CGNU Life Assurance Limited

Report & Financial Statements 2007

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Directors and Officers

Directors

M S Hodges
J R Lister
N A Nicandrou

Secretary

J J Wilman

Auditor

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

CGNU Life Assurance Limited
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CGNU Life Assurance Limited

Directors' report

The directors present their annual report and audited financial statements for CGNU Life Assurance Limited (the Company) for the year ended 31 December 2007

Business review

The principal activity of the Company is the transaction of long-term insurance business, primarily with-profit bonds and pensions The Company also writes non-profit business, but reinsures the majority to other group companies

Bond sales have been strong in 2007 The Company's retail price index (RPI) guarantee backed with-profit bond has continued to be a popular choice with investors along with international bonds, which are reinsured in from a fellow group company

Shareholders' equity has increased by £8 million, reflecting profit for the year, offset by dividends paid

In March 2007, Norwich Union Life (NU Life) announced a partnership with Swiss Re to outsource the administration of almost three million policies, enabling all the product systems to be reduced from 550 by 220 systems To support this NU Life has successfully transferred 1,000 employees to Swiss Re in October Policy migration is now underway with the first phase due for completion in April 2008, and all policies migrated by early 2009 This initiative combined with other simplification activity has already enabled NU Life to decommission over 100 systems

During 2007 the Company has continued to work towards the proposed reattribution of the inherited estate The Company is the first to do so under new rules from the FSA, which require negotiation through a policyholder advocate This is a complex process and has taken longer than anticipated The Company has now agreed the eligibility criteria for the reattribution with the policyholder advocate and established the parameters for determining the surplus in the fund and obligations to current investors

Separately to this, NU Life was delighted to announce a special bonus of £2 1 billion, benefiting around 1 1 million with-profit policyholders in the with-profit funds of CGNU Life Assurance Limited and Commercial Union Life Assurance Company Limited In accordance with the way the funds are managed, the bonus distribution is being split on a 90/10 basis between policyholders and shareholders Further information on the impact of the special bonus is set out in note 32 to the financial statements The distribution of this special bonus clears the way to negotiate a fair price for the balance of the inherited estate, amounting to a further £2 6 billion across the two with-profit funds

Risk management

A description of the principal risks and uncertainties facing the Company and the Company's risk management policies are set out in note 29 to the financial statements

Key performance indicators (KPIs)

Net premiums for the year have increased by 11% to £909 million *(2006 £818 million)*, mainly due to increased bond sales

Profit after tax of £43 million *(2006 £35 million)* mainly arises from the shareholder element of the bonus declared on with-profit policies

Environmental

The Company does not have a separate environmental policy and follows the policy set for the Group Aviva plc recognises that their business activities have direct and indirect impacts on the societies in which they operate Aviva plc endeavours to manage these in a responsible manner, believing that sound and demonstrable performance in relation to corporate social responsibility (CSR) policies and practices is a fundamental part of business success For further details, view the latest annual CSR report (www aviva com/csr), which covers performance in respect of standards of business conduct, the environment, human rights, health & safety as well as the promotion of good and fair relations with their employees, customers, suppliers and the broader community

Dividends

During the year, the Company paid a dividend of £35 million *(2006 £25 million)*

Directors

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

P J R Snowball resigned as director of the Company on 3 May 2007

Company Secretary

J J Wilman was appointed as Company Secretary on 27 June 2007

Aviva Company Secretarial Services Limited resigned as Company Secretary on 28 June 2007

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 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 a 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 maintaining 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

Directors Interests

The requirement for directors to disclose their interests in the Company's ultimate holding company was repealed by the Companies Act 2006

Directors' indemnity arrangements

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

Auditors

Under section 487 of the Companies Act 2006 the auditors are deemed to have been reappointed

Disclosure of information to the auditor

Each person who was a director of the Company on the date that this report was approved confirms that so far as the director is aware, there is no relevant audit information, being information needed by the auditor in connection with preparing its report, of which the auditor is unaware Each director has taken all the steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the auditor is aware of that information

By order of the Board

J J Wilman *Secretary* *25 March 2008*

Independent auditor's report to the shareholders of CGNU Life Assurance Limited

We have audited the financial statements of CGNU Life Assurance Limited for the year ended 31 December 2007 which comprise the Income Statement, Balance Sheet, Cash Flow Statement, Statement of Changes in Shareholders' Equity and the related notes 1 to 32 These financial statements have been prepared under the accounting policies set out on pages 7 to 14

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

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the financial statements in accordance with applicable United Kingdom law and International Financial Reporting Standards (IFRS) as adopted by the European Union are 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 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 judgments 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 IFRS as adopted by the European Union, of the state of the Company's affairs as at 31 December 2007 and of its profit 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

27 March 2008

The Company, a limited company incorporated and domiciled in the United Kingdom (UK), transacts long-term insurance business

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 IFRS applicable at 31 December 2007

In August 2005 the International Accounting Standards Board (IASB) issued amendments to IAS 1, *Capital Disclosures* The requirements are applicable for accounting periods beginning on or after 1 January 2007 and have been applied by the Company in these financial statements

During 2007 the IASB issued IAS 1, *Presentation of Financial Statements A Revised Presentation,* and an amendment to IAS 23, *Borrowing Costs* These are applicable for accounting periods beginning on or after 1 January 2009 and, on adoption, will not have any material impact on the Company's financial reporting

Since the year end, the IASB has issued an amendment to IAS27, *Consolidated and Separate Financial Statements,* which is applicable to accounting periods beginning on or after 1 July 2009, and amendments to IAS 1, *Presentation of Financial Statements* and IAS 32, *Financial Instruments Presentation*, which are applicable to accounting periods beginning on or after 1 January 2009 None of these has yet been endorsed by the European Union and, on adoption, will not have any material impact on the Company's financial reporting

Unless otherwise noted, the amounts shown in these financial statements are in millions of pounds sterling (£m)

As permitted under IAS 27, *Consolidated and Separate Financial Statements,* the Company has elected not to present consolidated financial statements These financial statements present information about the Company as an individual undertaking and not about its group Information on the ultimate controlling parent and immediate parent can be found in note 31

(B) Critical accounting policies and the use of estimates

The preparation of financial statements requires the Company to select accounting policies and make estimates and assumptions that affect items reported in the income statement, balance sheet, other primary statements and notes to the financial statements

Critical accounting policies
The major areas of judgement on policy application are considered to be on product classification (set out in policy D) and in the classification of financial investments (set out in policy Q)

Use of estimates
All estimates are based on management's knowledge of current facts and circumstances, assumptions based on that knowledge and their predictions of future events and actions Actual results can always differ from those estimates, possibly significantly

The table below sets out those items that are considered particularly susceptible to changes in estimates and assumptions, and the relevant accounting policy

Item	Accounting policy
Insurance and participating investment contract liabilities	H
Fair value of derivative financial instruments	R
Provisions and contingent liabilities	V
Deferred tax	W

Further details on the estimation of amounts for insurance and participating investment contract liabilities are given in notes 18, 19 and 25 to these financial statements

(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 and designated as held at fair value through profit or loss (FV) are included in foreign exchange gains and losses in the income statement Translation differences on non-monetary items, such as equities which are designated as FV, are reported as part of the fair value gain or loss

(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 payments 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 contracts

Some insurance and investment contracts contain a discretionary participating feature, which is a contractual right to receive additional benefits as a supplement to guaranteed benefits These are referred to as participating contracts

(E) Premiums earned

Premiums on insurance contracts and participating investment contracts are recognised as income when receivable, except for investment-linked premiums that are accounted for when the corresponding liabilities are recognised For single premium business, this is the date from which the policy is effective For regular premium contracts, receivables are taken at the date when payments are due Premiums are shown before deduction of commission and before any sales-based taxes or duties Where policies lapse due to non-receipt of premiums, then all the related premium income accrued but not received from the date they are deemed to have lapsed is offset against premiums

Deposits collected under investment contracts without a discretionary participating feature (non-participating contracts) are not accounted for through the income statement, except for the fee income (covered in policy F) and the investment income attributable to those contracts, but are accounted for directly through the balance sheet as an adjustment to the investment contract liability

(F) Fee and commission income

Investment contract policyholders are charged fees for policy administration, investment management, surrenders or other contract services The fees may be for fixed amounts or vary with the amounts being managed, and will generally be charged as an adjustment to the policyholder's balance These fees are recognised as revenue in the period in which they are collected unless they relate to services to be provided in future periods, in which case they are deferred and recognised as the service is provided

Initiation and other "front-end" fees (fees that are assessed against the policyholder balance as consideration for origination of the contract) are charged on some non-participating investment contracts The front-end fees that relate to the provision of investment management services are deferred and recognised as the services are provided

(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 FV investments (as defined in policy Q) 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 It includes the interest rate differential on forward foreign exchange contracts Rental income is recognised on an accruals basis

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

(H) Insurance and participating investment contract liabilities

Claims

Claims reflect the cost of all claims arising during the year, including claims handling costs, as well as policyholder bonuses accrued in anticipation of bonus declarations

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

Long-term business provisions

Under IFRS 4, insurance and participating investment contract liabilities are measured using accounting policies consistent with those adopted previously under existing accounting practices, with the exception of those relating to with-profit contracts The Company has adopted FRS 27, *Life Assurance,* for liabilities relating to such contracts, which adds to the requirements of IFRS but does not vary them in any way

Calculation of the long-term business provisions are based on regulatory requirements and represent a determination within a range of possible outcomes, where the assumptions used in the calculations depend on the prevailing circumstances The principal assumptions are disclosed in note 18(b) For with-profit funds, FRS 27 requires liabilities to be calculated as the realistic basis liabilities as set out by the Financial Services Authority (FSA), adjusted to remove the shareholders' share of future bonuses For non-profit insurance contracts, the Company applies the realistic regulatory basis as set out in the FSA Policy Statement 06/14, *Prudential Changes for Insurers* where applicable

Present value of future profits (PVFP) on non-participating business written in a with-profit fund

For with-profit life funds falling within the scope of the FSA realistic capital regime, and hence FRS 27, an amount may be recognised for the present value of future profits on non-participating business written in a with-profit fund where the determination of the realistic value of liabilities in that with-profit fund takes account, directly or indirectly, of this value This amount is recognised as a reduction in the liability rather than as an asset on the balance sheet, and is then apportioned between the amounts that have been taken into account in the measurement of liabilities and other amounts which are shown as an adjustment to the unallocated divisible surplus

