Norwich Union Life Holdings Limited

Report & Financial Statements 2007

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NORWICH UNION
an AVIVA company

Directors and Officers

Directors

M S Hodges
I M Mayer
J R Lister
N A Nicandrou
C E Riley
A Sahay

Secretary

J J Wilman

Auditor

Ernst & Young LLP
1 More London Place
London
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Norwich Union Life Holdings Limited
Contents

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

Business review

The Company acts as the holding company for subsidiaries (NU Life) providing a range of financial services principally in the United Kingdom Its principal subsidiaries are involved in long-term savings and insurance business The results of these subsidiary undertakings have not been consolidated in these financial statements as they have been included in the consolidated financial statements of Aviva plc

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

2007 performance

In 2007, despite the market becoming progressively tougher with rises in interest rates, a slowdown in the housing market and stock market volatility, NU Life delivered record sales for the second year in a row Total sales, including investment sales, were up 6% to £14,406 million *(2006 £13,601 million)*, driven by significant increases in sales of individual annuities, bonds and collective investments Our bancassurance joint venture with RBSG also delivered a second consecutive year of record results with sales in 2007 double those in 2005

NU Life is a leader in the life and pensions market with a scale unparalleled in the UK sector It is based in York, with significant operations in Norwich, Stevenage and Sheffield in the UK and overseas operations in India and Sri Lanka Subsidiaries providing financial services are regulated by the Financial Services Authority

NU Life's ambition is to create value for its customers and protect what is important to them It aims to be easy to do business with and to keep the promises it makes to both NU Life's customers and Aviva plc shareholders

NU Life offers a comprehensive range of investment and insurance products It holds top-three positions in each of its key markets and is a major provider in each of NU Life's chosen product lines and channels Its portfolio of products is diversified and is close to the overall market mix NU Life's scale and breadth means it has the flexibility to manage its portfolio for long-term value creation, sacrificing market share, where necessary, to secure profitability

NU Life successfully completed the efficiency review announced in 2006 and have delivered the promised £125 million of annualised savings, £108 million of which contributed to 2007 financial performance A further £100 million annualised savings are targeted by the end of 2009 which will eliminate our existing business expense overrun Improved customer retention has been driven through a wide programme of initiatives including the creation of a dedicated advice team, improved customer communications and more active management of distributor commission terms For these reasons, our IFRS life operating profit has increased' by 15% to £723 million *(2006 restated £629 million)*

NU Life's share of sales through the bancassurance partnership with the Royal Bank of Scotland Group (RBSG) was up by 36% to £1,587 million *(2006 £1,169 million)*, and double the level of sales achieved in 2005 This performance was underpinned by particularly strong sales of its bond and collective investments propositions and an increase in active sales advisers to the 2007 target of 1,000

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

Separately to this, NU Life were delighted to announce a special bonus of £2 1 billion for around 1 1 million with-profits policyholders who have invested in CGNU Life and CULAC Life with-profits funds The distribution of this special bonus clears the way to negotiate a fair price for the balance of the inherited estate, amounting to a further £2 6 billion

In the corporate market NU Life will continue to quote on bulk purchase annuity business, only writing business where this adds value

During 2007, the equity attributable to the Company's shareholders on an IFRS basis decreased by 12 5% to £7,420 million (2006 increase of 8% £8,480 million) This decrease reflects the change in valuation basis of the subsidiaries as well as a reduction in the dividends paid to NULH

Future outlook

NU Life are confident in their medium to long term outlook for market growth at between 5-10% The UK is the fifth largest market in the world, yet within this market there remain large numbers of people who either do not save or who are under-protected The financial market in 2008 will make the trading environment more difficult and challenging than it has been in 2006 and 2007 and our focus will remain on completing our simplification programme, driving further operational efficiencies and building on service improvements At the same time NU Life will remain engaged with the Government, FSA, ABI and other stakeholders on the Retail Distribution Review and NPSS in order to influence an outcome that is satisfactory for customers, distributors and the industry as a whole

Our scale, brand broad product offering and strong distribution footprint position us well to succeed in an uncertain 2008 Our aim remains to improve profitability and grow our new business sales at least in line with the market, while maintaining or increasing our overall new business margin from current levels

Key Performance Indicators (KPIs)

The directors believe that analysis using KPIs for the Company is not necessary or appropriate for an understanding of the development, performance or position of the business The development, performance and position of the NU Life business are discussed in the annual report and accounts of Aviva plc, which does not form part of this report

