CGNU Life Assurance Limited

Registered in England No. 226742 Registered Office. 2 Rougier Street, York, England, YO90 1UU

Directors and Officers

Directors

M S Hodges
D B Barral
J R Lister
T E Strauss

Secretary

J J Wilman

Auditor

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

CGNU Life Assurance Limited
Contents

The directors present their annual report and audited financial statements for CGNU Life Assurance Limited (the Company) for the year ended 31 December 2009

Directors

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

T E Strauss was appointed as a director of the Company on 11 February 2009

D B Barral was appointed as a director of the Company on 26 March 2009

N A Nicandrou resigned as a director of the Company on 27 April 2009

Business review, principal activities and future outlook

The principal activity of the Company, prior to 1 October 2009, was the transaction of long-term insurance business, primarily with-profit bonds and pensions The Company also wrote non-profit business, the majority of which was reinsured to other group companies

During this period there was a decline in bond sales, this occurred through a combination of the removal of the inflation protection guarantee in April 2009 and a reduction in commission rates on this business

In February 2008, UK Life announced a special bonus of £2 1bn for around 1 1 million with-profits policyholders who have invested in Commercial Union Life Assurance Company Limited (CULAC) and the Company's with-profits funds The second instalment totalling £0 6bn has been allocated to asset shares as at 1 January 2009 following the first instalment of £0 7bn allocated as at 1 January 2008 The remaining instalment will be allocated in 2010

On 1 October 2009 a reorganisation of the with-profit funds of CULAC and the Company was approved by the Board and became effective As part of the reorganisation, the two funds were merged and transferred to another group undertaking, Aviva Life & Pensions UK Limited (UKLAP) This was followed by a reattribution to shareholders of the inherited estates of these funds The long-term business and ownership of Norwich Union Life (RBS) Limited, a subsidiary of the CULAC, was also transferred to UKLAP as part of the reorganisation Further details are provided in note 31

The Company retained sufficient assets to cover the minimum capital requirements as directed by the FSA Upon de-authorisation the remaining assets in excess of the Company's share capital will be transferred to UKLAP

Since 1 October 2009, the Company has not traded in any capacity and the directors will seek de-authorisation from the Financial Services Authority (FSA) during 2010

Principal risk and uncertainties

A description of the principal risks and uncertainties facing the Company and the Company's risk management policies are set out in note 28 to the financial statements

Key performance indicators (KPIs)

Net premiums for the period were £599 million *(2008 £1,407 million)*, the pro rata decrease being mainly due to decreased bond sales following the withdrawal of the inflation protection guarantee in April 2009

Profit after tax for the period of £45 million *(2008 £94 million)* arises from the shareholder element of the bonus declared on with-profit policies

Going concern

On 1 October 2009, the trade, assets and liabilities were transferred to UKLAP and accordingly the company ceased to trade The financial statements have been prepared on basis that the entity is no longer considered a going concern Accordingly the non current assets and liabilities have been classed as current and the assets and liabilities valued at their net realisable value

Financial position and performance

The financial position of the Company at 31 December 2009 is shown in the statement of financial position on page 17, with the results shown in the income statement on page 16 and the statement of cash flows on page 19

Other major events

On 1 June 2009, the name of the immediate parent was changed from Norwich Union Life Holdings Limited to Aviva Life Holdings UK Limited (UKLH) following a group-wide re-branding exercise

Overseas branches

The company has branch offices outside the UK in France, Germany and Ireland

Financial instruments

The business of the Company includes use of financial instruments Details of the Company's risk management objectives and policies and exposures to risk relating to financial instruments are set out in note 28 to the financial statements

Dividends

No interim dividend for the year was paid (2008 £43 million) The directors do not recommend a final dividend for the year

Employees

All employees are employed by a fellow subsidiary undertaking of Aviva plc, Aviva Employment Services Limited Disclosures relating to employees may be found in the Annual Report and Accounts of Aviva plc

Auditors

It is the intention of the directors to reappoint the auditor under the deemed appointment rules of Section 487 of the Companies Act 2006

Directors' liabilities

Aviva plc, the Company's ultimate parent, 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 was granted in 2004 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 These qualifying third party indemnity provisions remain in force as at the date of approving the Directors' report by virtue of the transitional provisions to the Companies Act 2006

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 their 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 himself aware of any relevant audit information and to establish that the auditor is aware of that information

Statement of directors' responsibilities

The directors are required to prepare financial statements for each accounting period that comply with the relevant provisions of the Companies Act 2006 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 adequate accounting records which are intended to disclose with reasonable accuracy, the financial position of the Company at that time They are also ultimately responsible for the systems of internal control maintained for safeguarding the assets of the Company and for the prevention and detection of fraud and other irregularities

By order of the Board *24 March 2010*

J J Wilman
Company *Secretary*

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

We have audited the financial statements of CGNU Life Assurance Limited for the year ended 31 December 2009 which comprise the Income Statement, Statement of Comprehensive Income, Statement of Financial Position, Statement of Cash Flows, Statement of Changes in Equity and the related notes 1 to 31 The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006 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

As explained more fully in the Statement of Directors' Responsibilities (set out on page 5), the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error This includes an assessment of whether the accounting policies are appropriate to the Company's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the directors, and the overall presentation of the financial statements

Opinion on financial statements

In our opinion the financial statements

- give a true and fair view of the state of the Company's affairs as at 31 December 2009 and of its profit for the year then ended,
- have been properly prepared in accordance with IFRSs as adopted by the European Union, and
- have been prepared in accordance with the requirements of the Companies Act 2006

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us, or
- the financial statements are not in agreement with the accounting records and returns, or
- certain disclosures of directors' remuneration specified by law are not made, or
- we have not received all the information and explanations we require for our audit

Ernst & Young LLP

Stuart Wilson (senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
London 25 March *2010*

The Company, a limited company incorporated and domiciled in the United Kingdom (UK), transacted long-term insurance business until 30 September 2009

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 2009 As explained in note 32, the entity transferred it trade, assets and liabilities to fellow subsidiary UKLAP during the year and has ceased trading As required by IAS 1 *Presentation of Financial Statements*, management have prepared the financial statements on the basis that the entity is no longer considered a going concern No material adjustments arose as a result of ceasing to apply the going concern basis All assets and liabilities were transferred to the fellow subsidiary at their book value

