Company Number: 2180206

Aviva International Holdings Limited

Annual Report and Accounts 2005

Aviva International Holdings Limited

Report and accounts 2005

Contents

Aviva International Holdings Limited

Directors' Report

The directors submit their report and accounts for Aviva International Holdings Limited ("the Company") for the year ended 31 December 2005.

Principal activity

The principal activity of the Company during the year continued to be that of a holding company for most of the Aviva Group's overseas subsidiaries. Changes in the Company's investments are given in note 10 to the accounts. The directors consider that the Company's activities will continue unchanged for the foreseeable future.

Ultimate holding company

The ultimate holding company is Aviva plc.

Results

The results for the year are shown in the income statement on page 6.

Dividend

During the 2005 year the Company paid dividends of £2,644,000,000 *(2004: £419,000,000)*.

Share capital

On 21 November 2005, the Company allotted 578 million ordinary shares of £1 each to Scottish Insurance Corporation Limited (the parent company at the time), for a consideration of £578 million.

On 31 July 2006 the Company allotted 670 million ordinary shares of £1 each to Aviva Insurance Limited (the parent company) for a consideration of £670 million.

On 9 October 2006 the Company reduced the number of shares on issue by converting 4,000,000,000 authorised shares of £1 each into 400,000 shares of £10,000 each.

On 18 October 2006, the authorised capital of the Company was increased by 300,000 ordinary shares of £10,000 each. As a result the Company has authorised capital of 700,000 ordinary shares of £10,000 each.

Directors

The current directors, and those who served during the year, are as follows:

A J Moss
P G Scott
P J R Snowball

There were no contracts of significance in existence during or at the end of the year in which a director of the Company was materially interested.

Directors' interests

The directors who held office at 31 December 2005 are also all directors of the Company's ultimate holding company, Aviva plc, and under the Companies (Disclosure of Directors' Interests) (Exceptions) Regulations 1985 (SI 1985/802) are not required to disclose their share interests in Aviva plc in the Company's accounts. Their interests can be found in the Report and Accounts of Aviva plc. None of the directors who held office at 31 December 2005 had any interest in the Company's shares.

Creditor payment policy and practice

The Company has no trade creditors.

Aviva International Holdings Limited

Directors' Report (continued)

Going concern
After making enquires, the directors have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements.

Auditor and disclosure of information to the auditor

So far as each director is aware, there is no relevant audit information, being information needed by the auditor in connection with preparing its report, of which the auditor is unaware. Each director has taken all the steps that he is obliged to take as a director in order to become aware of any relevant audit information and to establish that the auditor is aware of that information.

Ernst & Young LLP will be re-appointed as the Company's auditors in accordance with the elective resolution passed by the Company under section 385 of the Companies Act 1985.

Directors' liabilities

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

Resolution

On 5 November 1999, the members of the Company passed resolutions to dispense with the holding of Annual General Meetings, the laying of directors' reports, accounts and auditors' reports before the members in general meeting and the obligation to appoint auditors annually.

By order of the Board

25 October 2006

Authorised signatory
Aviva Company Secretarial Services Limited
Secretary

Registered Office:
St Helen's, 1 Undershaft, London, EC3P 3DQ

Registered in England No. 2180206

Aviva International Holdings Limited

Statement of directors' responsibilities

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

- select suitable accounting policies and ensure they are applied consistently in preparing the financial statements on an ongoing concern basis unless it is inappropriate to presume that the Company will continue in business;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRS is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Company's financial position and financial performance; and
- state that the Company has complied with applicable IFRS, subject to any material departures disclosed and explained in the financial statements.

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

Aviva International Holdings Limited

Independent auditor's report to the shareholders of Aviva International Holdings Limited

We have audited the Company's financial statements for the year ended 31 December 2005 which comprise the Income Statement, the Statement of Recognised Income and Expense, the Reconciliation of Movements in Shareholders' Equity, the Balance Sheet, the Cash Flow Statement, and the related notes 1 to 21. These financial statements have been prepared under the accounting policies set out therein.

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

Respective responsibilities of directors and auditors

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

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

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

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

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

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

Opinion

In our opinion the financial statements:

- give a true and fair view, in accordance with IFRS as adopted by the European Union, of the state of the Company's affairs as at 31 December 2005 and of its profit for the year then ended; and
- have been properly prepared in accordance with the Companies Act 1985.

