COMPANY REGISTRATION NUMBER 597740

LIVERPOOL VICTORIA LIFE COMPANY LIMITED

REPORT AND ACCOUNTS

FOR THE YEAR ENDED 31 DECEMBER 2010

REPORT AND ACCOUNTS 2010
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LIVERPOOL VICTORIA LIFE COMPANY LIMITED

DIRECTORS, OFFICERS AND REGISTERED OFFICE

Directors

K W Abercromby	(resigned 9 November 2010)
R M Cook	(resigned 31 March 2010)
P Moore	(appointed 10 November 2010)
M Rix	(appointed 27 July 2010, resigned 31 December 2010)
M J Rogers	
R A Rowney	

Company Secretary
P B Cassidy

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County Gates
Bournemouth
BH1 2NF
Telephone 01202 292333
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Company Registration number
597740

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

LIVERPOOL VICTORIA LIFE COMPANY LIMITED
(COMPANY REGISTRATION NUMBER 597740)

DIRECTORS' REPORT

The directors submit their annual report and the audited accounts for Liverpool Victoria Life Company Limited (LVLC) (the Company) for the year to 31 December 2010

1. Profit and dividends

The profit on ordinary activities for the year after taxation was £ 19,281,000 (2009 profit of £ 47,284,000) The directors did not approve any dividends in the current year (2009 £nil)

2. Principal activities

The Company's main purpose is to act as reinsurer for the Critical Illness (CI) and Income Protection (IP) products sold by Liverpool Victoria Friendly Society Limited (LVFS) and for the run-off of the Union Insurance business acquired in 2005 During the year the with-profit business reinsured with the Company was recaptured by LVFS and the Company exercised a scheme to reduce its capital

3. Business review

The results for the Company and its financial position are set out in the financial statements that follow this report

Capital Reduction Scheme
The reorganisation of the group structure towards the end of 2009, in which the Company sold a number of its subsidiaries to LVFS, resulted in the Company retaining a stronger capital position than was required by its current business activities

On the 20th December 2010 the Company therefore effected a transaction to reduce its capital This was achieved through a reduction in the share capital of £529 7m, settlement of £82 3m of subordinated loan debt with LVFS and a transfer of investments and cash totalling £164 3m to LVFS in settlement of intercompany balances Further information is detailed in note 31

With-Profit Bond Reinsurance
As part of the unwind of its position following the capital reduction, a review of the Company's future regulatory funding requirements concluded that the WP bond reassurance agreement, in its capacity as a capital management tool, was no longer needed This agreement was therefore terminated on the 22 December 2010 This reduced the actuarial liabilities of the company by £98m with a corresponding transfer of the Company's investment in the Unit Linked Growth OEIC to LVFS in settlement of those liabilities Further information is detailed in note 9

Performance Monitoring
The Board sets key performance indicators (KPI) and targets, which it monitors on a regular basis throughout the year During 2010, the KPI's were focused on new premium income, solvency & compliance and profitability -

New Premium Income
Despite the difficult economic environment and subdued housing market the overall market size for intermediated sales of new IP and CI increased by 5% in 2010 (based on ABI data to 30 September) In addition the business was able to increase its share of this market, resulting in an increase in business reinsured to the Company

Solvency and Compliance
The Company is a regulated entity and is required to hold minimum solvency capital in accordance with FSA Guidelines Capital requirements are modelled monthly and form an integrated part of the risk management framework of the Company The Company undertakes regular compliance reviews of its activities and reports to the Directors on observations and findings

Profitability
The Company utilises sophisticated models to analyse and manage the key risks to profit from new business, policy lapse rates, and morbidity

Outlook
While the protection market continues to be very competitive, a number of our key competitors are either moving away from Protection to focus on other products or are distracted by structural changes LVFS expects to capitalise on this opportunity with planned sales growth of c 40% in its Income Protection and Critical Illness products during 2011 This growth will be made possible partly through a new distribution arrangement between LVFS and Sesame Bankhall and through product and pricing enhancements

Principal Risks and Uncertainties
The Company operates in a regulated environment and maintains a high quality control environment over its activities The Board monitors all risks throughout the year and executes its strategy where practicable to reduce its exposure to the risks listed below

Insurance Risk
The company reinsures the net income protection and critical illness morbidity risk for LVFS and therefore could be exposed to higher claims than expected where there is an increased incidence of ill health or an increase in the duration of such ill health

Market Risk
This risk relates to fixed interest exposure in the assets that are held to back the insurance liabilities If the board considers the risk of a fall in values of these stocks is too great it would look to realise these stocks and increase the amount held as cash and deposits

Expense inflation
The Company is currently controlling costs and continuing looking for opportunities to drive costs down through systems and process improvements

4. Directors
The directors who served during the year are listed on page 2

5. Parent company
The Company is a wholly owned subsidiary of Liverpool Victoria Friendly Society Limited, an incorporated Friendly Society registered under the Friendly Societies Act 1992

6. Auditors and disclosure of information to auditors
Each director at the date of this report confirms that

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

7. Employees
The Company utilised the staff and premises of Liverpool Victoria Friendly Society Limited in carrying out its activities in 2010 Costs not directly recharged were paid by way of a management charge

8. Charitable and political donations
The Company made no political or charitable donations in 2010 or 2009

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 elected to prepare the financial statements in accordance with International Financial Reporting Standards (IFRS) 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 International Financial Reporting Standards (IFRS) as adopted by the European Union have been followed, subject to any material departures disclosed and explained in the financial statements,
- prepare the financial statements on a going concern basis unless it is inappropriate to presume that the Company will continue in business