In 2008, the IASB issued a revised version of IFRS 3, *Business Combinations*, which introduces a number of changes in accounting for such transactions that will impact the amount of goodwill recognised, the reported results in the period an acquisition occurs, and future reported results A consequential amendment to IAS 27, *Consolidated and Separate Financial Statements*, requires a change in the ownership interest of a subsidiary (without loss of control) to be accounted for as an equity transaction, rather than giving rise to goodwill or a gain or loss Other consequential amendments were made to IAS 7, *Statement of Cash Flows*, IAS 12, *Income Taxes*, IAS 21, *The Effects of Changes in Foreign Exchange Rates*, IAS 28, *Investments in Associates*, and IAS 31, *Interests in Joint Ventures* These are applicable prospectively for accounting periods commencing 1 July 2009 or later, and are therefore not applicable for the current accounting period On adoption, they will impact the areas noted above in the Company's financial reporting

In 2009, the IASB issued IFRS 9, *Financial Instruments – Classification and Measurement*, the first part of a replacement standard for IAS 39, *Financial Instruments Recognition and Measurement* This is applicable prospectively for accounting periods commencing 1 January 2013 or later, and is therefore not applicable for the current accounting period It has not yet been endorsed by the EU but, on adoption, will require us to review the classification of certain investments while allowing us to retain the fair value measurement option as we deem necessary

During 2008 and 2009, the IASB also issued amendments to IFRS 1, *First Time Adoption of IFRS*, IAS 32, *Financial Instruments Presentation*, IAS 39 and the results of its annual improvements project Further amendments to IFRS 1, IFRS 2, *Share-Based Payment*, IAS 24, *Related Party Disclosures*, and the results of its second annual improvements project have been issued but have not yet been endorsed by the EU These are applicable prospectively for accounting periods commencing 1 July 2009 or later, and are therefore not applicable for the current accounting period On adoption, they will not have any material impact on the Company's financial reporting

IFRIC interpretation 17, *Distributions of Non-cash Assets to Owners*, and interpretation 19, *Extinguishing Financial Liabilities with Equity Instruments*, as well as an amendment to interpretation 14, *IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*, were issued during 2008 and 2009 but the latter two have not yet been endorsed by the EU These are applicable prospectively for accounting periods commencing 1 July 2009 or later, and are therefore not applicable for the current accounting period On adoption, they will not have any impact on our financial reporting

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

As permitted under IAS 27, 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 30

(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, statement of financial position, 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 financial investments	Q
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 17, 18 and 24 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 statement of financial position 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

A gain or loss on a financial investment is only realised on disposal or transfer, and is the difference between the proceeds received, net of transaction costs, and its original cost or amortised cost as appropriate Unrealised gains and losses, arising on investments which have not been derecognised as a result of disposal or transfer, 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 Realised gains or losses on investment property represent the difference between the net disposal proceeds and the carrying amount of the property

(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 17(e) 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 in the statement of financial position, 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 statement of financial position

(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 statement of financial position 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 For non-linked contracts, the fair value liability is equal to the present value of expected cash flows on a market-consistent 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 statement of financial position 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 underpinned by MCEV and IFRS net asset value Subsidiaries are managed on a fair value basis and classified as held at fair value through profit or loss, with movements recognised in the income statement

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 or loss within financial investments

Joint ventures

Joint ventures are stated at their fair values, estimated using applicable valuation models underpinned by MCEV and IFRS net asset value Joint ventures are managed on a fair value basis and classified as held at fair value through profit or loss, with movements recognised in the income statement

(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

Borrowing costs that are directly attributable to the acquisition and construction of property are capitalised 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

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 statement of financial position 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 or 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 Derivatives, 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

Investments carried at fair value are measured using a fair value hierarchy, described in note 11, with values 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 statement of financial position 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 in the statement of financial position 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 in the statement of financial position as they do not represent the potential gain or loss associated with such transactions These amounts are disclosed in note 29

(S) Loans

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

For mortgage loans, the Company has taken advantage of the revised fair value option under IAS 39 to present the mortgages at fair value, since they are managed as a portfolio on a fair value basis This presentation provides more relevant information and eliminates any accounting mismatch that would otherwise arise from using different measurement bases for these items The fair values 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 They are revalued at each period end, with movements in their fair values being taken to the income statement

At each reporting date, loans carried at amortised cost are reviewed for objective evidence that they are impaired and uncollectable, either at the level of an individual security or collectively within a group of loans with similar credit risk characteristics To the extent that a loan is uncollectible, it is written down as impaired to its recoverable amount, measured as the present value of expected future cash flows discounted at the original effective interest rate of the loan, including any collateral receivable Subsequent recoveries in excess of the loan's written down carrying value 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, as well as 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 in the statement of financial position with a corresponding liability for the repayment Non-cash collateral received is not recognised in the statement of financial position 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 statement of financial position with a corresponding receivable for its return Non-cash collateral pledged is not derecognised from the statement of financial position unless the Company defaults on its obligations under the relevant agreement, and therefore continues to be recognised in the statement of financial position within the appropriate asset classification

(U) Statement of cash flows

Cash and cash equivalents

Cash and cash equivalents consist of cash at banks and in hand, deposits held on 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 those with less than three months' maturity from the date of acquisition, or which are redeemable on demand with only an insignificant change in their fair values For the purposes of the statement of cash flows, cash and cash equivalents also include bank overdrafts, which are included within payables and other financial liabilities on the statement of financial position

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 more probable than not 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 virtually certain

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 investment 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 statement of financial position 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 2009

	Note	2009 £m	2008 £m
Income	2		
Gross written premiums		**2,018**	3,699
Premiums ceded to reinsurers		**(1,419)**	(2,292)
Net premiums earned	E	**599**	1,407
Fee and commission income	F	**19**	22
Net investment income	G	**343**	(1,853)
		961	(424)
Expenses	3		
Claims and benefits paid, net of recoveries from reinsurers		**(1,085)**	(1,133)
Change in insurance liabilities, net of reinsurance		**75**	543
Change in investment contract provisions		**1**	278
Change in unallocated divisible surplus		**235**	777
Fee and commission expense		**(39)**	(96)
Other expenses		**(28)**	(63)
Finance costs		**(12)**	(36)
Profit/(loss) before tax		**108**	(154)
Tax (charge)/credit	W & 6	**(63)**	248
Profit for the year		**45**	94

Statement of comprehensive income
For the year ended 31 December 2009

The Company has no other comprehensive income

The accounting policies (identified alphabetically) on pages 7 to 15 and notes (identified numerically) on pages 20 to 52 are an integral part of these financial statements

CGNU Life Assurance Limited
Statement of financial position
As at 31 December 2009