Unallocated divisible surplus

In certain participating long-term insurance and investment business, the nature of the policy benefits is such that the division between shareholder reserves and policyholder liabilities is uncertain Amounts whose allocation either to policyholders or shareholders has not been determined by the end of the financial year are held within liabilities as an unallocated divisible surplus

Liability adequacy

At each reporting date an assessment is made of whether the recognised long-term business provisions are adequate, using current estimates of future cash flows If that assessment shows that the carrying amount of the liabilities (less related assets) is insufficient in the light of the estimated future cash flows, the deficiency is recognised in the income statement by setting up an additional provision in the balance sheet

(I) Non-participating investment contract liabilities

Claims

For non-participating investment contracts with an account balance, claims reflect the excess of amounts paid over the account balance released

Contract liabilities

Deposits collected under non-participating investment contracts are not accounted for through the income statement, except for the investment income attributable to those contracts, but are accounted for directly through the balance sheet as an adjustment to the investment contract liability

Nearly all of the Company's contracts classified as non-participating investment contracts are unit-linked contracts and are measured at fair value

The fair value liability is in principle established through the use of prospective discounted cash-flow techniques For unit-linked contracts, the fair value liability is equal to the current unit fund value, plus additional non-unit reserves if required on a fair value basis

(J) Reinsurance

The Company accepts and cedes reinsurance in the normal course of business, with retention limits varying by line of business Premiums on reinsurance accepted are recognised as revenue in the same manner they would be if the reinsurance were considered direct business, taking into account the product classification of the reinsured business The cost of reinsurance related to long-duration contracts is accounted for over the life of the underlying reinsured policies, using assumptions consistent with those used to account for these policies

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

Reinsurance contracts that principally transfer financial risk are accounted for directly through the balance sheet and are not included in reinsurance assets or liabilities A deposit asset or liability is recognised, based on the consideration paid or received less any explicitly identified premiums or fees to be retained by the reinsurer

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

(K) Subsidiaries

Subsidiaries are stated at their fair values, estimated using applicable valuation models The directors have used a fair value model consistent with IAS 39 Subsidiaries managed on a fair value basis are classified as held at fair value through profit and loss, with movements recognised in the income statement, otherwise, they are classified as available for sale

Dividends from subsidiaries are recognised when declared and approved

(L) Joint ventures

Property management undertakings

The Company has invested in a number of property limited partnerships (PLPs), either directly or via property unit trusts (PUTs), through a mix of capital and loans The PLPs are managed by general partners (GPs) in which the Company holds equity stakes and which themselves hold nominal stakes in the PLPs The PUTs are managed by a fellow group subsidiary Accounting for the PUTs and PLPs as subsidiaries, joint ventures or other financial investments depends on the shareholdings in the GPs and the terms of each partnership agreement Where the Company exerts control over a PLP it has been treated as a subsidiary Where the partnership is managed by a contractual agreement such that no party exerts control, notwithstanding that the Company's partnership share in the PLP (including its indirect stake via the relevant PUT and GP) may be greater than 50%, such PUTs and PLPs have been classified as joint ventures Where the Company holds minority stakes in PLPs, with no disproportionate influence, the relevant investments are carried at fair value through profit and loss within financial investments

Joint ventures

Joint ventures are stated at their fair values, estimated using applicable valuation models In respect of joint ventures writing long-term business, fair value is based on EEV, and in respect of all other joint ventures, the directors have used a fair value model consistent with IAS 39 Joint ventures managed on a fair value basis are classified as held at fair value through profit and loss, with movements recognised in the income statement, otherwise, they are classified as available for sale

(M) Property and equipment

Property and equipment are carried at historical cost less accumulated depreciation

Investment properties under construction are included within property and equipment until completion, and are stated at cost less provision for any impairment in their values

Land and properties under construction are not depreciated

Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount Gains and losses on disposal of property and equipment are determined by reference to their carrying amount

All borrowing costs are expensed as they are incurred Repairs and maintenance are charged to the income statement during the financial period in which they are incurred

(N) Investment property

Investment property is held for long-term rental yields and is not occupied by the Company Completed investment property is stated at its fair value, which is supported by market evidence, as assessed by qualified external valuers or by qualified staff of the Aviva group Changes in fair values are recorded in the income statement within net investment income

(O) Impairment of non-financial assets

Property and equipment and other 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

(P) 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

- the rights to receive cash flows from the asset have expired,
- 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
- the Company has transferred its rights to receive cash flows from the asset and has either transferred substantially all the risks and rewards of the asset, or 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

(Q) Financial investments

The Company classifies its investments as financial assets at fair value through profit and loss (FV) The FV category has two sub-categories – those that meet the definition as being held for trading and those the Company chooses to designate as FV (referred to in this accounting policy as 'other than trading')

In general, the FV category is used as, in most cases, the Company's investment or risk management strategy is to manage its financial investments on a fair value basis In certain circumstances, the FV category is used where this eliminates an accounting mismatch Debt securities and equity securities, which the Company buys with the intention to resell in the short term, are classified as trading All other securities in the FV 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 recorded at their fair value, which is initially 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

(R) Derivative financial instruments

Derivative financial instruments include foreign exchange contracts, interest rate futures, currency and interest rate swaps, currency and interest rate options and other financial instruments that derive their value mainly from underlying interest rates, foreign exchange rates, commodity values or equity instruments 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 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 Premiums paid for derivatives are recorded as an asset on the balance sheet at the date of purchase, representing their fair value at that date

Derivative contracts may be traded on an exchange or over-the-counter (OTC) Exchange-traded derivatives are standardised and include certain futures and option contracts 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 30

(S) Loans

Mortgages which back long-term business have been classified at fair value through profit and loss in order to match the movement in those liabilities These loans are revalued to fair value at each period end, with movements in valuation being taken to the income statement

The fair value of mortgages classified as FV are estimated using discounted cash flow forecasts, based on a risk adjusted discount rate which reflects the risks associated with these products

Loans not backing the long-term business are held at amortised cost, using the effective interest rate method

To the extent that a loan is uncollectible, it is written off as impaired Subsequent recoveries are credited to the income statement

(T) Collateral

The Company receives and pledges collateral in the form of cash or non-cash assets in respect of stock lending transactions, certain derivative contracts and loans in order to reduce the credit risk of these transactions The amount and type of collateral required depends on an assessment of the credit risk of the counterparty

Collateral received in the form of cash, which is not legally segregated from the Company, is recognised as an asset on the balance sheet with a corresponding liability for the repayment Non-cash collateral received is not recognised on the balance sheet unless the Company either sells or repledges these assets in the absence of default, at which point the obligation to return this collateral is recognised as a liability

Collateral pledged in the form of cash, which is legally segregated from the Company, is derecognised from the balance sheet with a corresponding receivable for its return Non-cash collateral pledged is not derecognised from the balance sheet unless the Company defaults on its obligations under the relevant agreement, and therefore continues to be recognised on the balance sheet within the appropriate asset classification

(U) Cash flow statement

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 that are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in value Such investments are normally those with less than three month's maturity from the date of acquisition, and include certificates of deposit 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

Operating cash flows

Purchases and sales of investment property, loans and financial investments are included within operating cash flows as the purchases are funded from cash flows associated with the origination of insurance and investment contracts, net of payments of related benefits and claims

(V) Provisions and contingent liabilities

Provisions are recognised when the Company has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made Where the Company expects a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is more probable than not

The Company recognises a provision for onerous contracts when the expected benefits to be derived from a contract are less than the unavoidable costs of meeting the obligations under the contract Contingent liabilities are disclosed if the future obligation is probable and the amount cannot be reasonably estimated, or if they are possible but not probable

(W) 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 revaluation of property and certain financial assets and liabilities including derivative contracts, 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

In addition to paying tax on shareholders' profits, the Company pays tax on policyholders' investment returns ("policyholder tax") on certain products at policyholder tax rates Policyholder tax is accounted for as an income tax and is included within the total tax expense

(X) Share capital

Equity instruments

An equity instrument is a contract that evidences a residual interest in the assets of an entity after deducting all 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

CGNU Life Assurance Limited

Income Statement
As at 31 December 2007

	Note	2007 £m	2006 £m
Income	2		
Gross written premiums		**2,217**	2,280
Premiums ceded to reinsurers		**(1,308)**	(1,462)
Net premiums earned	E	**909**	818
Fee and commission income	F	**42**	16
Net investment income	G	**764**	1,540
		1,715	2,374
Expenses	3		
Claims and benefits paid, net of recoveries from reinsurers		**(1,356)**	(1,679)
Change in insurance liabilities, net of reinsurance		**(930)**	(6)
Change in investment contract provisions		**(48)**	100
Change in unallocated divisible surplus		**825**	(408)
Fee and commission expense		**(64)**	(119)
Other expenses		**(58)**	(97)
Finance costs		**(28)**	(7)
Profit before tax		**56**	158
Tax expense	W & 6	**(13)**	(123)
Profit for the year		**43**	35

The accounting policies (identified alphabetically) on pages 7 to 14 and notes (identified numerically) on pages 19 to 51 are an integral part of these financial statements

CGNU Life Assurance Limited

Balance Sheet

As at 31 December 2007

	Note	2007 £m	2006 Restated £m
Assets			
Investments in subsidiaries	K & 7	**251**	253
Investments in joint ventures	L & 8	**771**	877
Property and equipment	M & 9	**-**	8
Investment property	N & 10	**1,384**	1,614
Loans	S & 11	**770**	254
Financial investments	Q & 12	**12,480**	12,190
Reinsurance assets	J & 13	**29,327**	25,601
Receivables and other financial assets	14	**400**	417
Prepayments and accrued income	15	**134**	115
Cash and cash equivalents	U & 27(b)	**398**	351
Total assets		**45,915**	41,680
Equity			
Ordinary share capital	X & 16	**-**	-
Retained earnings	17	**50**	42
Total equity		**50**	42
Liabilities			
Gross insurance liabilities	H & 18	**20,332**	18,956
Gross liability for investment contracts	H, I & 19	**22,650**	19,315
Unallocated divisible surplus	H & 22	**1,481**	2,306
Deferred tax liabilities	W & 23	**251**	374
Current tax liabilities	W & 23	**74**	28
Payables and other financial liabilities	24	**1,077**	659
Total liabilities		**45,865**	41,638
Total equity and liabilities		**45,915**	41,680