Ernst & Young LLP

Ernst & Young LLP
Registered Auditor
London 27 October 2006

Aviva International Holdings Limited

Income statement
For the year ended 31 December 2005

	Notes	2005 £m	2004 £m
Income			
Investment income	1(e) & 4	627	2,820
Gain on sale of subsidiaries and associates		6	16
		633	2,836
Expenses			
Finance costs	5	(102)	(104)
Loss on sale of subsidiaries		(33)	-
Other expenses		(4)	(38)
Foreign exchange rate movements	6	5	(2)
Impairment of investments in subsidiaries	10(a)	(23)	(2,037)
Profit before tax		476	655
Tax expense	1(h) & 9	(72)	(86)
Profit for the year		404	569

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

	Notes	2005 £m	2004 £m
Fair value gains on investment in subsidiaries	10	1,262	1,123
Tax recognised on unremitted earnings in subsidiaries	9(d)	(206)	-
Fair value gains transferred to profit and loss	6 &18(b)	28	5
Profit for the year		404	569
Total recognised income and expense for the year		1,488	1,697

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

	Notes	2005 £m	2004 £m
Balance at 1 January		9,379	6,889
Total recognised income and expense for the year		1,488	1,697
Dividends		(2,644)	(419)
Issue of share capital, net of transaction costs	14	578	1,212
Balance at 31 December		8,801	9,379

The notes on pages 10 to 23 are an integral part of these financial statements. The auditor's report is on page 5.

Aviva International Holdings Limited

Balance sheet

At 31 December 2005

	Notes	2005 £m	2004 £m
Assets			
Non-current assets			
Investment in subsidiaries	1(c) & 10	**12,743**	10,861
Investment in associates	1(c) & 11	**32**	26
Other investments	12	**34**	33
Amounts owed by fellow Group companies	18	**1,048**	1,822
		13,857	12,742
Current assets			
Amounts owed by fellow Group companies	18	**235**	836
Other receivables		**6**	8
Cash and cash equivalents	1(f)	**15**	-
Total assets		**14,113**	13,586
Equity			
Capital and reserves			
Ordinary share capital	14	**2,888**	2,310
Share premium account	14	**1,876**	1,876
Investment valuation reserve	15	**3,918**	2,834
Retained earnings	15	**119**	2,359
Total equity		**8,801**	9,379

The notes on pages 10 to 23 are an integral part of these financial statements. The auditor's report is on page 5.

Aviva International Holdings Limited

Balance sheet (continued)
At 31 December 2005

	Notes	2005 £m	2004 £m
Liabilities			
Non-current liabilities			
Amounts owed to fellow Group companies	18	**2,193**	1,892
Promissory notes	1(i) & 13	**127**	123
Contingent amounts payable on acquisition of subsidiary	16	**88**	48
Deferred tax liabilities	9(c)	**228**	22
		2,636	2,085
Current liabilities			
Amounts owed to fellow Group companies	18	**2,524**	2,024
Current tax liabilities		**149**	88
Group tax relief		**3**	4
Bank overdrafts		-	2
Other creditors		-	4
Total liabilities		**5,312**	4,207
Total equity and liabilities		**14,113**	13,586

Approved by the Board on 25 October 2006

AJ Moss

Director

The notes on pages 10 to 23 are an integral part of these financial statements. The auditor's report is on page 5.

Aviva International Holdings Limited

Cash flow statement

For the year ended 31 December 2005

The majority of the Company's operating and investing cash requirements are met by fellow Group companies and settled through inter-company loan accounts. As the direct method of presentation has been adopted for these activities, no further disclosure is required. In respect of financing activities, the following items pass through the Company's own bank account.

