GRESHAM INSURANCE COMPANY LIMITED
FINANCIAL STATEMENTS
2006

Gresham Insurance Company Limited

Contents

Gresham Insurance Company Limited

Directors and officer

Directors:

J Hunt
S C J Machell
S J Parr
A C Seymour-Jackson

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 and Wales No 110410

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")

Gresham Insurance Company Limited

Directors' report
For the year ended 31 December 2006

The directors present their annual report and audited financial statements for Gresham Insurance Company Limited ("the Company") for the year ended 31 December 2006

Principal activity

The principal activity of the Company is the transaction of general insurance business in the United Kingdom through a business partnership arrangement with Barclays Bank plc

Business review

Basis of preparation

This business review is addressed to, and written for, the members of the Company with the aim of providing a fair review of the business development, performance and position at the current time, during the financial period and at the end of the financial period In providing this review, the aim is to present a view that is both balanced and comprehensive and is consistent with the size and complexity of the business

Strategy and objectives

High level strategies are determined by Aviva plc and these are shown in their financial statements The directors consider that the Company's principal activity of underwriting general insurance business will continue unchanged into the foreseeable

Financial key performance indicators

The directors consider that the Company's key performance indicators ("KPIs") that communicate the financial performance as follows -

- increase/(decrease) in gross written premiums
- combined operating ratio ("COR") - this comprises the sum of the following ratios
  - net incurred claims to net earned premiums ratio,
  - net written commissions to net written premiums ratio, and
  - net written expenses to net written premiums ratio

A summary of the KPIs is set out below

Measure	2006	2005
Increase in gross written premiums	55%	10%
Combined operating ratio	(See below)	104%
net incurred claims ratio	-	62%
net written commissions ratio	-	30%
net written expenses ratio	-	12%

The Company entered into a quota share reinsurance contract with its immediate parent undertaking, Aviva International Insurance Limited, to 100% reinsure all insurance business written from 1 January 2006 This means the 2006 COR is not comparable to the 2005 COR

Financial position and performance

The financial position of the Company at 31 December 2006 is shown in the balance sheet on page 15, with the trading results shown in the income statement on page 14 and the cashflow on page 17

Profit before tax for the year was £ 4,594 thousand (2005 loss before tax £ 10,544 thousand) This is due to several factors as reflected by the KPIs and also detailed below

The Company has achieved significant premium growth during 2006 as a result of increased marketing spend The growth has been particularly notable in the household and motor markets

Gross claims incurred for 2006 increased mainly due to an increase in provisions for prior years' claims

Directors' report (continued)

Risk management

Description of the principal risks and uncertainties facing the Company and the Company's risk management policies are set out in note 21 to the financial statements

Risk factors beyond the Company's control, that could cause actual results to differ materially from those estimated include, but are not limited to

- frequency and severity of significant natural hazards,
- UK domestic economic business conditions, and
- the impact of competition, inflation and deflation

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 21 to the financial statements

Dividends

The directors do not recommend the payment of a final dividend (2005 there was a final dividend of £ 4,384,775 in respect of 2004)

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 2006 represented approximately 13 days of average daily purchases through the year (2005 8 days)

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 3 April 2006, 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 meeting and the obligation to appoint auditors annually

Gresham Insurance Company Limited

Directors' report (continued)

Directors' interests

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

On 13 March 2006, P J R Snowball resigned as a director of the Company

On 16 March 2006, A C Seymour-Jackson was appointed as a director of the Company

On 9 May 2006, M S Hodges resigned as a director of the Company On the same date S C J Machell was appointed as a director

On 1 January 2007, P C Easter resigned as a director of the Company On the same date J Hunt was appointed as a director

On 23 January 2007, A Grace resigned as a director of the Company

On 13 December 2006, S J Parr was appointed as an alternate director to A Grace and subsquently appointed as a director on 23 January 2007

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 on pages 4 and 5 All the disclosed interests are beneficial

	At 1 January 2006 (or date of appointment if later) Number	At 31 December 2006 Number
P C Easter	6,628	7,239
S C J Machell	13,111	13,272
A C Seymour-Jackson	5,728	6,097

A Grace and S J Parr have no interests in shares of the Company or Aviva plc

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 on page 5

Gresham Insurance Company Limited

Directors' report (continued)

Directors' interests (continued)

(i) Share options

	At 1 January 2006 (or date of appointment if later)	Options granted during the year	Options cancelled during the year	At 31 December 2006
	Number	Number	Number	Number
P C Easter				
Savings related options	4,096	-	-	4,096
S C J Machell				
Savings related options	4,426	-	-	4,426
A C Seymour-Jackson				
Savings related options	-	-	-	-

(1) "Savings related options" are options granted under the Inland Revenue approved SAYE Share Option Scheme Options granted from 1999 to 2006 are normally exercisable during the six month period following either the third, fifth or seventh anniversary of the relevant savings contract

(2) During the year no directors exercised any share options and therefore no gains on such were made