Approved by the Board on 25 March 2008

N A Nicandrou *Director*

The accounting policies (identified alphabetically) on pages 7 to 14 and notes (identified numerically) on pages 19 to 51 are an integral part of these financial statements

CGNU Life Assurance Limited
Statement of changes in equity
For the year ended 31 December 2007

	Note	2007 £m	2006 £m
Balance at 1 January		**42**	32
Profit for the year	17	**43**	35
Dividends	X & 17	**(35)**	(25)
Balance at 31 December		**50**	42

The accounting policies (identified alphabetically) on pages 7 to 14 and notes (identified numerically) on pages 19 to 51 are an integral part of these financial statements

CGNU Life Assurance Limited
Cash flow statement
For the year ended 31 December 2007

The cash flows presented in this statement cover all the Company's activities and include flows from policyholder and shareholder activities

	Note	2007 £m	2006 £m
Cash flows from operating activities			
Cash generated from operations	27(a)	**198**	442
Tax paid		**(92)**	(72)
Net cash from operating activities		**106**	370
Cash flows from investing activities			
Acquisitions of joint ventures		**(94)**	(192)
Disposals of subsidiaries and joint ventures		**75**	73
Net cash used in investing activities		**(19)**	(119)
Cash flows from financing activities			
Dividends paid		**(35)**	(25)
Net increase in cash and cash equivalents		**52**	226
Cash and cash equivalents at 1 January		**346**	120
Cash and cash equivalents at 31 December	27(b)	**398**	346

The accounting policies (identified alphabetically) on pages 7 to 14 and notes (identified numerically) on pages 19 to 51 are an integral part of these financial statements

1. Prior period restatement

The Company enters into stock lending transactions and receives collateral to reduce the Company's exposure to counterparty credit risk This collateral may take the form of cash or non-cash collateral Upon review of these transactions it was identified that under the interpretation of IAS 39 certain cash collateral transactions should have been recognised on the balance sheet with a corresponding obligation to return this collateral The cash collateral received was subsequently lent out with this loan being fully collateralised by non-cash collateral

As a result, the following adjustment has been recognised in the 31 December 2006 comparative figures of these financial statements

- Loan assets have increased by £168 million
- Payables and other financial liabilities have increased by £168 million

There has been no adjustment to net assets, equity or the Income Statement

2. Details of income

	2007 £m	2006 £m
Gross written premiums		
Insurance contracts	568	713
Participating investment contracts	1,649	1,567
	2,217	2,280
Less Premiums ceded to reinsurers	(1,308)	(1,462)
Net premiums earned	909	818
Fee and commission income	42	16
Total revenue	951	834
Net investment income		
Interest and similar income	283	226
Dividend income	216	246
Other income from investments designated as trading		
Realised gains	13	23
Unrealised gains	31	11
Other income from investments designated as other than trading		
Realised gains	725	661
Unrealised (losses)/gains	(512)	84
Foreign exchange gains	36	14
Net income from investment properties		
Rent	108	102
Expenses relating to these properties	(11)	(12)
Realised gains on disposal	2	8
Fair value (losses)/gains on investment properties	(122)	182
Other investment expenses	(5)	(5)
Net investment income	764	1,540
Total income	1,715	2,374

3. Details of expenses

	2007 £m	2006 £m
Claims and benefits paid to policyholders		
Insurance contracts	**1,959**	2,485
Participating investment contracts	**954**	1,056
	2,913	3,541
Less Claim recoveries from reinsurers		
Insurance contracts	**(976)**	(1,333)
Participating investment contracts	**(581)**	(529)
Claims and benefits paid, net of recoveries from reinsurers	**1,356**	1,679
Change in insurance liabilities	**1,376**	(401)
Less Change in reinsurance asset for insurance provisions	**(446)**	407
Change in insurance liabilities, net of reinsurance	**930**	6
Investment income allocated to investment contracts	**(3)**	35
Other changes in provisions		
Participating investment contracts	**116**	(213)
Non-participating investment contracts	**(2)**	2
Less Change in reinsurance asset for investment contract provisions	**(63)**	76
Change in investment contract provisions	**48**	(100)
Change in unallocated divisible surplus	**(825)**	408
Commission expenses and other acquisition costs for insurance and participating investment contracts	**57**	74
Other fee and commission expense	**7**	45
Fee and commission expense	**64**	119
Other expenses	**58**	97
Finance costs	**28**	7
Total expenses	**1,659**	2,216

4. Directors' emoluments

P J R Snowball was a director of Aviva plc, and details of his remuneration are given in the financial statements of that company

Emoluments of the other directors were

	2007 £'000	2006 £'000
Aggregate emoluments in respect of services as directors	**2,403**	3,343
Termination payments	-	1,783
Emoluments of the highest paid director		
Aggregate emoluments and benefits	**1,165**	1,064
Accrued pension at end of year from defined benefit pension scheme	-	-

Certain of the directors are covered by private medical insurance provided by Norwich Union Insurance Limited Payments may be made to, or on behalf of, directors, subject to the normal policy rules

No lump sum in relation to the defined benefit pension scheme had accrued at the end of the current or previous year Retirement benefits are accruing to two of the directors under a defined benefit scheme

During the year three directors exercised share options and received shares under long term incentive schemes, including the highest paid director

Under a management service agreement, Norwich Union Life Services (NULS) supplies and makes charges for the provision of staff to the Company, which includes an element in respect of directors' emoluments It is not practical to calculate the exact charge borne by the Company in this respect

5. Auditor's remuneration

	2007 £'000	2006 £'000
Fees for the statutory audit of the Company's financial statements	**211**	238

Auditor's remuneration for the current and prior year has been invoiced to NULS These fees form part of the charges for services to the Company made by NULS under a management agreement

Fees paid to Ernst & Young LLP for services other than the statutory audit of this Company are not disclosed in these financial statements since the consolidated financial statements of the ultimate parent, Aviva plc, are required to disclose non-audit fees on a consolidated basis

6. Tax

(a) Tax charged to the income statement

(i) The total tax charge comprises:

	2007 £m	2006 £m
Current tax		
For the year	**125**	78
Prior year adjustments	**11**	(25)
Total current tax	**136**	53
Deferred tax		
Origination and reversal of timing differences	**(109)**	70
Change in tax rate and tax law	**(14)**	-
Total deferred tax	**(123)**	70
Total tax charged to the income statement (note 6(b))	**13**	123

In 2007, the Government enacted a change in the standard UK corporation tax rate from 30% to 28%, effective from 1 April 2008

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

	2007 £m	2006 £m
Unrealised (losses)/gains on investments	**(129)**	55
Provisions and other timing differences	**6**	3
Unused losses and tax credits	**-**	12
Total deferred tax (credited)/charged to the income statement	**(123)**	70

(b) Tax reconciliation

The tax on the Company's profit before tax differs from tax calculated at the standard UK corporation tax rate as follows

	2007 £m	2006 £m
Profit before tax	**56**	158
Tax calculated at standard UK corporation tax rate of 30% *(2006 30%)*	**17**	47
Different basis of tax for UK life insurance	**(4)**	101
Adjustment to tax charge in respect of prior years	**11**	(25)
Deferred tax assets not recognised	**(11)**	-
Total tax charged to the income statement (note 6(a))	**13**	123

7. Investments in subsidiaries

(a) Movements in the Company's investments in its subsidiaries are as follows.

	2007 £m	2006 £m
Carrying amount at 1 January	**253**	316
Disposals	**-**	(22)
Fair value gains/(losses)	**27**	(21)
Transfer to other investments	**(29)**	-
Transfer to joint ventures (note (8a))	**-**	(20)
At 31 December	**251**	253

(b) Transfers

The transfer to other investments of £29m relates to the reclassification of the Beach Student Accommodation Fund due to a reassessment of the control of the entity

(c) The principal subsidiaries are shown below

Company	Principal activity	Percentage of ownership	Incorporated in
Quarryvale One Limited	Holding company for Quarryvale Three Limited	100%	England
Quarryvale Three Limited	Investment in, and development of, property in the Republic of Ireland	100%	England
Anna Livia Properties Limited	Investment in, and development of, property in the Republic of Ireland	100%	Republic of Ireland

8. Investments in joint ventures

(a) Movements in the Company's investments in joint ventures are as follows

	2007 £m	2006 £m
Carrying amount at 1 January	**877**	560
Additions	**94**	192
Disposals	**(75)**	(51)
Fair value (losses)/gains	**(63)**	156
Transfer to other investments	**(62)**	-
Transfer from subsidiaries (note 7(a))	**-**	20
At 31 December	**771**	877

(b) The principal joint ventures included above are as follows:

Company	Proportion held
The Southgate Limited Partnership	50 0%
Tesco Arena Property Unit Trust	50 0%
The Cardiff Bay Partnership	42 9%
Crane Investment Holdings Pte Ltd	33 3%
The Designer Retail Outlet Centres Limited Partnership	29 4%
Paddington Central I Limited Partnership	25 0%
Airport Property Partnership	25 0%
Apia Regional Office Fund	21 5%
Encore + FCP	16 3%
Goodman European Business Park Fund	16 2%
20 Gracechurch UT	12 5%
Piller Retail Europark Fund	8 6%
The Mall Limited Partnership	6 3%

All the above entities perform property ownership and management activities, and are incorporated and operate in Great Britain, apart from

- Crane Investment Holdings Pte Ltd is the Singapore Holding Company of the Morley Japan Property Fund (a sub-fund of the Morley Asia Property Fund, an umbrella fund which is a *fonds commun de placement - fonds d'investissement spécialisé* (the "**FCP-FIS**") established pursuant to the Luxembourg law of 13 February 2007 relating to specialised investment funds)
- Encore + FCP (Fonds Commun de Placement) is registered in Luxembourg The fund invests in office, logistics, retail and leisure properties in the European Economic area, excluding the UK
- Goodman European Business Park Sarl is registered in Luxembourg The fund invests in business parks in the European Economic area, excluding the UK
- Pillar Retail Europark FCP (Fonds Commun de Placement) is registered in Luxembourg The fund invests in retail parks in the European Economic area, excluding the UK

Distributions received from joint ventures during the year amounted to £25 million *(2006 £18 million)*

Investment assets sold to joint ventures during the year amounted to £nil *(2006 £80 million)*

Loans made to joint ventures during the year amounted to £51 million (*2006 £nil*), included in 'other loans' in note 11