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

By Order of the Board
P B Cassidy
Company Secretary
24 March 2011

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

We have audited the financial statements of Liverpool Victoria Life 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 Cash Flows and the related notes The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union

Respective responsibilities of directors and auditors
As explained more fully in the Directors' Responsibilities Statement set out on page 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

LIVERPOOL VICTORIA LIFE COMPANY LIMITED

STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2010

	Note	**Total 2010 £000**	Total 2009 £000
Gross earned premiums	5	**315**	367
Reinsurance premiums accepted	5	**33,718**	36,021
Net earned premiums		**34,033**	36,388
Fee and commission income		**-**	34
Investment income	7	**20,203**	19,873
Gains on investments	8	**30,000**	30,962
Other income		**86**	37
Total income		**84,322**	87,294
Gross benefits and claims	9	**(3,965)**	(4,194)
Reinsurance benefits and claims	9	**(193,174)**	(25,733)
Net benefits and claims		**(197,139)**	(29,927)
Gross change in insurance contract liabilities	10	**143,985**	14,234
Net change in contract liabilities		**143,985**	14,234
Loss on disposal of subsidiaries	11	**-**	(17,428)
Finance costs	12	**(1,035)**	(1,646)
Other operating and administrative expenses	13	**(5,589)**	9,499
Other expenses		**(6,624)**	(9,575)
Total benefits, claims and expenses		**(59,778)**	(25,268)
Profit before tax		**24,544**	62,026
Income tax expense	16	**(5,263)**	(14,742)
Profit for the year		**19,281**	47,284
Total Comprehensive Income for the year		**19,281**	47,284

LIVERPOOL VICTORIA LIFE COMPANY LIMITED

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

		Attributable to equity holders of the Company		
	Notes	**Called up share capital**	**Retained earnings**	**Total**
		£000	**£000**	**£000**
Balance at 1 January 2010		**539,719**	**130,187**	**669,906**
Reduction of share capital	**31**	**(529,719)**	**-**	**(529,719)**
Profit for the year – transferred to retained earnings	**30**	**-**	**19,281**	**19,281**
Balance at 31 December 2010		**10,000**	**149,468**	**159,468**

	Attributable to equity holders of the Company		
	Called up share capital	Retained earnings	Total
	£000	£000	£000
Balance at 1 January 2009	539,719	82,903	622,622
Profit for the year – transferred to retained earnings	-	47,284	47,284
Balance at 31 December 2009	539,719	130,187	669,906

STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2010

	Note	2010 £000	2009 £000
Assets			
Deferred acquisition costs	17	**54,579**	51,573
Financial assets			
- Fair value through income	19	**206,849**	494,962
- Loans and other receivables	19	**832**	455,056
Insurance receivables	20	**119**	25
Prepayments and accrued income	21	**1,437**	2,538
Cash and cash equivalents	22	**18,173**	22,958
Total assets		**281,989**	1,027,112
Liabilities			
Insurance contract liabilities	23	**115,241**	259,270
Provisions	25	**-**	12,425
Borrowings	26	**-**	82,310
Insurance payables	27	**35**	2,196
Current tax liability	28	**1,660**	929
Trade and other payables	29	**5,585**	76
Total liabilities		**122,521**	357,206
Equity			
Called up share capital	31	**10,000**	539,719
Retained earnings	30	**149,468**	130,187
Total equity		**159,468**	669,906
Total liabilities and equity		**281,989**	1,027,112

The notes on pages 11 to 38 are an integral part of these financial statements

These accounts were approved by the Board of Directors on 24 March 2011
Signed on behalf of the Board of Directors

P. J. Moore

Phillip Moore
Director

LIVERPOOL VICTORIA LIFE COMPANY LIMITED

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2010

	Note	2010 £000	2009 £000
Cash and cash equivalents at 1 January	22	**22,933**	13,852
Cash flows arising from:			
Operating activities			
Cash generated from operating activities	32	**(25,104)**	4,171
Dividend income received	7	**7,702**	8,000
Interest income received		**13,677**	12,206
Finance costs paid	12	**(1,035)**	(1,646)
Income tax paid		**-**	(13,650)
Net cash inflows from operating activities		**(4,760)**	9,081
Net (decrease)/increase in cash and cash equivalents		**(4,760)**	9,081
Cash and cash equivalents at 31 December	**22**	**18,173**	22,933

1. General Information

Liverpool Victoria Life Company Limited is a company limited by shares, domiciled and incorporated in the United Kingdom

2. Accounting policies

BASIS OF PRESENTATION

The Company's accounts have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union

In accordance with IFRS 4 on Insurance Contracts, the Company has applied existing accounting practices for insurance contracts modified as appropriate to comply with the IFRS framework and applicable standards Further details are given in policy b below

The financial statements have been prepared under the historical cost convention as modified by the revaluation of financial assets and liabilities at fair value through income The preparation of financial statements in conformity with IFRSs requires management to exercise its judgement in the process of applying accounting policies The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in the principal accounting policies below

The principal accounting policies applied in the preparation of these financial statements are set out below These policies have been consistently applied to all years presented, unless otherwise stated

Of particular significance in 2010 are the capital reduction (note 31), subordinated loan repayment and termination of the with profit bond reinsurance (note 9) between the Company and LVFS

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 insurance contract liabilities