	2005 £m	2004 £m
Cash flows from operating activities		
Interest received	-	1
Net cash provided by operating activities	-	1
Cash flows from investing activities		
Shares purchased / capital contributions	(60)	(62)
Dividends received	231	203
Proceeds on sale of investments	3	2
Net cash provided by investing activities	174	143
Cash flows from financing activities		
Funding provided to fellow group companies	(159)	(165)
Interest on borrowings with related entities	6	8
Net cash used in financing activities	(153)	(157)
Net increase/(decrease) in cash and cash equivalents	21	(13)
Cash and cash equivalents at 1 January	(2)	11
Effect of exchange rates on cash and cash equivalents	(4)	-
Cash and cash equivalents at 31 December	15	(2)

Cash and cash equivalent comprises:

Cash at bank	15	-
Overdraft	-	(2)
Cash and cash equivalents at 31 December	15	(2)

The notes on pages 10 to 23 are an integral part of these financial statements. The auditor's report is on page 5

Aviva International Holdings Limited
Notes to the Financial Statements

1. Accounting policies

Aviva International Holdings Limited (the "Company"), a private company incorporated and domiciled in the United Kingdom ("UK"), is a holding company for most of the Aviva Group's overseas subsidiaries. The directors consider that the Company's activities will continue unchanged for the foreseeable future.

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the Company's accounts.

(a) Basis of presentation

The financial statements of the Company have been prepared in accordance with International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) and endorsed by the European Union. This is the Company's first set of full year results prepared in accordance with IFRS applicable at 31 December 2005. Its previously reported 2004 financial statements have accordingly been restated to comply with IFRS, with the date of transition to IFRS being 1 January 2004. The principal effects of the adoption of IFRS have been reflected within note 2 on the first time adoption of IFRS.

The Company is exempt from preparing group accounts by virtue of Section 228 of the Companies Act 1985, as it is a subsidiary of an EU parent (note 20). These financial statements therefore present information about the Company as an individual entity.

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

(b) Use of estimates

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

(c) Investments in subsidiaries and associates

Subsidiaries are those entities (including Special Purpose Entities) in which the Company, directly or indirectly, has power to exercise control over financial and operating policies in order to gain economic benefits.

Associates are entities over which the Company has significant influence, but which it does not control. Generally, it is presumed that the Company has significant influence where it has between 20% and 50% of voting rights

In the balance sheet, subsidiaries and associates are stated at their fair values, estimated using applicable valuation models underpinned by the Aviva Group's market capitalisation. They are classified as available for sale financial assets, with changes in their fair value being recorded in a separate investment valuation reserve within equity. Impairments in the value below cost are charged to the income statement.

(d) Foreign currency transactions and translation

Foreign currency transactions are accounted for at the exchange rates prevailing at the date of 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 non-monetary items, such as equities which are designated as fair value through profit and loss, are reported as part of the fair value gain or loss.

Aviva International Holdings Limited
Notes to the Financial Statements (continued)

1. Accounting policies (continued)

(e) Investment income

Investment income consists of dividends, interest receivable for the year, realised gains and losses, and unrealised gains and losses on fair value through profit and loss investments. Dividends from investments are recorded as investment income on the date they are received.

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

(f) Cash and cash equivalents

Cash and cash equivalents consist of cash at banks and in hand, deposits held at call with banks, treasury bills and other short-term highly liquid investments with 90 days or less to maturity from the date of acquisition. For the purposes of the cash flow statement, cash and cash equivalents also include bank overdrafts, which are classified as a current liability on the balance sheet.

(g) Provisions and contingent liabilities

Provisions are recognised when the Company has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of 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, the reimbursement is recognised as a separate asset but only when the reimbursement is more probable than not.

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

(h) Income taxes

The current tax expense or credit 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, an all material temporary differences between the tax base of assets and liabilities and their carrying amounts in the financial statements.

Deferred tax assets are recognized to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized.

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

(i) Promissory notes

Promissory notes are recognised initially at their issue proceeds less transaction costs incurred. Subsequently, all promissory notes are generally stated at amortised cost, and any difference between net proceeds and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest rate method.

(i) Other investments

Other investments represent warrants to subscribe for Delta Lloyd shares. The fair value of these warrants cannot be reliably measured as the range of reasonable fair value estimates is significant and the probability of the various estimates cannot be reasonably assessed and are therefore measured at cost and subject to an annual impairment review.

Notes to the Financial Statements (continued)

1. Accounting policies (continued)

(j) **Dividends**
Dividends on ordinary shares are recognised in the period in which they are declared and paid, and for the final dividend, appropriately approved by the shareholders.

(k) **Borrowing costs**
All borrowing costs are expensed as they are incurred.

2. First time adoption of International Financial Reporting Standards

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

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

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

Transitional provisions
The Company has not taken advantage of the exemption within IFRS 1 that allows comparative information presented in the first year of adoption of IFRS not to comply with IAS 32 and IAS 39.

