NORWICH UNION INSURANCE LIMITED

FINANCIAL STATEMENTS

2005

Norwich Union Insurance Limited

Contents

Norwich Union Insurance Limited

Directors and officer

Directors:

P J R Snowball (Chairman)
M S Hodges
P C Easter

Officer:

Company Secretary:

Aviva Company Secretarial Services Limited

Auditors:

Ernst & Young LLP
Registered Auditor
1 More London Place
London
SE1 2AF

Registered office:

8 Surrey Street
Norwich
NR1 3NG

Registered in England: No. 99122

A member of the Association of British Insurers and the Financial Ombudsman Service, and regulated by the Financial Services Authority.

The Company is a member of the Aviva plc group of companies (the Group).

Norwich Union Insurance Limited

Directors' report

for the year ended 31 December 2005

The directors present their annual report and audited financial statements for Norwich Union Insurance Limited (the Company) for the year ended 31 December 2005.

Principal activity and future developments

The principal activity of the Company is the transaction of general insurance business in the United Kingdom. The directors consider that this will continue unchanged into the foreseeable future. The Company has ceased its business through overseas agents although claims remain in run-off in certain locations.

Results for the year

Full details of the results for the year are set out on pages 16 and 18.

Major events

On 29 June 2005, all of the technical provisions and matching assets of Scottish General Insurance Company Limited, a fellow subsidiary undertaking, were transferred to the Company at fair value by way of an insurance business transfer under Part VII of the Financial Services and Markets Act 2000. The fair value of technical provisions transferred to the Company was £24 million.

Post balance sheet events

On 27 February 2006, all of the investments and technical provisions of Haven Insurance Policies Limited, a subsidiary undertaking, were transferred to the Company at fair value by way of an insurance business transfer under Part VII of the Financial Services and Markets Act 2000. The fair value of technical provisions net of reinsurance transferred to the Company was approximately £45 million.

Financial Instruments

The business of the Company includes use of financial instruments. Details of the Company's risk management objectives and policies and exposures to risk are set out in note 27 to the financial statements.

Dividends

An interim dividend for the year of £89 million was paid on 13 December 2005 (2004: £103 million). The directors do not recommend the payment of a final dividend (2004: £ nil).

Payment policy

It is the Company's policy to pay creditors when they fall due for payment. Terms of payment are agreed with suppliers when negotiating each transaction and the policy is to abide by those terms, provided that the suppliers also comply with all relevant terms and conditions.

The amounts due to trade creditors at 31 December 2005 represented approximately 8 days of average daily purchases through the year (2004: 11 days).

Norwich Union Insurance Limited

Directors' report (continued)

Employees

All employees are employed by a fellow subsidiary undertaking of Aviva plc, Aviva Employment Services Limited. Disclosures relating to employees may be found in the consolidated financial statements of Aviva plc.

Resolutions

On 25 June 2001, the members of the Company passed resolutions to dispense with the holding of Annual General Meetings, the laying of directors' reports, financial statements and auditors' reports before the members in general meetings and the obligation to appoint auditors annually.

Directors' interests

The names of the present directors of the Company appear on page 1.

B F McIntyre resigned as a director of the Company on 9 June 2005 and P C Easter was appointed as a director on the same date.

M S Hodges and P J R Snowball served as directors of the Company throughout the year.

The table below shows the interests held by each person who was a director at the end of the financial year in the ordinary shares of 25 pence each in Aviva plc. Details of any options and awards held through Aviva plc's share schemes and incentive plans are shown below and on page 4. All the disclosed interests are beneficial.

	At 1 January 2005 (or appointment if later) Number	At 31 December 2005 Number
M S Hodges	4,710	5,437
P C Easter	6,477	6,628

P J R Snowball is a director of the Company's ultimate parent undertaking, Aviva plc, and details of his interests are given in that company's financial statements.

Incentive plans

Details of the directors who held office at the end of the financial year, and hold or held options to subscribe for ordinary shares of Aviva plc or hold or held awards over shares in Aviva plc, pursuant to Aviva plc's share based incentive plans, are set out overleaf.

Norwich Union Insurance Limited

Directors' report (continued)

(i) Share options

	At 1 January 2005 (or appointment if later) Number	Options granted during the year Number	Options cancelled during the year Number	At 31 December 2005 Number
M S Hodges				
Savings related options	2,356	-	2,356	-
P C Easter				
Savings related options	4,096	-	-	4,096

(i) "Savings related options" are options granted under the Inland Revenue approved SAYE Share Option Scheme. Options granted from 1999 to 2005 are normally exercisable during the six month period following either the third, fifth or seventh anniversary of the relevant savings contract.

(ii) During the year neither director exercised any share options and therefore no gains on such were made.

	At 1 January 2005 (or appointment if later) Number	Awards granted during the year Number	Awards vested during the year Number	Awards lapsed during the year Number	At 31 December 2005 Number
M S Hodges					
Aviva Long Term Incentive Plan	113,414	-	13,042	14,775	85,597
Aviva Long Term Incentive Plan 2005	-	35,046	-	-	35,046
Aviva Deferred Bonus Plan	83,376	34,344	19,126	-	98,594
P C Easter					
Aviva Long Term Incentive Plan	123,577	-	-	-	123,577
Aviva Long Term Incentive Plan 2005	46,728	-	-	-	46,728
Aviva Deferred Bonus Plan	126,232	-	-	-	126,232

(i) Aviva Long Term Incentive Plan; awards under the Plan are made on an annual basis in March. Awards are subject to the attainment of performance conditions over a three year period.

(ii) The Aviva Long Term Incentive Plan 2005; awards under the Plan are made on an annual basis and the 2005 award was made in March. Awards are subject to the attainment of performance conditions over a three year period.

(iii) Aviva Deferred Bonus Plan; awards disclosed include those made in lieu of some or all of the cash bonus earned and deferred under Aviva plc's Annual Bonus Plan and also the matching awards granted on a one for one basis. The awards are not subject to performance conditions and vest on the third anniversary of their grant.

Norwich Union Insurance Limited

Directors' Report (continued)

Directors' liabilities

Aviva plc, the ultimate parent undertaking, has granted an indemnity to the directors against liability in respect of proceedings brought by third parties, subject to the conditions set out in the Companies Act 1985. This indemnity and the provisions in the Company's Articles of Association constitute "qualifying third party indemnities" for the purposes of sections 309A to 309C of the Companies Act 1985. Such qualifying third party indemnity provision remains in force as at the date of approving the directors' report.

Statement of directors' responsibilities

The directors are required to prepare financial statements for each accounting period that comply with the relevant provisions of the Companies Act 1985 and of the International Financial Reporting Standards (IFRS) as adopted by the European Union, and which present fairly the financial position, financial performance and cash flows of the Company at the end of the accounting period. A fair presentation of the financial statements in accordance with IFRS requires the directors to:

- select suitable accounting policies and verify they are applied consistently in preparing the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business;

- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;

- provide additional disclosures when compliance with the specific requirements in IFRS is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Company's financial position and financial performance; and

- state that the Company has complied with applicable IFRSs, subject to any material departures disclosed and explained in the financial statements.

The directors are responsible for keeping proper accounting records which are intended to disclose with reasonable accuracy, at any time, the financial position of the Company. They are also ultimately responsible for the systems of internal control maintained by the Company for safeguarding the assets of the Company and for the prevention and detection of fraud and other irregularities.

On behalf of the Board

Director

21 March 2006

Norwich Union Insurance Limited

Independent auditors' report

To the shareholders of Norwich Union Insurance Limited

We have audited the Company's financial statements for the year ended 31 December 2005, which comprise the Accounting Policies, the Income Statement, the Balance Sheet, the Statement of Recognised Income and Expense, the Reconciliation of Movements in Shareholder's Equity, the Cash Flow Statement, and the related notes 1 to 30. These financial statements have been prepared on the basis of the accounting policies set out therein.

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

Respective responsibilities of directors and auditors

The directors are responsible for preparing the financial statements in accordance with the applicable United Kingdom law and International Financial Reporting Standards (IFRSs) as adopted by the European Union as set out in the statement of directors' responsibilities in the Directors' Report.

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

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Directors' Report is not consistent with the financial statements, if the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

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

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, 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 financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Independent auditors' report (continued)
To the shareholders of Norwich Union Insurance Limited

Opinion

In our opinion the financial statements:

- Give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the Company's affairs as at 31 December 2005 and of its profit for the year then ended; and

- Have been properly prepared in accordance with the Companies Act 1985.

Ernst & Young LLP

Ernst & Young LLP
Registered Auditor
London
24 March 2006

Norwich Union Insurance Limited

Accounting policies

Norwich Union Insurance Limited, a limited company incorporated and domiciled in the United Kingdom (UK), transacts general insurance business in the UK. The Directors consider that this will continue unchanged into the foreseeable future.

The principal accounting policies adopted in the preparation of these financial statements are set out below.

(A) Basis of presentation

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and International Accounting Standards (IAS) as endorsed by the European Union, applicable at 31 December 2005.

The IASB issued amendments to IAS 19, Employee Benefits, and IAS 39, The Fair Value Option, in December 2004 and June 2005 respectively. The requirements are applicable for accounting periods beginning on or after 1 January 2006, but the Company has decided to adopt them early and reflect their impact in these financial statements.

In August 2005, the IASB issued IFRS 7, Financial Instruments: Disclosures, and amendments to IAS 1, Capital Disclosures, and IAS 39/IFRS 4, Financial Guarantee Contracts. Their requirements are applicable for accounting periods beginning on or after 1 January 2007 for the first two and, for the third, 1 January 2006. The Company has decided not to adopt any of them early in these financial statements but the impact of adopting these standards is not expected to have a material effect on the results of the Company. IFRS 7 will result in amendments to the disclosure of financial assets and liabilities, whilst the amendments to IAS 1 bring the capital disclosures into line with IFRS 7. The amendments to IAS 39 and IFRS 4 will not affect the manner in which the Company accounts for financial guarantee business. In addition, IFRS 6 and IFRIC Interpretations 5 and 6 have been issued during 2005 but are not relevant to the activities of the Company.

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

This is the Company's first set of full year results prepared in accordance with IFRS accounting policies and its previously reported 2004 financial statements have accordingly been restated to comply with IFRS, with the date of transition to IFRS being 1 January 2004. The principal effects of the adoption of IFRS have been reflected within note 1 on first time adoption of IFRS.

The financial statements are stated in British pounds, which is the Company's functional and presentation currency. Unless otherwise noted, the amounts shown in these financial statements are in millions of British pounds (£m).

The Company is exempt from preparing group accounts by virtue of Section 228 of the Companies Act 1985, as it is a subsidiary of an EU parent (note 30(c)). The financial statements present information about the Company as an individual undertaking and not about its group.

(B) Use of estimates

The preparation of financial statements requires the Company to make estimates and assumptions that affect items reported in the balance sheet and income statement and the disclosure of contingent assets and liabilities at the date of the financial statements. Although these estimates are based on management's best knowledge of current facts, circumstances and, to some extent, future events and actions, actual results ultimately may differ from those estimates, possibly significantly.