The liability is based on current assumptions reflecting the best estimate at the period end allowing for a margin of risk and adverse deviation All contracts are subject to a liability adequacy test, which reflects management's best current estimate of future cash flows

The assumptions used for mortality, morbidity and longevity are based on standard industry tables, adjusted where appropriate to reflect the Company's own experience The assumptions used for investment returns, expenses, lapse and surrender rates, and discount rates are based on historic market returns, product characteristics, claims experience and industry risk rates

Current EU and UK legislation allows insurers to differentiate based on gender when pricing insurance contracts On 1 March 2011, the European Court of Justice ruled that this practice should be considered invalid from 21 December 2012

As the LVFS Group considers that this judgement makes no change to the law that was in force as at 31 December 2010, the LVFS Group regards this as a non-adjusting event Accordingly, amounts recognised in these financial statements have not been adjusted for the implications of the judgement

Depending on the final interpretation of the ruling with regard to contracts which straddle 21 December 2012, it may be that the ruling has a material effect on amounts recognised in these financial statements However, an estimate of this effect cannot be made at this time The LVFS Group does not expect the judgement to have any impact on contracts that expire prior to 21 December 2012

PRINCIPAL ACCOUNTING POLICIES

a. Contract classification
The Company issues contracts that transfer insurance risk, 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

b. Earned premiums
Insurance contracts
Regular premiums on life insurance contracts and reinsurance premiums are recognised as income when due for payment For single premium business, recognition occurs on the date from which the policy is effective

Reinsurance contracts
Regular premiums on assumed reinsurance contracts are recognised as income when due for payment For single premium business, recognition occurs on the date from which the policy is effective

c Claims
Insurance contracts
Maturity claims and claims due under insurance agreements 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 the Company is notified The value of claims on with-profits business includes bonuses paid or payable Claims values include related internal and external claims handling costs

Reinsurance contracts
Claims due under reinsurance agreements are accounted for when notified by ceding insurer

d. Fee and commission income
Fees from investment contracts for investment management and other policy administration charges are recognised as income when due for payment

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

f Gains and losses on investments
Realised gains and losses on investments are calculated as the difference between net sales proceeds and original cost

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

g. Income taxes
The tax expense for the period comprises current and deferred tax Tax is recognised in the income statement, except to the extent that it relates to items recognised directly in equity, in which case the tax is also recognised in equity

Current income tax
The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the date of the statement of financial position in the countries where the company's subsidiaries and associates operate and generate taxable income Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation and establishes provisions where appropriate

Deferred income 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 date of the statement of financial position 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 Group 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

h. Foreign currencies
Monetary assets and liabilities denominated in foreign currencies are translated to sterling 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 dealt with in the income statement

i. Deferred acquisition costs
Insurance and reinsurance contracts
The method of calculating the life liabilities assumes that acquisition costs, comprising all direct and indirect costs arising from the acquisition of non-participating insurance contracts, will be recovered from future premiums receivable 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 earnings of the relevant future margins over the period in which the contracts concerned are expected to remain in force

The balance of deferred acquisition costs is measured against the value of future margins at the date of the statement of financial position to test recoverability In the event of a shortfall, the balance of deferred acquisition costs is written down to the recoverable amount

j. Financial assets
The Company classifies its investments into the following categories
- financial assets at fair value through income, 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

Financial assets at fair value through income
Financial assets at fair value through income have 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 measured at fair value with gains and losses recognised in the statement of comprehensive income

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, amounts due from other group companies and other receivables

The Company assesses at each year end 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

Derecognition of financial assets
A financial asset is derecognised when
- the rights to receive cash flows from the asset have expired, or
- the Company has transferred its rights to receive cash flows from the asset and has either
    - transferred the risks and rewards of the asset, or
    - has transferred control of the asset

k. 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

l. Life insurance contract liabilities
Non-participating contracts
The provision is calculated to comply with the reporting requirements under the FSA's 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 the notes to the accounts The Company has adopted the modified statutory solvency basis approach in the determination of profit on non-participating business

Liabilities for non-participating business will be either included within the life and pensions insurance contract liabilities or the investment contract liabilities, depending upon the product classification

m. Trade and other payables
Trade and other payables are recognised when due and comprise amounts due to group undertakings and payables. Where there is objective evidence that the carrying value is impaired then the impairment loss will be recognised in the statement of comprehensive income

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

CHANGES IN ACCOUNTING POLICIES

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

The following amendments to published standards are mandatory for the Company's accounting periods beginning on or after 1 January 2010

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

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

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

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

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

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

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

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

'Classification of rights issues' (amendment to IAS 32), issued in October 2009 The amendment applies to annual periods beginning on or after 1 February 2010 Earlier application is permitted The amendment addresses the accounting for rights issues that are denominated in a currency other than the functional currency of the issuer Provided certain conditions are met, such rights issues are now classified as equity regardless of the currency in which the exercise price is denominated Previously, these issues had to be accounted for as derivative liabilities The amendment applies retrospectively in accordance with IAS 8 'Accounting policies, changes in accounting estimates and errors'

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

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

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

'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

3. Risk management and control

The Company seeks to create value for its shareholder 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

The principal types of risk, which are detailed below, have been identified and the 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 Friendly Society 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 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

a) 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

The Company reinsures inwards reinsurance for income protection and critical illness business, which 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 appropriately for such risks

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 for 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 the charges it deducts from policyholder benefits are not sufficient to cover future expenses

The table below sets out the concentration of life insurance contract liability (gross) by type of contract All business is written in the UK