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

(i) Reconciliation of equity reported under UK GAAP to equity reported under IFRS

	***As at* 1 January 2004 £m**	***As at* 31 December 2004 £m**
Equity as reported under UK GAAP	5,933	7,108
Adjusted for:		
Revaluation of investments in subsidiaries (see (iii) (a) below)	567	1,514
Dividend recognition (see (iii) (b) below)	389	757
Equity as reported under IFRS	6,889	9,379

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

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

	For the year ended 31 December 2004 £m
Profit for the year as reported under UK GAAP	676
Adjusted for:	
Dividend recognition (see (iii) (b) below)	(107)
Profit for the year as reported under IFRS	569

(iii) Adjustments between UK GAAP and IFRS

The basis for the material adjustments between UK GAAP and IFRS are as follows:

(a) *Investments in subsidiaries*

Under UK GAAP, subsidiaries are stated at current value which, for this purpose, is embedded value for life operations and net asset value for other entities. As a result of applying IAS 39, subsidiaries are stated at their fair values, estimated using applicable valuation models underpinned by the market capitalisation of the Aviva Group. This uplift in valuation increased shareholders' funds by £569 million at 1 January 2004 and by £1,514 million at 31 December 2004.

(b) *Dividend recognition*

Under UK GAAP, dividends were accrued in the period to which they relate, regardless of when they were declared and approved. Under IAS 10, *Events after the balance sheet date,* shareholders' dividends are accrued only when declared and appropriately approved. This affects both dividends receivable from subsidiaries and those payable to shareholders, increasing shareholders' funds by £389 million at 1 January 2004 and by £741 million at 31 December 2004. Profit for the year ended 31 December 2004 was similarly reduced by £107 million as a result.

(iv) Impact of IFRS adoption on cash flows

The adoption of IFRS had no impact on the reported cash flows of the Company.

Aviva International Holdings Limited

Notes to the Financial Statements (continued)

3. Exchange rates

Assets and liabilities have been translated at the following year end rates (shows equivalent of £1):

	2005	2004
Euro	**1.4554**	1.4125
US Dollar	**1.7168**	1.7168
Canadian Dollar	**2.0054**	2.0054

4. Investment income

Investment income comprises:	**2005 £m**	2004 £m
Dividend income from subsidiaries and associates	**495**	2,703
Interest receivable from parent companies	**119**	105
Interest receivable from other Group companies	**13**	11
Other investment income	**-**	1
	627	2,820

5. Finance costs

	2005 £m	2004 £m
Interest payable to parent companies	**93**	94
Interest payable to subsidiaries	**1**	2
Interest payable on promissory notes (note 13)	**8**	8
	102	104

6. Foreign exchange rate movements

	2005 £m	2004 £m
Foreign exchange on loans designated as hedges (notes 15 & 18(b))	**(28)**	(5)
Foreign exchange on subsidiary investments hedged by loans (notes 15 & 18(b))	**28**	5
Foreign exchange on other assets and liabilities	**5**	(2)
	5	(2)

7. Auditors' remuneration

Auditors' remuneration for the current and prior year has been borne by Aviva plc.

Aviva International Holdings Limited

Notes to the Financial Statements (continued)

8. Directors' and employees

All directors are remunerated by Aviva Employment Services Limited, a fellow subsidiary of the ultimate parent company, Aviva plc. The emoluments of these directors are not recharged to the Company.

The Company has no employees.

9. Tax

(a) ***Tax charged to the income statement:***

The tax charge in the income statement comprises:	**2005 £m**	2004 £m
Current tax		
For the year	**109**	48
Prior year adjustments	**(37)**	20
Total current tax	**72**	68
Deferred taxation	**-**	18
Total tax charge to the income statement	**72**	86

(b) ***Tax reconciliation***

The tax on the Company's profit before tax differs from the theoretical amount that would arise using the tax rate of the United Kingdom as follows. The differences are explained below:

	2005 £m	2004 £m
Profit before tax	**476**	*655*
Current charge at standard UK corporation tax rate of 30% *(2004: 30%)*	**143**	197
Adjustment to tax charge in respect of prior year	**(37)**	20
Non assessable UK dividend income	**(11)**	(749)
Expenses not deductible for tax purposes	**1**	611
Non taxable loss on sale of subsidiaries and associates	**8**	-
Different local basis of tax on overseas profits/losses	**(64)**	(7)
Other	**32**	14
Total tax charged to the income statement	**72**	86