The joint ventures have no significant contingent liabilities to which the Company is exposed, nor has the Company any significant contingent liabilities in relation to its interest in the joint ventures

Most of the PLPs have raised external debt, secured on their respective property portfolios The lenders are only entitled to obtain payment, of both interest and principal, to the extent that there are sufficient resources in the respective PLPs The lenders have no recourse whatsoever to the Company

9. Property and equipment

	2007 £m	2006 £m
Properties under construction		
Carrying amount at 1 January	**8**	8
Disposals	**(8)**	-
At 31 December	**-**	8

10. Investment property

(a) Carrying amounts

	Freehold £m	Leasehold £m	Total £m
Carrying amount at 1 January 2006	1,306	352	1,658
Additions	22	1	23
Capitalised expenditure on existing properties	11	19	30
Fair value gains	128	54	182
Disposals	(279)	-	(279)
At 31 December 2006	1,188	426	1,614
Additions	-	59	**59**
Capitalised expenditure on existing properties	9	-	**9**
Fair value losses	(101)	(21)	**(122)**
Disposals	(176)	-	**(176)**
At 31 December 2007	**920**	**464**	**1,384**

Investment properties are stated at their market values as assessed by qualified external valuers or by local qualified staff of the Aviva Group Values are calculated using a discounted cash flow approach and are based on current rental income plus anticipated uplifts at the next rent review, assuming no future growth in rental income This uplift and the discount rate are derived from rates implied by recent market transactions on similar properties

(b) Operating leases

The fair value of investment properties leased to third parties under operating leases was as follows

	2007 £m	2006 £m
Freeholds	**920**	1,188
Long leaseholds – over 50 years	**464**	426
	1,384	1,614

Future contractual aggregate minimum lease rentals receivable under non-cancellable operating leases are as follows

	2007 £m	2006 £m
Within one year	**82**	88
Later than one year and not later than five years	**288**	323
Later than five years and not later than ten years	**271**	311
Later than ten years	**253**	344
	894	1,066

11. Loans

(a) Carrying amounts

	2007	2006
		Restated
	£m	£m
Policy loans	**10**	10
Mortgage loans	**91**	51
Loans to credit institutions	**428**	168
Loans due from fellow subsidiaries	**74**	25
Loans due from subsidiaries	**110**	-
Other loans	**57**	-
	770	254

There was no change in the fair value of mortgage loans attributable to a change in credit risk during the year or cumulatively (2006 £nil and £nil respectively)

Of the above total, £100 million *(2006 £60 million)* is expected to be recovered more than one year after the balance sheet date

(b) Collateral

The Company holds collateral in respect of loans where it is considered appropriate, in order to reduce the risk of non-recovery This collateral generally takes the form of financial assets, liens or charges over properties and, in the case of policy loans, the underlying policy, for the majority of the loan balances above In the event of a default, the Company is able to sell or repledge the collateral

The amount of collateral received with respect to loans which the Company is permitted to sell or repledge in the absence of default was £449 million *(2006 restated £168 million)* The value of collateral that was actually sold or repledged in the absence of default was £nil million *(2006 restated £nil)*

12. Financial investments

(a) Financial investments at 31 December comprise.

	At fair value through profit and loss		2007
	Trading	Other than trading	Total
	£m	£m	£m
Debt securities	-	4,483	4,483
Equity securities	-	5,554	5,554
Other investments			
Unit trusts	-	2,088	2,088
Derivative financial instruments	109	-	109
Other	-	246	246
	109	12,371	12,480

	At fair value through profit and loss		2006
	Trading	Other than trading	Total
	£m	£m	£m
Debt securities	-	4,028	4,028
Equity securities	-	6,486	6,486
Other investments			
Unit trusts	-	1,504	1,504
Derivative financial instruments	98	-	98
Other	-	74	74
	98	12,092	12,190

Of the above total, £11,537 million *(2006 £11,196 million)* is expected to be recovered more than one year after the balance sheet date

(b) Stocklending

The Company has entered into stocklending arrangements during the year in accordance with established market conventions The majority of the Company's stock lending transactions occur in the UK, where investments are lent to EEA-regulated, locally domiciled counterparties and governed by agreements written under English law

The Company receives collateral in order to reduce the credit risk of these arrangements The level of collateral held is monitored regularly, with further collateral obtained where this is considered necessary to manage the Company's risk exposure

In certain markets, the Company or the Company's appointed stock lending managers obtain legal ownership of the collateral received and can repledge it as collateral elsewhere or sell outright in the absence of default The carrying amounts of financial assets received and pledged in this manner at 31 December 2007 were £3,148 million and £nil respectively *(2006 restated £2,131 million and £nil respectively)* The value of collateral that was actually sold or repledged in the absence of default was £nil *(2006 £nil)*

In addition to the above the Company has received and pledged cash collateral under stock lending arrangements of £428 million and £nil respectively *(2006 restated £168 million and £nil respectively)*

13. Reinsurance assets

(a) The carrying amounts at 31 December comprised:

	2007	2006
	£m	£m
Insurance contracts	**8,659**	8,213
Participating investment contracts	**2,559**	2,496
Non-participating investment contracts	**18,108**	14,891
Outstanding claims provisions	**1**	1
	29,327	25,601

Of the above total, £28,434 million *(2006 £23,652 million)* is expected to be recovered more than one year after the balance sheet date

(b) Assumptions

The assumptions used for reinsurance contracts follow those used for insurance and investment contracts

Reinsurance assets are valued net of an allowance for their recoverability

(c) Movements

The following movements have occurred in the reinsurance asset during the year

	2007	2006
	£m	£m
Carrying amount at 1 January	**25,601**	21,581
Asset in respect of new business	**5,143**	4,985
Expected change in existing business asset	**(270)**	(651)
Variance between actual and expected experience	**(1,960)**	397
Impact of operating assumption changes	**68**	(2)
Impact of economic assumption changes	**113**	(84)
Impact of other assumption changes	**553**	70
Impact of model and methodology changes	**64**	-
Transfer to fellow subsidiary	**-**	(691)
Other movements	**15**	(4)
Change in asset	**3,726**	4,020
At 31 December	**29,327**	25,601

The effects of changes in the main assumptions are given in note 21

Included within other assumption changes is £546 million *(2006 £nil)* relating to the special bonus, as explained in note 32

14. Receivables and other financial assets

	2007 £m	2006 £m
Amounts owed by contract holders	**123**	136
Amounts due from reinsurers	**23**	27
Amounts due from brokers for investment sales	**2**	18
Amounts due from fellow subsidiaries	**8**	4
Amounts due from subsidiaries	**-**	102
Other financial assets	**244**	130
	400	417

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

Included in receivables arising out of reinsurance operations above is £17 million *(2006 £17 million)* which is due from fellow subsidiaries

Of the above total, £nil *(2006 £nil)* is expected to be recovered more than one year after the balance sheet date

15. Prepayments and accrued income

There are no prepayments and accrued income (2006 £nil) that are expected to be recovered more than one year after the balance sheet date

16. Ordinary share capital

Details of the Company's ordinary share capital at 31 December are as follows.

	2007 £	2006 £
The authorised share capital of the Company was 10,000 ordinary shares of £100 each	**1,000,000**	1,000,000
The allotted, called up and partly-paid (£25 per share) share capital of the Company was 10,000 ordinary shares of £100 each	**250,000**	250,000

17. Retained earnings

	2007 £m	2006 £m
At 1 January	**42**	32
Profit for the year	**43**	35
Dividends paid of £3,450 per share *(2006 £2,500 per share)*	**(35)**	(25)
At 31 December	**50**	42

18. Insurance liabilities

(a) The carrying amount at 31 December comprises:

	2007	2006
	£m	£m
Participating	**15,476**	14,157
Unit-linked non-participating	**3,678**	3,693
Other non-participating	**1,083**	995
Outstanding claims provisions	**95**	111
	20,332	18,956

Of the above total, £18,689 million *(2006 £17,177 million)* is expected to be paid more than one year after the balance sheet date

(b) Insurance liabilities

(i) *Business description*

The Company underwrites long-term business in a "with-profit" fund, where the with-profits policyholders are entitled to at least 90% of the distributed profits, the shareholders receiving the balance

(ii) *Methodology*

The valuation of with-profit business uses the methodology developed for the Realistic Balance Sheet, adjusted to remove the shareholders' share of future bonuses The key elements of the Realistic Balance Sheet methodology are the with-profit benefit reserve (WPBR) and the present value of the expected cost of any payments in excess of the WPBR (referred to as the cost of future policy related liabilities) The realistic liability for any contract is equal to the sum of the WPBR and the cost of future policy related liabilities

The WPBR for an individual contract is generally calculated on a retrospective basis, and represents the accumulation of the premiums paid on the contract, allowing for investment return, taxation, expenses and any other charges levied on the contract

For a small proportion of business, the retrospective approach is not available or inappropriate, so a prospective valuation approach is used instead, including allowance for anticipated future regular and final bonuses

The items included in the cost of future policy related liabilities include

- Maturity Guarantees
- Smoothing (which can be negative)
- Guaranteed Annuity Options (GAOs)
- Guaranteed Minimum Pension underpin on Section 32 transfers
- Expected payments under Mortgage Endowment Promise

The cost of future policy related liabilities are determined using a market consistent approach, and in the main this is based on a stochastic model calibrated to market conditions at the end of the reporting period Non market related assumptions, for example, persistency, mortality and expenses are based on experience, adjusted to take into account future trends Where policyholders have valuable guarantees, options or promises, then future persistency is assumed to improve, and future take-up rates of guaranteed annuity options are assumed to increase

The with-profit funds contain non-profit policies The reserves are calculated using the gross premium method, which discounts the projected future cash flows

(iii) *Company practice*

Material judgement is required in calculating the provisions and is exercised particularly through the choice of assumptions, where there is discretion over these In turn, the assumptions used depend on the circumstances prevailing in each of the life funds Provisions are most sensitive to assumptions regarding future investment returns, discount rates, future bonus rates, mortality rates and persistency

Bonuses paid during the year are reflected in claims paid, whilst those allocated as part of the bonus declaration are included in the movements in insurance liabilities, as detailed below

(iv) *Assumption – with-profit business*

The WPBR is in the main a historic calculation, and hence not affected by assumptions relating to the future

The principal assumptions underlying the cost of future policy related liabilities are