	Note	2009 £m	2008 £m
Assets			
Investments in subsidiaries	K & 7	-	274
Investments in joint ventures	L & 8	-	527
Investment property	N & 9	-	1,012
Loans	S & 10	-	1,240
Financial investments	Q & 11	-	10,121
Reinsurance assets	J & 12	-	25,747
Receivables and other financial assets	13	-	352
Deferred tax asset	W & 22	-	73
Prepayments and accrued income	14	-	160
Cash and cash equivalents	U & 26(b)	5	1,238
Total assets		5	40,744
Equity			
Ordinary share capital	X & 15	-	-
Retained earnings	16	5	101
Total equity		5	101
Liabilities			
Gross insurance liabilities	H & 17	-	19,161
Gross liability for investment contracts	H, I & 18	-	19,421
Unallocated divisible surplus	H & 21	-	704
Deferred tax liabilities	W & 22	-	-
Current tax liabilities	W & 22	-	34
Payables and other financial liabilities	23	-	1,323
Total liabilities		-	40,643
Total equity and liabilities		5	40,744

Approved by the Board on 24 March 2010

J R Lister *Director*

The accounting policies (identified alphabetically) on pages 7 to 15 and notes (identified numerically) on pages 20 to 52 are an integral part of these financial statements

CGNU Life Assurance Limited
Statement of changes in equity
For the year ended 31 December 2009

	Note	Ordinary share capital	Retained earnings	Total equity
		£m	£m	£m
Balance at 1 January 2008		-	50	**50**
Profit for the year	16	-	94	**94**
Dividends	X & 16	-	(43)	**(43)**
Balance at 31 December 2008		-	101	**101**
Profit for the year	16	-	45	**45**
Transferred to fellow group undertaking	31		(141)	**(141)**
Balance at 31 December 2009			**5**	**5**

The accounting policies (identified alphabetically) on pages 7 to 15 and notes (identified numerically) on pages 20 to 52 are an integral part of these financial statements

CGNU Life Assurance Limited
Statement of cash flows
For the year ended 31 December 2009

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

	Note	2009 £m	2008 £m
Cash flows from operating activities			
Cash generated from operations	26(a)	**228**	999
Tax paid		**(55)**	(90)
Net cash from operating activities		**173**	909
Cash flows from investing activities			
Acquisitions of subsidiaries and joint ventures		**(36)**	(165)
Disposals of subsidiaries and joint ventures		**9**	60
Net cash used in investing activities		**(27)**	(105)
Cash flows from financing activities			
Dividends paid		**-**	(43)
Net increase in cash and cash equivalents		**146**	761
Cash and cash equivalents transferred to fellow group undertakings	31	**(1,300)**	-
Cash and cash equivalents at 1 January		**1,159**	398
Cash and cash equivalents at 31 December	26(b)	**5**	1,159

The accounting policies (identified alphabetically) on pages 7 to 15 and notes (identified numerically) on pages 20 to 52 are an integral part of these financial statements

1. Presentation changes

The Company has adopted IAS 1 (Revised), *Presentation of Financial Statements*, as of 1 January 2009 The principal impact of this has been in the following areas

(a) The titles of some of the prime statements have changed, so that the reconciliation of movements in shareholders' equity is now called the statement of changes in equity, the balance sheet is renamed the statement of financial position, and the cash flow statement is renamed the statement of cash flows

(b) Changes in the year in each element of equity must now be shown on the face of the statement of changes in equity, rather than in the notes

(c) The standard requires entities to present a comparative statement of financial position as at the beginning of the earliest comparative period when the entity has applied an accounting policy retrospectively, makes a retrospective restatement or reclassifies items in the financial statements None of these conditions applies, so the Company has not presented three statements of financial position in these financial statements

The Company has also adopted Amendments to IFRS 7, *Improving Disclosures about Financial Instruments*, as of 1 January 2009 The principal impact of these amendments is to require the following additional disclosures

(a) An analysis of financial assets and liabilities carried at fair value using a fair value hierarchy that reflects the significance of inputs used in making the fair value measurements,

(b) An analysis of transfers of financial assets and liabilities between different levels of the fair value hierarchy,

(c) A reconciliation from beginning to end of period of financial assets and liabilities whose fair value is based on unobservable inputs, and

(d) An enhanced discussion and analysis of liquidity risk, including a maturity analysis of financial assets held for managing liquidity risk, if that information is necessary to enable users of its financial statements to evaluate the nature and extent of liquidity risk

Comparative information for the disclosures required by the IFRS 7 amendments is not needed in the first year of application

2. Details of income

	2009 £m	2008 £m
Gross written premiums		
Insurance contracts	492	904
Participating investment contracts	1,526	2,795
	2,018	3,699
Less Premiums ceded to reinsurers	(1,419)	(2,292)
Net premiums earned	599	1,407
Fee and commission income	19	22
Total revenue	618	1,429
Net investment income		
Interest and similar income	254	357
Dividend income	72	191
Other income from investments designated as trading		
Realised (losses)/gains on disposals	(31)	128
Unrealised (losses)/gains		
(Losses)/gains arising in the year	(63)	8
Losses recognised in prior periods and now realised	9	4
Other income from investments designated as other than trading		
Realised (losses)/gains on disposals	(439)	80
Unrealised losses		
Gains/(losses) arising in the year	194	(1,752)
Losses/(Gains) recognised in prior periods and now realised	420	(646)
Foreign exchange gains	14	58
Net income from investment properties		
Rent	59	116
Expenses relating to these properties	(7)	(10)
Realised gains on disposal	-	-
Fair value losses on investment properties	(131)	(385)
Other investment expenses	(8)	(2)
Net investment income	343	(1,853)
Total income	961	(424)

3. Details of expenses

	2009 £m	2008 £m
Claims and benefits paid to policyholders		
Insurance contracts	1,349	1,602
Participating investment contracts	755	1,142
	2,104	2,744
Less Claim recoveries from reinsurers		
Insurance contracts	(433)	(784)
Participating investment contracts	(586)	(827)
Claims and benefits paid, net of recoveries from reinsurers	1,085	1,133
Change in insurance liabilities	193	(1,171)
Less Change in reinsurance asset for insurance provisions	(268)	628
Change in insurance liabilities, net of reinsurance	(75)	(543)
Investment income allocated to investment contracts	4	5
Other changes in provisions		
Participating investment contracts	172	(753)
Non-participating investment contracts	(11)	39
Less Change in reinsurance asset for investment contract provisions	(166)	431
Change in investment contract provisions	(1)	(278)
Change in unallocated divisible surplus	(235)	(777)
Commission expenses and other acquisition costs for insurance and participating investment contracts	32	82
Other fee and commission expense	7	14
Fee and commission expense	39	96
Other expenses	28	63
Finance costs	12	36
Total expenses	853	(270)