	2010 £000	2009 £000
Whole life	**11,584**	164,197
Endowment	**11,017**	12,148
Term assurance	**3,515**	3,534
Critical illness	**18,929**	11,990
Income protection	**66,149**	63,647
Other	**3,889**	3,552
	115,083	259,068
Total	**115,083**	259,068

In 2010 the value of the linked contract liabilities have been included in the analysis by their type of contract and not disclosed separately The 2009 liabilities have also been re-categorised to aid comparison

The table below sets out the impact on life insurance contract liabilities and profit before tax for movements in key assumptions

Sensitivity analysis for the change in assumptions used in insurance contract liabilities	**Impact on profit before tax £000**	**Impact on gross liabilities £000**
Increase in mortality rates by 5%	**(75)**	**75**
Increase in morbidity rates by 5%	**(8,719)**	**8,719**
Persistency reduces by 5%	**(918)**	**918**
Increase in expenses by 10%	**(5,576)**	**5,576**

b) Financial risk

Market risk

Market risk is the risk of adverse impact due to fluctuations in equity prices, interest rates or exchange rates 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

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

Following the termination of the with profit bond reinsurance agreement the Company no longer has an exposure to equity price risk as all its insurance contract liabilities are now backed by fixed interest securities

Interest rate risk

Interest rate risk in respect of the Company's insurance contracts arises when there is a mismatch in duration of yield between liabilities and the assets backing these liabilities 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 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

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 not exposed to foreign exchange risk as it only has a small holding of overseas listed securities within its investment portfolios supporting the Company's operations and these are denominated or payable in sterling There is no other exposure to currency risk

Summary of market risk sensitivities
The table below sets out the impact on insurance contract liabilities and profit before tax for movements in sectors of the market in which the Company is invested

	2010		2009	
Sensitivity analysis to movements in key market sectors	**Impact on profit before tax**	**Impact on insurance contract liabilities**	Impact on profit before tax	Impact on insurance contract liabilities
	£000	**£000**	£000	£000
Decrease in fixed interest rates by 17 5%	**10,840**	**8,562**	1,578	8,279
Increase in fixed interest rates by 17 5%	**(8,394)**	**(7,789)**	-	-

In determining the percentage rates to use in the sensitivity analysis the Company has made reference to those set by the regulators for calculating the risk capital margin

Asset values and, where appropriate, asset shares are adjusted to reflect the change in each sensitivity Future policy related liabilities are recalculated using these revised values and, where appropriate, economic scenarios generated by an asset model calibrated to the revised risk free rate

Sensitivities on the increase of fixed interest rates have been run for the first time in 2010, so no comparatives for 2009 are available

Credit risk
Credit risk is the risk of loss due to counterparties failing to meet all or part of their obligations when due

The principal credit risks arise from exposure to counterparties through exposure to corporate bonds, amounts due from insurance contract holders and amounts due from insurance intermediaries

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

	AAA	AA	A	BBB	Below BBB	Not rated	Total
Credit risk exposure 2010	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**
Financial assets							
Fair value through income							
Debt and other fixed income securities	**172,610**	-	-	-	-	**111**	**172,721**
	172,610	-	-	-	-	**111**	**172,721**
Loans and other receivables							
Loans secured by policies	-	-	-	-	-	**41**	**41**
Other receivables	-	-	-	-	-	**791**	**791**
	-	-	-	-	-	**832**	**832**
Cash and cash equivalents							
Deposits	**17,600**	-	-	-	-	-	**17,600**
Bank Balances	-	-	-	-	-	**573**	**573**
	17,600	-	-	-	-	**573**	**18,173**
Total	**190,210**	-	-	-	-	**1,516**	**191,726**

	AAA	AA	A	BBB	Below BBB	Not rated	Total
Credit risk exposure 2009	£000	£000	£000	£000	£000	£000	£000
Financial assets							
Fair value through income							
Debt and other fixed income securities	271,841	3,186	12,580	5,927	752	1,564	295,850
Other	-	66	-	-	-	-	66
	271,841	3,252	12,580	5,927	752	1,564	295,916
Loans and other receivables							
Loans secured by policies	-	-	-	-	-	39	39
Amounts due from other group undertakings	-	-	-	-	-	455,012	455,012
Other receivables	-	-	-	-	-	5	5
	-	-	-	-	-	455,056	455,056
Cash and cash equivalents	-	-	-	-	-	22,958	22,958
Total	271,841	3,252	12,580	5,927	752	479,578	773,930

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

Age analysis of assets past due/impaired 2010

	<30 days £000	31 to 60 days £000	61 to 90 days £000	>90 days £000	Unit linked £000	Total past due but not impaired £000	Past due and impaired £000	Total £000
Insurance receivables	119	-	-	-	-	119	-	119
	119	-	-	-	-	119	-	119

Age analysis of assets past due/impaired 2009

	<30 days £000	31 to 60 days £000	61 to 90 days £000	>90 days £000	Unit linked £000	Total past due but not impaired £000	Past due and impaired £000	Total £000
Insurance receivables	24	1	-	-	-	25	-	25
	24	1	-	-	-	25	-	25

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

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

	Within 1 year	1-3 years	3-5 years	Over 5 years	Linked	Total
Maturity profile of financial liabilities 2010	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**
Insurance contract liabilities	**(8,444)**	**(9,771)**	**(2,164)**	**135,620**	**-**	**115,241**
Insurance payables	**35**	**-**	**-**	**-**	**-**	**35**
Current tax liability	**1,660**	**-**	**-**	**-**	**-**	**1,660**
Trade and other payables	**5,585**	**-**	**-**	**-**	**-**	**5,585**
	(1,164)	**(9,771)**	**(2,164)**	**135,620**	**-**	**122,521**