(C) Subsidiaries

Shares in subsidiary undertakings are included at fair value estimated using applicable valuation models underpinned by Aviva plc's market capitalisation. They are classified as available for sale (AFS) financial assets, with changes in their fair value being recorded in a separate investment revaluation reserve within equity. Impairments in the value below cost are charged to the income statement.

Norwich Union Insurance Limited

Accounting policies (continued)

(D) Foreign currency translation

Foreign currency transactions are accounted for at the exchange rates prevailing at the date of the transactions. Gains and losses resulting from the settlement of such transactions, and from the translation of monetary assets and liabilities denominated in foreign currencies, are recognised in the income statement.

Translation differences on debt securities and other monetary financial assets measured at fair value and designated at fair value through profit or loss (as defined in policy M) are included in foreign exchange gains and losses in the income statement. Translation differences on non-monetary items, such as equities, which are held at fair value through profit or loss are reported as part of the fair value gain or loss.

(E) Product classification

Insurance contracts are defined as those containing significant insurance risk if, and only if, an insured event could cause an insurer to pay significant additional benefits in any scenario, excluding scenarios that lack commercial substance, at the inception of the contract. Such contracts remain insurance contracts until all rights and obligations are extinguished or expire. Contracts can be reclassified as insurance contracts after inception if insurance risk becomes significant. Any contracts not considered to be insurance contracts under IFRS are classified as investment or service contracts.

As noted in policy A above, insurance contracts in general continue to be measured and accounted for under existing accounting practices at the date of transition to IFRS. Accounting for insurance contracts is determined in accordance with the Statement of Recommended Practice issued by the Association of British Insurers in December 2005.

(F) Premiums earned

Insurance premiums written reflect business incepted during the year, and exclude any sales-based taxes or duties or levies. Written premiums include an estimate of pipeline premiums less a provision for anticipated lapses. Unearned premiums are those proportions of the premiums written in a year that relate to periods of risk after the balance sheet date. Unearned premiums are computed principally on either a daily or monthly pro rata basis. Premiums collected by intermediaries, but not yet received, are assessed based on estimates from underwriting or past experience, and are included in premiums written.

(G) Net investment income

Investment income consists of dividends, interest and rents receivable for the year, movements in amortised cost on debt securities, realised gains and losses, and unrealised gains and losses on FVPL investments (as defined in policy M). Dividends on equity securities are recorded as revenue on the ex-dividend date. Interest income is recognised as it accrues, taking into account the effective yield on the investment.

The realised gain or loss on disposal of an investment is the difference between the proceeds received, net of transaction costs and its original cost or amortised cost as appropriate. Unrealised gains and losses represent the difference between the carrying value at the year end and the carrying value at the previous year end or purchase value during the year, less the reversal of previously recognised unrealised gains and losses in respect of disposals made during the year.

Accounting policies (continued)

(H) Insurance contract liabilities

Claims

Insurance claims incurred include all losses occurring during the year, whether reported or not, related handling costs, a reduction for the value of salvage and other recoveries, and any adjustments to claims incurred in previous years.

Loss adjustment expenses include internal and external costs incurred in connection with the negotiation and settlement of claims. Internal costs include all direct expenses of the claims handling department and any part of the general administrative costs directly attributable to the claims handling function.

Outstanding claims provisions

Insurance outstanding claims provisions are based on the estimated ultimate cost of all claims incurred but not settled at the balance sheet date, whether reported or not, together with related loss adjustment expenses. Significant delays are experienced in the notification and settlement of certain types of general insurance claims, particularly in respect of liability business, the ultimate cost of which cannot be known with certainty at the balance sheet date. Any estimate represents a determination within a range of possible outcomes. Further details of estimation techniques are given in note 17 (c).

Outstanding claims provisions are valued net of an allowance for expected future recoveries. Recoveries include non-insurance assets that have been acquired by exercising rights to salvage and subrogation under the terms of insurance contracts.

Provision for unearned premiums

The proportion of written premiums, gross of commission payable to intermediaries, attributable to subsequent periods is deferred as a provision for unearned premiums. The change in this provision is taken to the income statement in order that revenue is recognised over the period of risk.

Liability adequacy

At each reporting date, the Company reviews its unexpired risks and carries out a liability adequacy test for any overall excess of expected claims and deferred acquisition costs over unearned premiums using the current estimates of future cash flows under its contracts after taking account of the investment return expected to arise on assets relating to the relevant general business provisions. If these estimates show that the carrying amount of its insurance liabilities (less related deferred acquisition costs) is insufficient in light of the estimated future cash flows, the Company recognises the deficiency in the income statement by setting up a provision in the balance sheet.

Other assessments and levies

The Company is subject to various periodic insurance-related assessments or guarantee fund levies. Related provisions are established where there is a present obligation (legal or constructive) as a result of a past event. Such amounts are not included within insurance liabilities but are included under "other liabilities" in the balance sheet.

Accounting policies (continued)

(I) Reinsurance

The Company cedes reinsurance in the normal course of business, with retention limits varying by line of business. The cost of reinsurance is accounted for over the life of the underlying reinsured policies, using assumptions consistent with those used to account for these policies. Gains or losses on buying retroactive reinsurance are recognised in the income statement immediately at the date of purchase and are not amortised.

Reinsurance assets primarily include balances due from both insurance and reinsurance companies for ceded insurance liabilities. Amounts recoverable from reinsurers are estimated in a manner consistent with the outstanding claims provisions or settled claims associated with the reinsured policies and in accordance with the relevant reinsurance contract.

If a reinsurance asset is impaired, the Company reduces the carrying amount accordingly and recognises that impairment loss in the income statement. A reinsurance asset is impaired if there is objective evidence, as a result of an event that occurred after initial recognition of the reinsurance asset, that the Company may not receive all amounts due to it under the terms of the contract, and the event has a reliably measurable impact on the amounts that the Company will receive from the reinsurer.

(J) Intangible assets

Intangible assets consist of purchases of customer lists in relation to small brokerages. These are amortised over their useful lives of four years using the straight-line method. The amortisation charge for the period is included in the income statement under 'other operating expenses'.

(K) Impairment of non-financial assets

Non-financial assets are reviewed for impairment losses whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the carrying amount of the asset exceeds its recoverable amount, which is the higher of an asset's net selling price and value in use. For the purposes of assessing impairment, assets are grouped at the lowest level for which there are separately identifiable cash flows.

Accounting policies (continued)

(L) Derecognition and offset of financial assets and financial liabilities

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised where:

(i) the rights to receive cash flows from the asset have expired;

(ii) the Company retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a "pass-through" arrangement; or

(iii) the Company has transferred its rights to receive cash flows from the asset and either;

- (a) has transferred substantially all the risks and rewards of the asset, or
- (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expires. Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

(M) Financial investments

The Company classifies its investments as financial assets at fair value through profit or loss (FVPL). The FVPL category is used as, in most cases the Company's strategy is to manage its financial investments on a fair value basis.

The FVPL category has two sub-categories – those that meet the definition as being held for trading and those the Company chooses to designate as FVPL (referred to in this accounting policy as "other than trading"). Fixed maturities, purchased loans and equity securities, which the Company buys with the intention to resell in the near term (typically between three and six months), are classified as trading. All other securities in the FVPL category are classified as other than trading.

Purchases and sales of investments are recognised on the trade date, which is the date that the Company commits to purchase or sell the assets, at their fair values less transaction costs. Debt securities are initially recorded at their fair value, which is taken to be amortised cost, with amortisation credited or charged to the income statement. Investments classified as trading and other than trading are subsequently carried at fair value. Changes in the fair value of trading and other than trading investments are included in the income statement in the period in which they arise.

The fair values of investments are based on quoted bid prices or amounts derived from cash flow models. Fair values for unlisted equity securities are estimated using applicable price/earnings or price/cash flow ratios refined to reflect the specific circumstances of the issuer. Equity securities for which fair values cannot be measured reliably are recognised at cost less impairment.

Accounting policies (continued)

(N) Derivative financial instruments and hedging

Derivative financial instruments include foreign exchange contracts and interest rate swaps, that derive their value mainly from underlying interest rates and foreign exchange rates. All derivatives are initially recognised in the balance sheet at their fair value, which usually represents their cost. They are subsequently re-measured at their fair value, with the method of recognising movements in this value depending on whether they are designated as hedging instruments and, if so, the nature of the item being hedged. Fair values are obtained from quoted market prices or, if these are not available, by using valuation techniques such as discounted cash flow models or option pricing models. All derivatives are carried as assets when the fair values are positive and as liabilities when the fair values are negative.

Over-the-counter (OTC) derivative contracts are individually negotiated between contracting parties and include forwards, swaps, caps and floors. Derivatives are subject to various risks including market, liquidity and credit risk, similar to those related to the underlying financial instruments.

The notional or contractual amounts associated with derivative financial instruments are not recorded as assets or liabilities on the balance sheet as they do not represent the potential gain or loss associated with such transactions. These amounts are disclosed in note 28.

Interest rate swaps

Interest rate swaps are contractual agreements between two parties to exchange periodic payments in the same currency, each of which is computed on a different interest rate basis, on a specified notional amount. Most interest rate swaps involve the net exchange of payments calculated as the difference between the fixed and floating rate interest payments. Exposure to gain or loss on swap contracts will increase or decrease over their lives as a function of maturity dates, interest rates, and the timing of payments.

Foreign exchange contracts

Foreign exchange contracts, which are non-deliverable forward contracts, represent agreements to exchange the currency of one country for the currency of another country at an agreed price and settlement date. Exposure to gain or loss on these contracts will increase or decrease over their respective lives as currency exchange rates fluctuate.

Derivative instruments for hedging

No derivatives have been designated as hedging instruments.

Norwich Union Insurance Limited

Accounting policies (continued)

(O) Loans

Loans with fixed maturities, including mortgage loans on investment property and collateral loans, are recognised when cash is advanced to borrowers. The majority of these loans are carried at their unpaid principal balances and adjusted for amortisation of premium or discount, non-refundable loan fees and related direct costs. These amounts are deferred and amortised over the life of the loan as an adjustment to loan yield using the effective interest rate method.

To the extent that a loan is considered to be uncollectable, it is written off as impaired through the income statement. Any subsequent recoveries are credited to the income statement.

(P) Deferred acquisition costs

The costs directly attributable to the acquisition of new business for insurance contracts are deferred to the extent that they are expected to be recoverable out of future margins in revenues on those contracts.

Where such business is reinsured, an appropriate proportion of the deferred acquisition costs is attributed to the reinsurer, and is treated as a separate liability.

Deferred acquisition costs are amortised over the period in which the related revenues are earned. The reinsurers' share of deferred acquisition costs is amortised in the same manner as the underlying asset.

Deferred acquisition costs are reviewed by category of business at the end of each reporting period and are written off where they are no longer considered to be recoverable.

(Q) Cash and cash equivalents

Cash and cash equivalents consist of cash at banks and in hand, deposits held at call with banks, treasury bills and other short-term highly liquid investments with less than 90 days maturity from the date of acquisition. For the purposes of the cash flow statement, cash and cash equivalents also include bank overdrafts, which are included within payables and other financial liabilities on the balance sheet.