(c) ***The net deferred tax liability comprises:***

	2005 £m	2004 £m
Other temporary differences	**228**	22
Net deferred tax liability	**228**	22

Aviva International Holdings Limited

Notes to the Financial Statements (continued)

9. Tax (continued)

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

	2005 £m	2004 £m
Net liability at 1 January	**22**	4
Amounts charged to profit and loss	**-**	18
Amounts charged to equity (note 15)	**206**	-
Net liability at 31 December	**228**	22

Deferred tax liabilities of £228m have been established on temporary differences associated with the unremitted earnings of overseas subsidiaries.

Deferred income tax liabilities of £330 million (2004: £162 million) have not been established for temporary differences associated with investments in subsidiaries and interests in joint ventures (including tax payable on remittance of overseas retained earnings) because the Company can control the timing of the reversal of these differences and it is probable that they will not reverse in the foreseeable future. Such unremitted earnings totalled £1,573 million at 31 December 2005 (2004: £1,143 million). including tax payable on remittance of overseas retained earnings.

10. Investments in subsidiaries

(a) Movement in the Company's investments in subsidiaries are as follows:

	2005 £m	2004 £m
Fair value		
At 1 January	**10,861**	8,546
Additions (see (b) below)	**749**	193
Transfers in from other Group companies (see (c) below)	**582**	3,956
Redemption of preference shares in subsidiary	**-**	(852)
Disposals (see (d) below)	**(690)**	(71)
Unwinding of discount on deferred consideration	**3**	3
Movement in provision for impairment (see (e) below)	**(23)**	(2,037)
Foreign exchange rate movement on deferred consideration	**(1)**	-
Movement in fair value (note 15)	**1,262**	1,123
At 31 December	**12,743**	10,861

Refer to Note 21 for a full listing of principal subsidiaries.

(b) Additions

During the year, the Company made capital contributions totalling £64 million to various subsidiaries, to enable them to continue to meet local solvency requirements.

On 21 November 2005, the Company subscribed for 2,843 million ordinary shares at a fair value of £0.30 each in its subsidiary, Hibernian Group Plc, for a consideration of £582 million, settled as part of the sale of the entire share capital of Hibernian Life Holdings Limited (see (d) below)

The Company has recorded additional contingent consideration relating to its Spanish subsidiaries in the amount of £28 million.

On 30 November 2005, the Company subscribed for ordinary shares in its subsidiary Aviva Canada Inc. for a consideration of £75 million, settled by the extinguishment of inter – company debt due from Aviva Canada Inc.

(c) Transfers from other Group companies

On 21 November 2005, the Company acquired the entire issued share capital of Hibernian Life Holdings Limited from its fellow subsidiary, Norwich Union Life & Pensions Limited, for a consideration of £582 million.

10. Investments in subsidiaries (continued)

(d) Disposals

On 21 November 2005, the Company transferred its investment in Hibernian Life Holdings Limited to its wholly owned subsidiary, Hibernian Group Plc, for a consideration of £582 million, settled through the purchase of additional share capital issued by Hibernian Group Plc (see (c) above). No gain or loss was made on this sale.

On 1 August 2005, Aviva Limited, a subsidiary in Singapore, repurchased approximately 60 % of its issued share capital. The Company relinquished shares with a value of £ 108 million for proceeds of £ 77 million realising a loss of £ 31 million.

There were additional disposal transactions which in total resulted in a net loss of £2 million during 2005.

(e) Impairment

During the period the New Zealand business ceased operation. The business paid a dividend which reduced the value of the investment to nil. The company was subsequently liquidated.

11. Investments in associates

(a) Movement in Company's investments in associates are as follows:

	2005 £m	2004 £m
Fair value		
At 1 January	26	12
Acquisitions (see (b) below)	8	14
Disposals (see (c) below)	(2)	-
At 31 December	32	26

Associate name	Type of business	% Share-holding	Country of incorporation
Aviva Life Insurance Company India Private Limited	Life insurance	26%	India

(b) Acquisitions

During the year, the Company made further capital contributions to Aviva Life Insurance Company India Private Limited amounting to £8 million.

(c) Disposals

During the year, the Company's investments in Ueang Mai Company (Thailand) Limited and Yardhimar Company Limited with a cost of £2 million were sold to Mitsui Sumitomo Insurance for a consideration of £8 million realising a profit of £6 million.