(1) Future investment return

A 'risk-free' rate equal to the spot yield on gilts, plus a margin of 0 1% is used The rates vary according to the outstanding term of the policy – a typical rate as at 31 December 2007 is 4 72% (for a policy with 10 years outstanding)

Volatility assumptions are set with reference to implied volatility data on traded market instruments, where available Specimen values based on the average term of the liabilities are as follows

Class	**Volatility**
UK equities	23 5%
Property	15%
Gilt prices	3 75%
Corporate bond prices	5 75%

(2) Future regular bonuses

Annual bonus assumptions for 2008 have been set consistent with the 31 December 2007 declaration Future annual bonus rates reflect the principles and practices of the fund In particular the level is set with regard to the projected margin for final bonus, the change from one year to the next is limited to a level consistent with past practice

(3) Persistency

Rates, which will vary between classes of business, are based on experience adjusted to take into account future trends Where policyholders have valuable guarantees, options or promises the Company assumes that persistency improves in the future

(4) GAO take-up rates

The rates used vary between the funds based on fund-specific experience, plus an assumption that the level of take-up will increase in the future since the option is valuable to the policyholder

(5) Future expenses

Where expense charges are subject to a defined fee arrangement, the expense assumption reflects a continuation of that defined basis Assumptions for other expenses are based on experience, adjusted to take into account future trends

(6) Mortalıty

Mortalıty assumptıons are set wıth regard to recent company experıence and general ındustry trends

	Mortality tables used 2007 and 2006
Assurances, pure endowments and deferred annuıtıes before vestıng	Nıl or AM92/AF92 adjusted
Pensıons busıness after vestıng and pensıons annuıtıes ın payment	PCMA00/PCFA00 adjusted plus allowance for future mortalıty ımprovement

(v) *Assumptions – non-profit busıness ın the with-profit funds*

The gross premıum method ıs used for all materıal classes of busıness

For unıt-lınked busıness, the provısıons are valued ınıtıally by addıng a prospectıve non-unıt reserve to the bıd value of unıts The prospectıve non-unıt reserve ıs calculated by projectıng the future non-unıt cash flows Where appropriate, allowance for persıstency ıs based on actual experıence

Valuatıon dıscount rate assumptıons are set wıth regard to yıelds on the supportıng assets and the general level of long-term ınterest rates as measured by gılt yıelds An explıcıt allowance for rısk ıs ıncluded by restrıctıng the yıelds for equıtıes and propertıes wıth reference to a margın over long-term ınterest rates or by makıng an explıcıt deductıon from the yıelds on corporate bonds, mortgages and deposıts, based on hıstorıcal default experıence of each asset class A further margın for rısk ıs then deducted for all asset classes

	Valuatıon discount rates	
	2007	2006
Assurances		
Lıfe conventıonal non-profit	**2.9%**	2 9%
Pensıons conventıonal non-profit	**3.6%**	3 6%
Deferred annuıtıes		
Non-profit – ın deferment	**3.6%**	3 6%
Non-profit – ın payment	**3.6%**	3 6%
Annuıtıes ın payment		
Conventıonal annuıtıes	**4.2%**	4 2%

Mortalıty assumptıons are set wıth regard to recent company experıence and general ındustry trends Most assumptıons are unchanged from 2006 but for some endowment and whole lıfe busıness the basıs has been strengthened although the base mortalıty tables are unchanged

	Mortalıty tables used 2007 and 2006
Assurances	AM92/AF92 or TM92/TF92 adjusted for smoker status
Pure endowments and deferred annuıtıes before vestıng	Nıl or AM92/AF92 adjusted
Annuıtıes ın payment	
General annuıty busıness	IML00/IFL00 adjusted plus allowance for future mortalıty ımprovement
Pensıons busıness	PCMA00/PCFA00 adjusted plus allowance for future mortalıty ımprovement

(vi) *Movements*

The following movements have occurred in insurance liabilities during the year

	2007 £m	2006 £m
Carrying amount at 1 January	**18,956**	19,357
Provisions in respect of new business	**1,502**	1,576
Expected change in existing business provisions	**(1,424)**	(2,141)
Variance between actual and expected experience	**(65)**	894
Impact of operating assumption changes	**129**	(69)
Impact of economic assumption changes	**209**	(132)
Impact of other assumption changes	**1,325**	106
Impact of model and methodology changes	**(267)**	-
Transfer to a fellow subsidiary	**-**	(691)
Other movements	**(33)**	56
Change in liability recognised as an expense	**1,376**	(401)
At 31 December	**20,332**	18,956

The effect of changes in the main assumptions is given in note 21

Included within other assumption changes is £1,311 million *(2006 £nil)* relating to the special bonus, as explained in note 32

Included within other movements is £5 million *(2006 £11 million)* relating to the with-profit fund recognising an appropriate proportion of the future deficit funding payments to the Aviva Staff Pension Fund

19. Liability for investment contracts

(a) The carrying amount comprises:

	2007 £m	2006 £m
Participating contracts	**4,614**	4,498
Non-participating contracts	**18,036**	14,817
	22,650	19,315

Of the above total, £21,045 million *(2006 £17,970 million)* is expected to be paid more than one year after the balance sheet date

(b) Investment liabilities

Investment contracts included under long-term business are those that do not transfer significant insurance risk from the contract holder to the issuer, and are therefore treated as financial instruments under IFRS

Many investment contracts contain a discretionary participation feature in which the contract holder has a contractual right to receive additional benefits as a supplement to guaranteed benefits These are referred to as participating contracts and are measured according to the methodology and practice for insurance liabilities as described in note 18 The liability in respect of participating investment contracts of £4,614 million *(2006 £4,498 million)* has been calculated in accordance with actuarial principles These contracts are not measured at fair value as there is currently no agreed definition of fair valuation for discretionary participation features under IFRS In the absence of such a definition it is not possible to provide a range of estimates within which fair value is likely to be The International Accounting Standards Board has deferred consideration of participating contracts to Phase II of its insurance contracts project

For participating business, the discretionary participation feature is recognised separately from the guaranteed element and is classified as a liability, referred to as the unallocated divisible surplus Guarantees on long-term investment products are discussed in note 20

Investment contracts that do not contain a discretionary participation feature are referred to as non-participating contracts and the liability is measured at fair value

Non-participating investment contracts measured at fair value are unit-linked in structure and the fair value liability is equal to the unit reserve plus additional non-unit reserves, if required, on a fair value basis

(c) Movements in the year

The following movements have occurred in the year

(i) ***Participating investment contracts***

	2007 £m	2006 £m
Carrying amount at 1 January	**4,498**	4,711
Provisions in respect of new business	**130**	129
Expected change in existing business provisions	**(226)**	(373)
Variance between actual and expected experience	**(102)**	121
Impact of operating assumption changes	**1**	4
Impact of economic assumption changes	**52**	(40)
Impact of other assumption changes	**292**	7
Other movements	**(31)**	(61)
Change in liability recognised as an expense	**116**	(213)
At 31 December	**4,614**	4,498

The effect of changes in main assumptions is given in note 21

Included within other assumption changes is £292 million *(2006 £nil)* relating to the special bonus, as explained in note 32

(ii) ***Non-participating investment contracts***

	2007 £m	2006 £m
Carrying amount at 1 January	**14,817**	10,430
Provisions in respect of new business	**4,268**	3,771
Expected change in existing business provisions	**679**	567
Variance between actual and expected experience	**(1,750)**	8
Impact of operating assumption changes	**-**	5
Impact of economic assumption changes	**-**	(3)
Other movements	**22**	39
Change in liability	**3,219**	4,387
At 31 December	**18,036**	14,817

The effect of changes in main assumptions is given in note 21

20. Financial guarantees and options

As a normal part of operating activities, the Company has given guarantees and options, including investment return guarantees, in respect of certain long-term insurance products Further information on assumptions is given in note 18 and note 21

(a) With-profit business

In the UK, life insurers are required to comply with the FSA's realistic reporting regime for their with-profit funds for the calculation of FSA liabilities Under the FSA's rules, provision for guarantees and options within realistic liabilities must be measured using a market consistent approach, which generally requires a stochastic approach A stochastic approach includes measuring the time value of guarantees and options, which represents the additional cost arising from uncertainty surrounding future economic conditions

The material guarantees and options to which this provision relates are

(i) Maturity value guarantees – Substantially all of the conventional with-profit business and a significant proportion of unitised with-profit business have minimum maturity values reflecting the sums assured plus declared annual bonus In addition, the guarantee fund has offered maturity value guarantees on certain unit-linked products

(ii) No market value reduction (MVR) guarantees – For unitised business, there are a number of circumstances where a 'no MVR' guarantee is applied, for example on certain policy anniversaries, guaranteeing that no market value reduction will be applied to reflect the difference between the accumulated value of units and the market value of the underlying assets

(iii) Guaranteed annuity options (GAOs) – The Company's with-profit funds have written individual and group pension contracts which contain GAOs where the policyholder has the option to take the benefits from a policy in the form of an annuity based on guaranteed conversion rates

(iv) Guaranteed minimum pension – The Company's with-profit funds also have certain policies which contain a guaranteed minimum level of pension as part of the condition of the original transfer from state benefits to the policy

(v) For some unitised with-profit life contracts the amount paid after the fifth anniversary is guaranteed to be at least as high as the premium paid increased in line with the rise in RPI

In addition, while these do not constitute guarantees, the Company has made promises to certain policyholders in relation to their with-profit mortgage endowments Subject to certain conditions, top up payments will be made on these policies at maturity to meet the mortgage value up to a maximum of the 31 December 1999 illustrated shortfall

(b) Non-profit business in the with-profit fund

FRS 27 requires the non-profit liabilities to be evaluated by reference to local statutory reserving rules

Guaranteed unit price on certain products - Certain unit-linked pension products linked to long-term life insurance funds provide policyholders with guaranteed benefits at retirement or death No additional provision is made for this guarantee as the investment management strategy for these funds is designed to ensure that the guarantee can be met from the fund, mitigating the impact of large falls in investment values and interest rates

21. Effect of changes in assumptions and estimates during the year

Certain estimates and assumptions used in determining liabilities for insurance and investment contract business were changed during 2007, and had the following effect on the unallocated divisible surplus (UDS) recognised for the year, both gross and net of reinsurance This disclosure only shows the impact on liabilities and related reinsurance assets, and does not allow for offsetting movements in the value of backing financial assets