(R) Contingent liabilities

Contingent liabilities are disclosed if the future obligation is probable and the amount cannot be reasonably estimated.

(S) Employee benefits

The Company is one of a number of UK companies in the Group being charged for its employees participating in the Aviva Staff Pension Scheme, and its contributions are affected by the financial position of the scheme. There is no contractual agreement or policy for charging the net defined benefit cost of this scheme across the participating Group entities but, instead, this cost is recognised in the financial statements of the main UK employing company. The Company therefore recognises a pension expense equal to its contributions payable in the year. Full disclosure on the Group's pension schemes is given in the Report and Accounts of Aviva plc. Full disclosure on the Aviva Staff Pension Scheme is given in the financial statements of Aviva Employment Services Limited.

Norwich Union Insurance Limited

Accounting policies (continued)

(T) Income taxes

The current tax expense is based on the taxable profits for the year, after any adjustments in respect of prior years. Tax, including tax relief for losses if applicable, is allocated over profits before taxation and amounts charged or credited to reserves as appropriate.

Provision is made for deferred tax liabilities, or credit taken for deferred tax assets, using the liability method, on all material temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements.

The principal temporary differences arise from the equalisation provision, revaluation of certain financial assets and liabilities including derivative contracts and tax losses carried forward; and, in relation to acquisitions, on the difference between the fair values of the net assets acquired and their tax base. The rates enacted or substantively enacted at the balance sheet date are used to determine the deferred tax.

Deferred 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 tax is provided on temporary differences arising from investments in subsidiaries, associates and joint ventures, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the difference will not reverse in the foreseeable future.

Deferred tax is not provided on revaluations of investments in subsidiaries as under current tax legislation no tax will arise on their disposal.

(U) Share capital and dividends

Equity instruments

An equity instrument is a contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Accordingly, a financial instrument is treated as equity if:

(i) there is no contractual obligation to deliver cash or other financial assets or to exchange financial assets or liabilities on terms that may be unfavourable; and

(ii) the instrument will not be settled by delivery of a variable number of shares or is a derivative that can be settled other than for a fixed amount of cash, shares or other financial assets.

Dividends

Interim dividends on ordinary shares are recognised in equity in the period in which they are paid. Final dividends on these shares are recognised when they have been approved by shareholders.

(V) Equalisation provision

Equalisation provisions are established in accordance with UK company law. These provisions are in addition to the provisions required to meet the anticipated ultimate cost of settlement of outstanding claims at the balance sheet date, and in the previously reported balance sheet are included in the technical provisions. Under IFRS, the provisions are not reported in the balance sheet as no liability exists but are presented within retained earnings, net of attributable tax relief.

Norwich Union Insurance Limited

Income statement
For the year ended 31 December 2005

	Note	2005 £m	2004 £m
Income	2		
Gross written premiums		3,425	3,248
Premiums ceded to reinsurers		(1,767)	(1,708)
Premiums written net of reinsurance		1,658	1,540
Net change in provision for unearned premiums		(35)	(85)
Net premiums earned		1,623	1,455
Net investment income		252	233
		1,875	1,688
Expenses	3		
Claims and benefits paid net of recoveries from reinsurers		1,120	1,018
Change in insurance liabilities, net of reinsurance		61	127
Fee and commission expense		303	296
Other operating expenses		123	116
Finance costs		6	6
		1,613	1,563
Profit before tax		262	125
Tax expense	8	44	16
Profit for the year		218	109

The accounting policies on pages 8 to 15 and notes on pages 21 to 62 are an integral part of these financial statements.

Norwich Union Insurance Limited

Balance sheet
As at 31 December 2005

	Note	2005 £m	2004 £m
Assets			
Intangible assets	10	5	5
Investments in subsidiaries	11	1,078	1,253
Loans	12	709	621
Financial investments	13	1,074	1,403
Reinsurance	14	2,164	2,000
Current tax	19	20	-
Receivables and other financial assets	15	1,568	1,522
Deferred acquisition costs	16	328	274
Prepayments and accrued income		53	67
Cash and cash equivalents	26(b)	263	222
Total assets		7,262	7,367
Liabilities			
Insurance	17	4,590	4,330
Deferred tax	19	31	2
Current tax	19	-	12
Payables and other financial liabilities	20	921	1,466
Other liabilities	21	351	322
Total liabilities		5,893	6,132
Net assets		1,369	1,235
Equity			
Capital			
Ordinary share capital	22	911	911
Capital reserves			
Share premium		148	148
Other reserves	23	120	115
Retained earnings	24	190	61
Total equity		1,369	1,235

The accounting policies on pages 8 to 15 and notes on pages 21 to 62 are an integral part of these financial statements.

Approved by the Board on 21 March 2006

Director

Norwich Union Insurance Limited

Statement of recognised income and expense
For the year ended 31 December 2005

	Note	2005	2004
		£m	£m
Fair value gains on AFS securities	23	5	47
Aggregate tax effect		-	-
Net income recognised directly in equity		5	47
Profit for the year		218	109
Total recognised income and expense for the year		223	156

The accounting policies on pages 8 to 15 and notes on pages 21 to 62 are an integral part of these financial statements.

Norwich Union Insurance Limited

Reconciliation of movements in shareholder's equity
For the year ended 31 December 2005

	Note	Ordinary share capital	Share premium	Other reserves	Retained earnings	Total equity
		£m	£m	£m	£m	£m
Balance at 1 January 2004		911	148	68	55	1,182
Total recognised income and expense for the year		-	-	47	109	156
Dividends	9	-	-	-	(103)	(103)
Total movements in the year		-	-	47	6	53
Balance at 31 December 2004		**911**	**148**	**115**	**61**	**1,235**
Total recognised income and expense for the year		-	-	5	218	223
Dividends	9	-	-	-	(89)	(89)
Total movements in the year		-	-	5	129	134
Balance at 31 December 2005		**911**	**148**	**120**	**190**	**1,369**

The accounting policies on pages 8 to 15 and notes on pages 21 to 62 are an integral part of these financial statements.

Norwich Union Insurance Limited

Cash flow statement
For the year ended 31 December 2005

	Note	2005	2004
		£m	£m
Cash flows from operating activities			
Net cash inflow from operating activities	26(a)	169	4
Tax received		-	2
Net cash from operating activities		169	6
Cash flows from investing activities			
Purchases of intangible assets		(2)	(5)
Proceeds from sale of subsidiaries		-	42
Net cash from investing activities		(2)	37
Cash flows from financing activities			
Ordinary dividends paid		(89)	(103)
Net cash used in financing activities		(89)	(103)
Net increase/(decrease) in cash and cash equivalents		78	(60)
Cash and cash equivalents at 1 January		18	78
Cash and cash equivalents at 31 December	26(b)	96	18

The accounting policies on pages 8 to 15 and notes on pages 21 to 62 are an integral part of these financial statements.

Norwich Union Insurance Limited

Notes to the financial statements

1. First time adoption of International Financial Reporting Standards

The Company has adopted International Financial Reporting Standards (IFRS) for these financial statements for the year ended 31 December 2005. In order to show comparative balances, the year ended 31 December 2004 is also shown under IFRS. The date of transition to IFRS is 1 January 2004.

In general, a company is required to determine its IFRS accounting policies and apply these retrospectively to determine its opening balance sheet under IFRS. However, International Financial Reporting Standard 1, First time adoption of International Financial Reporting Standards, (IFRS 1) allows a number of exemptions to this general principle upon adoption of IFRS. The Company has taken advantage of the following transitional arrangements.

Estimates

Where estimates had previously been made under the former basis, consistent estimates (after adjustments to reflect any difference in accounting policies) have been made for the same date on transition to IFRS (i.e. judgements affecting the Company's opening balance sheet have not been revisited for the benefit of hindsight).

Transitional provisions

The Company has not taken advantage of the exemption within IFRS 1 that allows comparative information presented in the first year of adoption of IFRS not to comply with IAS 32, IAS 39 and IFRS 4. It has elected to disclose only five years of data in its loss development tables, as permitted by IFRS 4 in the year of adoption of IFRS. This will be increased in each succeeding additional year, until the full ten years of information is included.

The following tables show the effect of adopting IFRS on the statements that have previously been reported under the former basis for the year ended 31st December 2004.

(i) Reconciliation of equity previously reported to equity reported under IFRS

	As at 1 January 2004	As at 31 December 2004
	£m	£m
Equity as previously reported	1,163	1,227
Adjusted for:		
Investment valuation (note 1)	-	(2)
Insurance changes (note 2)	41	52
Employee benefits (note 3)	(18)	(48)
Goodwill (note 4)	-	7
Investment in subsidiaries revaluation (note 5)	3	1
	26	10
Deferred tax impact of above adjustments (note 6)	(7)	(2)
Equity as reported under IFRS	1,182	1,235

Norwich Union Insurance Limited

Notes to the financial statements (continued)

1. First time adoption of International Financial Reporting Standards (continued)

(ii) Reconciliation of profit and loss previously reported to profit and loss reported under IFRS

	For the year ended 31 December 2004
	£m
Profit for the year as previously reported	97
Adjusted for:	
Investment valuation	(2)
Insurance changes - removal of equalisation provision movement	11
Employee benefits	(30)
Goodwill	7
Investments in subsidiaries revaluation - removal of loss on disposal	21
Deferred tax impact of above adjustments	5
Profit for the year as reported under IFRS	109

Adjustments between reporting bases

The adjustments between reporting bases are as follows:

(1) Investment valuation

The adjustments in respect of investment valuation arise from the following:

	1 January 2004	31 December 2004
	£m	£m
Decrease in value of debt securities	-	(1)
Decrease in value of mortgages	-	(1)
	-	(2)

The principal changes are discussed further below:

(a) Debt securities

As previously reported, debt securities are carried at middle market value. As a result of applying IAS 39, the debt securities are carried at bid-price valuations. Shareholder's funds at 31 December 2004 decreased by £1 million. There was no material impact at 1 January 2004.

(b) Mortgages

As previously reported, mortgages are carried at middle market value. Under IFRS, mortgages are valued at amortised cost. Shareholder's funds at 31 December 2004 decreased by £1 million. There was no material impact at 1 January 2004.

1. First time adoption of International Financial Reporting Standards (continued)

(2) Insurance changes

The increase in shareholder's funds from insurance changes is as follows:

	1 January 2004	**31 December 2004**
	£m	**£m**
Derecognition of equalisation provision	41	52

An equalisation provision is recorded in the balance sheets of individual general insurance companies in the United Kingdom and in a number of other countries, to eliminate or reduce the volatility in incurred claims arising from exceptional levels of claims in certain classes of business. The provision is required by law even though no actual liability exists at the balance sheet date and was included in the previously reported balance sheet. The annual change in the equalisation provision was recorded in the previously reported profit and loss account. Under IFRS, no equalisation provision is recorded, as no actual liability exists at the balance sheet date.

(3) Employee benefits

(a) Pensions

As previously reported, under the Group's pension policy, as set out in Statement of Standard Accounting Practice 24, Accounting for Pension Costs (SSAP 24), the cost of providing pension benefits was expensed using actuarial valuation methods which give a substantially even charge over the expected service lives of employees, and results in either a prepayment or an accrual to the extent that this charge does not equate to the cash contributions made into the schemes. The Company accrued for its share of such prepayments. Under IAS 19, Employee Benefits the Company charges pension contributions to the income statement in the period in which they are made.