12. Other investments

During 2003, the Company granted Delta Lloyd NV ("DL") an advance of £172 million (€250 million). Of this, £34 million (€47 million) represents warrants to subscribe for DL shares. These warrants are disclosed as other investments, are measured at cost and impairment tests are carried out on their value each year. The directors continue to be satisfied that the carrying value of the warrants should be the sterling equivalent of €47 million. The warrants are exercisable should Delta Lloyd list.

Aviva International Holdings Limited

Notes to the Financial Statements (continued)

12. Other investments (continued)

The loan is over a period of 30 years and interest is accrued on an effective interest rate basis. Part of the interest is rolled up within the loan so that €250 million will be settled on its repayment. At 31 December 2005, the loan amounted to £146 million (€212 million) *(2004: £148 million (€209 million))* and is included in amounts owed by Group companies on the balance sheet.

13. Other non-current liabilities

Promissory notes

The liability in the Company's balance sheet comprises:

	2005 £m	2004 £m
Notes in connection with acquisition:		
At 1 January	100	100
Foreign exchange rate movement	(3)	
At 31 December	**97**	**100**
Notes for interest on the above:		
At 1 January	39	39
Foreign exchange rate movements		
- Unearned interest	-	-
- Earned interest	(1)	-
	38	**39**
Portion relating to unearned interest	(8)	(16)
At 31 December	**30**	**23**
Total	**127**	**123**

In 2001, the Company issued promissory notes as consideration for the acquisition of its investment in Unicorp Vida. All the promissory notes are redeemable in 2006. The interest charge for the year was £8 million (*2004:£8 million*). The effective interest rate for 2005 was 6.1% (2004: 6%).

14. Ordinary share capital and share premium

(a) The ordinary share capital of the Company at 31 December was:

	2005 £m	2004 £m
Authorised		
3,100,000,000 *(2004:3,100,000,000)* ordinary shares of £1 each	**3,100**	3,100
Allotted, called up and fully paid		
2,887,994,574 *(2004: 2,309,994,574)* ordinary shares of £1 each	**2,888**	2,310

14. Ordinary share capital and share premium (continued)

(b) Movements in the year comprise:

	Number of shares	Share capital	Share premium
		£m	£m
At 1 January 2004	1,098	1,098	**1,876**
Shares issued	1,212	1,212	**-**
At 31 December 2004	2,310	2,310	**1,876**
Shares issued	578	578	**-**
At 31 December 2005	**2,888**	**2,888**	**1,876**

On 21 November 2005, the Company allotted 578 million ordinary shares of £1 each to Scottish Insurance Corporation Limited (the parent at the time), for a consideration of £578 million. This was in connection with the acquisition of Hibernian Life Holdings Limited from a fellow Group subsidiary (see note10(b)).

15. Reserves

	Investment valuation reserve	Retained earnings	Total
	£m	£m	£m
Balance at 1 January 2004	**1,706**	**2,209**	**3,915**
Arising in the year:			
Profit for the year	-	569	**569**
Dividends	-	(419)	**(419)**
Fair value transferred to profit and loss (notes 6 & 18(b))	5	-	**5**
Fair value gains / (losses) (note 10(a))	1,123	-	**1,123**
Balance at 31 December 2004	**2,834**	**2,359**	**5,193**
Arising in the year:			
Profit for the year	-	404	**404**
Dividends	-	(2,644)	**(2,644)**
Tax recognised on fair value adjustments (note 9(d))	(206)		**(206)**
Fair value transferred to profit and loss (notes 6 & 18(b))	28	-	**28**
Fair value gains / (losses) (note 10(a))	1,262	-	**1,262**
Balance at 31 December 2005	**3,918**	**119**	**4,037**

The investment valuation reserve reports the difference between the cost of subsidiaries and the fair value.

16. Other non-current liabilities and other creditors

Contingent amounts payable on acquisition of subsidiary

The Company has entered into a number of bancassurance agreements with savings banks in Spain. It acquired shareholdings in companies and agreed to pay an immediate consideration plus a performance-related consideration over an agreed period of time (earn-in and earn-out payments) which are payable over periods specific to each agreement. The estimate of the net value of the payments as at 31 December 2005 was £88 million (2004: £48 million).