(ii) Share awards

	At 1 January 2006 (or date of appointment if later)	Awards granted during the year	Awards vested during the year	Awards lapsed during the year	At 31 December 2006
	Number	Number	Number	Number	Number
P C Easter					
Aviva Long Term Incentive Awards	170,305	38,048	(44,699)	(24,176)	139,478
Aviva Annual Bonus Plan 2005	-	32,301	-	-	32,301
Aviva Deferred Bonus Plan	126,232	5,712	(43,938)	-	88,006
S C J Machell					
Aviva Long Term Incentive Awards	109,758	-	-	-	109,758
Aviva Annual Bonus Plan 2005	32,725	-	-	-	32,725
Aviva Deferred Bonus Plan	68,528	-	-	-	68,528
A C Seymour-Jackson					
Aviva Long Term Incentive Awards	5,887	8,841	-	-	14,728
Aviva Annual Bonus Plan 2005	-	8,973	-	-	8,973
Aviva Deferred Bonus Plan	13,082	-	-	-	13,082
Aviva Executive Share Option Plans	37,053	-	-	3,193	33,860

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

Gresham Insurance Company Limited

Directors' report (continued)

(ii) The Aviva Annual Bonus Plan 2005, awards under the plan were made in March 2006 The awards are not subject to performance conditions and vest on the third anniversary of their grant

(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

(iv) Aviva Executive Share Option Plans, these are options granted on various dates from 1996 to 2004, under the Aviva Executive Share Option Scheme or predecessor schemes The exercise of options granted in 1996 is not subject to performance conditions Options granted between 1997 and 2000 were subject to the satisfaction of conditions relating to either the Company's return on capital employed ("ROCE") or its relative total shareholder return ("TSR") against a chosen comparator group In respect of options granted from 2000 the performance condition has been a mixture of both ROCE and TSR measures In all cases, performance is measured over a three year performance period and the options are normally exercisable between the third and tenth anniversary of their grant

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

Directors' statement as to disclosure of information to auditors

The directors who were members of the Board at the time of approving the directors' report are listed on page 1 Having made enquiries of fellow directors and of the Company's auditors, each of these directors confirms that

- to the best of each director's knowledge and belief, there is no information relevant to the preparation of their report of which the Company's auditors are unaware, and

- each director has taken all the steps a director might reasonably be expected to have taken to be aware of relevant audit information and to establish that the Company's auditors are aware of that information

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 that 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 IFRS, 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

20 March 2007

Gresham Insurance Company Limited

Independent auditors' report

To the shareholders of Gresham Insurance Company Limited

We have audited the Company's financial statements for the year ended 31 December 2006 which comprise the Accounting Policies, the Income Statement, the Balance Sheet, the Statement of Changes in Shareholder's Equity, the Cash Flow Statement and the related notes 1 to 22 These financial statements have been prepared under the accounting policies set out therein

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

Respective responsibilities of directors and auditors

The directors are responsible for preparing the financial statements in accordance with 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

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 whether the information given in the Directors' Report is consistent with the financial statements In addition we report to you if, in our opinion, the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and 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

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 2006 and of its loss for the year then ended,
- the financial statements have been properly prepared in accordance with the Companies Act 1985, and
- the information given in the Directors' Report is consistent with the financial statements

Ernst & Young LLP

Ernst & Young LLP
Registered auditor
London

26 March 2007

Accounting policies

Gresham Insurance Company 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 2006

In August 2005, the IASB issued IFRS 7, Financial Instruments Disclosures, and an amendment to IAS 1, Capital Disclosures Although their requirements are applicable for accounting periods beginning on or after 1 January 2007, the Company has decided to adopt IFRS 7 early and reflect its impact in these financial statements The amendment to IAS 1 brings the capital disclosures into line with those already required by FRS 27 and, although the Company is not adopting it early, this is not expected to result in any material additional disclosures

In August 2005, the IASB issued an amendment to IAS 39, Financial Guarantee Contracts, which requires financial guarantees issued to be recognised initially at their fair value, and subsequently measured at the higher of the expected liability (or receivable) under the guarantee and the amount initially recognised, less any cumulative amortisation This amendment affects the Company in respect of intercompany guarantees given and taken in the ordinary course of business, where guarantee fees had not necessarily reflected the fair value to each party of the issued instrument This value must now be reflected in the Company's financial statements, and will result in additional accruals (for fee income) and prepayments (for fees payable) in the balance sheet, with movements in these values credited or charged to profit in the income statement

In accordance with the standard for Phase 1 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 D overleaf

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 thousands of British pounds (£000)

(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) 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 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 as defined in Policy K, are reported as part of the fair value gain or loss

Gresham Insurance Company Limited

Accounting policies (continued)

(D) 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 the 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 (as amended in December 2006)

(E) Premiums earned

Insurance premiums written reflect business incepted during the year, and exclude any sales-based taxes, 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

(F) Other fee and commission income

Other fee and commission income consists primarily of commission revenue from reinsurance commission and profit participation, which is recognised when earned

(G) Net investment income

Investment income consists of dividends and interest 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 K) 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

Gresham Insurance Company Limited

Accounting policies (continued)

(H) Insurance contract liabilities

Claims

Insurance claims incurred include all losses occurring during the year, whether reported or not, related loss adjustment expenses, 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 loss adjustment department and any part of the general administrative costs directly attributable to the loss adjustment 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 12 (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 reinsurance 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) 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

Gresham Insurance Company Limited

Accounting policies (continued)

(K) 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 of "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, 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

(L) 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

(M) 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

(N) Contingent liabilities

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

Gresham Insurance Company Limited

Accounting policies (continued)

