

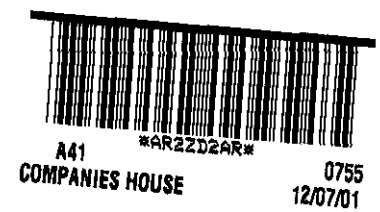
**LIVERPOOL VICTORIA INSURANCE COMPANY LIMITED**

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**REPORT AND  
ACCOUNTS**

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**FOR THE YEAR ENDED 31 DECEMBER 2000**



# **LIVERPOOL VICTORIA INSURANCE COMPANY LIMITED**

## **REPORT AND ACCOUNTS 2000**

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# **LIVERPOOL VICTORIA INSURANCE COMPANY LIMITED**

## **DIRECTORS, OFFICERS AND REGISTERED OFFICE**

### **Directors**

- \* J T Woolhouse MA, FIA (Chairman)
- M L Berryman BSc (Hons), FIA
- \* D F Brothwood FCII
- \* J A Clench
- K J Durkan
- \* R E Evans MA
- H W Paine FCII (Resigned 3/8/2000)
- \* R B M Hurley FCII (Resigned 31/5/2000)
- \* A S Noble MA, LLD, FCMA (Resigned 16/5/2000)
  
- \* Non Executive Directors

### **Secretary**

C A Peters FCII

### **Registered office**

Victoria House  
135 Poole Road  
Bournemouth  
BH4 9BG  
Telephone: 01202 292333  
Fax: 01202 751825

# LIVERPOOL VICTORIA INSURANCE COMPANY LIMITED

## DIRECTORS' REPORT

The Directors submit their annual report and the audited accounts for the year to 31 December 2000.

**1. Results and Dividends**

The loss on ordinary activities after taxation was £5,273,000 (1999 - £7,161,000 loss). No dividends are proposed in the current year.

**2. Principal activities**

The principal activity of the company is to carry on insurance business which is general business within the meaning of the Insurance Companies Act 1982, in respect of business contracted with an individual.

**3. Review of developments**

The directors have reviewed the company's development and consider it to be satisfactory. The company increased income significantly in 2000 whilst holding expenses close to the 1999 level.

**4. Directors**

The present members of the Board and the members who served during the year are listed on page 2.

**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 2000 had no interest in the share capital of the company at that date.

**6. Auditors**

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

Ernst & Young has stated that, during 2001, it is intending to transfer its business to a limited liability partnership incorporated under the Limited Liability Partnerships Act 2000. If this happens, it is the current intention of the directors to use their statutory powers to treat the appointment of Ernst & Young as extending to Ernst & Young LLP.

**LIVERPOOL VICTORIA INSURANCE COMPANY LIMITED**

**DIRECTORS' REPORT (continued)**

**7. Employees**

The company utilised the staff and premises of Liverpool Victoria Friendly Society Limited in carrying out its activities in 2000. Costs not directly recharged were paid by way of a management charge.

**8. Introduction of the euro**

Costs associated with the introduction of the euro will be incurred by the parent society, Liverpool Victoria Friendly Society Limited.

The directors do not consider the impact of the euro on the company to be significant.

**APPROVED BY THE BOARD OF DIRECTORS AND SIGNED BY ORDER OF  
THE BOARD**



**C A Peters**

Secretary

20 March 2001

# **LIVERPOOL VICTORIA INSURANCE COMPANY LIMITED**

## **STATEMENT OF DIRECTORS' RESPONSIBILITIES**

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 or 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;
- 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.

# **REPORT OF THE AUDITORS TO THE MEMBERS OF LIVERPOOL VICTORIA INSURANCE COMPANY LIMITED**

We have audited the accounts on pages 7 to 18 which have been prepared on the basis of the accounting policies set out on pages 10 and 11.

## **Respective responsibilities of directors and auditors**

As described on page 5 the company's directors are responsible for the preparation of accounts in accordance with applicable United Kingdom law and accounting standards. It is our responsibility to form an independent opinion, based on our audit, on those accounts and to report our opinion to you. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board and by our profession's ethical guidance.