17. Risk management policies

The Company's approach to risk and capital management

Governance framework

The primary objective of the Company's risk financial management is to protect it from events or unforeseen circumstances that hinder the sustainable achievement of the Company's objectives and financial performance, including failing to exploit opportunities as they arise.

The directors recognise the critical importance of having efficient and effective risk management systems in place and acknowledge that they are responsible for the Company's framework of internal control and of reviewing its effectiveness. The framework is designed to manage rather than eliminate the risk of failure to achieve the Company's objectives and can only provide reasonable assurance against misstatement or loss. The Company forms part of the Aviva plc Group where the framework had been established for identifying, evaluating and managing the significant financial and non-financial risks faced. The directors of the Company are satisfied that their adherence to this Group framework provides an adequate means of managing risk in the Company. These are documented below.

Management of financial and non-financial risks

Market risk
Market risk is the risk of adverse impact due to changes in fair values of financial instruments from fluctuation in foreign currency exchange rates, interest rates and equity prices.

Cash flow interest rate risk arises from the inter-company loans payable and receivable (see related party transactions note 18). The effect of a 100 basis point increase in interest rates would be an increase in net interest expense of £11 million (*2004: £5 million*).

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 changing perceptions of the credit worthiness of such counterparties.

The Company's significant financial assets comprise amounts due from its parent, Aviva plc, and fellow group companies, and as such the credit risk arising from counterparties failing to meet all or part of their obligations is considered remote. Due to the nature of the financial assets, and the fact that the loans are settled, and not traded the Company is not exposed to the risk of changes to the market value caused by changing perceptions of the credit worthiness of such counterparties

Liquidity risk
The Company seeks to maintain sufficient financial resources available to meet its obligations as they fall due.

Maturity periods and interest rate risk

The fair value or net asset value of the Company's financial resources is exposed to potential fluctuations in interest rates. Exposure to interest rate risk is managed through the monitoring of several risk measures.

Aviva International Holdings Limited

Notes to the Financial Statements (continued)

17. Risk management policies (continued)

Operational risk

Operational risk arises as a result of inadequately controlled internal processes or systems, human error, or from external events. This definition is intended to include all risks to which the Company is exposed. Hence operational risks include, for example, information technology, information security, project management, tax, legal, fraud and compliance risks.

The line management in the Company has primary responsibility for the effective identification, management, monitoring and reporting of risks to the Company executive management team. The Company executive management team is responsible for satisfying itself that material risks are being mitigated and reported to an acceptable level.

Operational risks are assessed according to the potential impact and probability of the event concerned. These impact assessments are made against financial, operational and reputational criteria.

18. Related party transactions

(a) Loans

Related party transactions are loans to and from related parties are made on normal arm's length contractual terms. The maturity analysis of the related party loans is as follows:

Receivables		Contractual repricing or maturity dates							
	Denominated currency	Within 1 year £m	1-2 years £m	2-3 years £m	3-4 years £m	4-5 years £m	Over 5 years £m	Total £m	Effective interest rate %
2005	**£ / €**	**235**	-	-	**24**	-	**1,024**	**1,283**	**4.6**
2004	£ / €	836	-	-	116	227	1,479	2,658	4.6

Payables		Contractual repricing or maturity dates							
	Denominated currency	Within 1 year £m	1-2 years £m	2-3 years £m	3-4 years £m	4-5 years £m	Over 5 years £m	Total £m	Effective interest rate %
2005	**£ / € / $**	**2,524**	**26**	**371**	**210**	-	**1,586**	**4,717**	**4.6**
2004	£ / € / $ / NZ$	2,024	-	23	124	187	1,558	3,916	4.6

(b) Loans as hedges	**2005 £m**	**2004 £m**
Loans due to ultimate parent company denominated in euros and US dollars	**1,921**	1,688

In order to hedge its investments in euro and US dollar-denominated subsidiary undertakings the Company has entered into a number of back-to-back loans (borrowing euros or US dollars and lending sterling) with its ultimate parent company, Aviva plc. Exchange gains or losses on these foreign currency loans are taken to profit and loss and are offset by the equal and opposite fair value movement in the hedged investments which is transferred from fair value reserve to profit and loss.