4. Directors' emoluments

M S Hodges 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

	2009 £'000	2008 £'000
Aggregate emoluments in respect of services as directors	**1,833**	1,678
Termination payments	**-**	-
Emoluments of the highest paid director		
Aggregate emoluments and benefits	**723**	826
Accrued pension at end of year from defined benefit pension scheme	**-**	-

Certain of the directors are covered by private medical insurance provided by Aviva 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 one director exercised share options and none of the directors received shares under long term incentive schemes

Under a management service agreement, Aviva Life Services UK Limited (UKLS) 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

	2009	2008 £'000
Fees for the statutory audit of the Company's financial statements	**209**	232

Auditor's remuneration for the current and prior year has been invoiced to UKLS These fees form part of the charges for services to the Company made by UKLS 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/(credited) to the income statement

(i) The total tax charge/(credit) comprises:

	2009 £m	2008 £m
Current tax		
For the year	**67**	78
Prior year adjustments	**(1)**	(2)
Total current tax	**66**	76
Deferred tax		
Origination and reversal of timing differences	**(3)**	(324)
Total deferred tax	**(3)**	(324)
Total tax charged/(credited) to the income statement (note 6 (b))	**63**	(248)

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

	2009 £m	2008 £m
Unrealised losses/(gains) on investments	**36**	**(325)**
Provisions and other timing differences	**(39)**	**1**
Total deferred tax credited to the income statement	**(3)**	**(324)**

(b) Tax reconciliation

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

	2009 £m	2008 £m
Profit/(loss) before tax	**108**	**(154)**
Tax calculated at standard UK corporation tax rate of 28% *(2008 28 5%)*	**30**	**(44)**
Different basis of tax for UK life insurance	**34**	**(207)**
Adjustment to tax charge in respect of prior years	**(1)**	**(2)**
Deferred tax assets not recognised	**-**	**5**
Total tax charged/(credited) to the income statement (note 6 (a))	**63**	**(248)**

7. Investments in subsidiaries

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

	2009 £m	2008 £m
Carrying amount at 1 January	274	251
Additions	-	13
Fair value losses	(59)	(52)
Transfer from other investments	-	62
Investments transferred to fellow group undertakings (see note 31)	(215)	-
At 31 December	-	274

(b) Transfer to fellow group undertaking

The following principal subsidiaries were transferred to a fellow group undertaking on 1 October 2009

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
The Beach Student Accommodation Limited Partnership	Property ownership and management activities	92%	England

8. Investments in joint ventures

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

	2009 £m	2008 £m
Carrying amount at 1 January	527	771
Additions	42	152
Disposals	(11)	(60)
Fair value losses	(123)	(336)
Investments transferred to fellow group undertakings (see note 31)	(435)	-
At 31 December	-	527

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

The following principal joint ventures were transferred to a fellow group undertaking on 1 October 2009

Company	Proportion held
The Southgate Limited Partnership	50 0%
Tesco Arena Property Unit Trust	50 0%
The Cardiff Bay Partnership	42 9%
The Designer Retail Outlet Centres Limited Partnership	29 4%
Airport Property Partnership	25 0%
Paddington Central I Limited Partnership	25 0%
Apia Regional Office Fund	21 5%
The Mall Limited Partnership	15 3%
Igloo Regeneration Limited Partnership	14 0%
20 Gracechurch Unit Trust	12 5%
Central European Property Fund	11 5%
Encore + FCP	6 1%

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

- Encore + FCP (Fonds Commun de Placement) and Central European Property Fund are registered in Luxembourg The funds invest in office, logistics, retail and leisure properties in the European Economic area, excluding the UK

Distributions received from joint ventures during the year amounted to £5 million *(2008 £31 million)*

Loans made to joint ventures during the year amounted to £110 million (*2008 £101 million*), included in 'other loans' in note 10

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. Investment property

(a) Carrying amounts

	Freehold £m	Leasehold £m	Total £m
Carrying amount at 1 January 2008	920	464	1,384
Additions	14	-	14
Fair value losses	(264)	(121)	(385)
Disposals	(1)	-	(1)
At 31 December 2008	669	343	1,012
Capitalised expenditure	**4**	**1**	**5**
Fair value losses	**(85)**	**(46)**	**(131)**
Disposals	**(21)**	**-**	**(21)**
Property transferred to fellow group undertakings (see note 31)	**(567)**	**(298)**	**(865)**
At 31 December 2009	**-**	**-**	**-**

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 Further details of the fair value methodology are given in note 11

(b) Operating leases

The fair value of investment properties leased to third parties under operating leases, all of which are on commercial terms, was as follows

	2009 £m	2008 £m
Freeholds	-	634
Long leaseholds – over 50 years	-	324
	-	958

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

	2009 £m	2008 £m
Within one year	-	96
Later than one year and not later than five years	-	338
Later than five years and not later than ten years	-	330
Later than ten years	-	248
	-	1,012

10. Loans

(a) Carrying amounts

	2009 £m	2008 £m
Policy loans	-	10
Mortgage loans	-	239
Loans to credit institutions	-	645
Loans to parent	-	75
Loans due from fellow subsidiaries	-	52
Loans due from subsidiaries	-	118
Other loans	-	101
	-	1,240

During 2008, a new Portfolio Credit Risk Model (PCRM) was implemented to value Commercial mortgages This model calculates a Credit Risk Adjusted Value (CRAV) for each mortgage The risk adjusted cashflows are discounted using a yield curve, taking into account the term dependant gilt yield curve, and global assumption for the liquidity premium

The CRAV model was introduced to achieve consistency in valuing assets and related liabilities, with both being discounted using a yield curve which includes allowance for liquidity This change also ensured consistency with assumptions used in the Company's ICA estimates

The amount of change in the fair value of mortgage loans attributable to changes in the credit risk during the year was £17 million (2008 £1million) The cumulative amount of such change was £18 m (2008 £1 million)

Further details of the fair value methodology are given note in 11

Of the above total, £nil million *(2008 £278 million)* is expected to be recovered more than one year after the statement of financial position date

The carrying amount of the above loans that are stated at amortised cost is £nil million *(2008 £1,001 million)* The carrying amount is a reasonable approximation for fair value at the statement of financial position date No impairment has been recognised on any of the above loans

(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 all other situations, the collateral must be in a readily realisable form, such as listed securities, and is held in segregated accounts Transfer of title for the collateral received always occurs in such cases, although no market risk or benefit is taken 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 £nil million *(2008 £701 million)* The value of collateral that was actually sold or repledged in the absence of default was £nil *(2008 £nil)*

11. Financial investments

(a) Financial investments at 31 December comprise:

			2009
	At fair value through profit or loss		
	Trading	Other than trading	Total
	£m	£m	£m
Debt securities	-	-	-
Equity securities	-	-	-
Other investments	-	-	-
Unit trusts	-	-	-
Derivative financial instruments	-	-	-
Other	-	-	-
	-	-	-

			2008
	At fair value through profit or loss		
	Trading	Other than trading	Total
	£m	£m	£m
Debt securities	-	5,077	5,077
Equity securities	-	2,611	2,611
Other investments			
Unit trusts	-	2,060	2,060
Derivative financial instruments	152	-	152
Other	-	221	221
	152	9,969	10,121

Of the above total, £nil million *(2008 £9,208 million)* is expected to be recovered more than one year after the statement of financial position date

(b) Fair value methodology

(i) For investments carried at fair value, the measurement basis has been categorised into a 'fair value hierarchy' as follows

Quoted market prices in active markets – ('Level 1')
Inputs to Level 1 fair values are quoted prices (unadjusted) in active markets for identical assets An active market is one in which transactions for the asset occur with sufficient frequency and volume to provide pricing information on an ongoing basis Examples are listed equities in active markets, listed debt securities in active markets and quoted unit trusts in active markets

Modelled with significant observable market inputs – ("Level 2")

Inputs to Level 2 fair values are inputs other than quoted prices included within Level 1 that are observable for the asset, either directly or indirectly If the asset has a specified (contractual) term, a Level 2 input must be observable for substantially the full term of the asset Level 2 inputs include the following

- Quoted prices for similar (i e not identical) assets in active markets,
- Quoted prices for identical or similar assets in markets that are not active, the prices are not current, or price quotations vary substantially either over time or among market makers, or in which little information is released publicly
- Inputs other than quoted prices that are observable for the asset (for example, interest rates and yield curves observable at commonly quoted intervals, volatilities, prepayment speeds, loss severities, credit risks, and default rates)
- Inputs that are derived principally from, or corroborated by, observable market data by correlation or other means (market-corroborated inputs)

Examples of these are securities measured using discounted cash flow models based on market observable swap yields, and listed debt or equity securities in a market that is inactive

Modelled with significant unobservable market inputs – (Level 3")

Inputs to Level 3 fair values are unobservable inputs for the asset Unobservable inputs may have been used to measure fair value to the extent that observable inputs are not available, thereby allowing for situations in which there is little, if any, market activity for the asset at the measurement date (or market information for the inputs to any valuation models) As such, unobservable inputs reflect the Company's own assumptions about the assumptions that market participants would use in pricing the asset Examples are certain private equity investments and private placements

Following the transfer of assets to a fellow group undertaking (see note 31), the Company has no remaining assets held at fair value, hence no hierarchy data is disclosed

As explained in note 1, comparative information for the disclosures required by IFRS7 amendments is not needed in the first year of application and so no tables for 2008 are presented

(c) 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 Collateral must be in a readily realisable form, such as listed securities, and is held in segregated accounts Transfer of title always occurs for collateral received, although no market risk or economic benefit is taken 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 2009 were £nil million and £nil respectively *(2008 £2,674 million and £nil respectively)* The value of collateral that was actually sold or repledged in the absence of default was £nil *(2008 £nil)*

In addition to the above the Company has received and pledged cash collateral under stock lending arrangements of £nil million and £nil respectively *(2008 £645 million and £nil respectively)*

12. Reinsurance assets

(a) The carrying amounts at 31 December comprised.

	2009 £m	2008 £m
Insurance contracts	-	8,031
Participating investment contracts	-	2,128
Non-participating investment contracts	-	15,587
Outstanding claims provisions	-	1
	-	25,747

Of the above total, £nil million *(2008 £23,644 million)* is expected to be recovered more than one year after the statement of financial position 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 period

	2009 £m	2008 £m
Carrying amount at 1 January	**25,747**	29,327
Asset in respect of new business	**1,739**	3,350
Expected change in existing business asset	**(792)**	(417)
Variance between actual and expected experience	**1,587**	(6,363)
Impact of operating assumption changes	**34**	(109)
Impact of economic assumption changes	**17**	39
Impact of other assumption changes	**(14)**	6
Other movements	**92**	(86)
Change in asset	**2,663**	(3,580)
Transferred to fellow group undertaking (see note 31)	**(28,410)**	-
At 31 December	**-**	25,747

The effects of changes in the main assumptions are given in note 20

13. Receivables and other financial assets

	2009 £m	2008 £m
Amounts owed by contract holders	-	127
Amounts due from reinsurers	-	28
Amounts due from brokers for investment sales	-	7
Amounts due from fellow subsidiaries	-	7
Other financial assets	-	183
	-	352

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 was therefore required in excess of the normal provision for doubtful receivables

Included in amounts due from reinsurers above is £nil million (*2008 £15 million*) which is due from fellow subsidiaries

None of the above *(2008 £nil)* is expected to be recovered more than one year after the statement of financial position date

14. Prepayments and accrued income

There are no prepayments and accrued income (2008 £nil) that are expected to be recovered more than one year after the statement of financial position date

15. Ordinary share capital

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

	2009	2008
	£	£
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

All shares are of the same class and rank pari passu

16 Retained earnings

	2009	2008
	£m	£m
At 1 January	**101**	50
Profit for the year	**45**	94
Dividends paid of £nil per share *(2008 £4,263 per share)*	**-**	(43)
Transferred to fellow group undertakings (see note 31)	**(141)**	-
At 31 December	**5**	101

The Company is required to hold sufficient capital to meet acceptable solvency levels based on rules applicable to insurance companies imposed by the FSA Its ability to transfer retained earnings to its parent company is therefore restricted to the extent these earnings form part of regulatory capital

17. Insurance liabilities

(a) The carrying amount at 31 December comprises:

	2009	2008
	£m	£m
Participating	**-**	15,036
Unit-linked non-participating	**-**	3,041
Other non-participating	**-**	946
Outstanding claims provisions	**-**	138
	-	19,161

Of the above total, £nil *(2008 £16,990 million)* is expected to be paid more than one year after the statement of financial position date

(b) Business description

Until 1 October 2009, the Company underwrote long-term business in a "with-profit" fund, where the with-profits policyholders were entitled to at least 90% of the distributed profits, the shareholders receiving the balance

The following sections relate to the methodology, Company practice and assumptions up to the date of transfer

(c) Methodology

The valuation of with-profit business uses the methodology developed for the Realistic Statement of Financial Position, adjusted to remove the shareholders' share of future bonuses The key elements of the Realistic Statement of Financial Position 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

(d) Company practice

Material judgement is required in calculating the provisions and is exercised particularly through the choice of assumptions, where discretion is permitted 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

(e) 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

(i) *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 30 September 2009 was 3 84% (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 a policy with 10 years outstanding are as follows