## **Basis of opinion**

We conducted our audit in accordance with Auditing Standards 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.

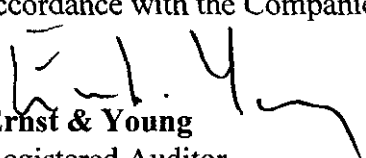
We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the accounts are free from material mis-statement, whether caused by fraud or other irregularity or error.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

## **Equalisation provisions**

Our evaluation of the presentation of information in the accounts has had regard to the statutory requirement for insurance companies to maintain equalisation provisions. The nature of equalisation provisions is explained in note 1 to the accounts. The amount set aside at 31 December 2000 and the effect of the movement in this provision during the period on the technical account for general business and the loss before tax are disclosed in note 5.

## **Opinion**

In our opinion the accounts give a true and fair view of the state of affairs of the company as at 31 December 2000 and of its loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



**Ernst & Young**  
Registered Auditor  
Rolls House  
7 Rolls Buildings  
Fetter Lane  
London  
EC4A 1NH  
20 March 2001

**LIVERPOOL VICTORIA INSURANCE COMPANY LIMITED**

**PROFIT AND LOSS ACCOUNT: TECHNICAL ACCOUNT - GENERAL BUSINESS**

for the year ended 31 December 2000

	Notes	2000 £000	1999 £000
Gross premiums written	2	210,368	179,697
Outward reinsurance premiums		(7,202)	(6,585)
Net premiums written		<u>203,166</u>	<u>173,112</u>
Change in the gross provision for unearned premiums		(14,632)	(7,995)
Change in the provision for unearned premiums, reinsurers' share		-	-
Change in the net provision for unearned premiums		<u>(14,632)</u>	<u>(7,995)</u>
<b>Earned premiums net of reinsurance</b>		188,534	165,117
Claims paid			
Gross amount		(138,809)	(118,901)
Reinsurers' share		869	156
Claims paid net of reinsurance		<u>(137,940)</u>	<u>(118,745)</u>
Change in the provision for claims			
Gross amount		(23,923)	(18,286)
Reinsurers' share		3,866	1,349
Change in the provision for claims net of reinsurance		<u>(20,057)</u>	<u>(16,937)</u>
<b>Claims incurred net of reinsurance</b>	3	(157,997)	(135,682)
<b>Changes in other technical provisions, net of reinsurance</b>		-	879
<b>Net operating expenses (including exceptional project costs of £9.04 million (1999 : £9.98 million))</b>	4	(53,317)	(53,830)
<b>Change in the equalisation provision</b>	5	(1,303)	(1,587)
<b>Balance on the technical account for general business</b>		<u><u>(24,083)</u></u>	<u><u>(25,103)</u></u>

All amounts are derived from continuing operations.

There are no recognised gains or losses for the current financial year and the preceding financial year other than the (loss) for the financial year. Accordingly, no statement of total recognised gains and losses is given.



**LIVERPOOL VICTORIA INSURANCE COMPANY LIMITED**

**PROFIT AND LOSS ACCOUNT: NON TECHNICAL ACCOUNT**

for the year ended 31 December 2000

	Notes	2000 £000	1999 £000
<b>Balance on the technical account for general business</b>		(24,083)	(25,103)
Investment income	8	21,309	18,834
Investment expenses and charges	9	(367)	(42)
Unrealised (losses)/gains on investments		(6,311)	2,107
		———	———
<b>Loss on ordinary activities before tax</b>		(9,452)	(4,204)
Tax on loss on ordinary activities	10	4,179	(2,957)
<b>Loss for the financial period</b>	16	<u>(5,273)</u>	<u>(7,161)</u>
		=====	=====