This change in accounting has resulted in the removal of the Company's share of SSAP 24 balances, a prepayment of £51 million at 31 December 2004 (1 January 2004: £21 million).

(b) Equity compensation plans

As previously reported, the costs of awards to employees under Group equity compensation plans are recognised immediately if they are not conditional on performance criteria. If the award is conditional upon future performance criteria, the cost is recognised over the period to which the employee's service relates. The minimum cost for the award is the difference between the fair value of the shares at the date of grant less any contribution required from employee or exercise price. The cost is based on a reasonable expectation of the extent that the performance criteria will be met. Any subsequent changes in that expectation are reflected in the income statement as necessary.

Under IFRS 2, Share-based Payment, compensation costs for Group equity compensation plans that were granted after 7 November 2002, but had not yet vested at 1 January 2005, are determined based on the fair value of the share-based compensation at grant date. The company's allocation of such costs is recognised in the income statement over the period of the expected life of the share-based instrument.

This change in accounting has resulted in a decrease in accruals in the balance sheets at 31 December 2004 of £3 million (1 January 2004: £3 million).

Norwich Union Insurance Limited

Notes to the financial statements (continued)

1. First time adoption of International Financial Reporting Standards (continued)

(4) Goodwill

As previously reported, goodwill arising before 1 January 1998 was eliminated against shareholder's funds and was not subsequently reinstated. Goodwill written off to shareholder's funds was taken back through the profit and loss account when calculating the profit or loss in the event of any subsequent disposal of the underlying investment. For acquisitions subsequent to 1997, goodwill arising on acquisition was carried on the balance sheet and amortised in the profit and loss account on a straight line basis over its useful economic life, not exceeding 20 years.

Under IAS 36, Impairment of Assets, goodwill is no longer amortised but is tested for impairment at least annually. Any goodwill previously amortised or, for goodwill arising before 1 January 1998, eliminated against shareholder's funds has not been reinstated.

This change in accounting has resulted in release of provision for amortisation of goodwill of £7 million at 31 December 2004 (1 Janaury 2004: £ nil)

(5) Investments in subsidiaries

As previously reported, investments in group undertakings were carried at net asset value with unrealised appreciation, after adjusting for goodwill, credited to revaluation reserve. Where the net asset value of subsidiary undertakings was below cost the impairment was charged to the income statement.

Under IFRS, investments in group undertakings are carried at fair value in accordance with IAS 39, Financial Instruments: Recognition and Measurement. In accordance with accounting policy C, the Company classifies such investments as available for sale (AFS), and changes in fair value are taken to the investment revaluation reserve through the statement of recognised income and expenditure. Shareholder's funds at 31 December increased by £1 million (1 January 2004: £3 million).

The profit for the year ended 31 December 2004 increased by £21 million. Under the former basis losses on disposal of subsidiaries were included, representing the difference between sale proceeds and carrying value plus goodwill previously elimated against revaluation reserve. Under IFRS, investments are carried at market value, so no loss arose on disposal.

Norwich Union Insurance Limited

Notes to the financial statements (continued)

1. First time adoption of International Financial Reporting Standards (continued)

(6) Deferred tax

As previously reported, provision was made for deferred tax assets and liabilities, using the liability method, arising from timing differences between the recognition of gains and losses in the financial statements and their recognition in a tax computation. No provision was made for tax that might arise on undistributed earnings of subsidiaries unless a binding arrangement for distribution exists. Deferred tax was recognised as a liability or asset if the transactions or events that gave the entity an obligation to pay more tax in future or a right to pay less tax in future had occurred by the balance sheet date. The Company's policy was to discount its deferred tax balances.

Under IAS 12 Income Taxes, deferred taxes are provided under the liability method for all relevant temporary differences, being the difference between the carrying amount of an asset or liability in the balance sheet and its value for tax purposes. Deferred tax assets are recognised for unused tax losses and other deductible temporary differences to the extent that it is probable that future taxable profit will be utilised against the unused tax losses and credits. Discounting is prohibited under IAS 12.

The changes to deferred tax arise from changes to the valuation of the Company's assets and liabilities under IFRS and presentational changes to disclosure of tax assets and liabilities. The main net increases in deferred tax at 1 January 2004 and 31 December 2004 that reduce shareholder's funds are:

	1 January 2004	31 December 2004
	£m	**£m**
Deferred tax impact of the removal of the equalisation provision	(12)	(16)
Deferred tax impact of employee benefits	5	14
Net decrease to shareholder's funds	(7)	(2)

(7) Cash

At 31 December 2004, £69 million of the Company's investments meet the definition of cash equivalents and so have been reclassified to "cash and cash equivalents" (1 January 2004: £100 million).

Norwich Union Insurance Limited

Notes to the financial statements (continued)

2. Details of income

	2005 £m	2004 £m
Premiums earned		
Gross written premiums	3,425	3,248
Less: premiums ceded to reinsurers	(1,767)	(1,708)
Gross change in provision for unearned premiums	(47)	(185)
Reinsurers' share of change in provision for unearned premiums	12	100
Net change in provision for unearned premiums	(35)	(85)
Net premiums earned	1,623	1,455
Total revenue	1,623	1,455
Net investment income		
Interest and similar income	102	123
Dividend income from subsidiary undertakings	120	108
Other dividend income	5	5
Realised gains and losses	26	7
Unrealised gains and losses	1	1
Movement in amortised cost on debt securities	-	(10)
Gains/(losses) on investments	27	(2)
Other investment expense	(2)	(1)
Net investment income	252	233
Total income	1,875	1,688

Norwich Union Insurance Limited

Notes to the financial statements (continued)

3. Details of expenses

	2005 £m	2004 £m
Claims and benefits paid, net of recoveries from reinsurers		
Claims and benefits paid to policyholders	2,176	1,851
Less: Portfolio transfer	(24)	-
Less: Claim recoveries from reinsurers	(1,032)	(833)
	1,120	1,018
Change in insurance liabilities, net of reinsurance		
Change in insurance liabilities	189	424
Add: Portfolio transfer	24	-
Less: Change in reinsurance asset for insurance provisions	(152)	(297)
	61	127
Fee and commission expense		
Acquisition costs		
Commission expenses	200	191
Other acquisition costs for insurance	130	112
Change in deferred acquisition costs	(27)	(7)
	303	296
Other operating expenses		
Operating expenses	123	116
Finance costs		
Interest expense	6	6
Total expenses	1,613	1,563

Notes to the financial statements (continued)

4. Analysis of investment return

Effective interest rates

The table below summarises the average effective interest rate by major currency for monetary financial instruments:

	2005	**2004**
	%	%
Monetary assets in British pounds		
Debt securities	5.2	5.4
Loans	5.8	6.0
Cash and cash equivalents	4.6	4.9

5. Employee information

All employees are employed by a fellow subsidiary undertaking of Aviva plc, Aviva Employment Services Limited. Disclosures relating to employees may be found in the consolidated financial statements of Aviva plc.

6. Directors

(i) P J R Snowball is a director of Aviva plc, and details of his remuneration are given in the financial statements of Aviva plc.

(ii) Details of the aggregate emoluments of the directors of the Company, as paid by Aviva Employment Services Limited, excluding the director referred to in (i) above, comprised:

	2005	2004
	£000	£000
Fees and benefits	594	473

(iii) Retirement benefits are accruing to three (2004: three) directors, excluding the director referred to in (i) above, under a Group defined benefit pension scheme.

(iv) The highest paid director was also a director of Aviva plc and his emoluments are disclosed in the financial statements of Aviva plc.

Norwich Union Insurance Limited

Notes to the financial statements (continued)

7. Auditors' remuneration

The total remuneration payable by the Company, excluding VAT, to its auditors, Ernst & Young LLP, in respect of the audit of these financial statements is shown below, together with fees payable in respect of other work.

	2005 £000	2004 £000
Audit services		
Statutory audit	870	632
Other services	381	158
	1,251	790

8. Tax

(a) Tax charged to the income statement

	2005 £m	2004 £m
Current tax:		
For this year	30	18
Prior year adjustments	(15)	18
Total current tax	15	36
Deferred tax:		
Origination and reversal of temporary differences	13	(20)
Prior year adjustment	16	-
Total deferred tax	29	(20)
Total tax charged to income statement	44	16

Unrecognised tax losses and temporary differences of previous years were used to reduce current tax expense and deferred tax expense by £2 million and £ nil, respectively (2004: £21 million and £ nil, respectively).

Norwich Union Insurance Limited

Notes to the financial statements (continued)

8. Tax (continued)

(b) Tax reconciliation

The tax on the Company's profit before tax differs from the theoretical amount that would arise using the tax rate in the United Kingdom as follows:

	2005	2004
	£m	£m
Net profit before tax	262	125
Tax calculated at standard UK corporation tax rate of 30% (2004: 30%)	79	38
Adjustment to tax charge in respect of prior years	1	5
Non-assessable dividends	(38)	(35)
Disallowable expenses	5	11
Non-taxable loss on sale of subsidiaries	-	7
Deferred tax assets not recognised	(2)	(20)
Other	(1)	10
Tax charged for the period (note 8(a))	44	16

9. Dividends

	2005	2004
	£m	£m
Ordinary dividends declared and charged to equity in the year		
Interim 2004 – 11.31p per share, paid in December 2004	-	103
Interim 2005 – 9.77p per share, paid in December 2005	89	-
	89	103

10. Intangible assets

	2005	2004
	£m	£m
Gross amount		
At 1 January	7	2
Additions	2	5
At 31 December	9	7
Accumulated amortisation		
At 1 January	2	-
Amortisation for the year	2	2
At 31 December	4	2
Carrying amount at 31 December	5	5

The intangible assets acquired represent purchases of customer lists in relation to small brokerages.

Norwich Union Insurance Limited

Notes to the financial statements (continued)

11. Subsidiary undertakings

Investments in subsidiaries

(a) Particulars of material subsidiaries registered in England and Wales are given below. Those undertakings which have been omitted do not materially affect the amount of the result or assets shown in the financial statements. The undertakings have share capital comprising shares of one class only and are incorporated in Great Britain.

Company	Type of business	Class of share	Proportion held	Country of incorporation and operation
London and Edinburgh Insurance Company Limited	General business insurance	Ordinary	100%	Great Britain
Haven Insurance Policies Limited	General business insurance	Ordinary	100%	Great Britain
NUI Investments Limited	Investment Management	Ordinary	100%	Great Britain
London and Edinburgh Insurance Group Limited	Dormant	Ordinary	100%	Great Britain

(b) Movement in the Company's investments in its subsidiaries.

	2005	2004
	£m	£m
Fair value		
At 1 January	1,253	1,248
Revaluations	5	47
Capital reduction by subsidiary undertaking (see note below)	(180)	-
Disposals (see note below)	-	(42)
At 31 December	1,078	1,253

In 2005, a dormant subsidiary undertaking, London & Edinburgh Group Limited ("LEIG"), reduced its capital by £180 million. This was settled by a reduction of £180 million in the intercompany loan account due by the Company to LEIG.