	Within 1 year	1-3 years	3-5 years	Over 5 years	Linked	Total
Maturity profile of financial liabilities 2009	£000	£000	£000	£000	£000	£000
Insurance contract liabilities	(30,596)	(44,133)	(29,006)	324,257	38,748	259,269
Provisions and other risks	12,075	350	-	-	-	12,426
Borrowings	-	-	-	82,310	-	82,310
Insurance payables	2,196	-	-	-	-	2,196
Current tax liability	929	-	-	-	-	929
Trade and other payables	76	-	-	-	-	76
	(15,320)	(43,783)	(29,006)	406,567	38,748	357,206

The Company is responsible for ensuring there is sufficient liquidity within the asset portfolio to enable liabilities to unit-linked policyholders to be met as they fall due 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
Financial assets						
Fair value through income	**22,405**	**184,444**	**206,849**	66	494,896	494,962
Loans and receivables	**800**	**32**	**832**	461,585	39	461,624
Insurance receivables	**119**	**-**	**119**	25	-	25
Deferred acquisition costs	**3,006**	**51,573**	**54,579**	2,321	49,252	51,573
Prepayments and accrued income	**1,437**	**-**	**1,437**	2,538	-	2,538
Cash and cash equivalents	**18,173**	**-**	**18,173**	22,958	-	22,958
Total assets	**45,940**	**236,049**	**281,989**	489,493	544,187	1,033,680

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 Group Risk Committee in accordance with the 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 monitors these, ensuring that excess risk is reported to the Group Audit, Risk & Compliance Committee and Board

Fair value estimation

Effective 1 January 2009, the Company adopted the amendment to IFRS 7 This requires, for financial instruments held at fair value in the balance sheet, 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 and 2009

	Level 1 £000	**Level 2 £000**	**Level 3 £000**	**Total fair value £000**
Financial assets held at fair value through income 2010				
Shares, other variable yield securities and OEICs				
– UK listed	-	**34,128**	-	**34,128**
Debt and other fixed income securities				
– UK listed	**166,824**	**5,786**	**19**	**172,629**
– Overseas listed	-	**92**	-	**92**
	166,824	**40,006**	**19**	**206,849**

	Level 1 £000	Level 2 £000	Level 3 £000	Total fair value £000
Financial assets held at fair value through income 2009				
Shares, other variable yield securities and units in unit trusts				
– UK listed	-	199,046	-	199,046
Debt and other fixed income securities				
– UK listed	258,025	20,734	19	278,778
– UK unlisted	5,008	12,064	-	17,072
Other	66	-	-	66
	263,099	231,844	19	494,962

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 quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency and those prices represent actual and regularly occurring market transactions on an arm's length basis

Level 2 financial instruments are not traded in an active market, their fair value is determined using valuation techniques These valuation techniques maximise the use of data from observable current market transactions where it is available, and assets for which pricing is obtained via pricing services, but where prices have not been determined in an active market, financial assets with fair values based on broker quotes

If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3 If the inputs for the level 3 assets and liabilities were changed they would not significantly change the fair value

Specific valuation techniques used to value financial instruments include

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

There were no movements in level 3 financial instruments in the year ended 31 December 2010

4. Capital Management

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

The Company retains capital to meet four key objectives

(i) To ensure financial stability,
(ii) To enable the Company's strategy to be developed
(iii) To give confidence to consumers and other stakeholders who have relationships with the Company, and
(iv) To comply with capital requirements imposed by its UK regulator, the Financial Services Authority (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 the shareholders During 2010 there were no changes to the way in which the company manages its capital

Consistent with other insurers in the 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 Assessment (ICA), which is entity specific and is derived using a more risk-related approach to set out in the FSA regulations The ICA is calculated and updated by the FSA following its reviews on a regular basis of the Company's own individual capital assessment

In aggregate the Company has at its disposal total available capital in respect of its long term business of £104,890,000 (2009 £700,643,000), representing the solvency capital of the Company The decrease in the total available capital reflects the reduction of share capital detailed in note 31 and the repayment of the subordinated loan to LVFS detailed in note 26 This capital is available to meet risks and regulatory requirements set by reference to regulatory guidance as prescribed by the FSA Throughout the year, the Company complied with all externally imposed capital requirements to which it is subject

5. Net Premiums

	2010 £000	2009 £000
Gross earned premiums		
Insurance and investment contract premiums – participating business		
Life and health protection - regular premium	-	(4)
Insurance and investment contract premiums – non-participating business		
Investments and savings - regular premium	214	301
Life and health protection - regular premium	101	70
	315	367
Reinsurance premiums		
Insurance contract premiums – non-participating business		
Life and health protection - regular premium	33,718	36,021
Net Premiums	34,033	36,388

All premiums are received from contracts written in the United Kingdom

The categorisation of net premiums for 2010 has been refined, accordingly 2009 premiums have also been re-categorised to aid comparison

6. New business premiums

	2010 £000	2009 £000
Insurance contract premiums – non-participating business		
Life and health protection - regular premium	5,439	5,177

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

The calculation of new business premiums has been refined in 2010 and accordingly the 2009 figures have been restated to aid comparison

7. Investment income

	2010 £000	2009 £000
Income from investments at fair value through income		
- Interest income	12,371	11,762
- Dividend income	7,702	8,000
Interest on loans and receivables	130	111
	20,203	19,873