Notes to the Financial Statements (continued)

18. Related party transactions

(c) Services provided to related parties (including dividend income)

	2005		2004	
	Income earned in year £m	**Receivable at year end £m**	Income earned in year £m	Receivable at year end £m
Ultimate parent	**119**	**1,018**	105	2,349
Parent companies	-	-	-	-
Subsidiaries	**502**	**265**	2,673	309
Fellow Group companies	**6**	-	17	-
	627	**1,283**	2,795	2,658

The income from related parties in the year comprised dividend income of £495 million (2004: £2,704 million) and interest income of £132 million (2004: £126 million).

(d) Services provided by related parties (including dividends paid)

	2005		2004	
	Expense *incurred in* year £m	***Payable at* year end £m**	Expense *incurred in* year £m	*Payable at year* end £m
Ultimate parent	**91**	**2,388**	93	1,968
Parent companies	**2,644**	**2,087**	381	1,192
Subsidiaries	**2**	**114**	40	281
Fellow Group companies	**1**	**128**	1	475
	2,738	**4,717**	515	3,916

The expenses incurred with related parties in the year comprised interest expense of £94 million (2004: £96 million) and dividends paid of £2,644 million (2004: £419 million).

Compensation of key management

The Company bears no costs in relation to key management personnel, and all such costs are borne by Aviva plc.

19. Non-adjusting events after the balance date

As part of the reorganisation of the Aviva Group the Company acquired Undershaft (No.1) (formerly known as CGNU Holdings (Australia) Limited from Aviva Insurance Limited for a fair value of £670 million. The acquisition was effective on 31 July 2006 and was settled by the Company issuing 670 million ordinary shares of £1 each.

On 1 February 2006, the Company acquired a 51% interest in Eagle Insurance Limited (Eagle), the third biggest insurer in Sri Lanka, by buying a majority shareholding in Eagles' immediate holding company, NDB Finance Lanka (Pvt) Limited, for cash of £15 million.

Notes to the Financial Statements (continued)

20. Parent companies' details

The immediate parent company as at 31 December 2005 is Aviva Insurance Limited (formerly CGU Insurance plc) incorporated in the United Kingdom. Aviva Insurance Limited acquired the Company from Scottish Insurance Corporation Limited on 12 December 2005.

The smallest group of undertakings, of which the Company is a member that prepares group accounts is headed by Aviva Insurance Limited. Its group accounts are available to the public, on payment of the appropriate fee, from Companies Registration Office, Companies House, Crown Way, Maindy, Cardiff, CF4 3UZ.

The ultimate holding company is Aviva plc. Its group accounts are available on application to the Group Company Secretary, Aviva plc, St. Helen's, 1 Undershaft, London EC3P 3DQ.

21. Principal Subsidiaries

The principal subsidiaries of the Company are listed below and transact insurance or reinsurance business, fund management or services in connection therewith, unless otherwise stated.

Subsidiary name	**% Share-holding**	**Country of incorporation**
Aseguradora Valenciana, SA de Seguros y Reaseguros (Aseval)	50%	Spain
Aviva Asigurari de Viata SA	99.9%	Romania
Aviva Canada Inc	100%	Canada
Aviva Eletbiztosito Rt	100%	Hungary
Aviva Grupo Corporativo S.L.	100%	Spain
Aviva Hayat ve Emeklilik A.S.	100%	Turkey
Aviva Italia Holdings SpA	100%	Italy
Aviva Life Insurance Company Ltd	100%	Hong Kong
Aviva Limited	74.4%	Singapore
Aviva Participations SA	99.9%	France
Aviva Sigorta AS (formerly Commercial Union Sigorta AS)	98.63%	Turkey
Aviva USA Corporation	100%	USA
Aviva Vida y Pensiones, SA de Seguros y Reaseguros	100%	Spain
Aviva zivotni pojistovna, a.s.	100%	Czech Republic
Bia Galicia, Compania de Seguros y Reaseguros	50%	Spain
Caja Espana Vida, Compania de Seguros y Reaseguros	50%	Spain
CGU Romania Holdings SRL	100%	Romania
CGU Special Investments Limited	100%	UK
Commercial Union Finance BV	100%	Netherlands
Hibernian Group plc	100%	Ireland
Navigator Investment Services Limited	100%	Singapore
Norwich Union International Limited	100%	Ireland
Norwich Union Overseas Holdings Limited	100%	UK
Unicorp Vida, Compania de Seguros y Reaseguros SA	50%	Spain