(O) Income taxes

The current tax expense is based on the taxable results 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 and tax losses carried forward 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

(P) Share capital and dividends

Equity instruments

An equity instrument is a contract that evidences a residual interest in the assets of an equity 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 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

(Q) 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, and in the previously reported balance sheet are included in technical provisions Under IFRS, the provisions are not reported in the balance sheet or no liability exists but are presented within retained earnings, net of attributable tax relief

Gresham Insurance Company Limited

Income statement
For the year ended 31 December 2006

	Note	2006	2005
		£000	£000
Income	1		
Gross written premiums		249,814	160,674
Premiums ceded to reinsurers		(249,814)	(5,709)
Premiums written net of reinsurance		-	154,965
Net change in provision for unearned premiums		86,853	(14,450)
Net premiums earned		86,853	140,515
Fee and commission income		-	514
Net investment income		4,918	6,874
Other operating income		5,350	735
		97,121	148,638
Expenses	2		
Claims and benefits paid, net of recoveries from reinsurers		90,375	85,315
Change in insurance liabilities, net of reinsurance		(20,143)	1,813
Fee and commission expense		22,295	62,632
Other operating expenses		-	9,422
		92,527	159,182
Profit/(loss) before tax		4,594	(10,544)
Tax (expense)/credit	6	(7,201)	3,131
Loss for the year		(2,607)	(7,413)

The Company has no recognised income and expense other than those included in the results above and therefore a statement of recognised income and expense has not been presented

The accounting policies on pages 8 to 13 and notes on pages 18 to 39 are an integral part of these financial statements

Gresham Insurance Company Limited

Balance sheet
As at 31 December 2006

	Note	2006	2005
Assets		**£000**	**£000**
Financial investments	8	27,055	117,367
Reinsurance	9	174,181	132
Current tax		-	10,473
Receivables and other financial assets	10	108,972	95,525
Deferred acquisition costs	11	43,756	22,295
Prepayments and accrued income		827	1,220
Cash and cash equivalents	20 (b)	118,813	17,528
Total assets		473,604	264,540
Liabilities			
Insurance liabilites	12	204,728	137,675
Deferred tax	14	5,899	6,758
Payables and other financial liabilities	15	159,345	59,864
Other liabilities	16	52,252	6,256
Total liabilities		422,224	210,553
Net assets		51,380	53,987
Equity			
Capital			
Ordinary share capital	17	61,400	61,400
Retained earnings	18	(10,020)	(7,413)
Total equity		51,380	53,987

The accounting policies on pages 8 to 13 and notes on pages 18 to 39 are an integral part of these financial statements

Approved by the Board on 20 March 2007

Director

Gresham Insurance Company Limited
Statement of changes in shareholders' equity

For the year ended 31 December 2006

	Note	Ordinary share capital £000	Retained earnings £000	Total equity £000
Balance at 1 January 2005		61,400	4,385	65,785
Loss for the year		-	(7,413)	(7,413)
Dividends	7	-	(4,385)	(4,385)
Total movements in the year		-	(11,798)	(11,798)
Balance at 31 December 2005		61,400	(7,413)	53,987
Loss for the year		-	(2,607)	(2,607)
Total movements in the year		-	(2,607)	(2,607)
Balance at 31 December 2006		61,400	(10,020)	51,380

The accounting policies on pages 8 to 13 and notes on pages 18 to 39 are an integral part of these financial statements

Gresham Insurance Company Limited

Cash flow statement
For the year ended 31 December 2006

	Note	2006	2005
		£000	£000
Cash flows from operating activities			
Net cash inflow from continuing operations	20 (a)	84,618	11,365
Tax received/(paid)		2,413	(1,623)
Net cash from operating activities		87,031	9,742
Cash flows from financing activities			
Ordinary dividends paid		-	(4,385)
Net cash used in financing activities		-	(4,385)
Net increase in cash and cash equivalents		87,031	5,357
Cash and cash equivalents at 1 January		15,852	10,495
Cash and cash equivalents at 31 December	20 (b)	102,883	15,852

The accounting policies on pages 8 to 13 and notes on pages 18 to 39 are an integral part of these financial statements

1. Details of income

	2006 £000	2005 £000
Premiums earned		
Gross written premiums	249,814	160,674
Less premiums ceded to reinsurers	(249,814)	(5,709)
Gross change in provision for unearned premiums	(48,183)	(8,189)
Reinsurers' share of change in provision for unearned premiums	135,036	(6,261)
Net change in provision for unearned premiums	86,853	(14,450)
Net premiums earned	86,853	140,515
Fee and commission income		
Reinsurance commissions receivable	-	514
Other operating income	5,350	735
Total revenue	92,203	141,764
Net investment income		
Interest and similar income	5,750	6,563
Realised gains and (losses)	774	(836)
Unrealised gains and (losses)	(254)	2,162
Movement in amortised cost on debt securities	(907)	(946)
(Losses)/gains on investments	(387)	380
Other investment expense	(445)	(69)
Net investment income	4,918	6,874
Total income	97,121	148,638