	2007		2006	
	Effect on UDS before reinsurance £m	**Effect on UDS after reinsurance £m**	Effect on UDS before reinsurance £m	Effect on UDS after reinsurance £m
Assumptions				
Insurance contracts				
Economic	**(209)**	**(124)**	132	74
Expenses	**(16)**	**(16)**	(3)	(3)
Persistency rates	**(5)**	**(5)**	56	44
Mortality for assurance contracts	**(106)**	**(39)**	(1)	-
Mortality for annuity contracts	**(2)**	**(2)**	17	17
Tax and other assumptions	**(1,325)**	**(889)**	(106)	(40)
	(1,663)	**(1,075)**	95	92
Investment contracts – Participating				
Economic	**(52)**	**(24)**	40	19
Persistency rates	**(1)**	-	(4)	(1)
Tax and other assumptions	**(292)**	**(175)**	(7)	(3)
	(345)	**(199)**	29	15
Investment contracts – Non-Participating				
Economic	-	-	3	-
Persistency rates	-	-	(5)	-
	-	-	(2)	-
Total (decrease)/increase as a result of changes in assumptions and estimates	**(2,008)**	**(1,274)**	122	107

The economic change primarily reflects higher equity volatility assumptions, future returns are expected to be more volatile increasing technical provisions Also reflected in the economic assumption change is the change to the risk free rate curve during 2007 At shorter durations, yields have decreased and at longer terms they have increased, impacting future return assumptions

The assurance mortality basis has been strengthened on conventional non-profit business

Included within tax and other assumption changes after reinsurance is £1,057 million (2006 £nil) relating to the special bonus, as explained in note 32

22. Unallocated divisible surplus

The following movements have occurred in the year

	2007 £m	2006 £m
Carrying amount at 1 January	**2,306**	1,898
Change in participating contract assets	**596**	53
Change in participating contract liabilities	**(404)**	341
Impact of change in management policy	**(1,056)**	(53)
Other movements	**39**	67
Change in liability recognised as an expense	**(825)**	408
At 31 December	**1,481**	2,306

Included within changes in management policy is £1,057 million *(2006 £nil)* relating to the special bonus, as explained in note 32

23. Tax liabilities

(a) General

Current tax liabilities payable in more than one year are £27 million *(2006 £nil)*

(b) Deferred tax

The balance at 31 December comprises:

	2007 £m	2006 £m
Unrealised gains on investments	**283**	412
Provisions and other timing differences	**(32)**	(38)
Net deferred tax liability	**251**	374

The movement in the net deferred tax liability was as follows:

	2007 £m	2006 £m
Net liability at 1 January	**374**	304
Amounts (credited)/charged to profit (note 6(a))	**(123)**	70
Net liability at 31 December	**251**	374

Deferred tax assets are recognised for tax losses carried forward to the extent that realisation of the related tax benefit through future taxable profits is probable The Company has unrecognised capital losses of £15 million *(2006 £72 million)* to carry forward against future taxable income

24. Payables and other financial liabilities

	2007	2006 Restated
	£m	£m
Payables arising out of direct insurance	158	117
Payables arising out of reinsurance operations	158	58
Amounts due to fellow subsidiaries	-	35
Amounts due to subsidiaries	-	1
Bank overdrafts	-	5
Derivative financial liabilities	81	18
Amounts due to brokers for investment purchases	57	54
Obligations for repayment of collateral received	429	168
Other financial liabilities	194	203
	1,077	659

Of the above total, £15 million *(2006 £2 million)* is expected to be paid more than one year after the balance sheet date

Payables arising out of reinsurance operations include £158 million *(2006 £58 million)* payable to a fellow group undertaking

25. Contingent liabilities and other risk factors

(a) Guarantees on long-term savings products

Note 20 gives details of guarantees and options given by the Company as a normal part of operating activities in respect of certain long-term insurance products In common with other pension and life policy providers, the Company wrote individual and group pension policies in the 1970s and 1980s with a GAO Since 1993, such policies have become more valuable to policyholders, and more costly for insurers, as current annuity rates have fallen in line with interest rates and improving longevity Reserving policies for the cost of GAOs varied until a ruling by the House of Lords in the Equitable Life case in 2000 which effectively required full reserving by all companies Prior to the ruling, consistent with the Company's ordinary reserving practice in respect of such obligations, full reserves for GAOs had already been established No adjustment was made, or was necessary, to the Company's reserving practice as a result of the ruling The directors continue to believe that the existing provisions are sufficient

(b) Pensions mis-selling

The pensions review of past sales of personal pension policies which involved transfers, opt outs and non-joiners from occupational schemes, as required by the FSA, has largely been completed A provision of £1 million *(2006 £1 million)* remains to meet the outstanding costs of the remaining cases, the anticipated cost of any guarantees provided and potential levies payable to the Financial Services Compensation Scheme It continues to be the directors' view that there will be no material effect either on the Company's ability to meet the expectations of policyholders or on shareholders

(c) Endowment reviews

In December 1999, the FSA announced the findings of its review of mortgage endowments and expressed concern as to whether, given decreases in expected future investment returns, such policies could be expected to cover full repayment of mortgages A key conclusion was that, on average, holders of mortgage endowments had enjoyed returns such that they had fared at least as well as they would have done without an endowment Nevertheless, following the FSA review, all of the Company's UK mortgage endowment policyholders received policy-specific letters advising them whether their investment was on track to cover their mortgage

In May 2002, in accordance with FSA requirements, the Company commenced sending out the second phase of endowment policy update letters, which provide policyholders with information about the performance of their policies and advice as to whether these show a projected shortfall at maturity The Company will send updates annually to all mortgage endowment holders in accordance with FSA requirements The Company has made provisions totalling £35 million *(2006 £51 million)* to meet potential mis-selling costs and the associated expense of investigating complaints It continues to be the directors' view that there will be no material effect either on the Company's ability to meet the expectations of policyholders or on shareholders

In August 2004, the Company confirmed its intention to introduce time barring on mortgage endowment complaints, under FSA rules The Company includes within the annual re-projection mailings details of their time bar position Customers will be given at least 12 months' individual notice before a time bar becomes applicable, this is double the six months' notice required by the FSA

(d) Regulatory compliance

The Company's insurance and investment business is subject to regulation by the FSA The FSA has broad powers including the authority to grant, vary the terms of, or cancel a regulated firm's authorisation, to investigate marketing and sales practices and to require the maintenance of adequate financial resources

The directors believe that the Company dedicates appropriate resources to its compliance programme, endeavours to respond to regulatory enquiries in a constructive way, and takes corrective action when warranted However, all regulated financial services companies face the risk that their regulator could find that they have failed to comply with the applicable regulations or have not undertaken corrective action as required

The impact of any such finding could have a negative impact on the Company's reported results or on its relations with current and potential customers Regulatory action against a member of the Aviva Group could result in adverse publicity for, or negative perceptions regarding the Group, or could have a material adverse effect on the business of the Group, its results of operations and/or financial condition and divert management's attention from the day-to-day management of the business

(e) Other

In the course of conducting insurance and investment business, the Company receives liability claims, and becomes involved in actual or threatened litigation arising therefrom In the opinion of the directors, adequate provisions have been established for such claims and no material loss will arise in this respect

The Company has indemnified the overdrafts and borrowings of certain other Aviva Group companies In the opinion of the directors, no material loss will arise in respect of these guarantees and indemnities

26. Commitments

Capital commitments

There are contractual commitments of £134 million *(2006 £175 million)* for acquisitions or capital expenditures of subsidiaries and joint ventures There are no contractual commitments for acquisitions or capital expenditure of property and equipment, investment property, mortgage loans, and intangible assets, which are not recognised in the financial statements

27. Cash flow statement

(a) The reconciliation of profit before tax to the net cash inflow from operating activities is:

	2007 £m	2006 Restated £m
Profit before tax	**56**	158
Adjustments for		
Profit on sale of investment property	**(2)**	(8)
Profit on sale of other financial investments	**(738)**	(684)
Fair value (gains)/losses on subsidiaries	**(27)**	21
Fair value losses/(gains) on investment property	**122**	(182)
Fair value losses/(gains) on investments in joint ventures	**63**	(156)
Fair value losses on investments	**385**	106
Amortisation of investments	**11**	18
Changes in working capital		
Increase in reinsurance assets	**(3,726)**	(4,020)
Decrease in receivables and other financial assets	**17**	211
(Increase)/decrease in prepayments and accrued income	**(19)**	7
Increase/(decrease) in insurance liabilities	**1,376**	(401)
Increase in liability for investment contracts	**3,335**	4,174
(Decrease)/increase in unallocated divisible surplus	**(825)**	408
Increase/(decrease) in payables and other financial liabilities	**425**	(15)
Decrease in other liabilities	**-**	(4)
Purchases of investment property	**(68)**	(53)
Proceeds on sale of investment property	**178**	287
Proceeds on sale of property and equipment	**8**	-
Net purchase/(sale) of operating assets		
Financial investments	**143**	765
Loans	**(516)**	(190)
Cash generated from operations	**198**	442

Purchases and sales of investment property, loans and financial investments are included within operating cash flows as the purchases are funded from cash flows associated with the origination of insurance and investment contracts, net of payments for related benefits and claims

(b) Cash and cash equivalents in the cash flow statement at 31 December comprised.