**LIVERPOOL VICTORIA INSURANCE COMPANY LIMITED**

**BALANCE SHEET**

31 December 2000

	Notes	2000 £000	2000 £000	1999 £000	1999 £000
<b>Assets</b>					
<b>Investments</b>					
Other financial investments	11		271,649		284,497
<b>Reinsurers share of technical provisions</b>					
Claims outstanding			13,082		9,214
<b>Debtors</b>					
Debtors arising out of direct insurance operations	12	76,622		46,750	
Debtors arising out of reinsurance operations		1,477		-	
Other debtors	13	3,219		10,321	
			81,318		57,071
<b>Other assets</b>					
Cash at bank and in hand			29,431		5,745
<b>Prepayments and accrued income</b>	14		21,652		17,777
<b>Total assets</b>			<u>417,132</u>		<u>374,304</u>
<b>Liabilities</b>					
<b>Capital and reserves</b>					
Called up share capital	15	138,000		138,000	
Profit and loss account	16	(29,476)		(24,203)	
Shareholders funds attributable to equity interests	18		108,524		113,797
<b>Technical provisions</b>					
Provision for unearned premiums		107,863		93,232	
Claims outstanding		148,093		124,170	
Equalisation provision		5,042		3,739	
			260,998		221,141
<b>Creditors</b>					
Creditors arising out of direct insurance operations		36,242		25,694	
Creditors arising out of reinsurance operations		-		497	
Other creditors including taxation and social security	17	3,633		3,310	
			39,875		29,501
<b>Accruals and deferred income</b>			6,621		5,341
<b>Provisions for other risks and charges</b>	19		1,114		4,524
<b>Total liabilities</b>			<u>417,132</u>		<u>374,304</u>

The accounts were approved by the Board of Directors on 20 March 2001

Signed on behalf of the Board of Directors

Director



# LIVERPOOL VICTORIA INSURANCE COMPANY LIMITED

## NOTES TO THE ACCOUNTS

31 December 2000

### 1. Accounting policies

- (a) These accounts have been prepared in compliance with section 255 and schedule 9A of the Companies Act 1985, as amended by the Companies Act 1985 (Insurance Companies Accounts) Regulations 1993.

The accounts are prepared in accordance with applicable accounting standards, and the Association of British Insurers Guidance on Accounting for Insurance Business.

(b) **Basis of accounting**

The annual basis of accounting has been applied to all classes of business.

(c) **Premiums**

Gross premiums written reflects business accepted during the year. Unearned premium is that portion of the premium written that relates to a period of risk subsequent to the Balance Sheet date. Unearned premiums are calculated on the 365ths (daily) basis.

(d) **Outstanding claims**

Claims outstanding represent the ultimate cost of settling all claims (including direct and indirect claims settlement costs) arising from events which have occurred up to the balance sheet date including a provision for claims incurred but not yet reported less any amounts paid in respect of these liabilities.

(e) **Deferred acquisition costs**

Deferred acquisition costs are shown as an asset within prepayments in the Balance Sheet. They represent the deferral of acquisition costs associated with the unearned premium provision.

(f) **Unexpired risks**

Provision is made for any anticipated claims and deferred acquisition/claims handling costs that are anticipated to exceed the unearned premiums. An estimate is made for future investment income arising from the unearned premiums, and used to reduce the unexpired risk provision.

(g) **Equalisation provision**

Equalisation provisions are established in accordance with the requirements of the Insurance Companies (Reserves) Act 1995. These provisions required by Statute are over and above the provisions required to meet the anticipated ultimate cost of settlement of outstanding claims at the balance sheet date.

(h) **Investment income**

Investment income comprises gross interest receivable in the year. Gains on realisation of investments are also included within investment income.

# LIVERPOOL VICTORIA INSURANCE COMPANY LIMITED

## NOTES TO THE ACCOUNTS

31 December 2000

### (i) Investments

Investments are made in UK equities, British Government fixed income securities, certificates of deposit, short term deposits and overnight accounts. Investments are stated at mid-market value at the year end. Realised and unrealised gains and losses are taken to the Non-Technical Account. Realised gains are included within investment income and realised losses are included within investment expenses and charges.

### (j) Deferred taxation

Deferred taxation is provided at the anticipated tax rates 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 such deferred taxation assets will be recoverable in the foreseeable future.