2. Details of expenses

	2006 £000	2005 £000
Claims and benefits paid, net of recoveries from reinsurers		
Claims and benefits paid to policyholders	128,267	85,892
Less Claims recoveries from reinsurers	(37,892)	(577)
	90,375	85,315
Change in insurance liabilities, net of reinsurance		
Change in insurance liabilities	18,870	1,817
Less Change in reinsurance asset for insurance provisions	(39,013)	(4)
	(20,143)	1,813
Fee and commission expense, net of reinsurance		
Acquisition costs		
Commission expenses	-	47,738
Other acquisition costs for insurance	-	8,249
Change in deferred acquisition costs	22,295	6,645
	22,295	62,632
Other operating expenses, net of reinsurance	-	9,422
Total expenses	92,527	159,182

3. 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 accounts of Aviva plc

4. Directors' emoluments

Since 4 April 2005, the emoluments of the executive directors have been borne by the parent undertaking, Aviva International Insurance Limited Those of the non-executive director, Mr A Grace, were borne by Barclays Bank plc

Previously, emoluments of the directors were -

	2006 £ 000	2005 £ 000
In respect of services as directors		
Fees and benefits	-	13

Retirement benefits accrued to one (2005 one) director under a defined benefit pension scheme of Legal & General Group plc, the Company's former ultimate parent undertaking

Gresham Insurance Company Limited
Notes to the financial statements (continued)

5. 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 The Company is exempt from disclosing other fees payable, to its auditors, in respect of other work by virtue of regulation 5(2) of The Companies Regulations 2005, as it is disclosed within the consolidated Report and Accounts of Aviva plc, the Company's ultimate controlling entity (note 22(c))

	2006	2005
	£000	**£000**
Audit services		
Statutory audit of the Company's financial statements	40	44

6. Tax

(a) Tax charged/(credited) to the income statement

(i) The total tax charge/(credit) comprises:	**2006**	**2005**
	£000	**£000**
Current tax.		
For this year	2,305	(9,933)
Prior year adjustments	5,755	38
Total current tax	8,060	(9,895)
Deferred tax·		
Origination and reversal of temporary differences	(859)	6,770
Prior year adjustments	-	(6)
Total deferred tax	(859)	6,764
Total tax charged/(credited) to income statement	7,201	(3,131)

(ii) Deferred tax charged to the income statement represents movements on the following items.

	2006	**2005**
	£000	**£000**
Insurance items	(871)	6,770
Provisions and other timing differences	12	-
Other temporary differences	-	(6)
Total deferred tax (credited)/charged to income statement	(859)	6,764

6. Tax (continued)

(b) Tax reconciliation

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

	2006	2005
	£000	£000
Net Profit/(loss) before tax	4,594	(10,544)
Tax charge/(credit) calculated at standard UK corporation tax rate of 30% (2005 30%)	1,378	(3,163)
Adjustment to tax charge in respect of prior years	5,755	32
Other	68	-
Tax charged/(credited) for the period (note 6a)	7,201	(3,131)

7. Dividends

	2006	2005
	£000	£000
Ordinary dividends declared and charged to equity in the year		
Final 2004 - 7 14p per share declared and paid in 2005	-	4,385

8. Financial investments

(a) Financial investments comprised:

	Other than trading at fair value through profit or loss	
	2006	2005
	£000	£000
Debt securities - listed	27,055	117,367

Of the above total £ 27,055 thousand (2005 £115,651 thousand) is expected to be recovered in more than one year after the balance sheet date

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

				2006
	Cost/amortised cost	Unrealised gains	Unrealised losses	Fair value
	£000	£000	£000	£000
Debt securities	26,965	119	(29)	27,055

8. Financial investments (continued)

	Cost/amortised cost £000	Unrealised gains £000	Unrealised losses £000	2005 Fair value £000
Debt securities	117,032	335	-	117,367

9. Reinsurance assets

(a) Carrying amounts
The following is a summary of the reinsurance assets and related insurance reserves as at 31 December

	2006			2005		
	Gross insurance provisions	Reinsurance assets	Net	Gross insurance provisions	Reinsurance assets	Net
	£000	£000	£000	£000	£000	£000
Outstanding claims provisions	59,450	31,698	27,752	45,411	132	45,279
Provisions for claims incurred but not reported	10,242	7,447	2,795	5,411	-	5,411
	69,692	39,145	30,547	50,822	132	50,690
Provision for unearned premiums	135,036	135,036	-	86,853	-	86,853
Total	204,728	174,181	30,547	137,675	132	137,543

As described in note 22, with effect from 1 January 2006, the Company entered into a 100% quota share agreement with its parent undertaking, Aviva International Insurance Limited

(b) Assumptions
The assumptions used for reinsurance contracts follow those used for insurance contracts, shown in note 12 (c)
Reinsurance assets are valued net of any provisions for their recoverability

(c) Movements

(i) Reinsurance asset	2006	2005
	£000	£000
Carrying amount at 1 January	132	128
Reinsurers' share of claims losses and expenses incurred in current year	76,815	-
Reinsurers' share of claims losses and expenses incurred in prior years	90	581
Reinsurers' share of incurred claims losses and expenses	76,905	581
Less		
Reinsurance recoveries received on claims incurred in current year	(37,809)	-
Reinsurance recoveries received on claims incurred in prior years	(83)	(577)
Reinsurance recoveries received in the year	(37,892)	(577)
Change in reinsurance asset recognised in income statement	39,013	4
Carrying amount at 31 December	39,145	132