	2007 £m	2006 £m
Cash at bank and in hand	**176**	167
Cash equivalents	**222**	184
	398	351
Bank overdrafts	**-**	(5)
	398	346

Of the above total, £393 million *(2006 £342 million)* relates to cash and cash equivalents held in the long-term fund that can only be used for the purposes of long-term insurance business

28. Capital

In managing its capital, the Company seeks to

- Match the profile of its assets and liabilities, taking account of the risks inherent in the business,
- Maintain sufficient, but not excessive, financial strength to support new business growth and satisfy the requirements of its policyholders and its regulator, the Financial Services Authority (FSA),
- Retain financial flexibility by maintaining strong liquidity, and
- Allocate capital efficiently to support growth and repatriate excess capital where appropriate

The Company is subject to the capital requirements applicable to insurance firms imposed by the FSA The Company fully complied with these regulatory requirements during the year

The Company considers not only the traditional sources of capital funding, but alternative sources of capital as appropriate when assessing its available capital This includes reinsurance and certain financing arrangements that can be recognised as capital on a regulatory basis The analysis below sets out the Company's capital resources available to meet its capital requirements on an FSA pillar 1 basis

	2007	2006
	£m	£m
Total IFRS shareholders' funds	**50**	42
Unallocated divisible surplus	**1,481**	2,306
Adjustments onto a regulatory basis		
Shareholders' share of accrued bonus	**(331)**	(79)
Regulatory valuation and admissibility restrictions	**275**	320
Total available capital resources	**1,475**	2,589

Total available capital resources have reduced significantly due to the special distribution announcement Refer to note 32 for further details

29. Risk management

(a) Risk management framework

The primary objective of the Company's risk and financial management framework is to protect it from events that hinder the sustainable achievement of the Company's performance objectives, including failing to exploit opportunities Financial risk is categorised as follows

- Market
- Credit
- Life insurance
- Liquidity

The Company recognises the critical importance of having efficient and effective risk management systems in place To this end, the Company has an established governance framework, which has three key elements

- Defined terms of reference for the Board, its committees, and the associated executive management committees,
- A clear organisational structure with documented delegated authorities and responsibilities from the Board to executive management committees and senior management, and
- A policy framework that sets out risk appetite, risk management, control and business conduct standards for the Company's operations Each policy has a member of senior management who is charged with overseeing compliance with the policy throughout the Company

Regulatory impact on risk and risk assessments

Where the Company has written insurance products where the majority of investment risks are borne by its policyholders, these risks are actively and prudently managed in order to satisfy the policyholders' risk and reward objectives In addition, the insurance operations are subject to numerous regulatory requirements that prescribe the type, quality, and concentration of investments, and the level of assets to be maintained in order to meet insurance liabilities Meeting these requirements helps to ensure that market risk is maintained at an acceptable level

The Company operates a number of oversight committees that monitor aggregate risk data and take overall risk management decisions

(b) 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 and property prices Market risk arises within the Company due to fluctuations in the relationship between the values of the liabilities and the value of investments held, as a result of movements in market prices

For each of the major components of market risk, described in more detail below, the Company 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

The Company manages market risks within the asset/liability management (ALM) framework and within regulatory constraints The Company is also constrained by the requirement to meet policyholders' reasonable expectations and to minimise or avoid market risk in a number of areas

The financial impact of market risk (such as changes in interest rates, equity prices and property values) is examined through stress tests adopted in Individual Capital Assessment (ICA), Financial Condition Reports (FCR) and Risk Based Capital (RBC), which consider the impact on capital from variations in financial circumstances on either a remote scenario, or to changes from the central operating scenario Management actions that may be taken in mitigation of the change in circumstances are also considered

The sensitivity of earnings to changes in economic markets is regularly monitored through sensitivities to investment returns and asset values in EEV reporting

The Company market risk policy sets out the minimum principles and framework for matching liabilities with appropriate assets, the approaches to be taken when liabilities cannot be matched and the monitoring processes that are required The Company applies appropriate matching techniques to assets and liabilities for all classes of business in order to manage the financial risk from the mismatching of assets and liabilities when investment markets change The Company monitors adherence to this policy through the Asset & Liability Committee (ALCO)

(i) Equity price risk

The Company is subject to equity price risk due to daily changes in the market values of its equity securities portfolio The Company's shareholders are exposed to direct equity holdings in shareholder assets and to the indirect impact of changes in the value of equities held in policyholder funds from which management charges or a share of performance are taken and of interest in the free assets of long-term funds

Equity price risk is actively managed in order to mitigate anticipated unfavourable market movements where this lies outside the risk appetite of the fund concerned In addition asset admissibility regulations require that the Company holds diversified portfolios of assets thereby reducing exposure to individual equities

The Company actively models the performance of equities through the use of stochastic models, in particular to understand the impact of equity performance on guarantees, options and bonus rates

The Company actively monitors its directly owned equity assets including subsidiary investments and shareholdings in strategic business partners, with regular management information presented to the Investment Committee The principal subsidiaries are given in note 7 and are valued on a fair value basis The fair values will fluctuate as the underlying assets and liabilities held by the subsidiaries, including the in-force business where applicable, change in value

(ii) Property price risk

The Company is subject to property price risk due to holdings of investment properties The investment in property is managed and is subject to regulations on asset admissibility, liquidity requirements and the expectations of policyholders The financial impact from changes in property values is examined through stress tests adopted in the ICA and FCR

(iii) Interest rate risk

Interest rate risk arises primarily from the Company's nominal and real yield curve exposure within both assets and liabilities

Interest rate risk also exists in policies that carry investment guarantees on early surrender or at maturity, where claim values can become higher than the value of backing assets when interest rates rise or fall The Company manages this risk by adopting close asset liability matching techniques, to minimise the impact of mismatches between the value of assets and liabilities from interest rate movements However where any mismatch is within our risk appetite, the impact is monitored through economic capital measures such as ICA

Interest rate risk is also managed using a variety of derivative instruments, including futures, options and swaps, in order to provide a degree of hedging against unfavourable market movements in interest rates inherent in the assets backing technical liabilities In the with-profit funds swaps have been put in place to improve the overall matching of asset and liability cash flows

(iv) Derivative risk

Derivatives are used to a limited extent, within policy guidelines agreed by the Board of Directors and overseen by a Group Derivatives Committee, which monitors implementation of the policy, exposure levels and approves large or complex transactions Derivatives are used for efficient investment management, risk hedging purposes or to structure specific retail-savings products Derivative transactions are fully covered by either cash or corresponding assets and liabilities Speculative activity is prohibited Over the counter derivative contracts are entered into only with approved counterparties, in accordance with the Company's 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 for the activity that is undertaken *(v) Correlation risk*

Lapse behaviour and potential increases in consumer expectations are sensitive to and interdependent with market movements and interest rates These interdependencies are taken into consideration in the ICA in the aggregation of the financial stress tests with the lapse stress tests FCRs also consider scenarios involving a number of correlated events

Certain policyholder participation features contribute to the Company's market risk The major features include guaranteed surrender values, guaranteed annuity options, and minimum surrender and maturity values The full list of material guarantees and options is set out in note 20

(c) 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, or changes to the market value of assets caused by changed perceptions of the credit worthiness of such counterparties The Company's management of credit risk under the oversight of ALCO, includes the articulation of risk appetite, exposure limit frameworks and investment and lending criteria within credit risk policies and management agreements

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 For the purposes of the table below financial assets which fall outside this range are classified as speculative grade Credit limits for individual counterparties are set based on default probabilities that are in turn based on the rating of the counterparty concerned Ratings published by companies such as Standard & Poor's are used where available In the absence of a published rating an internal rating is used for debt securities Whilst not externally rated, the risk characteristics of commercial mortgages are carefully assessed before acquisition and are monitored regularly thereafter Internal reinsurance assets are not externally rated

The following table provides information regarding the aggregated credit risk exposure, for financial assets with external credit ratings, of the Company at 31 December

					Credit rating		2007
	AAA	AA	A	BBB	Speculative grade	Not rated	Total
	£m	£m	£m	£m	£m	£m	£m
Debt securities	**2,621**	**765**	**704**	**330**	**59**	**4**	**4,483**
Reinsurance assets	**7**	**216**	**10**	**-**	**1**	**29,093**	**29,327**
Other investments	**-**	**-**	**-**	**-**	**-**	**2,443**	**2,443**
Loans	**-**	**428**	**-**	**-**	**-**	**342**	**770**
	2,628	**1,409**	**714**	**330**	**60**	**31,882**	**37,023**

					Credit rating		2006 Restated
	AAA	AA	A	BBB	Speculative grade	Not rated	Total
	£m	£m	£m	£m	£m	£m	£m
Debt securities	2,313	581	715	343	7	69	4,028
Reinsurance assets	7	140	21	-	1	25,432	25,601
Other investments	-	-	-	-	-	1,676	1,676
Loans	-	168	-	-	-	86	254
	2,320	889	736	343	8	27,263	31,559

The carrying amount of assets included on the balance sheet represents the maximum credit exposure, except for guarantees that are set out in note 20

The Company is generally not individually exposed to significant concentrations of credit risk due to the internal credit limits, taking account of regulatory requirement, that limit investments in individual assets and asset classes In cases where the business is particularly exposed to credit risk, this risk is translated into a more conservative discount rate used to value the liabilities, creating a greater capital requirement, and this credit risk is actively managed The impact of aggregation of credit risk is monitored as described above

With the exception of AAA rated Governments the largest aggregated counterparty exposure does not exceed 1 6% of the Company's total financial assets

The carrying value of financial assets that have been impaired or are past due but not impaired is £nil *(2006 £nil)*

Reinsurance credit exposures

The Company is exposed to concentrations of risk with individual reinsurers, due to the nature of the reinsurance market The Company places reinsurance with those reinsurers that have acceptable credit ratings The Company operates a policy to manage its reinsurance counterparty exposures and the impact from reinsurer default is measured regularly, in particular through the ICA tests, and is managed accordingly

(d) Life insurance risk

(i) Type of risk

Life insurance risk in the Company arises through its exposure to assurance mortality and morbidity, annuitant longevity and exposure to worse than anticipated operating experience on factors such as persistency levels and management and administration expenses

(ii) Risk management

The Company has developed a policy for the management of life insurance risk and guidelines for the practical application of key areas of life insurance practice The impact of life insurance risk is monitored by the Company as part of the control cycle of business management Exposure is monitored through the assessment of liabilities, the asset liability management framework, profit reporting (under both IFRS and EEV), FCR and the ICA process

Mortality and morbidity risks are mitigated by use of reinsurance The Company assesses the risk exposures and monitors the aggregation of risk ceded to individual reinsurers

Longevity risk is carefully monitored against the latest external industry data and emerging trends

Persistency risk is managed through frequent monitoring of Company experience, benchmarked against local market information Where possible the financial impact of lapses is reduced through appropriate product design

Expense risk is primarily managed through the assessment of profitability and frequent monitoring of expense levels

In addition to ICA and FCR, sensitivity testing is widely used to measure the capital required and volatility in earnings due to exposure to life insurance risks, typically through EEV reporting This enables the Company to determine whether action is required to reduce risk, or whether that risk is within the overall risk appetite

(iii) Concentration risk

The Company writes a diverse mix of business that is subject to similar risks (mortality, persistency etc) The Company assesses the relative costs and concentrations of each type of risk through the ICA requirements This analysis enables the Company to assess whether accumulations of risk exceed risk appetite

One key concentration of life insurance risk for the Company is improving longevity from pensions in payment and deferred annuities The Company continually monitors these risks and the opportunities for mitigating actions through reinsurance, improved asset liability matching, or innovative solutions that emerge in the market