On 26 January 2004, the Company transferred its entire shareholding in Hill House Hammond Limited to the Company's parent undertaking, Norwich Union Holdings Limited, for consideration of £42 million, settled in cash.

Notes to the financial statements (continued)

12. Loans

(a) Carrying amounts

The carrying amounts of loans at cost/amortised cost, at 31 December 2004 and 2005 were as follows:

	2005	2004
	£m	£m
Mortgage loans	579	494
Loans to Group undertakings	130	127
Total	709	621

The fair value of the loans was £713 million (2004: £623 million).

Of the above loans, £589 million (2004: £561 million) is expected to be recovered in more than one year after the balance sheet date.

(b) Other information on mortgages

On 1 October 2004, the beneficial interest in a portfolio of mortgage loans with a market value of £477 million was transferred to the Company by a fellow subsidiary undertaking, Norwich Union Mortgages (General) Limited, with whom the legal interest in the mortgage loans remains.

13. Financial investments

(a) Financial investments comprised:

	Other than trading at fair value through profit or loss	
	2005	2004
	£m	£m
Debt securities		
Listed	891	1,247
Unlisted	16	15
	907	1,262
Equity securities		
Listed	167	141
Total financial investments	1,074	1,403

Of the above total, £1,036 million (2004: £1,255 million) is expected to be recovered in more than one year after the balance sheet date.

Norwich Union Insurance Limited

Notes to the financial statements (continued)

13. Financial investments (continued)

(b) The following is a summary of the cost/amortised cost, gross unrealised gains and losses and fair value of financial investments:

	Cost/amortised cost	Unrealised gains	Unrealised losses	2005 Fair value
	£m	£m	£m	£m
Debt securities	895	12	-	907
Equity securities	118	55	(6)	167
	1,013	67	(6)	1,074

	Cost/amortised cost	Unrealised gains	Unrealised losses	2004 Fair value
	£m	£m	£m	£m
Debt securities	1,247	15	-	1,262
Equity securities	101	46	(6)	141
	1,348	61	(6)	1,403

(c) Stocklending

The Company has entered into stock lending arrangements in the United Kingdom during the year in accordance with established market conventions. Investments are lent to locally domiciled counterparties and governed by agreements written under English and Welsh law.

The carrying amounts of financial assets received as collateral under stock lending arrangements at 31 December 2005 were £149 million (2004: £295 million).

Notes to the financial statements (continued)

14. Reinsurance assets

(a) Carrying amounts

The following is a summary of the reinsurance assets and related insurance reserves as at 31 December:

	2005			2004		
	Gross insurance provisions	Reinsurance assets	Net	Gross insurance provisions	Reinsurance assets	Net
	£m	£m	£m	£m	£m	£m
Outstanding claims provisions	2,142	917	1,225	1,971	786	1,185
Provisions for claims incurred but not reported	746	373	373	704	352	352
	2,888	1,290	1,598	2,675	1,138	1,537
Provision for unearned premiums	1,702	874	828	1,655	862	793
Total	4,590	2,164	2,426	4,330	2,000	2,330

Of the above total, £979 million (2004: £918 million) of the reinsurance assets is expected to be recovered in more than one year after the balance sheet date.

(b) Assumptions

The assumptions used for reinsurance contracts follow those used for insurance contracts, shown in note 17(c).

Reinsurance assets are valued net of any provisions for their recoverability.

Norwich Union Insurance Limited

Notes to the financial statements (continued)

14. Reinsurance assets (continued)

(c) Movements

(i) Reinsurance asset

	2005	2004
	£m	£m
Carrying amount at 1 January	1,138	841
Reinsurers' share of claims losses and expenses incurred in current year	1,211	1,121
Reinsurers' share of claims losses and expenses incurred in prior years	(27)	9
Reinsurers' share of incurred claims losses and expenses	1,184	1,130
Less:		
Reinsurance recoveries received on claims incurred in current year	(608)	(525)
Reinsurance recoveries received on claims incurred in prior years	(424)	(308)
Reinsurance recoveries received in the year	(1,032)	(833)
Change in reinsurance asset recognised as income	152	297
Carrying amount at 31 December	1,290	1,138

(ii) Reinsurers' share of the provision for unearned premiums ("UPP")

	2005	2004
	£m	£m
Carrying amount at 1 January	862	762
Premiums ceded to reinsurers in the year	1,767	1,708
Less:		
Reinsurers' share of premiums earned during the year	(1,755)	(1,608)
Changes in reinsurance asset recognised as income	12	100
Carrying amount at 31 December	874	862

Notes to the financial statements (continued)

15. Receivables and other financial assets

	2005	2004
	£m	£m
Amounts owed by insurance contract holders	443	467
Amounts owed by intermediaries	545	485
Amounts due from reinsurers	15	9
Other financial assets	565	561
Total	1,568	1,522
Expected to be recovered in less than one year	1,568	1,522

Concentrations of credit risk with respect to receivables are limited due to the size and spread of the Company's trading base. No further credit risk provision is therefore required in excess of the normal provision for doubtful receivables.

16. Deferred acquisition costs

(a) The carrying amount comprised:

	2005	2004
	£m	£m
Deferred acquisition costs	328	274

(b) The movements in deferred acquisition costs during the year were:

	2005	2004
	£m	£m
Carrying amount at 1 January	274	260
Acquisition costs written during the year	686	670
Amortisation	(632)	(656)
Carrying amount at 31 December	328	274

Deferred acquisition costs are generally recoverable within one year of the balance sheet date.

17. Insurance liabilities

(a) Carrying amount

Gross insurance liabilities at 31 December comprised:

	2005	2004
	£m	£m
Outstanding claims provisions	2,142	1,971
Provision for claims incurred but not reported	746	704
Technical provisions	2,888	2,675
Provision for unearned premiums	1,702	1,655
Total	4,590	4,330

(b) Provisions for outstanding claims

Significant delays occur in the notification and settlement of claims and a substantial measure of experience and judgement is involved in assessing outstanding liabilities, the ultimate cost of which cannot be known with certainty at the balance sheet date. The reserves are based on information currently available. However, it is inherent in the nature of the business written that the ultimate liabilities may vary as a result of subsequent developments.

Provisions for outstanding claims are established to cover the outstanding expected ultimate liability for losses and loss adjustment expenses ("LAE") in respect of all claims that have already occurred. The provisions established cover reported claims and associated LAE, as well as claims incurred but not yet reported, and associated LAE.

Outstanding claims provisions are based on undiscounted estimates of future claim payments.

No equalisation or catastrophe reserves have been recognised. This treatment differs from the former basis and is explained in note 1 on the first time adoption of IFRS.

Notes to the financial statements (continued)

17. Insurance liabilities (continued)

(c) Assumptions

Outstanding claims provisions are estimated based on known facts at the date of estimation. Case estimates are generally set by skilled claims technicians applying their experience and knowledge to the circumstances of individual claims. The ultimate cost of outstanding claims is then estimated by using a range of standard actuarial claims projection techniques, such as the Chain Ladder and Bornhuetter-Ferguson methods. The main assumption underlying these techniques is that the Company's past claims development experience can be used to project future claims development and hence ultimate claims costs. As such these methods extrapolate the development of paid and incurred losses, average costs per claim and claim numbers based on the observed development of earlier years and expected loss ratios.

Historical claims development is mainly analysed by accident period, although underwriting or notification period is also used where this is considered appropriate. Claims development is separately analysed by each line of business. Certain lines of business are also further analysed by claim type or type of coverage. In addition large claims are usually separately assessed, either by being reserved at the face value of loss adjuster estimates, or separately projected in order to reflect their future development.

In most cases no explicit assumptions are made regarding future rates of claims inflation or loss ratios. Instead, the assumptions used are those implicit in the historic claims development data on which the projections are based. Additional qualitative judgement is used to assess the extent to which past trends may not apply in the future, for example, to reflect one-off occurrences, changes in external or market factors such as public attitudes to claiming, economic conditions, levels of claims inflation, judicial decisions and legislation, as well as internal factors such as portfolio mix, policy conditions and claims handling procedures, in order to arrive at the estimated ultimate cost of claims.

(d) Movements

The following changes have occurred in the technical provisions during the year:

	2005	2004
	£m	£m
Carrying amount at 1 January	2,675	2,251
Claims losses and expenses incurred in the current year	2,413	2,222
(Decrease) / Increase in estimated claims losses and expenses incurred in prior years	(48)	53
Incurred claims losses and expenses	2,365	2,275
Less:		
Payments made on claims incurred in the current year	(1,214)	(1,041)
Payments made on claims incurred in prior years	(962)	(810)
Claims payments made in the year, net of recoveries	(2,176)	(1,851)
Changes in claims provisions reserve recognised as an expense	189	424
Gross portfolio transfer (see note overleaf)	24	-
Carrying amount at 31 December	2,888	2,675

17. Insurance liabilities (continued)

(d) Movements (continued)

On 29 June 2005, all the general insurance business of Scottish General Insurance Company Limited, a fellow subsidiary undertaking, along with matching assets were transferred to the Company at fair value by way of an insurance business transfer under Part VII of the Financial Services and Markets Act 2000. The fair value of claims liabilities transferred to the Company was £24 million.

(e) Loss development tables

The table that follows presents the development of claim payments and the estimated ultimate cost of claims for the accident years 2001 to 2005. The upper half of the table shows the cumulative amounts paid during successive years related to each accident year. For example, with respect to the accident year 2001, by the end of 2005 £1,463 million had actually been paid in settlement of claims. In addition, as reflected in the lower section of the table, the original estimated ultimate cost of claims of £1,570 million was re-estimated to be £1,577 million at 31 December 2005. This increase/decrease from the original estimate would generally be a combination of a number of factors, including claims being settled for larger or smaller amounts than originally estimated. The original estimates will also be increased or decreased, as more information becomes known about the individual claims and overall claim frequency and severity patterns.

In the year of adoption of IFRS, only five years are required to be disclosed. This will be increased in each succeeding additional year, until ten years' information is included.

The Company aims to maintain strong reserves in order to protect against adverse future claims experience and development. As claims develop and the ultimate cost of claims becomes more certain, the absence of adverse claims experience will then result in a release of reserves from earlier accident years, as shown in the loss development table below.