9. Reinsurance assets (continued)

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

	2006	2005
	£000	£000
Carrying amount at 1 January	-	6,261
Premiums ceded to reinsurers in the year	249,814	5,709
Less		
Reinsurers' share of premiums earned during the year	(114,778)	(11,970)
Change in reinsurance asset recognised in income statement	135,036	(6,261)
Carrying amount at 31 December	135,036	-

10. Receivables and other financial assets

	2006	2005
	£000	£000
Amounts due from insurance contract holders	105,353	74,257
Amounts due from intermediaries	1,546	16,969
Amounts due from reinsurers	1,305	471
Other financial assets	768	3,828
Total	108,972	95,525
Expected to be recovered in less than one year	108,972	95,525

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

11. Deferred acquisition costs

(a) The carrying amount comprised:

	2006	2005
	£000	£000
Deferred acquisition costs	43,756	22,295

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

	2006	2005
	£000	£000
Carrying amount at 1 January	22,295	28,940
Acquisition costs written during the year, gross of reinsurance	82,061	52,367
Amortisation	(60,600)	(59,012)
Carrying amount at 31 December	43,756	22,295

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

12. Insurance liabilities

(a) Carrying amount

Gross insurance liabilities at 31 December comprised

	2006 £000	2005 £000
Provisions for outstanding claims	59,450	45,411
Provision for claims incurred but not reported	10,242	5,411
Technical provisions	69,692	50,822
Provision for unearned premiums	135,036	86,853
Total	204,728	137,675

(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 claims payments

No equalisation or catastrophe reserves have been recognised

12. 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 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 loss adjustment 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

	2006 £000	2005 £000
Carrying amount at 1 January	50,822	49,005
Claims losses and expenses incurred in the current year	137,801	89,970
Increase/(Decrease) in estimated claims losses and expenses incurred in prior years	9,336	(2,261)
Incurred claims losses and expenses	147,137	87,709
Less		
Payments made on claims incurred in the current year	(83,347)	(56,663)
Payments made on claims incurred in prior years	(44,920)	(29,229)
Claims payments made in the year, net of recoveries	(128,267)	(85,892)
Changes in claims provisions reserve recognised in the income statement	18,870	1,817
Carrying amount at 31 December	69,692	50,822

Gresham Insurance Company Limited
Notes to the financial statements (continued)

12. Insurance liabilities (continued)

(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 2006 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 2006 £38,579 thousand 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 £41,476 thousand was re-estimated to be £38,920 thousand at 31 December 2006 This 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 claims frequency and severity

In 2005 the year of adoption of IFRS, only five years were required to be disclosed This will be increased in each succeeding additional year, until ten years' information is included

Accident Year	All prior years	2001	2002	2003	2004	2005	2006	Total
	£000	£000	£000	£000	£000	£000	£000	£000
Gross cumulative claim payments								
At end of accident year		(24,066)	(28,359)	(34,855)	(50,397)	(56,663)	(83,347)	
One year later		(35,395)	(43,293)	(51,772)	(74,060)	(93,684)		
Two years later		(37,190)	(45,150)	(55,754)	(78,858)			
Three years later		(38,005)	(46,007)	(58,189)				
Four years later		(38,479)	(46,265)					
Five years later		(38,579)						
Estimate of gross ultimate claims								
At end of accident year		41,476	46,334	64,253	83,659	89,970	137,801	
One year later		40,065	47,410	62,751	82,534	100,681		
Two years later		39,083	47,095	62,165	82,370			
Three years later		39,089	47,290	61,234				
Four years later		39,107	46,568					
Five years later		38,920						
Estimate of ultimate claims		38,920	46,568	61,234	82,370	100,681	137,801	
Cumulative payments		(38,579)	(46,265)	(58,189)	(78,858)	(93,684)	(83,347)	
Outstanding claims provisions recognised in the balance sheet	1,040	341	303	3,045	3,512	6,997	54,454	69,692

12. Insurance liabilities (continued)

(e) Loss development tables (continued)

After the effect of reinsurance, the loss development table is

Accident Year	All prior years	2001	2002	2003	2004	2005	2006	Total
	£000	£000	£000	£000	£000	£000	£000	£000
Net cumulative claim payments								
At end of accident year		(24,066)	(28,359)	(34,855)	(50,236)	(56,663)	(45,538)	
One year later		(35,395)	(43,293)	(51,772)	(73,483)	(93,601)		
Two years later		(37,190)	(45,150)	(55,754)	(78,281)			
Three years later		(38,005)	(46,007)	(58,189)				
Four years later		(38,479)	(46,265)					
Five years later		(38,579)						
Estimate of net ultimate claims								
At end of accident year		41,476	46,334	64,253	83,370	89,970	60,986	
One year later		40,065	47,410	62,751	81,825	100,459		
Two years later		39,083	47,095	62,165	81,793			
Three years later		39,089	47,290	61,234				
Four years later		39,107	46,568					
Five years later		38,920						
Estimate of ultimate claims		38,920	46,568	61,234	81,793	100,459	60,986	
Cumulative payments		(38,579)	(46,265)	(58,189)	(78,281)	(93,601)	(45,538)	
Net outstanding claims provisions recognised in the balance sheet	1,040	341	303	3,045	3,512	6,858	15,448	30,547