ICA analysis and EEV sensitivity testing help identify both concentrations of risk types and the benefits of diversification of risk

(iv) Embedded derivatives within insurance contracts

The Company has exposure to a variety of embedded derivatives within its long-term savings business due to product features offering varying degrees of guaranteed benefits at maturity or on early surrender, along with options to convert their benefits into different products on pre-agreed terms

Examples of each type of embedded derivative affecting the Company are

Options call, put, surrender and maturity options, guaranteed annuity options, option to cease premium payment, options for withdrawals free of market value adjustment, annuity option, guaranteed insurability options,

Guarantees embedded floor (guaranteed return), maturity guarantee, guaranteed death benefit, guaranteed minimum rate of annuity payment, guaranteed minimum bonus,

Other indexed interest or principal payments, maturity value, loyalty bonus

The impact of these is reflected in ICA and EEV reporting and managed as a part of the asset liability framework

(e) Liquidity risk

ALCO seeks to determine that the Company has sufficient financial resources to meet its obligations as they fall due

Analysis of expected maturity of liabilities

For insurance and investment business, the following table shows the gross liability at 31 December analysed by remaining duration The total liability is split by remaining duration in proportion to the present value of cash-flows estimated to arise during that period

				2007
	Within 1 year £m	1-5 years £m	5-15 years £m	Over 15 years £m
Insurance contracts non-linked	1,393	4,970	7,227	3,064
Investment contracts non-linked	285	813	1,200	937
Linked business	1,570	6,189	10,346	4,988
	3,248	11,972	18,773	8,989

				2006
	Within 1 year £m	1-5 years £m	5-15 years £m	Over 15 years £m
Insurance contracts non-linked	1,502	5,152	6,743	1,866
Investment contracts non-linked	130	848	1,195	947
Linked business	1,492	5,638	8,604	4,154
	3,124	11,638	16,542	6,967

For both insurance and investment contracts the analysis of liabilities shown above is based on the estimated timing of future cash flows For many insurance contracts and almost all investment contracts the contract may be surrendered on demand, and the earliest contractual maturity date is therefore the current balance sheet date For investment contracts, including both participating and non-participating unit-linked business, the surrender amount available on demand is approximately equal to the current balance sheet liability

(f) Risk and capital management

The Company 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, EEV, FCR and ICA are used Sensitivities to economic and operating experience are regularly produced on all of the Company's financial performance measurements to inform the Company's decision making and planning processes, and as part of the framework for identifying and quantifying the risks to which the Company is exposed

(i) Life insurance and Investment contracts

The nature of long-term business is such that a number of assumptions have been made in compiling these financial statements Assumptions are made about investment returns, expenses, mortality rates, and persistency in connection with the in-force policies Assumptions are best estimates based on historic and expected experience of the business A number of the key assumptions are disclosed in note 18

Profit in the with-profit funds arises on the shareholders' share of bonuses paid on claims during the year, or added to policies at the end of the year Changes in the sensitivity factors will have no impact upon this figure

There is a negligible impact on profit and shareholders' equity from the results of sensitivity testing as set out below For each sensitivity test the impact of a change in a single factor is measured, 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 is 5%, the impact of an immediate change to 4% and 6%) The test allows consistently for changes to investment returns and movements in the market value of fixed interest securities
Expenses	The impact of an increase in maintenance expenses by 10%
Equity/property market values	The impact of a change in equity/property market values by +/- 10%
Assurance mortality/morbidity	The impact of an increase in mortality/morbidity rates for assurance contracts by 5%
Annuitant mortality	The impact of a reduction in mortality rates for annuity contracts by 5%

30. Derivative financial instruments

The Company uses non-hedge derivatives to mitigate risk, as detailed below

	2007			2006		
	Contract/ notional amount £m	Fair value asset £m	Fair value liability £m	Contract/ notional amount £m	Fair value asset £m	Fair value liability £m
Foreign exchange contracts						
OTC						
Forwards	2,145	24	(58)	1,700	34	(13)
Total	2,145	24	(58)	1,700	34	(13)
Interest rate contracts						
OTC						
Interest and currency swaps	803	17	(10)	97	-	(2)
Options	23	52	-	50	49	-
Exchange traded						
Futures	887	3	(6)	350	6	(1)
Total	1,713	72	(16)	497	55	(3)
Equity/index contracts						
Exchange traded						
Futures	792	10	(5)	314	5	(2)
Options	1,168	3	(2)	6	4	-
Total	1,960	13	(7)	320	9	(2)
	5,818	109	(81)	2,517	98	(18)

The notional amounts above reflect the aggregate of individual derivative positions on a gross basis and so give an indication of the overall scale of the derivative transaction They do not reflect the current market values of the open positions

Fair value assets are recognised as 'derivative financial instruments' in note 12 Fair value liabilities are recognised as 'derivative financial liabilities' in note 24 The contractual undiscounted cash flows in relation to derivative liabilities have the following maturities

	2007 £m	2006 £m
Within one year	72	16
Between one and two	1	-
Between two and three years	1	-
Between three and four years	1	-
Between four and five years	1	2
After five years	11	-
	87	18

Certain derivative contracts involve the receipt or pledging of collateral Where appropriate, collateral receivable or repayable has been offset against the derivative liability or asset respectively Otherwise, the amounts of collateral receivable or repayable are included as other financial assets or liabilities in notes 14 and 24 respectively

31. Related party transactions

The members of the Board of Directors are listed on page 1 of these financial statements

Under a management agreement, NULS supplies and makes charges for the provision of operational assets and staff to the Company The agreement specifies the amounts payable to NULS in respect of acquisition costs and administrative expenses The amount of this recharge is £67 million *(2006 £84 million)*

Investment management services have been provided to the Company by Morley Fund Management Limited These services are included in the recharge above

During the year, the Company paid dividends of £35 million *(2006 £25 million)* to its parent

Details of transactions with joint ventures may be found in note 8

Amounts receivable from, or payments due to, related parties are disclosed in notes 14 and 24 respectively The related parties' receivables and payables are not secured, and no guarantees were received in respect thereof The receivables will be settled in accordance with normal credit terms

Loans due from fellow subsidiaries are disclosed in note 11

Seed capital provided to fellow group undertakings during the year amounted to £nil (*2006 £nil)*

(a) Reinsurance accepted from fellow subsidiaries

	2007 Reinsurance accepted in year £m	2006 Reinsurance accepted in year £m
Premiums	**133**	125
Claims	**123**	90
Commission	**8**	7
Fees	**-**	26
Share of insurance and investment contract liabilities	**688**	736

(b) Reinsurance ceded to fellow subsidiaries

	2007 Reinsurance ceded in year £m	2006 Reinsurance ceded in year £m
Premiums	**1,255**	1,402
Claims	**1,524**	1,823
Commission	**247**	252
Share of reinsurance assets	**29,092**	25,427

(c) Other income receivable from related parties

	2007 Income earned in year £m	2006 Income earned in year £m
Fellow subsidiaries	**34**	5

(d) Other expenses payable to related parties

	2007 Expense incurred in year £m	2006 Expense incurred in year £m
Fellow subsidiaries	**72**	89

(e) Investment assets sold to related parties

	2007 £m	2006 £m
Fellow subsidiaries	**229**	194

(f) Investment assets purchased from related parties

	2007 £m	2006 £m
Fellow subsidiaries	**59**	-

(g) Key management compensation

The total compensation to those employees classified as key management of NU Life, including the executive directors, is as follows

	2007 £'000	2006 £'000
Salary and other short-term benefits	**5,267**	5,761
Post-employment benefits	**93**	110
Other long-term benefits	**664**	835
Termination benefits	**-**	1,658
Equity compensation plans	**2,831**	3,510
Total	**8,855**	11,874

There are no amounts receivable from, or payments due to, members of the Board of Directors

The directors are remunerated by Aviva Employment Services Limited, a fellow subsidiary of the ultimate holding company, Aviva plc The emoluments of these directors are recharged to NULS, and details of their emoluments are given in note 4

(h) Parent entity

The immediate holding company is Norwich Union Life Holdings Limited, a company registered in England

(i) Ultimate controlling entity

The ultimate controlling entity is Aviva plc, a company registered in England Its Group financial statements are available on www aviva com or by application to the Group Company Secretary, Aviva plc, St Helen's, 1 Undershaft, London EC3P 3DQ

32. Post balance sheet event

On 5 February 2008, Norwich Union Life announced a one-off, special bonus worth £2 4 billion, benefiting around 1 1 million with-profit policyholders in the with-profit funds of CGNU Life Assurance Limited (CGNU) and Commercial Union Life Assurance Company Limited (CULAC) This special bonus has been made possible by the strength of the two with-profit funds and a change to the investment strategy for supporting policy guarantees This has enabled the business to free up a significant part of the inherited estate (included within the unallocated divisible surplus) for payment to policyholders This change will not affect normal policy returns, nor will it impact on policyholders' security or alter the type of investments backing their policies

The bonus will be used to enhance policy values by around 10% in total, in three instalments, with the qualifying dates being 1 January 2008, 1 January 2009 and 1 January 2010 In accordance with the way the funds are managed, the bonus distribution is being split on a 90/10 basis between policyholders and shareholders Over the three years, CGNU policyholders will receive a total currently estimated as £1,057 million and CGNU shareholders will receive a total currently estimated as £117 million

As explained in accounting policy H and note 18(b), the Group's insurance and participating investment contract liabilities are measured in accordance with IFRS 4, *Insurance Contracts*, and FRS 27, *Life Assurance* The latter requires liabilities for with-profit funds falling within the scope of the UK's Financial Services Authority's capital regime to be determined in accordance with this regime, adjusted to remove the shareholders' share of future bonuses This requires the Company to recognise planned discretionary bonuses within policyholder liabilities at the balance sheet date, even if there was no constructive obligation at the time As a result of the announcement made above, a transfer of £1,057 million has been made from the unallocated divisible surplus (note 22) in order to increase insurance liabilities by £1,311 million (note 18(b)), participating investment contract liabilities by £292 million (note 19(c)) and reinsurance assets by £546 million (note 13(c)) In compliance with paragraph 4(a) of FRS 27, the insurance liabilities on a realistic basis exclude any shareholders' interest in this bonus Furthermore, no profit arising to shareholders has been accrued in these financial statements as the payment to them was not a constructive obligation at the balance sheet date