuities in Payment (other)	90% RV92av mc/lc	90% RV92av mc/lc
Pension Deferred Annuities	No mortality	No mortality

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

The provision for linked and unitised with-profits contracts is equal to the value of the units A non-unit liability consisting mainly of a sterling reserve calculated by carrying out cashflow projections on appropriate bases is included within the long term business provision

13. Technical provisions (continued)

Options and guarantees
There are no significant options or guarantees in the non-participating business

(c) RNPFN technical provision – long term business provision (closed fund)
iii) Linked fund

The technical provision for unit linked assurances is equal to the value of the assets to which the contracts are linked There are two products included within the linked fund, one is classified as an investment product and the provision is included within the technical provision for linked liability investment contracts, the other is classified as an insurance product and the provision is included within the technical provision for linked liability insurance contracts

	2006	2005
Interest rate		
Unit linked assurances	3 00%	3 00%
Mortality rate table		
Unit linked assurances	A67/70	A67/70

14. Provisions for other risks

	Deferred Tax	Other Provisions	Total
	£000	£000	£000
At 1 January 2006	596	-	596
Debited to the profit and loss account	14,393	35,440	49,833
At 31 December 2006	14,989	35,440	50,429

The liability for deferred tax provided in the accounts is as follows

	Provided		Not Provided	
	2006	2005	2006	2005
	£000	£000	£000	£000
Timing differences re recognition of profits	(12,652)	-	-	-
Deferred acquisition costs	(826)	(596)	-	860
Unrealised capital gains	(1,511)	-	-	-
Realised and unrealised capital losses	-	-	-	1,277
Tax losses available for offset	-	-	-	5,023
	(14,989)	(596)	-	7,160

Provisions primarily relate to ongoing losses on uneconomic contracts relating to banking totalling £35,440,000

15. Other creditors including taxation and social security

	2006 £000	2005 £000
Bank loans and overdrafts	11,224	4,111
Other taxes and social security costs	47	1,274
Corporation tax	608	10,782
Amounts owed to group undertakings	12,714	13,120
Other	188	4,424
	24,781	33,711

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

16. Profit & loss account

	2006 £000	2005 £000
Balance at 1 January	83,352	68,320
Profit for the year	3,134	15,032
Balance at 31 December	86,486	83,352

17. Reconciliation of movement in equity shareholder's funds

	2006 £000	2005 £000
Profit for the financial period	3,134	15,032
Opening equity shareholder's funds	488,071	473,039
Closing equity shareholder's funds	491,205	488,071

18. Related party transactions

There were no material related party transactions occurring during the year, required to be disclosed under Financial Reporting Standard Number 8 "Related Party Transactions" Advantage has been taken of the exemption in Financial Reporting Standard Number 8 from disclosure of group related transactions The ultimate controlling party is Liverpool Victoria Friendly Society Limited

19. Subordinated liabilities

At 31 December 2006 the Company had two subordinated loans from Liverpool Victoria Friendly Society Limited, one for £12m and the other for £6m, interest on each being payable at 0 5% above LIBOR Both are repayable only after giving and expiry of notice of not less than 61 months No notice has been given

20. Commitments
At 31 December 2006 the Company had no commitments to capital expenditure

21. Other financial commitments
The Group has entered into a contract for the provision of business process outsource services This contract will end no later than 2017 Over time this will cover the whole of the group's life assurance policy and retail investment contract administration The company's policy administration will, in time, be covered by these arrangements and the company will, therefore, bear a proportion of the total costs Currently, the amount cannot be accurately estimated The Group has a commitment in respect of this contract amounting to £45m (2005 £70m)

These amounts have not been provided for in the financial statements

22. Ultimate parent society
The company is a wholly owned subsidiary of Liverpool Victoria Friendly Society Limited, an incorporated Friendly Society registered under the Friendly Societies Act 1992

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

23. Cash flow statement
The directors have relied upon the exemption conferred in Financial Reporting Standard Number 1, "Cash Flow Statements", relating to 90% or more controlled subsidiaries where the parent publishes group accounts, and accordingly no such statement has been produced

24. Post balance sheet events
On 1 January 2007 the company

1 issued a subordinated loan to Liverpool Victoria Friendly Society Limited for £64,353,000
2 acquired 100% of the shares in Frizzell Financial Services Limited, Liverpool Victoria Portfolio Managers Limited, Liverpool Victoria Banking Services Limited and Liverpool Victoria Financial Advice Services Limited from Liverpool Victoria Insurance Company Limited for £54,810,000 for cash
3 Transferred Liverpool Victoria Insurance Company Limited to Liverpool Victoria Financial Advice Limited (renamed Liverpool Victoria General Insurance Group Limited on the 12th February 2007), a subsidiary, in a share for share exchange totalling £269,907,680
4 subscribed to £9,500,000 shares in Liverpool Victoria Financial Advice Limited (renamed Liverpool Victoria General Insurance Group Limited on the 12th February 2007)