(f) Provision for unearned premiums

Movements

The following changes have occurred in the provision for unearned premiums during the year

	2006	2005
	£000	£000
Carrying amount at 1 January, gross of reinsurance	86,853	78,664
Premiums written during the year	249,814	160,674
Less		
Premiums earned during the year	(201,631)	(152,485)
Changes in year	48,183	8,189
Carrying amount at 31 December, gross of reinsurance	135,036	86,853

Gresham Insurance Company Limited
Notes to the financial statements (continued)

13. Effect of changes in estimates during the year

During the year, prior years' claims provisions of £9,336 thousand (£9,246 thousand net of reinsurance) were charged to the income statement The main reason for this were a reassessments of the levels of provision for household claims

14. Tax assets and liabilities

(a) General

Current tax assets and liabilities recoverable or payable in more than one year are £nil and £nil (2005 £8,063 thousand and £nil) respectively

(b) Deferred taxes

(i) The balance at the period end comprises	2006 £000	2005 £000
Insurance items	(5,899)	(6,770)
Other temporary differences	-	12
Net deferred tax liability	(5,899)	(6,758)

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

Net (liability) at 1 January	(6,758)	6
Amounts credited/(charged) to profit (note 6a)	859	(6,764)
Net liability at 31 December	(5,899)	(6,758)

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 £19,160 thousand (2005 £nil) to carry forward indefinitely against future taxable income

15. Payables and other financial liabilities

	2006 £000	2005 £000
Payables arising out of direct insurance and assumed reinsurance	683	10,259
Payables arising out of ceded reinsurance	96,858	1,969
Bank overdrafts	15,930	1,676
Other financial liabilities	45,874	45,960
	159,345	59,864
Expected to be settled within one year	159,345	59,864

Profit commission of £19,322 thousand (2005 £19,322 thousand) included in other financial liabilities, is payable when the equalisation reserve within equity becomes distributable The directors consider the book value approximates to fair value

16. Other liabilities

	2006 £000	2005 £000
Reinsurers' share of deferred acquisition costs	43,756	-
Other liabilities	8,496	6,256
	52,252	6,256
Expected to be settled within one year	52,252	6,256

17. Ordinary share capital

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

	2006 £000	2005 £000
Authorised		
100,000,000 Ordinary shares of £1 each	100,000	100,000
	100,000	100,000
Allotted, called up and fully paid:		
61,400,000 Ordinary shares of £1 each	61,400	61,400
	61,400	61,400

18. Retained earnings

	2006 £000	2005 £000
Balance at 1 January	(7,413)	4,385
Loss for the year	(2,607)	(7,413)
Dividends (note 7)	-	(4,385)
Balance at 31 December	(10,020)	(7,413)

In accordance with accounting policy Q, retained earnings includes £19,665 thousand (2005 £22,567 thousand) relating to equalisation provisions, net of attributable tax relief which are not distributable

19. Contingent liabilities and other risk factors

Uncertainty over claims provisions

Note 12 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

20. Cash flow statement

	2006 £000	2005 £000
(a) The reconciliation of profit/(loss) before tax to the net cash inflow from operating activities is:		
Profit/(loss) before tax	4,594	(10,544)
Adjustments for		
Fair value losses/(gains) on investments (note 1)	387	(380)
Changes in working capital		
(Increase)/decrease in reinsurance assets	(174,049)	6,257
(Increase)/decrease in deferred acquisition costs	(21,461)	6,645
(Increase)/decrease in receivables and other financial assets	(13,447)	(32,443)
(Increase)/decrease in prepayments and accrued income	393	186
Increase/(decrease) in insurance liabilities	67,053	10,006
Increase/(decrease) in payables and other financial liabilities	85,227	29,376
Increase/(decrease) in other liabilities	45,996	5,331
Net (purchases)/sales of operating assets		
Financial investments	89,925	(3,069)
Net cash inflow from operating activities	84,618	11,365

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

	2006 £000	2005 £000
(b) Cash and cash equivalents in the cash flow statement at 31 December comprised		
Cash at bank and in hand	5,750	228
Cash equivalents	113,063	17,300
	118,813	17,528
Bank overdrafts (Note 15)	(15,930)	(1,676)
	102,883	15,852

21. Risk management policies

The Company has established a risk management framework with the primary objective of protecting the Company from events that hinder the sustainable achievement of the Company's performance objectives, including failing to exploit opportunities This framework is operated by a group of companies, "the NUI Group", (including the UK general insurance business carried out within Aviva Insurance Limited and Aviva International Insurance Limited), within the Aviva plc group ("the Group"), that are engaged in writing general insurance business and in various non-insurance activities in the United Kingdom Risk is categorised as follows

- market
- credit
- insurance
- liquidity
- operational

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, which has three key elements

- defined 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, and

- adoption of the Group policy framework that 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

The NUI Group monitors risk 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 also developed a framework, using Internal Capital Assessment ("ICA") principles, for quantifying the impact of risks on economic capital The ICA combines the results of financial and operating experience tests

(i) Market risk

Market risk is the risk of adverse financial impact due to changes in fair values or future cash flows of financial instruments from fluctuations in interest rates, equity prices, property prices, and foreign currency exchange rates Market risk arises due to fluctuations in both the value of liabilities and the value of investments held