Accident Year	All prior years	2001	2002	2003	2004	2005	Total
	£m	£m	£m	£m	£m	£m	£m
Gross cumulative claim payments							
At end of accident year		(779)	(914)	(976)	(1,041)	(1,214)	
One year later		(1,145)	(1,369)	(1,370)	(1,595)		
Two years later		(1,290)	(1,492)	(1,504)			
Three years later		(1,394)	(1,592)				
Four years later		(1,463)					
Estimate of gross ultimate claims							
At end of accident year		1,570	1,854	1,983	2,222	2,413	
One year later		1,580	1,822	1,962	2,225		
Two years later		1,579	1,822	1,947			
Three years later		1,588	1,803				
Four years later		1,577					
Estimate of ultimate claims		1,577	1,803	1,947	2,225	2,413	
Cumulative payments		(1,463)	(1,592)	(1,504)	(1,595)	(1,214)	
Outstanding claims provisions recognised in the balance sheet	291	114	211	443	630	1,199	2,888

Norwich Union Insurance Limited

Notes to the financial statements (continued)

17. Insurance liabilities (continued)

(e) Loss development tables (continued)

After the effect of reinsurance, the loss development table is:

	All prior years	2001	2002	2003	2004	2005	Total
Accident Year	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**
Net cumulative claim payments							
At end of accident year		(580)	(447)	(483)	(516)	(606)	
One year later		(847)	(668)	(678)	(792)		
Two years later		(956)	(728)	(744)			
Three years later		(1,035)	(778)				
Four years later		(1,085)					
Estimate of net ultimate claims							
At end of accident year		1,182	911	985	1,101	1,202	
One year later		1,183	890	973	1,106		
Two years later		1,186	889	965			
Three years later		1,184	879				
Four years later		1,173					
Estimate of ultimate claims		1,173	879	965	1,106	1,202	
Cumulative payments		(1,085)	(778)	(744)	(792)	(606)	
Net outstanding claims provisions recognised in the balance sheet	278	88	101	221	314	596	1,598

The tables above include information on asbestos and environmental pollution claims provisions. The total gross and net claim provisions in respect of this business were £40 million at 31 December 2005 (2004: £40 million).

Norwich Union Insurance Limited

Notes to the financial statements (continued)

17. Insurance liabilities (continued)

(f) Provision for unearned premiums

Movements

The following changes have occurred in the provision for unearned premiums ("UPP") during the year:

	2005	2004
	£m	£m
Carrying amount at 1 January	1,655	1,470
Premiums written during the year	3,425	3,248
Less: Premiums earned during the year	(3,378)	(3,063)
Change in year	47	185
Carrying amount at 31 December	1,702	1,655

18. Effect of changes in estimates during the year

During the year, gross prior year claims provisions of £48 million (£21 million net of reinsurance) were released to the income statement. The main reasons for this decrease were reassessment of the level of provision for household and commercial motor claims.

Notes to the financial statements (continued)

19. Tax assets and liabilities

(a) General

Current tax assets and liabilities recoverable or payable in more than one year are £58 million and £20 million (2004: £7 million and £21 million) respectively.

(b) Deferred taxes

(i) The balance at the period end comprises:

	2005	2004
	£m	£m
Temporary differences arising on insurance items	(19)	(15)
Unrealised (gains)/losses on investments	(10)	(16)
Provisions and other timing differences	-	13
Unused losses and tax credits	-	16
Other temporary differences	(2)	-
Net deferred tax liability	(31)	(2)

(ii) The movement in the net deferred tax asset/(liability) was as follows:

	2005	2004
Net liability at 1 January	(2)	(22)
Amounts (charged)/ credited to profit (note 8a)	(29)	20
Net liability at 31 December	(31)	(2)

Deferred tax assets are recognised for tax loss carry forwards to the extent that realisation of the related tax benefit through future taxable profits is probable. The Company has unrecognised tax losses of £50 million (2004: £40 million) to carry forward indefinitely against future taxable income. In addition, the Company has an unrecognised capital tax loss of £3 million (2004: £3 million). This tax loss can only be offset against future capital gains and has not been recognised in these financial statements.

20. Payables and other financial liabilities

	2005	2004
	£m	£m
Payables arising out of direct insurance and assumed reinsurance	102	91
Payables arising out of ceded reinsurance	185	558
Bank overdrafts	167	204
Other financial liabilities	467	613
	921	1,466
Expected to be settled within one year	921	1,466

Bank overdrafts arose substantially from unpresented cheques and amount to £167 million (2004: £204 million). Other financial liabilities included the obligation to repay £112 million (2004: £112 million) received under stock repurchase arrangements entered into in the United Kingdom.

21. Other liabilities

	2005	2004
	£m	£m
Reinsurers' share of deferred acquisition costs	164	137
Accruals	187	185
	351	322
Expected to be settled within one year	351	322

22. Ordinary share capital

Details of the Company's ordinary share capital are as follows:

	2005	2004
	£m	£m
Authorised		
950,000,000 Ordinary shares of £1 each	950	950
Allotted called up and fully paid		
911,000,000 Ordinary shares of £1 each	911	911

Norwich Union Insurance Limited

Notes to the financial statements (continued)

23. Other reserves

Investment revaluation reserve (see accounting policy C)	**2005**	**2004**
	£m	**£m**
Balance at 1 January	115	68
Arising in the year:		
Fair value gains	5	47
Balance at 31 December	120	115

24. Retained earnings

	2005	**2004**
	£m	**£m**
Balance at 1 January	61	55
Profit for the year	218	109
Dividends (note 9)	(89)	(103)
Balance at 31 December	190	61

In accordance with accounting policy V, retained earnings includes £44 million (2004: £36 million) relating to equalisation provisions, net of attributable tax relief which are not distributable.

Notes to the financial statements (continued)

25. Contingent liabilities and other risk factors

(a) Uncertainty over claims provisions

Note 17 gives details of the estimation techniques used in determining the outstanding claims provisions which are designed to allow for prudence. These are estimated to give a result within the normal range of outcomes. To the extent that the ultimate cost falls outside this range, for example where future claims inflation differs from that expected there is uncertainty in respect of this liability.

(b) Other

As a result of an order made under section 148 of the Financial Services and Markets Act 2000, the Company, London and Edinburgh Insurance Company Limited and Haven Insurance Policies Limited have been granted a concession to deposit consolidated annual returns with the Financial Services Authority. As a condition of this concession, the Company and London and Edinburgh Insurance Company Limited have mutually guaranteed their respective liabilities in a manner approved by the Financial Services Authority. Furthermore, they continue to guarantee the liabilities of a former Group undertaking, Maritime Insurance Company Limited, which was included under the concession until 31 December 1993. This guarantee only extends to liabilities arising prior to 1 January 1998. The Company also guarantees the liabilities of two subsidiary undertakings, Aviva Insurance and Security Insurance Limited, which had their general insurance business licenses revoked in 2003 and Haven Insurance Policies Limited, which had its licence revoked in February 2006. In the opinion of the directors, no provision is necessary for these guaranteees in these financial statements.

Norwich Union Insurance Limited

Notes to the financial statements (continued)

26. Cash flow statement

	2005 £m	2004 £m
(a) The reconciliation of profit before tax to the net cash inflow from operating activities is:		
Profit before tax	262	125
Adjustments for:		
(Gains)/losses on investments (note 2)	(27)	2
Amortisation of intangible assets	2	2
Changes in working capital:		
(Increase)/ decrease in reinsurance assets	(164)	(397)
(Increase)/ decrease in deferred acquisition costs	(54)	(14)
(Increase)/ decrease in receivables and other financial assets	(45)	(212)
(Increase)/ decrease in prepayments and accrued income	13	(34)
Increase/ (decrease) in insurance liabilities	260	609
Increase/ (decrease) in payables and other financial liabilities	(380)	(235)
Increase/ (decrease) in other liabilities	29	44
Net (purchases) / sales of operating assets:		
Financial investments	361	92
Mortgage loans	(85)	(495)
Loans	(3)	-
Decrease in intercompany loans from subsidiary undertakings for transfer of mortgage loans	-	517
Net cash inflow from operating activities	169	4

Purchases and sales of loans and financial investments are included within operating cash flows as the purchases are funded from cash flows associated with the origination of insurance contracts, net of repayments of claims.

	2005 £m	2004 £m
(b) Cash and cash equivalents in the cash flow statement at 31 December comprised		
Cash at bank and in hand	201	153
Cash equivalents	62	69
	263	222
Bank overdrafts	(167)	(204)
	96	18

Norwich Union Insurance Limited

Notes to the financial statements (continued)

27. Risk management policies

(a) The Company's approach to financial risk and capital management

The Company manages financial risk and capital within an overall risk and financial management framework operated by a group of companies (NUI Group), within the Aviva plc group, that are engaged in writing general insurance business in the United Kingdom.

The primary objective of the NUI Group's risk and financial management framework is to protect against events that hinder the sustainable achievement of the Company's performance objectives, including failing to exploit opportunities. The NUI Group recognises the critical importance of having efficient and effective risk management systems in place. To this end, the NUI Group has an established governance framework, including:-

> Clear terms of reference for the legal entity Boards and the associated executive management and other committees within the NUI Group;

> A clear organisational structure with documented delegated authorities and responsibilities from the legal entity Boards to executive management committees and senior management within the NUI Group and;

> Adoption of the Group policy framework which sets out risk appetite, risk management, control and business conduct standards for the Group's worldwide operations. Each policy has a member of senior management who is charged with overseeing compliance with the policy throughout the NUI Group.

This governance structure and policy set is regularly reviewed to reflect the changing commercial and regulatory requirement. For example, following the regulatory changes brought about by the FSA's Prudential Sourcebook, which came into effect on 1 January 2004, the NUI Group has placed a greater emphasis on assessment and documentation of risks and controls, including the development of an articulation of risk appetite. As a result the NUI Group has clearly articulated its risk appetite for financial risks (insurance, market, credit and liquidity risks) and where appropriate, non financial risks (operational, group and strategic risks).

The NUI Group has adopted Group established policies focusing on the management of financial and non-financial risks. The NUI Group also monitors risks on an ongoing basis and prepares quarterly reports identifying all material risks, along with information on likelihood, severity and mitigating actions taken or planned.

The NUI Group has developed a framework using the Internal Capital Assessment (ICA) principles for identifying the risks to which it is exposed, quantifying their impact on economic capital. The ICA estimates how much capital is needed to mitigate the risk of insolvency to a selected remote level of risk applied to a number of tests (both financial and non-financial) on the capital position of the business. The ICA works to a 99.5% confidence level of economic solvency over one year, in line with UK FSA regulatory requirements. The ICA combines the results of financial and operating experience tests. Although the ICA is an internal process, from 2005 the FSA can use ICA information in discussing the target capital levels it believes the Company must have available.

In addition, the NUI Group has developed a risk-based capital model for its businesses which provides a more detailed assessment of the economic capital needs of the business.

27. Risk management policies (continued)

The NUI Group also provides a Financial Condition Report (FCR) to inform decisions on capital management issues. The FCR is a medium term projection of the overall financial position of the business under a variety of economic and operating scenarios, allowing for new business. The FCR considers a number of key performance indicators in addition to solvency and capital requirements. The FCR enables the NUI Group to assess the range of risks to which the business is exposed, their evolution over time, and the impact of mitigating actions which might be taken.

(b) Management of financial and non-financial risks

General insurance risk
The NUI Group considers insurance risk within its general insurance activity to be comprised of the following:

- The assessment and pricing of risk,
- The adequacy of exposure management through the use of accumulation management techniques and reinsurance tools,
- Catastrophe risk,
- The management of claims, and
- The adequacy of reserving

The majority of the general insurance business underwritten by the Company is of a short tail nature such as motor, household, creditor and commercial property insurances. The Group's underwriting strategy and appetite is agreed by the Group Executive Committee and communicated via specific policy statements and guidelines.

The vast majority of the Company's general insurance business is managed and priced within the same country as the domicile of the customer, predominantly in the United Kingdom.