8. Gains on investments

	2010 £000	2009 £000
Income from investments at fair value through income		
- Debt securities	**10,241**	4,485
- Equity securities	**19,759**	26,477
	30,000	30,962

9. Net benefits and claims

	2010 £000	2009 £000
Gross benefits and claims		
Insurance contracts		
Benefits and claims paid	**4,009**	4,123
Change in the provision for claims	**(44)**	71
	3,965	4,194
Reinsurance contracts		
Benefits and claims paid	**193,174**	25,733
	197,139	29,927

On 22 December 2010, the with profit bond reinsurance agreement between LVFS and the Company was terminated Assets totalling £133 0m were transferred to LVFS in settlement of outstanding insurance contract liabilities totalling £98 1m and the reinsurance creditor balance of £34 9m at this date The payment of £133m is included within benefits and claims paid on reinsurance contracts No gain or loss was recorded as a result of this transfer, as detailed in the table below

	2010 £000
Shares, other variable yield securities and OEICs - UK Listed	**132,979**
Insurance payables - arising from reinsurance operations	**(34,882)**
Insurance contract liabilities	**(98,097)**
Gain/Loss on termination of with profit bond reinsurance	**-**

From the date of this termination agreement the Company no longer has any obligation to LVFS in respect of with profits bond contracts, and all the risks and rewards of the business are held by LVFS

10. Net change in contract liabilities

	2010	2009
	£000	£000
Gross change in contract liabilities		
Change in insurance contract liabilities	**149,064**	9,100
Change in linked insurance contract liabilities	**(5,079)**	5,134
	143,985	14,234

Gross change in insurance contract liabilities includes movement relating to the termination of the with profit bond reinsurance (see note 9)

11. Loss on disposal of subsidiaries

	2010	2009
	£000	£000
Loss on Disposal of subsidiaries	-	(17,428)

In 2009 the company sold all its subsidiaries to LVFS for a total consideration of £485,192,000 The loss on sale of the subsidiaries was £17,428,000

12. Finance costs

	2010	2009
	£000	£000
Interest expense on subordinated loan	**1,035**	1,646

13. Other operating and administrative expenses

	2010	2009
	£000	£000
Investment management expenses and charges	**257**	515
Acquisition costs	**20,706**	21,127
Movement in deferred acquisition costs	**(3,006)**	(2,321)
Auditor's remuneration (see note 14)	**208**	200
Provisions released in the period	**(12,425)**	(28,872)
Administrative expenses	**(151)**	(148)
	5,589	(9,499)

Acquisition costs include commissions for direct insurance of £nil (2009 £2,000)

The Company's expenses are borne by its parent, LVFS LVFS charge the Company by way of a management charge

The Company has no employees but pays an administration charge to LVFS

14. Auditor's remuneration

	2010	2009
	£000	£000
Fees payable to the Company's auditor for the audit of the Company's annual accounts	**182**	175
Fees payable to the Company's auditor and its associates for other services		
- Other services pursuant to legislation	**26**	25
	208	200

The above fees were payable to PricewaterhouseCoopers LLP

15. 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	2009
	£000	£000
a Aggregate emoluments	**2,753**	2,761

b Emoluments of th Directors were as follows

	Fees and Salaries	**Bonus**	**Other Benefits**	**Compensation for loss of office**	**Total 2010**	Total 2009
	£000	**£000**	**£000**	**£000**	**£000**	£000
Highest paid director	**477**	**650**	**120**	**-**	**1,247**	997
All directors	**1,171**	**1,136**	**154**	**292**	**2,753**	2,761

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

c) Pension arrangements

LVFS has made no contributions to personal pension arrangements during 2010 (2009 £nil)

R A Rowney, K W Abercromby and R M Cook 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 an average of 19% of pensionable salaries (2009 20 6% of pensionable salaries) in respect of all permanent staff, including executive directors These included amounts on behalf of executive directors of £123,005 (2009 £238,831)

LVFS made payments to the new defined contribution scheme of £11,000 (2009 £nil)

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

	2010	2009
Accrued pension at end of period	**£000**	£000
All directors	**39**	132

16. Income tax expense

a) Current year tax charge

	2010 £000	2009 £000
Current year tax charge:		
Corporation tax	**1,608**	1,000
Group relief	**3,650**	14,193
Prior year adjustment	**5**	(451)
Total current tax	**5,263**	14,742
Total income tax expense (15 b)	**5,263**	14,742

b) Reconciliation of tax charge

The tax assessed for the period is lower than the standard rate of corporation tax in the UK (28%)
The differences are explained below

	2010 £000	2009 £000
Profit before tax	**24,544**	62,026
Tax at 28%	**6,872**	17,367
Income not subject to Corporation Tax	**(2,157)**	-
Provisions against subsidiaries not deducted for tax purposes	**(3,479)**	(8,084)
Policyholder tax	**3,326**	1,030
Loss on sale of subsidiary undertakings	**-**	4,880
Transfer pricing adjustments	**696**	-
Adjustments to tax charge in respect of prior years	**5**	(451)
Total tax expense for the year (15 a)	**5,263**	14,742

UK corporation tax enacted at 31 December 2010 is 28%

A deferred taxation asset of £3,094,000 (2009 £4,291,000) in respect of capital losses has not been recognised

Unrecognised 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

17. Deferred acquisition costs

	2010 £000	2009 £000
At 1 January	**51,573**	49,252
Acquisition expenses deferred	**14,700**	14,177
Amortisation	**(11,694)**	(11,856)
At 31 December	**54,579**	51,573