The NUI Group manages market risk locally within its market risk framework, within local regulatory constraints and in line with established Group policy, including minimum principles for matching liabilities with appropriate assets

For each of the major components of market risk, described in more detail below, the NUI Group has put in place additional policies and procedures to set out how each risk should be managed and monitored, and the approach to setting an appropriate risk appetite

21. Risk management policies (continued)

(i) Market risk

Interest rate risk arises primarily from the Company's investments and long-term debt, which are exposed to fluctuations in interest rates The Company maintains a close matching of assets and technical liabilities, economically, by duration, using derivative instruments if necessary, to minimise this risk

The Company predominately operates within the UK so has no material exposure to foreign exchange rates

The Company has no derivatives

(ii) 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 of the Company

	Credit rating						
31 December 2006	AAA	AA	A	BBB	Speculative grade	Non-rated	Carrying value in the balance sheet
	%	%	%	%	%	%	£000
Debt securities	100%	-	-	-	-	-	27,055
Reinsurance	-	100%	-	-	-	-	174,181
Cash equivalents	40%	37%	23%	-	-	-	113,063

21. Risk management policies (continued)
(ii) Credit risk (continued)

	Credit rating						
31 December 2005	AAA	AA	A	BBB	Speculative grade	Non-rated	Carrying value in the balance sheet
	%	%	%	%	%	%	£000
Debt securities	85%	4%	7%	-	-	4%	117,367

The Company is not individually exposed to significant concentrations of credit risk due to the regulations limiting investments in individual assets and classes

The Company manages exposure to reinsurance counterparties in accordance with Group policy Exposure limits are set by the Group Reinsurance Security Committee and there is a range of reinsurers that have acceptable credit ratings Reinsurer exposure and the impact of any reinsurer default is monitored regularly

The Company has a significant exposure to its parent undertaking, Aviva International Insurance Limited, as part of quota share reinsurance entered into from 2006 Further details are set out in note 22 on related party transactions

The following table provides information regarding the carrying value of financial assets that have been impaired and the ageing of financial assets that are past due but not impaired

		Financial assets that are past due but not impaired					
31 December 2006	Neither past due nor impaired	0 – 3 months	3 – 6 months	6 months – 1 year	Greater than 1 year	Carrying value of impaired financial assets	Carrying value in the balance sheet
	%	%	%	%	%	%	£000
Debt securities	100%	-	-	-	-	-	27,055
Reinsurance	100%	-	-	-	-	-	174,181

		Financial assets that are past due but not impaired					
31 December 2005	Neither past due nor impaired	0 – 3 months	3 – 6 months	6 months – 1 year	Greater than 1 year	Carrying value of impaired financial assets	Carrying value in the balance sheet
	%	%	%	%	%	%	£000
Debt securities	100%	-	-	-	-	-	117,367
Reinsurance	100%	-	-	-	-	-	132

At 31 December 2006, receivables are £108,972 thousand (2005 £95,525 thousand) 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

21. Risk management policies (continued)

(iii) General insurance risk

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

- fluctuations in the timing, frequency and severity of claims and claims settlements relative to expectations,
- the assessment and pricing of risk,
- the adequacy of exposure management through the use of accumulation management techniques and reinsurance tools, 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 and commercial property insurances The Group's underwriting strategy and appetite is agreed by the Aviva Group Executive Committee and communicated via specific policy statements and guidelines The NUI Group also sets its own underwriting strategy, consistent with the Group version The vast majority of the Company's general insurance business is managed and priced in the same country as the domicile of the customer, predominantly in the UK

Increasingly, risk-based capital models are being used to support the quantification of risk under the ICA framework The NUI Group undertakes a quarterly review of insurance risks, the output from which is a key input into the ICA and risk-based capital assessments

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

The adequacy of the NUI Group's general insurance claims provisions is overseen by the NUI Reserving Committee Actuarial claims reserving is conducted by the NUI Group's actuaries in compliance with the Group General Insurance Reserving Policy There are periodic external reviews by consultant actuaries

Reinsurance purchases are reviewed to verify that the levels of protection being bought reflect any developments in exposure and the risk appetite of the Group The basis of these purchases is underpinned by extensive financial and capital modelling and actuarial analysis to optimise the cost and capital efficiency benefits This involves utilising externally sourced probabilistic models to verify the accumulations and loss probabilities based on the Group's specific portfolios of business Where external models are not available, scenarios are developed and tested using the 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

21. Risk management policies (continued)

(iii) General insurance risk (continued)

The NUI Group has processes in place to manage catastrophe risk The NUI Group purchases catastrophe reinsurance to protect against significant natural hazard events For a single realistic catastrophic event the NUI Group's maximum retention is approximately £306 million, plus any losses in excess of £2,036 million

(iv) Liquidity risk

The Company has set its investment strategy to ensure it has sufficient liquid funds to meet its expected obligations as they fall due In extreme circumstances, the Company would approach Group for additional short-term borrowing whilst the Company liquidated other assets

The following table shows the gross insurance liabilities analysed by duration

	Total	Within 1 year	1-5 years	5-15 years	Over 15 years
	£ 000	£ 000	£ 000	£ 000	£ 000
31 December 2006					
Gross insurance liabilities	204,728	149,921	52,521	2,286	-
31 December 2005					
Gross insurance liabilities	137,675	101,451	35,414	810	-