The ICA framework is used to identify the risks to which the NUI Group is exposed, quantifying their impact and calculating appropriate capital requirements. In due course risk-based capital (RBC) models will become the primary driver of ICA risk quantification. The NUI Group undertakes a quarterly review of its insurance risks, the output from which is a key input into the ICA and RBC assessments. The NUI Group has implemented Group policies for underwriting, claims, reinsurance and reserving.

The NUI Group has developed mechanisms which identify and manage accumulated insurance exposures to contain them within the limits of the appetite of the Group. The NUI Group has pioneered various developments, such as the Norwich Union Digital Flood Map to effectively manage exposures arising from specific perils.

27. Risk management policies (continued)

Reinsurance purchases are reviewed annually, to verify that the levels of protection being bought are commensurate with any developments in exposure and equate with the risk appetite of the NUI Group. The basis of these arrangements is underpinned by extensive financial modelling and actuarial analysis to optimise the cost and risk management benefits of these arrangements. This involves utilising externally sourced probablistic models to verify the accumulations and loss probabilites based on the NUI Group's specific portfolios of business. Where external models are not available, scenarios are developed and tested using the NUI Group's data to determine potential losses and appropriate levels of reinsurance protection. The reinsurance is placed with providers who meet the Group's counterparty security requirements.

Processes are in place to manage catastrophe risk. The Company is party to a reinsurance contract, together with other subsidiary and fellow subsidiary undertakings that are part of the NUI Group, which protects against significant natural hazard events such as a windstorm or flood event. For a single realistic catastrophic event the NUI Group's maximum retention is approximately £272 million plus any losses in excess of £1,714 million.

Actuarial claims reserving is conducted by the NUI Group's actuaries in compliance with the Group General Insurance Reserving Policy and reviewed by the NUI Group's Reserving Committee. There are periodic external reviews by consultant actuaries.

Asset/liability management (ALM)

The Company has adopted Group policy on asset/liability management. The Company matches liabilities with appropriate assets for all classes of business in order to minimise the financial risk from mismatching of assets and liabilities as investment markets change. Application of the Group asset and liability framework covers a number of areas which are discussed in more detail below.

Liquidity risk

The Company has a strong liquidity position and through the application of a Group liquidity management policy seeks to ensure that it has sufficient financial resources available to meet its obligations as they fall due.

Norwich Union Insurance Limited

Notes to the financial statements (continued)

27. Risk management policies (continued)

The following table provides an analysis of investment and reinsurance assets into their relevant maturity groups based on the remaining period at the balance sheet date to their contractual maturities.

	Total	Within 1 year	1-5 years	5-15 years	Over 15 years
	£m	£m	£m	£m	£m
31 December 2005					
Debt securities	907	38	462	308	99
Mortgage loans	579	120	398	61	-
Reinsurance assets	2,164	1,185	938	41	-
31 December 2004					
Debt securities	1,262	148	621	359	134
Mortgage loans	494	60	409	25	-
Reinsurance assets	2,000	1,082	877	41	-

The following table shows the gross insurance liabilities analysed by duration.

	Total	Within 1 year	1-5 years	5-15 years	Over 15 years
	£m	£m	£m	£m	£m
31 December 2005					
Gross insurance liabilities	4,590	2,513	1,990	87	-
31 December 2004					
Gross insurance liabilities	4,330	2,343	1,898	89	-

Norwich Union Insurance Limited

Notes to the financial statements (continued)

27. Risk management policies (continued)

Market risk

Market risk is the risk of adverse financial impact due to changes in fair values of financial instruments arising from fluctuations in foreign currency exchange rates, interest rates, property prices and equity prices. Market risk arises due to fluctuations in the value of insurance liabilities and the value of investments, including those backing shareholder's funds. The Company manages market risk within its ALM framework and within local regulatory constraints. For each of the major components of market risk, described in more detail below, the Company has put in place policies and procedures to set out how each risk should be managed and monitored, and the approach to setting an appropriate risk appetite.

The Company operates within the UK while some sales and operational functions are supplied from India. The resultant exposure to foreign currency exchange rates is subject to a contract to reduce risk of foreign currency fluctuations in exchange rates.

The fair value of the Company's investments and technical liabilities is exposed to potential fluctuations in interest rates. The Company ensures a close matching of assets and technical liabilities by duration to minimise this risk. This is partly achieved through the use of swaps. Details are set out in note 28 to the financial statements.

The Company is subject to equity price risk due to daily changes in the market values of its equity securities portfolio. In addition, local asset admissibility regulations require that the Company holds diversified portfolios of assets thereby reducing exposure to individual equities. The risk of equity price movements is measured through the NUI Group's ICA and FCR.

The Company's investments in equity securities include investments in subsidiary undertakings and other listed equity securities. The fair value of investments in subsidiary undertakings is £1,078 million which includes; £430 million relating to a general insurance undertaking, London and Edinburgh Insurance Company Limited and £595 million relating to an investment undertaking, NUI Investments Limited. The latter holds listed equity investments with a fair value of £572 million. In addition, the Company holds direct investments in listed equity securities of £167 million.

Derivatives are used within policy guidelines agreed by the Aviva plc Board of Directors. Derivatives are only used for investment management or risk hedging purposes.

Derivative transactions are fully covered by either cash or corresponding assets and liabilities. Speculative activity is prohibited, unless approval has been obtained from the Group Derivatives Committee and Group Finance Director. Over the counter derivative contracts are entered into only with approved counterparties in accordance with Group policies, thereby reducing the risk of credit loss. The Company applies strict requirements to the administration and valuation processes it uses, and has a control framework that is consistent with market and industry practice. The Group Derivatives Committee monitors this framework, exposure levels and approves large or complex transactions.

Norwich Union Insurance Limited

Notes to the financial statements (continued)

27. Risk management policies (continued)

Credit risk

Credit risk is the risk of loss in the value of financial assets due to counterparties failing to meet all or part of their obligations.

The Company's management of credit risk is carried out in accordance with the NUI Group's Credit Risk Policy, which includes the monitoring of exposure levels and setting exposure limits in accordance with rating categories devised by credit rating agencies such as Standard & Poor's.

Financial assets are graded according to current credit ratings issued. AAA is the highest possible rating. Investment grade financial assets are classified within the range of AAA to BBB ratings. Financial assets which fall outside this range are classified as speculative grade. Credit limits for each counterparty are set based on default probabilities that are in turn based on the rating of the counterparty concerned.

The following table provides information regarding the aggregated credit risk exposure at 31 December 2005 of certain financial assets.

	Credit rating						
	AAA	AA	A	BBB	Speculative grade	Non-rated	Total
	£m	£m	£m	£m	£m	£m	£m
Debt securities	402	66	211	114	-	114	907
Mortgage loans	20	20	29	82	-	428	579
Reinsurance assets	25	2,134	2	-	-	3	2,164

The Company is not individually exposed to significant concentrations of credit risk due to the regulations limiting investments in individual assets and classes. The aggregation of credit risk is monitored as above. The monitoring of reinsurance security is undertaken in conjunction with the Group reinsurance function. The Company has a significant exposure to a fellow subsidiary, CGU International Insurance plc, as part of quota share reinsurance entered into from 2001. Further details are set out in note 30 on related party transactions.

At 31 December 2005, receivables are £1,568 million. Concentrations of credit risk with respect to receivables are limited due to the size and spread of the Company's trading base. Exposure by counterparty is monitored for the NUI Group for all exposures greater than £20 million.

Operational risk

Operational risk arises as a result of inadequate or failed internal processes, people or systems, or from external events. Operational risks include, for example, IT infrastructure and systems, business interruption, information security, project, outsourcing, legal, fraud and compliance risks. As with other risk categories, line management of business areas have primary responsibility for how risks are assessed according to the potential impact and probability of the event concerned. These impact assessments are made against financial, operational and reputational criteria. Operational risks are reported, as with other risks, on a quarterly basis to Group.

Norwich Union Insurance Limited

Notes to the financial statements (continued)

27. Risk management policies (continued)

(c) Sensitivity analysis and capital management

The NUI Group uses a number of sensitivity test based risk management tools to understand the volatility of earnings, the volatility of its capital requirements, and to manage capital more efficiently. Primarily, the NUI Group uses financial condition reporting and increasingly ICA. However sensitivities to economic and operating experience are regularly produced on all of our key financial performance indicators (KPIs) as part of our decision making and planning processes and set the framework for identifying and quantifying the risks to which the NUI Group is exposed.

General insurance claim liabilities are estimated by using standard actuarial claims projection techniques. These methods extrapolate the claims development for each accident year based on the observed development of earlier years. In most cases, no explicit assumptions are made as projections are based on assumptions implicit in the historic claims development on which the projections are based. As such, in the analysis below, the sensitivity of general insurance claim liabilities is primarily based on the financial impact of changes to the reported loss ratio.

Some results of sensitivity testing for general insurance business are set out below. For each sensitivity test the impact of a change in a single factor is shown, with other assumptions left unchanged.

Sensitivity factor	Description of sensitivity factor applied
Interest rate & investment return	The impact of a change in market interest rates by +/- 1% (eg. If a current interest rate of 5%, the impact of an immediate change to 4% and 6%). The test allows consistently for similar changes to investment returns and movements in the market value of backing fixed securities.
Expenses	The impact of an increase in expenses by 10%.
Gross loss ratios	The impact of an increase in gross loss ratios for general insurance business by 5%.

The above sensitivity factors are applied using actuarial and statistical models, with the following pre-tax impacts on profit and shareholder's equity at 31 December 2005.

Norwich Union Insurance Limited

Notes to the financial statements (continued)

27. Risk management policies (continued)

General insurance business - impact on profit before tax

	Interest rates +1% £m	Interest rates -1% £m	Expenses +10% £m	Gross loss ratios +5% £m
Gross of reinsurance	(47)	47	(88)	(169)
Net of reinsurance	(47)	47	(44)	(85)

General insurance business - impact on shareholder's equity

	Interest rates +1% £m	Interest rates -1% £m	Expenses +10% £m	Gross loss ratios +5% £m
Gross of reinsurance	(33)	33	(61)	(118)
Net of reinsurance	(33)	33	(30)	(59)

Due to the importance of reinsurance for general insurance, the impact of the sensitivities on profit and equity are shown both gross and net of reinsurance. The impact of the expense sensitivity on profit also includes the increase in ongoing administration expenses, in addition to the increase in the loss adjustment expense provision.

The above table demonstrates the effect of a change in a key assumption whilst other assumptions remain unaffected. In reality, such an occurrence is unlikely, due to correlation between the assumptions and other factors. It should also be noted that these sensitivities are non-linear, and larger or smaller impact should not be interpolated or extrapolated from these results.

The sensitivity analyses do not take into consideration that assets and liabilities are actively managed and may vary at the time that any actual market movement occurs. For example, the Company's financial risk management strategy aims to manage the exposure to market fluctuations, including selling investments, changing investment portfolio allocation and taking other protective action, as investment markets move past various trigger levels.

Other limitations in the above sensitivity analyses include the use of hypothetical market movements to demonstrate potential risk that only represent the Company's view of reasonably possible near-term market changes that cannot be predicted with any certainty; and the assumption that all interest rates move in an identical fashion.