18. Investments in group undertakings

	2010	2009
	£000	£000
Balance at 1 January	-	502,620
Disposals	-	(502,620)
Balance at 31 December	-	-

During 2009 the Company sold all its subsidiaries to LVFS

19. Other financial investments

	2010	2009
	£000	£000
Fair value through income		
Shares, other variable yield securities and OEICs		
- UK listed	**34,128**	199,046
Debt and other fixed income securities		
- UK listed	**172,629**	278,778
- Overseas listed	**92**	17,072
Other	-	66
	206,849	494,962
Loans and receivables		
Loans secured by policies	**41**	39
Amounts due from other group undertakings	-	455,012
Other receivables	**791**	4
	832	455,056
	207,681	950,018

Included within the above financial investments are assets held to cover linked insurance contract liabilities as detailed below

	2010	2009
	£000	£000
Assets held to cover linked insurance contract liabilities		
Fair value through income		
Debt and other fixed income securities		
-UK listed	**43,827**	38,748

All financial investments apart from Loans and receivables are listed securities

20. Insurance receivables

	2010	2009
	£000	£000
Due from policyholders	-	1
Due from reinsurers	119	24
	119	25

21. Prepayments and accrued income

	2010	2009
	£000	£000
Accrued interest	1,362	2,538
Other prepayments	75	-
	1,437	2,538

22. Cash and cash equivalents

	2010	2009
	£000	£000
Bank balances	573	424
Short term bank deposits	17,600	22,534
Cash and cash equivalents per statement of financial position	18,173	22,958
Bank overdrafts (note 29)	-	(25)
Cash and cash equivalents per statement of cash flows	18,173	22,933

23. Insurance contract liabilities

a) Analysis of insurance contract liabilities

	2010	2009
	£000	£000
Insurance contract liabilities	71,256	220,320
Linked insurance contract liabilities	43,827	38,748
Claims liabilities	158	202
	115,241	259,270

During December 2010 the reinsurance agreement with LVFS was terminated, refer to note 9 for further details

b) Movement in insurance contract liabilities

	2010 £000	2009 £000
Gross		
Balance at 1 January	**220,320**	229,419
Premiums received	**17,204**	20,216
Liabilities paid for death maturities, surrenders, benefits and claims	**(8,731)**	(9,957)
New business	**(2,340)**	(1,939)
Benefits and claims variation	**(4,736)**	15,288
Fees deducted	**(2,533)**	(5,387)
Accumulation of investment income or change in unit prices	**1,114**	1,394
Changes in assumptions		
- Mortality/morbidity	**95**	-
- Expense	**2,266**	4,138
- Surrender rates	**1,636**	-
- Discount rate	**3,445**	(11,900)
- Model changes	**(3,187)**	(19,712)
Other	**(153,297)**	(1,240)
Balance at 31 December	**71,256**	220,320

Included within 'other' is the movement in the with profit bond reinsurance held with LVFS This agreement was terminated during December 2010, refer to note 9 for further details

c) Movement in linked insurance contract liabilities

	2010 £000	2009 £000
Gross		
Balance at 1 January	**38,748**	43,882
Premiums received	**16,265**	12,764
Liabilities paid for death maturities, surrenders, benefits and claims	**(8,254)**	(6,287)
New business	**(2,212)**	(1,224)
Benefits and claims variation	**(4,477)**	(3,024)
Fees deducted	**(2,395)**	(3,402)
Accumulation of investment income or change in unit prices	**1,053**	880
Changes in assumptions		
- Mortality/morbidity	**89**	-
- Expense	**2,143**	2,613
- Surrender rates	**1,547**	-
- Discount rate	**3,256**	5,700
- Model changes	**(3,013)**	(12,446)
Other	**1,078**	(708)
Balance at 31 December	**43,828**	38,748

d) Movement in insurance claims liabilities

	2010 £000	2009 £000
Gross		
Balance at 1 January	**202**	131
Claims incurred	**197,139**	29,927
Claims paid during the year	**(197,183)**	(29,856)
Balance at 31 December	**158**	202

24. Insurance contract liabilities valuation

The basis of the calculation of the insurance contract liabilities is described in the accounting policies The liability is calculated separately for each life operation Material judgement is required in calculating the liability In particular there is discretion over the assumptions used Non-participating liabilities are valued using a gross premium method

Ordinary long term Fund

i) Participating business
The Company has no participating business

ii) Non-participating business

	2010	2009
Interest rate		
Non-profit temporary assurances	**2.80%**	3 04%
Other assurances	**2.80%**	3 04%
Permanent health insurance:		
a) active lives	**3.50%**	3 80%
b) claims reserves	**2.50%**	3 60%
Critical illness	**3.50%**	3 80%
Annuities in payment	**2.50%**	3 60%

	2010	2009
Mortality rate tables		
Non-profit temporary assurances	**TMN00/TMS00**	TMN00/TMS00
	TFN00/TFS00	TFN00/TFS00
Other assurances	**AM92/AF92**	AM92/AF92

Appropriate adjustments were made to the standard mortality tables to take account of actual experience

Morbidity rate tables		
Permanent health insurance:		
a) active lives	**CMIR12**	CMIR12
b) claims reserves	**CMIR12**	CMIR12
Critical illness	**Reinsurers rates**	Reinsurers rates

Appropriate adjustments were made to the standard mortality tables to take account of actual experience