Class	Volatility
UK equities	27%
Property	15%
Bond yields	14%

(ii) *Future regular bonuses*

Annual bonus assumptions for 2009 have been set consistent with the 31 December 2008 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

(iii) *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

(iv) *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

(v) *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

(vi) *Mortality*

Mortality assumptions are set with regard to recent company experience and general industry trends

	Mortality tables used 2009	Mortality tables used 2008
Assurances, pure endowments and deferred annuities before vesting	Nil or AM00/AF00 adjusted	Nil or AM00/AF00 adjusted
Pensions business after vesting and pensions annuities in payment	PCMA00/PCFA00 adjusted plus allowance for future mortality improvement	PCMA00/PCFA00 adjusted plus allowance for future mortality improvement

(f) **Assumptions – non-profit business in the with-profit funds**

The gross premium method is used for all material classes of business

For unit-linked business, the provisions are valued initially by adding a prospective non-unit reserve to the bid value of units The prospective non-unit reserve is calculated by projecting the future non-unit cash flows Where appropriate, allowance for persistency is based on actual experience

Valuation discount rate assumptions are set with regard to yields on the supporting assets and the general level of long-term interest rates as measured by gilt yields An explicit allowance for risk is included by restricting the yields for equities and properties with reference to a margin over long-term interest rates or by making an explicit deduction from the yields on corporate bonds, mortgages and deposits, based on historical default experience of each asset class A further margin for risk is then deducted for all asset classes

	Valuation discount rates	
	2009	2008
Assurances		
Life conventional non-profit	**2.7%**	2 7%
Pensions conventional non-profit	**3.4%**	3 4%
Deferred annuities		
Non-profit – in deferment	**3.4%**	3 4%
Non-profit – in payment	**3.4%**	3 4%
Annuities in payment		
Conventional annuities	**4.7%**	3 7%

Mortality assumptions are set with regard to recent company experience and general industry trends

	Mortality tables used 2009	**Mortality tables used 2008**
Assurances	AM00/AF00 or TM00/TF00 adjusted for smoker status	AM00/AF00 or TM00/TF00 adjusted for smoker status
Pure endowments and deferred annuities before vesting	Nil or AM00/AF00 adjusted	Nil or AM00/AF00 adjusted
Annuities in payment		
General annuity business	IML00/IFL00 adjusted plus allowance for future mortality improvement	IML00/IFL00 adjusted plus allowance for future mortality improvement
Pensions business	PCMA00/PCFA00 adjusted plus allowance for future mortality improvement	PCMA00/PCFA00 adjusted plus allowance for future mortality improvement

(g) Movements

The following movements have occurred in insurance liabilities during the period

	2009 £m	2008 £m
Carrying amount at 1 January	**19,161**	20,332
Provisions in respect of new business	**1,035**	2,229
Expected change in existing business provisions	**(1,465)**	(574)
Variance between actual and expected experience	**599**	(2,818)
Impact of operating assumption changes	**(24)**	(88)
Impact of economic assumption changes	**120**	126
Impact of other assumption changes	**(22)**	17
Impact of model and methodology changes	**-**	(20)
Other movements	**(50)**	(43)
Change in liability recognised as an expense	**193**	(1,171)
Transferred to a fellow group undertaking (see note 31)	**(19,354)**	-
At 31 December	**-**	19,161

The effect of changes in the main assumptions is given in note 20

Included within other movements is £nil million *(2008 £9 million)* relating to the with-profit fund recognising an appropriate proportion of the future deficit funding payments to the Aviva Staff Pension Fund

18. Liability for investment contracts

(a) The carrying amount comprises:

	2009 £m	2008 £m
Participating contracts	-	3,861
Non-participating contracts	-	15,560
	-	19,421

Of the above total, £nil million *(2008 £18,119 million)* is expected to be paid more than one year after the statement of financial position 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 17 The liability in respect of participating investment contracts of £nil *(2008 £3,861 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 19

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

Of the non-participating investment contracts measured at fair value, £nil million *(2008 £15,560 million)* 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***

	2009 £m	2008 £m
Carrying amount at 1 January	**3,861**	4,614
Provisions in respect of new business	**111**	130
Expected change in existing business provisions	**(68)**	42
Variance between actual and expected experience	**157**	(919)
Impact of operating assumption changes	**1**	(9)
Impact of economic assumption changes	**5**	39
Impact of other assumption changes	**(1)**	(1)
Other movements	**(33)**	(35)
Change in liability recognised as an expense	**172**	(753)
Transferred to fellow group undertaking (see note 31)	**(4,033)**	-
At 31 December	**-**	3,861

The effect of changes in main assumptions is given in note 20

(ii) *Non-participating investment contracts*

	2009 £m	2008 £m
Carrying amount at 1 January	**15,560**	18,036
Provisions in respect of new business	**1,047**	2,182
Expected change in existing business provisions	**(132)**	(82)
Variance between actual and expected experience	**1,251**	(4,615)
Impact of economic assumption changes	**(1)**	3
Other movements	**57**	36
Change in liability	**2,222**	(2,476)
Transferred to fellow group undertakings (see note 31)	**(17,782)**	-
At 31 December	**-**	15,560

The effect of changes in main assumptions is given in note 20

19. 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 17 and note 20

(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, one of the linked funds 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) Inflation guarantees – 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 Retail price index or Consumer price index

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

20. 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 2009, 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

	2009			2008
	Effect on UDS before reinsurance	**Effect on UDS after reinsurance**	Effect on UDS before reinsurance	Effect on UDS after reinsurance
	£m	**£m**	£m	£m
Assumptions				
Insurance contracts				
Economic	**(120)**	**(105)**	(126)	(102)
Expenses	**(29)**	**1**	(44)	(29)
Persistency rates	**53**	**56**	(51)	(51)
Mortality for assurance contracts	-	-	177	59
Mortality for annuity contracts	-	-	6	6
Tax and other assumptions	**22**	**9**	(17)	(11)
	(74)	**(39)**	(55)	(128)
Investment contracts – Participating				
Economic	**(5)**	**(2)**	(39)	(27)
Expenses	-	-	(9)	(5)
Persistency rates	**(1)**	-	20	10
Mortality Assurance	-	-	(2)	(1)
Tax and other assumptions	**1**	-	1	-
	(5)	**(2)**	(29)	(23)
Investment contracts – Non-Participating				
Economic	**1**	-	(3)	-
	1	-	(3)	-
Total decrease as a result of changes in assumptions and estimates	**(78)**	**(41)**	(87)	(151)