Notes to the financial statements (continued)

28. Derivative financial instruments

Non-hedge activities

The Company has a contract to reduce the average duration of the fixed interest investments to an agreed tolerance.

The Company has contracts for the purchase of Indian Rupees to reduce risk of foreign currency fluctuations in exchange rates.

The Company's non-hedge activity at 31 December 2005 was as follows:

	2005			2004		
	Contract/ notional amount	Fair value asset	Fair value liability	Contract/ notional amount	Fair value asset	Fair value liability
	£m	£m	£m	£m	£m	£m
Interest rate contracts						
OTC						
Interest and currency swaps	378	-	10	378	-	5
Foreign exchange contracts						
OTC						
Forwards	50	2	-	-	-	-
Totals at 31 December	428	2	10	378	-	5

Notes to the financial statements (continued)

29. Pension obligations

(a) Introduction

In the United Kingdom, the Aviva Group operates one main pension scheme, the Aviva Staff Pension Scheme (the Scheme), whose members receive benefits on either a defined benefit basis (generally related to final salary) or a defined contribution basis. New entrants join the defined contribution section of the Scheme, as the defined benefit section is closed to new employees. The assets of the Scheme are held in a separate trustee-administered fund.

An actuarial report has been submitted for the Scheme as at an effective date of 1 April 2005. For funding purposes, the Scheme was valued on a market value basis using the Projected Unit Method.

As the employing company for most of the Aviva staff in the UK, the pension costs are initially borne by Aviva Employment Services Limited (AES) and are then recharged to the operating divisions of the Aviva Group as part of an overall charge for payroll-related items. In this manner, the Company is charged on behalf of the UK General Insurance businesses. The level of recharges for pension and other costs to each business is reviewed annually. AES's contributions to the defined benefit section of the Scheme throughout 2005 were 29% of employees' pensionable salaries, together with the cost of redundancies during the year and an additional payment of £51 million.

As this section of the Scheme is closed to new entrants and the contribution rate is determined using the projected unit method, it is expected that the percentage cost of providing future service benefits will increase as the membership ages. AES's contribution rate for 2006 has therefore been increased to 35% of pensionable salaries (expected to be £119 million). The Aviva Group has also decided to make further contributions of £540 million into this and the RAC schemes over the next two years, which will bring total additional contributions into the two schemes to £700 million.

The contribution rates for members of the defined contribution section were 8% of pensionable salaries together with further contributions up to 4% where members contribute, and the cost of the death-in-service benefits. These contribution rates are unchanged for 2006.

In the absence of any contractual arrangements to allocate the net defined benefit cost for the Scheme, measured in accordance with IAS 19, to individual businesses, it is the Aviva Group's policy to allocate this cost fully to AES. As required by paragraph 34B of the amendment to IAS 19 issued in December 2004, disclosures for the Scheme are provided below and in the following pages.

(b) Charges to the income statement

	2005	2004
	£m	£m
Defined benefit section	45	19
Defined contribution section	14	12
Total pension costs	59	31
Less: amounts recharged to operating businesses	(23)	(12)
Charge retained in the Company	36	19

29. Pension obligations (continued)

(c) Details of the defined benefit section of the Scheme

(i) The valuation used for accounting under IAS 19 has been based on the most recent full actuarial valuation, updated to take account of that standard's requirements in order to assess the liabilities of the Scheme at 31 December 2005. This updating was made by the Scheme actuary. Scheme assets are stated at their market values at 31 December 2005.

The details for the defined benefit section of the Scheme are shown below. Although the Scheme provides both defined benefit and defined contribution pensions, the assets and liabilities shown exclude those relating to defined contribution pensions.

The main financial assumptions used to calculate scheme liabilities under IAS 19 are:

	2005	2004
Inflation rate	2.8%	2.7%
General salary increases	4.6%	4.5%
Pension increases	2.8%	2.7%
Deferred pension increases	2.8%	2.7%
Discount rate	4.8%	5.4%

The discount rate is the assumption that has the largest impact on the value of the liabilities. A 1% increase in this rate would reduce the liabilities by £1.2 billion.

(ii) The expected rates of return on the Scheme's assets are:

	2005	2004
Equities	8.0%	8.2%
Bonds	4.5%	4.8%
Property	6.0%	6.0%
Other	4.1%	4.5%

Norwich Union Insurance Limited

Notes to the financial statements (continued)

29. Pension obligations (continued)

(c) Details of the defined benefit section of the Scheme (continued)

(iii) The assets and liabilities of the Scheme, attributable to defined benefit members, at 31 December 2005 were:

	2005	2004
	£m	£m
Equities	3,770	3,092
Bonds	1,423	1,176
Property	471	380
Other	175	254
Total fair value of assets	5,839	4,902
Present value of scheme liabilities	(6,918)	(5,590)
Deficit in the Scheme	(1,079)	(688)

(iv) Movements in the Scheme's deficit comprise:

			2005
	Scheme assets	Scheme liabilities	Pension deficit
	£m	£m	£m
At 1 January	4,902	(5,590)	(688)
Employer contributions	162	-	162
Employee contributions	15	(15)	-
Benefits paid	(197)	197	-
Service cost	-	(88)	(88)
Interest credit/(charge)	336	(302)	34
Actuarial gains/(losses)	621	(1,120)	(499)
At 31 December	5,839	(6,918)	(1,079)

			2004
	Scheme assets	Scheme liabilities	Pension deficit
	£m	£m	£m
At 1 January	4,456	(5,133)	(677)
Employer contributions	161	-	161
Employee contributions	9	(9)	-
Benefits paid	(194)	194	-
Service cost	-	(102)	(102)
Interest credit/(charge)	315	(288)	27
Actuarial gains/(losses)	155	(252)	(97)
At 31 December	4,902	(5,590)	(688)

Norwich Union Insurance Limited

Notes to the financial statements (continued)

30. Related party transactions

(a) The Company had the following related party transactions in 2005 and 2004.

(i) Quota share arrangement

The Company has entered into a quota share reinsurance arrangement with a fellow subsidiary undertaking, CGU International Insurance plc, in each year since 2001.

The key terms of the agreements in 2005 and 2004 are:

- A 50% cession rate on premiums, claims costs and expense costs is applied in respect of that underwriting year.
- The Company pays interest of LIBOR + 50bps on any reserves.

The premiums, claims and expenses which have been reinsured to CGU International Insurance plc under the arrangement are:

Quota share	2005	2004
	£m	£m
Premiums earned	1,623	1,455
Claims incurred	(1,172)	(1,085)
Fee and commission expenses and operating expenses	(426)	(377)
Profit/(loss) ceded	25	(7)

The material balances in the balance sheet relating to this arrangement are:

	2005	2004
	£m	£m
Reinsurance asset	2,087	1,895
Payables arising out of ceded reinsurance	(185)	(546)

Notes to the financial statements (continued)

30. Related party transactions (continued)

(ii) Transfer of mortgage loans

On 1 October 2004, the beneficial interest in a portfolio of mortgage loans of £477 million was transferred to the Company by a fellow subsidiary undertaking, Norwich Union Mortgages (General) Limited. The consideration represented the market value of the mortgages at that date. The consideration was settled by the reduction of the loan due from Norwich Union Mortgages (General) Limited.

In the period from 1 January 2004 to the 1 October 2004, the Company earned interest receivable of £21 million on the loan from Norwich Union Mortgages (General) Limited.

(iii) Disposal of subsidiary undertakings

On 26 January 2004, the Company transferred its entire shareholding in Hill House Hammond Limited to the Company's parent undertaking, Norwich Union Holdings Limited, for consideration of £42 million, settled in cash.

On 23 December 2004, the Company acquired a further 2,599,998 shares in a subsidiary undertaking, Norwich Union Consumer Products Limited for a cash consideration of £2,599,998. Subsequently, on this same day, the entire shareholding of 2,600,000 shares in Norwich Union Consumer Products Limited was transferred for a cash consideration of £1 to a fellow subsidiary undertaking, CGU International Insurance plc.

(iv) Loans to Group undertakings

The Company has loans due from its parent undertaking and a fellow subsidiary undertaking as follows:

	2005		2004	
	Income earned in year	Receivable at year end	Income earned in year	Receivable at year end
	£m	£m	£m	£m
Parent	5	112	5	112
Fellow subsidiary undertakings	-	18	-	15
	5	130	5	127

The loan to the parent undertaking bears interest at a variable rate determined every three months. The interest receivable in 2005 was £5 million (2004: £5 million). The loan is for an undetermined period, rolled over every three months and is unsecured.

Norwich Union Insurance Limited

Notes to the financial statements (continued)

30. Related party transactions (continued)

(v) Portfolio transfer

On 29 June 2005, all the general insurance business of Scottish General Insurance Company Limited, a fellow subsidiary undertaking, along with matching assets were transferred to the Company at fair value by way of an insurance business transfer under Part VII of the Financial Services and Markets Act 2000. The fair value of claims liabilities transferred to the Company was £24 million.

(vi) Other services provided to related parties

	2005		2004	
	Income earned in year	Receivable at year end	Income earned in year	Receivable at year end
	£m	£m	£m	£m
Ultimate parent	-	-	-	1
Parent	-	1	-	-
Subsidiaries	-	506	-	468
Fellow subsidiaries	-	49	-	42
	-	556	-	511

The related parties' receivables are not secured and no guarantees were received in respect thereof. The receivables will be settled in accordance with normal credit terms.

(vii) Other services provided by related parties

	2005		2004	
	Expense incurred in year	Payable at year end	Expense incurred in year	Payable at year end
	£m	£m	£m	£m
Ultimate parent	3	1	3	1
Fellow subsidiaries	453	193	420	92
Subsidiaries	(100)	50	(68)	348
	356	244	355	441

Expenses incurred include £430 million (2004: £425 million) relating to staff and pension costs from Aviva Employment Services Limited, £201 million (2004: £176 million) relating to facilities charges from Norwich Union Central Services Limited, £74 million (2004: £63 million) relating to a recharge from Norwich Union Healthcare Limited for operating costs relating to Healthcare insurance business and £3 million (2004: £3 million) relating to charges from Aviva. The Company has recharged expenses of £352 million (2004: £312 million) to subsidiaries and fellow subsidiaries, leaving net expenses incurred in the year of £356 million (2004: £355 million).

Norwich Union Insurance Limited

Notes to the financial statements (continued)

30. Related party transactions (continued)

(viii) Key management compensation

The total compensation to those employees classified as key management, being those having authority and responsibility for planning, directing and controlling the activities of the Company, including the directors is as follows:

	2005	2004
	£000	£000
Salary and other short-term benefits	3,980	1,683
Post-employment benefits	178	84
Equity compensation plans	1,621	745
Total	5,779	2,512

Following the acquisition of RAC plc by the Group in May 2005, the number of people falling within the definition of key management has increased.

(b) Immediate parent undertaking

The Company's immediate parent undertaking is Norwich Union Holdings Limited, registered in England.

(c) Ultimate controlling entity

The ultimate controlling entity is Aviva plc. Its Group Accounts are available on application to the Group Company Secretary, Aviva plc. St Helen's, 1 Undershaft, London EC3P 3DQ.