2. Segmental Analysis 2000	Motor £000	Property Damage £000	Other £000	Total £000
Gross written premium	146,943	60,312	3,113	210,368
Gross earned premium	133,736	58,723	2,777	195,236
Gross claims incurred	114,024	47,177	1,531	162,732
Gross operating expenses (Note 4)	38,722	13,899	696	53,317
Reinsurance balance (net of premiums & claims)	(870)	(1,578)	(19)	(2,467)
Net technical result	(19,380)	(5,234)	531	(24,083)
Net technical provisions	194,255	63,961	2,782	260,998
Segmental Analysis 1999	Motor £000	Property Damage £000	Other £000	Total £000
Gross written premium	121,178	56,027	2,492	179,697
Gross earned premium	115,067	54,685	1,950	171,702
Gross claims incurred	102,572	33,823	792	137,187
Gross operating expenses (Note 4)	37,219	16,089	522	53,830
Reinsurance balance (net of premiums & claims)	(2,412)	(2,649)	(19)	(5,080)
Net technical result	(26,257)	537	617	(25,103)
Net technical provisions	165,717	53,447	1,977	221,141

All business is direct business, written in the U.K.

# LIVERPOOL VICTORIA INSURANCE COMPANY LIMITED

## NOTES TO THE ACCOUNTS

31 December 2000

### 3. Movement in prior year's provision for claims outstanding

Included within claims incurred is a release of £7.8 million in respect of motor insurance business (1999 : Motor - £2.7 million, Property damage - £5.4 million), being the difference between the provision for claims outstanding at the beginning of the year less payments made in respect of claims incurred in prior years and the claims outstanding at the end of the year in respect of those claims.

4. Net operating expenses	2000 £000	1999 £000
Acquisition costs	21,622	21,455
Change in deferred acquisition costs	(93)	1,109
Administrative expenses (note 5)	34,102	31,266
Reinsurance commissions and profit participation	(2,314)	-
	<u>53,317</u>	<u>53,830</u>

Included within administrative expenses are £9.04 million (1999 : £9.98 million) of project costs.

### 5. Equalisation provision

The establishment of an equalisation provision has had the effect of reducing shareholder's funds by £5,042,251 (1999 : £3,738,736). The movement in the equalisation provision during the year resulted in a decrease in the general business technical accounts result, and the loss before tax of £1,303,515 (1999 : £1,586,675).

### 6. Administrative expenses

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 audit services to the company amounted to £53,000 (1999 : £53,000).

# LIVERPOOL VICTORIA INSURANCE COMPANY LIMITED

## NOTES TO THE ACCOUNTS

31 December 2000

### 7. Directors

#### Emoluments

Emoluments of directors arising exclusively out of their duties as directors of the company were as follows :

	2000 £000	1999 £000
Aggregate emoluments	161 ==	154 ==

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

### 8. Investment income

	2000 £000	1999 £000
Income from deposits with credit institutions	6,293	3,479
Income from debt securities and other fixed income securities	11,999	14,025
Gains on realisation of investments	-	569
Income from shares and other variable yield securities	1,142	761
Income from premium financing	1,770	-
Interest from Inland Revenue	105	-
	<u>21,309</u>	<u>18,834</u>

### 9. Investment expenses and charges

	2000 £000	1999 £000
Losses on realisation of investments	270	-
Intra-group investment management fees	97	42
	<u>367</u>	<u>42</u>

**LIVERPOOL VICTORIA INSURANCE COMPANY LIMITED**

**NOTES TO THE ACCOUNTS**

31 December 2000

<b>10. Tax on loss on ordinary activities</b>	2000	1999
	£000	£000
Taxation is based on the loss for the period and comprises:		
Charge for the year at 30%(1999 - 30.25%)	209	-
Group relief payable/(recoverable)	151	(3,494)
Deferred tax (credit)/charge for the year on unrealised gains on shares	(3,560)	3,731
Prior year adjustments:		
Deferred tax adjustment	150	-
Deferred tax write off	-	6,770
Less Group relief receivable	(1,129)	(4,050)
	<u>(4,179)</u>	<u>2,957</u>