Per policy expenses – regular premiums		
Non-profit temporary assurances	**£20.51**	£24 64
Other assurances	**£33.00**	£36 23
Permanent health insurance:		
a) active lives	**£28.84**	£28 72
b) claims reserves	**£499.54**	£412 50
Critical Ilness	**£31.73**	£28 38

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

(iii) Long term linked insurance 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 2010 and 2009 They are included within the life and pension linked insurance contract liabilities

25. Provisions

a) Carrying amounts

	2010	2009
	£000	£000
Provisions	-	12,425

The Company provided an indemnity to Liverpool Victoria Banking Services Limited for use against future costs and losses in relation to certain indemnity contracts and other liabilities with third parties (2009 £12,425,000) This indemnity was not called upon and was fully repaid during 2010

b) Movement during the year on provisions

	2010	2009
	£000	£000
Balance at 1 January	**12,425**	41,297
Released during the year	**(12,425)**	(28,872)
Balance at 31 December	-	12,425

26. Borrowings

	2010	2009
	£000	£000
Subordinated debt	-	82,310

On 20 December 2010 the Company repaid the three subordinated loans from LVFS, for £64,310,000, £12,000,000 and £6,000,000 as part of the capital reduction Interest on each was payable at 0 5% above LIBOR

27. Insurance payables

	2010	2009
	£000	£000
Arising from direct insurance operations	35	41
Arising from reinsurance operations	-	2,155
	35	2,196

28. Current Tax Liability

	2010	2009
	£000	£000
Corporation tax	1,660	929

29. Trade and other payables

	2010	2009
	£000	£000
Bank overdrafts	-	25
Amounts owed to group undertakings	5,536	-
Other creditors	1	-
Accruals and deferred income	48	51
	5,585	76

30. Retained earnings

	2010	2009
	£000	£000
Balance at 1 January	130,187	82,903
Change in the year	19,281	47,284
Balance at 31 December	149,468	130,187

31. Called up share capital

	2010	2009
	£000	£000
Allotted, called up and fully paid.		
10,000,000 ordinary shares of £1 each	10,000	539,719

On the 20th December 2010, the Company reduced its share capital by £529 7m This was effected by a transfer of assets, the settlement of intercompany balances and settlement of a subordinated loan with its parent entity LVFS The balances transferred and settled on the 20th December 2010 are detailed below

	2010
	£000
Transfer of assets to LVFS	164,365
Amounts due from LVFS	447,664
Settlement of subordinated loan due to LVFS	(82,310)
Reduction in share capital	529,719

32. Cash generated from operating activities

	2010	2009
	£000	£000
Profit before tax	**24,544**	62,026
Investment income	**(21,379)**	(19,873)
Fair value gains recorded in the income statement	**(30,000)**	(30,962)
Loss on disposal of subsidiaries	**-**	17,428
Finance costs	**1,035**	1,646
Purchase of investments at fair value through income	**(734,320)**	(410,302)
Sales of investments at fair value through income	**1,052,433**	410,508
Non cash items		
Expenses deferred during the year	**(3,006)**	(2,321)
Disposal of subsidiaries	**-**	485,192
Reduction in share capital	**(529,719)**	-
Decrease in borrowings	**(82,310)**	-
Changes in working capital		
Decrease/(Increase) in loans and receivables	**454,224**	(454,649)
Increase in insurance receivables	**(94)**	(14)
Decrease in other prepayments and accrued income	**1,101**	-
Decrease in insurance contract liabilities	**(144,029)**	(14,162)
Decrease in provisions	**(12,425)**	(28,872)
Tax payable	**-**	(13,591)
(Decrease)/increase in insurance payables	**(2,161)**	2,067
Increase in trade and other payables	**1,002**	50
Net cash (used in)/generated from operating activities	**(25,104)**	4,171

33. Related party transactions

The Company enters into transactions with key management personnel in the normal course of business All transactions are carried out on an arm's length basis other than as disclosed in note 14 Details of significant transactions carried out during the year with related parties are as follows

a Key management personnel of the Company is the Board The summary of the compensation of the Board is as follows

	2010	2009
	£000	£000
Short-term employee benefits	2,461	2,761
Post-employment benefits	39	132
Termination benefits	292	-
	2,792	2,893

	Income/(expenditure)		Amount owed/(owing)	
	2010	2009	2010	2009
Related party	£000	£000	£000	£000
LVFS	(20,762)	(21,180)	(5,535)	455,012
Liverpool Victoria Asset Management Limited (LVAM)	(563)	(515)	26	(47)

Expenses from LVFS relate to management charges and payments under the reinsurance agreement, while those from LVAM relate to investment charges

	Value of loan		Interest paid	
	2010	2009	2010	2009
Subordinated loan	£000	£000	£000	£000
LVFS	-	82,310	1,035	1,646

During the year, the Company repaid the subordinated loan held with LVFS, see note 26 for further details

	2010	2009
Reinsurance	£000	£000
Premiums received	33,218	35,443
Claims paid	(193,174)	(25,733)

In December 2010 the with profit bond reinsurance agreement with LVFS was terminated, see note 9 for further details

	2010	2009
Share capital	£000	£000
Allotted, called up and fully paid shares	10,000	539,719

In December 2010 the Company reduced its share capital, see note 31 for further details

34 Commitments

At 31 December 2010 the Company had no commitments to capital expenditure

35. Ultimate parent society

The largest and the smallest company whose accounts this company is consolidated into is Liverpool Victoria Friendly Society Limited, a UK 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

or at www lv com/aboutus/report