21. Unallocated divisible surplus

The following movements have occurred in the year

	2009 £m	2008 £m
Carrying amount at 1 January	704	1,481
Change in participating contract assets	(1,249)	(1,782)
Change in participating contract liabilities	1,014	984
Other movements	-	21
Change in liability recognised as income	(235)	(777)
Transferred to fellow group undertaking (see note 31)	(469)	-
At 31 December	-	704

22. Tax assets and liabilities

(a) General

Current tax liabilities payable in more than one year are £nil million *(2008 £19 million)*

(b) Deferred tax

The balance at 31 December comprises·

	2009 £m	2008 £m
Unrealised loss on investments	-	42
Provisions and other timing differences	-	31
Net deferred tax asset	-	73

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

	2009 £m	2008 £m
Net asset/(liability) at 1 January	73	(251)
Amounts credited to profit (note 6(a))	3	324
Transferred to fellow group undertaking (see note 31)	(76)	-
Net asset at 31 December	-	73

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 At the 31 December 2009 the Company had unrecognised capital losses of £nil *(2008 £40 million)* to carry forward against future taxable income Unrecognised capital losses of £40 million were transferred to UKLAP on the 1 October 2009 as part of the fund transfer (see note 31)

23. Payables and other financial liabilities

	2009 £m	2008 £m
Payables arising out of direct insurance	-	103
Payables arising out of reinsurance operations	-	79
Amounts due to fellow subsidiaries	-	7
Bank overdrafts	-	79
Derivative financial liabilities	-	127
Amounts due to brokers for investment purchases	-	61
Obligations for repayment of collateral received (note 11(c))	-	645
Other financial liabilities	-	222
	-	1,323

Of the above total, £nil million *(2008 £10 million)* is expected to be paid more than one year after the statement of financial position date

Payables arising out of reinsurance operations include £nil million *(2008 £78 million)* payable to a fellow group undertaking

All payables and other financial liabilities are carried at cost, which approximates to fair value, except for derivative liabilities, which are carried at their fair values The amount of change in the fair value of derivative liabilities attributable to changes in the credit risk both during the year and cumulatively is minimal as the contracts are covered by collateral agreements

24. Contingent liabilities and other risk factors

(a) Guarantees on long-term savings products

Note 19 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, which have now been transferred to a fellow group undertaking, 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 has been transferred to a fellow group undertaking *(2008 £1 million)* 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

(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 £3 million *(2008 £12 million)* to meet potential mis-selling costs and the associated expense of investigating complaints, these have been transferred to a fellow group undertaking 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 had a negative impact on the Company's reported results or on its relations with current and potential customers prior to the transfer of long-term business to a fellow group undertaking 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 had been established and subsequently transferred to a fellow group undertaking for such claims so no material loss will arise in this respect

The Company had indemnified the overdrafts and borrowings of certain other Aviva Group companies These indemnities have been transferred to a fellow group undertaking

25. Commitments

Capital commitments

There are contractual commitments of £nil million *(2008 £139 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

26. Statement of cash flows

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

	2009 £m	2008 £m
Profit/(loss) before tax	**108**	(154)
Adjustments for		
Profit on sale of investment property	**(1)**	-
Loss/(profit) on sale of other financial investments	**470**	(206)
Profit on sale of loans	**(1)**	(1)
Fair value losses on subsidiaries	**59**	52
Fair value losses on investment property	**131**	385
Fair value losses on investments in joint ventures	**123**	336
Fair value (gains)/losses on investments	**(764)**	1,669
Fair value losses/(gains) on loans	**23**	(1)
Amortisation of investments	**22**	12
Changes in working capital		
(Increase)/decrease in reinsurance assets	**(2,663)**	3,580
Decrease in receivables and other financial assets	**118**	48
Decrease/(increase) in prepayments and accrued income	**19**	(26)
Increase/(decrease) in insurance liabilities	**193**	(1,171)
Increase/(decrease) in liability for investment contracts	**2,396**	(3,229)
Decrease in unallocated divisible surplus	**(235)**	(777)
(Decrease)/increase in payables and other financial liabilities	**(538)**	141
Purchases of investment property	**(5)**	(14)
Proceeds on sale of investment property	**21**	1
Net sale/(purchase) of operating assets		
Financial investments	**436**	822
Loans	**316**	(468)
Cash generated from operations	**228**	999

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 statement of cash flows at 31 December comprised:

	2009 £m	2008 £m
Cash at bank and in hand	5	1,130
Cash equivalents	-	108
	-	1,238
Bank overdrafts	-	(79)
	5	1,159

27. 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

	2009 £m	2008 £m
Total IFRS shareholders' funds	**5**	101
Unallocated divisible surplus	**-**	704
Adjustments onto a regulatory basis		
Shareholders' share of accrued bonus	**-**	(147)
Regulatory valuation and admissibility restrictions	**-**	205
Total available capital resources	**5**	863

28. 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 MCEV reporting

The Company's 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 19

(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						2009
	AAA	AA	A	BBB	Speculative grade	Not rated	Total
	£m	£m	£m	£m	£m	£m	£m
Debt securities	-	-	-	-	-	-	-
Reinsurance assets	-	-	-	-	-	-	-
Other investments	-	-	-	-	-	-	-
Loans	-	-	-	-	-	-	-
	-	-	-	-	-	-	-

	Credit rating						2008
	AAA	AA	A	BBB	Speculative grade	Not rated	Total
	£m	£m	£m	£m	£m	£m	£m
Debt securities	3,071	755	892	320	37	2	5,077
Reinsurance assets	3	98	5	-	1	25,640	25,747
Other investments	-	-	-	-	-	2,433	2,433
Loans	317	96	232	-	-	595	1,240
	3,391	949	1,129	320	38	28,760	34,497

The carrying amount of assets included on the statement of financial position represents the maximum credit exposure, except for guarantees that are set out in note 19

Prior to 1 October 2009, the Company was generally not individually exposed to significant concentrations of credit risk due to the internal credit limits that limited investments in individual assets and asset classes From 1 October 2009, all of the assets of the Company are represented by cash and cash equivalents, owing to the nature of these cash holdings there is no single counter party exposure

The carrying value of financial assets that have been impaired or are past due but not impaired is £nil *(2008 £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 MCEV), 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 MCEV 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 MCEV 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 MCEV 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 insurance and investment contract 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

				2009
	Within 1 year	**1-5 years**	**5-15 years**	**Over 15 years**
	£m	**£m**	**£m**	**£m**
Insurance contracts non-linked	-	-	-	-
Investment contracts non-linked	-	-	-	-
Linked business	-	-	-	-
Total contract liabilities	-	-	-	-