<b>11. Other financial investments</b>	Market	Market	Historic	Historic
	Value	Value	Cost	Cost
	2000	1999	2000	1999
Listed investments:	£000	£000	£000	£000
Debt securities and other fixed income securities	161,588	192,488	159,911	196,396
Shares and other variable yield securities	60,061	64,809	56,257	49,111
Deposits with credit institutions	50,000	27,200	50,000	27,200
	<u>271,649</u>	<u>284,497</u>	<u>266,168</u>	<u>272,707</u>

**LIVERPOOL VICTORIA INSURANCE COMPANY LIMITED**

**NOTES TO THE ACCOUNTS**

31 December 2000

<b>12. Debtors arising out of direct insurance operations</b>	2000	1999
	£000	£000
Amount owed by group undertaking	43,821	38,072
Other	32,801	8,678
	<u>76,622</u>	<u>46,750</u>

All due within one year

All insurance business is transacted through a fellow group undertaking, Frizzell Financial Services Limited, acting as a broker.

<b>13. Other debtors</b>	2000	1999
	£000	£000
Income tax recoverable	322	3,885
Amount owed by group undertakings	636	6,436
Investments sold for subsequent settlement	1,100	-
Other debtors	1,161	-
	<u>3,219</u>	<u>10,321</u>

All due within one year.

<b>14. Prepayments and accrued income</b>	2000	1999
	£000	£000
Accrued interest	4,075	2,568
Deferred acquisition costs	11,152	11,058
Other prepayments and accrued income	6,425	4,151
	<u>21,652</u>	<u>17,777</u>



# LIVERPOOL VICTORIA INSURANCE COMPANY LIMITED

## NOTES TO THE ACCOUNTS

31 December 2000

	2000 £	1999 £
<b>15. Called up share capital</b>		
Authorised		
150,000,000 ordinary shares of £1 each	150,000,000	150,000,000
	<u>=====</u>	<u>=====</u>
Called up, allotted and fully paid		
138,000,000 ordinary shares of £1 each	138,000,000	138,000,000
	<u>=====</u>	<u>=====</u>
 <b>16. Profit &amp; Loss account</b>	 2000	 1999
	£000	£000
Balance at 1 January	(24,203)	(17,042)
Loss for the year	(5,273)	(7,161)
Balance at 31 December	<u>(29,476)</u>	<u>(24,203)</u>
	<u>=====</u>	<u>=====</u>
 <b>17. Other creditors including taxation and social security</b>	 2000	 1999
	£000	£000
Amount owed to group undertakings	975	580
Other	2,658	2,730
	<u>-----</u>	<u>-----</u>
	<b>3,633</b>	<b>3,310</b>
	<u>=====</u>	<u>=====</u>
All due within one year.		
 <b>18. Reconciliation of movement in equity shareholder's funds</b>	 2000	 1999
	£000	£000
Loss for the financial period	(5,273)	(7,161)
New share capital subscribed	-	-
Net (reduction) to equity shareholder's funds	<u>(5,273)</u>	<u>(7,161)</u>
Opening equity shareholder's funds	113,797	120,958
Closing equity shareholder's funds	<u>108,524</u>	<u>113,797</u>
	<u>=====</u>	<u>=====</u>

# LIVERPOOL VICTORIA INSURANCE COMPANY LIMITED

## NOTES TO THE ACCOUNTS

31 December 2000

### 19. Provisions for other risks and charges

	2000 £000	1999 £000
Balance at 1 January	4,524	(5,977)
Transfer to profit and loss account	(3,560)	3,731
Adjustment in respect of prior years	150	6,770
	<u>1,114</u>	<u>4,524</u>

(a) The movement in deferred taxation during the year is:

	Balance at 1 January 2000 £000	Transferred to profit & loss account £000	Balance at 31 December 2000 £000
Timing differences on unrealised gains	4,559	(3,419)	1,140
Other	(35)	9	(26)
	<u>4,524</u>	<u>(3,410)</u>	<u>1,114</u>

There is no unprovided deferred tax.

### 20. 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.

# **LIVERPOOL VICTORIA INSURANCE COMPANY LIMITED**

## **NOTES TO THE ACCOUNTS**

31 December 2000

### **21. 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 Group Company Secretary  
Frizzell House  
County Gates  
Bournemouth  
BH1 2NF

### **22. 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.