(v) Operational risk

Operational risk arises as a result of inadequately controlled internal processes or systems, human error, or from external events Operational risks include information technology, information security, human resources, project management, outsourcing, tax, legal, fraud and compliance risks In accordance with Group policies, business unit management has primary responsibility for the effective identification, management, monitoring and reporting of risks to the business unit executive management team and to Group The NUI Group risk management and governance function is responsible for implementing the Group risk management methodologies and frameworks to assist line management in this work They also provide support and independent challenge on the completeness, accuracy and consistency of risk assessments, and the adequacy of mitigating action plans As a result, the business unit executive management team satisfies itself that material risks are being mitigated and reported to an acceptable level

Operational 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

21. Risk management policies (continued)

(vi) Risk and capital management

The 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 its capital more efficiently Primarily, risk-based capital models and increasingly ICA are used Sensitivities to economic and operating experience are regularly produced on all of the NUI Group's financial performance measurements to inform the NUI Group's decision making and planning processes, and as part of the framework for identifying and quantifying the risks to which the NUI Group is exposed

General insurance claims 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 claims 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 and investment return	The impact of a change in market interest rates by +/- 1% (e g 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 2006

21. Risk management policies (continued)

(vi) Risk and capital management (continued)

General insurance business - impact on profit before tax (£000)

	Interest rates +1%	Interest rates -1%	Expenses +10%	Gross loss ratios +5%
Gross of reinsurance	-	-	(7,748)	(7,357)
Net of reinsurance	-	-	-	(3,512)

General insurance business - impact on shareholder's equity (£000)

	Interest rates +1%	Interest rates -1%	Expenses +10%	Gross loss ratios +5%
Gross of reinsurance	-	-	(7,748)	(7,357)
Net of reinsurance	-	-	-	(3,512)

Due to the importance of reinsurance, the impact of sensitivities on profit and equity is shown gross and net of reinsurance For general insurance, the impact of the expense sensitivity on profit also includes the increase in ongoing administration expenses

The above tables demonstrate the effect of a change in a key assumption while other assumptions remain unchanged In reality, such an occurrence is remote, due to correlations between the assumptions and other factors It should also be noted that these sensitivities are non-linear, and larger or smaller impacts should not be interpolated or extrapolated from these results

The sensitivity analyses do not take into consideration that the Company's assets and liabilities are actively managed Additionally, the financial position of the Company 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 As investment markets move past various trigger levels, management actions could include selling investments, changing investment portfolio allocation, and taking other protective action

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 possible near-term market changes that cannot be predicted with any certainty and the assumption that all interest rates move in an identical fashion

22. Related party transactions

(a) The Company had the following related party transactions in 2006

The Company was a subsidiary undertaking of Legal & General Insurance Limited, a subsidiary undertaking of Legal & General Group plc, until 31 March 2005 On this date, the entire shareholding in the Company of Legal & General Insurance Limited was acquired by a minority shareholder, Barclays Bank plc On 4 April 2005, the entire share capital of the Company was transferred to Aviva International Insurance Limited, part of the Aviva plc group

Gresham Insurance Company Limited
Notes to the financial statements (continued)

22. Related party transactions

(i) Quota share arrangement

The Company has entered into a quota share reinsurance arrangement with a its parent undertaking, Aviva International Insurance Limted, with effect from 1 January 2006

The key terms of the agreements are

- a 100% cession rate on premiums, claims costs and expense costs is applied in respect of that underwriting year,
- the Company pays interest of LIBOR + 100bps on any reserves

The premiums, claims and expenses which have been reinsured to Aviva International Insurance Limited under the arrangement are

Quota share	**2006**	**2005**
	£000	**£000**
Premiums earned	100,571	-
Claims incurred	(78,816)	-
Fee and commission expenses and operating expenses	(55,183)	-
Profit/(loss) ceded	(33,428)	-

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

	2006	**2005**
	£000	**£000**
Reinsurance asset	174,181	-
Payables arising out of ceded reinsurance	96,858	-

(ii) Services

	2006		**2005**	
	Expense incurred in year	**Payable at year end**	**Expense incurred in year**	**Payable at year end**
	£000	**£000**	**£000**	**£000**
Parent	-	36,794	-	41,407
Fellow subsidiaries	64,272	44	20,784	-
	64,272	36,838	20,784	41,407

22. Related party transactions (continued)

(iii) Services provided to related parties

	2006		2005	
	Income earned in year	Receivable at year end	Income earned in year	Receivable at year end
	£000	£000	£000	£000
Fellow subsidiaries	-	-	-	10,122

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

(iv) Reinsurance arrangements

The Company paid premiums of £2,289 thousand to a fellow Group undertaking, Aviva Re Limited, in respect of reinsurance arrangements, in 2006

(v) 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

	2006	2005
	£000	£000
Salary and other short-term benefits	5,137	2,985
Post-employment benefits	169	134
Other long term benefits	1,422	-
Equity compensation plans	3,106	1,216
Total	9,834	4,335

Compensation for key management for 2005, includes compensation for the directors and, for the period since 4 April 2005, compensation of management of the business unit within the Aviva plc group that has responsibility for managing the Company

(b) Immediate parent undertaking

The Company's immediate parent undertaking is Aviva International Insurance Limited, registered in England and Wales

(c) Ultimate controlling entity

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