				2008
	Within 1 year	**1-5 years**	**5-15 years**	**Over 15 years**
	£m	**£m**	**£m**	**£m**
Insurance contracts non-linked	1,839	5,712	5,067	3,502
Investment contracts non-linked	184	570	770	1,217
Linked business	1,464	4,546	5,645	8,066
Total contract liabilities	3,487	10,828	11,482	12,785

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 statement of financial position date For non-linked investment contracts the undiscounted contractual maturity value is £nil (2008 £5,009 million) For participating and non-participating unit-linked business, the surrender amount available on demand is approximately equal to the current statement of financial position liability

Analysis of maturity of financial and reinsurance assets

The disclosures required by the IFRS 7 amendments for maturity analysis of financial assets are not shown as the Company has no insurance or investment liabilities remaining at the statement of financial position date, and therefore no liquidity risk

(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, MCEV, 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 17

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%

29. Derivative financial instruments

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

			2009			2008
	Contract/ notional amount	**Fair value asset**	**Fair value liability**	Contract/ notional amount	Fair value asset	Fair value liability
	£m	**£m**	**£m**	£m	£m	£m
Foreign exchange contracts						
OTC						
Forwards	-	-	-	1,145	10	(85)
Total	-	-	-	1,145	10	(85)
Interest rate contracts						
OTC						
Interest and currency swaps	-	-	-	750	9	(22)
Options	-	-	-	57	74	-
Exchange traded						
Futures	-	-	-	1,594	57	(2)
Total	-	-	-	2,401	140	(24)
Equity/index contracts						
Exchange traded						
Futures	-	-	-	3,232	-	(7)
Options	-	-	-	927	3	(11)
Total	-	-	-	4,159	3	(18)
	-	-	-	7,705	153	(127)

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 11 Fair value liabilities are recognised as 'derivative financial liabilities' in note 23 The contractual undiscounted cash flows in relation to derivative liabilities have the following maturities

	2009 £m	2008 £m
Within one year	-	157
Between one and two	-	9
Between two and three years	-	9
Between three and four years	-	9
Between four and five years	-	5
After five years	-	5
	-	194

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 13 and 23 respectively

30. Related party transactions

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

Under a management agreement, UKLS supplies and makes charges for the provision of operational assets and staff to the Company The agreement specifies the amounts payable to UKLS in respect of acquisition costs and administrative expenses The amount of this recharge is £44 million *(2008 £60 million)*

Investment management services have been provided to the Company by Aviva Investors Global Services Limited These services are included in the recharge above

During the year, the Company paid dividends of £nil million *(2008 £43 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 13 and 23 respectively The related parties' receivables and payables are not secured, and no guarantees were received in respect thereof The receivables are settled in accordance with normal credit terms No provisions or expense has been recognised during the year in respect of bad and doubtful debts (2008 £nil)

Loans due from fellow subsidiaries are disclosed in note 10

The Company had indemnified the overdrafts and borrowings of certain other Aviva Group companies These indemnities have been transferred to a fellow group undertaking

On 1 October 2009, the Company transferred its long-term insurance business to UKLAP (see note 31)

(a) Reinsurance accepted from fellow subsidiaries

	2009 Reinsurance accepted in year £m	2008 Reinsurance accepted in year £m
Premiums	52	206
Claims	234	182
Commission	2	11
Share of insurance and investment contract liabilities	-	540

(b) Reinsurance ceded to fellow subsidiaries

	2009 Reinsurance ceded in year £m	2008 Reinsurance ceded in year £m
Premiums	1,382	2,245
Claims	992	1,516
Commission	112	205
Share of reinsurance assets	-	25,640

(c) Other income receivable from related parties

	2009 Income earned in year £m	2008 Income earned in year £m
Parent	1	2
Fellow subsidiaries	2	9
Subsidiaries	3	6

(d) Other expenses payable to related parties

	2009 Expense incurred in year £m	2008 Expense incurred in year £m
Fellow subsidiaries	45	68

(e) Key management compensation

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

	2009 £'000	2008 £'000
Salary and other short-term benefits	**5,505**	4,625
Post-employment benefits	**590**	67
Other long-term benefits	**501**	714
Termination benefits	-	419
Equity compensation plans	-	1,222
	6,596	7,047

There are no amounts receivable from, or payments due to, key management

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 Aviva Life Services Limited, and details of their emoluments are given in note 4

(f) Parent entity

The immediate holding company is Aviva Life Holdings UK Limited, a company registered in England

(g) 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

31. Fund transfer

On 1 October 2009 a reorganisation of the with-profit funds of CULAC and the Company, was approved by the Board and became effective As part of the reorganisation, the two funds were merged and transferred to another group undertaking, Aviva Life & Pensions UK Limited (UKLAP) This was followed by a reattribution to shareholders of the inherited estates of these funds

Certain of the assets liabilities and reserves within the Company s shareholder fund were transferred to the shareholder fund of UKLAP at the same time Sufficient assets to cover the regulatory minimum capital requirement remain within the Company Upon de-authorisation the remaining assets in excess of the share capital of the Company will be transferred to UKLAP

Within UKLAP, two new with-profit sub-funds have been created Policies of non-electing policyholders have been transferred to the Old With-Profit Sub-Fund (OWPSF) Where policyholders elected to accept the reattribution their policies have been transferred to the New With-Profit Sub-Fund (NWPSF)

The initial impact of the transfer on the Company's statement of financial position was as follows

	30 September 2009 £m	Effect of transfer £m	**1 October 2009 £m**
Assets			
Investments in subsidiaries	215	(215)	-
Investments in joint ventures	435	(435)	-
Investment property	865	(865)	-
Loans	901	(901)	-
Financial investments	9,955	(9,955)	-
Reinsurance assets	28,410	(28,410)	-
Receivables and other financial assets	234	(234)	-
Deferred tax asset	76	(76)	-
Prepayments and accrued income	141	(141)	-
Cash and cash equivalents	1,305	(1,300)	5
Total assets	**42,537**	**(42,532)**	**5**
Equity			
Ordinary share capital			
Retained earnings	146	(141)	5
Total equity	**146**	**(141)**	**5**
Liabilities			
Gross insurance liabilities	19,354	(19,354)	-
Gross liability for investment contracts	21,815	(21,815)	-
Unallocated divisible surplus	469	(469)	-
Current tax liabilities	73	(73)	-
Payables and other financial liabilities	680	(680)	-
Total liabilities	**42,391**	**(42,391)**	**-**
Total equity and liabilities	**42,537**	**(42,537)**	**5**

Financial assets and liabilities were transferred at fair value and insurance and participating investment contract liabilities were transferred at a value consistent with IFRS 4 The transfer was for nil consideration in accordance with the Scheme of Transfer