Risk management

A description of the principal risks and uncertainties facing NU Life and its risk management policies are set out in note 19 to the financial statements

Environmental

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

Major events

On 6 March 2007, NU Life reached an agreement to outsource the administration of almost three million of its existing life and pension policies to Swiss Re

On 2 April 2007, the Company entered into a loan agreement with Lifetime Group Limited (LG) for £19 1 million where the Company was the Lender and LG was the Borrower

On 22 June 2007, the Company acquired 32,000,000 ordinary shares of £1 each in Norwich Union Life Services Limited (NULS) for a consideration of £32 million

On 5 September 2007, the Company entered into a loan agreement with LG for £12 million where the Company was the Lender and LG was the Borrower

On 5 September 2007, the Company drewdown on a loan facility agreement with CGNU Life Assurance Limited (CGNULA) for £35 million where the Company was the Borrower and CGNULA was the Lender

On 5 September 2007, the Company drewdown on a loan facılıty agreement wıth Commercıal Unıon Lıfe Assurance Company Lımıted (CULAC) for £35 mıllıon where the Company was the Borrower and CULAC was the Lender

On 5 September 2007, the Company drewdown on a loan facılıty agreement wıth Norwıch Unıon Lıfe & Pensıons Lımıted (NUL&P) for £50 3 mıllıon where the Company was the Borrower and NUL&P was the Lender

On 21 September 2007, Norwıch Unıon SIPP Lımıted (NU SIPP) purchased and cancelled 26,799,001 of ıts own shares at par for a consıderatıon of £26,799,001

On 21 September 2007, Lıfe and Pensıons Admınıstratıon Servıces Lımıted (LAPAS) purchased and cancelled 12,000,000 of ıts own preference shares for a consıderatıon of £7,980,562 Subsequenty, LAPAS was placed ınto lıquıdatıon on 24 September 2007

On 8 October 2007, the Company extended ıts loan agreement wıth Avıva Internatıonal Holdıngs Lımıted under the exıstıng loan facılıty, orıgınally dated 15 July 2003

On 30 October 2007, the authorısed share capıtal of the Company was ıncreased by £27 2 mıllıon to £4,792 2 mıllıon ordınary shares of £1 each On the same date, the Company ıssued an allotment of 27,200,000 ordınary shares of £1 each to Avıva Group Holdıngs for a consıderatıon of £27 2 mıllıon

On 1 November 2007, the Company acquıred Hamılton Lıfe Assurance Company Lımıted (HLAC) for a consıderatıon of £44 8 mıllıon

On 6 November 2007, the Company entered ınto a loan agreement wıth LG for £26 8 mıllıon where the Company was the Lender and LG was the Borrower

On 23 November 2007, the Company had a loan agreement wıth Norwıch Unıon Equıty Release Lımıted (NUER) for £9 5 mıllıon novated from Avıva Group Holdıngs where the Company was the Lender and NUER was the Borrower

On 6 December 2007, the Company acquıred 24,000,000 ordınary shares of £1 each ın LG for a consıderatıon of £24 0 mıllıon

Dividends

Durıng the year, the Company paıd a dıvıdend of £106 1 mıllıon *(2006 £260 mıllıon)*

Directors

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

P J R Snowball resıgned as a dırector of the Company on 3 May 2007

M S Hodges, J R Lıster and N A Nıcandrou served as dırectors of the Company throughout the year

I M Mayer, C E Rıley and A Sahay were appoınted as dırectors of the Company on 5 February 2008

Company Secretary

J J Wılman was appoınted as Company Secretary on 27 June 2007

Avıva Company Secretarıal Servıces Lımıted resıgned as Company Secretary on 28 June 2007

Directors' responsibilities

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

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

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

Directors Interests

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

Directors' indemnity arrangements

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

Auditors

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

Disclosure of information to the auditor

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

By order of the Board

JJWilman

J J Wilman *Secretary* *25 March 2008*

Independent auditor's report to the shareholders of Norwich Union Life Holdings Limited

We have audited the financial statements of Norwich Union Life Holdings Limited (the Company) for the year ended 31 December 2007 which comprise the Income Statement, Balance Sheet, Cash Flow Statement, Statement of Changes in Shareholders' Equity and the related notes 1 to 21 These financial statements have been prepared under the accounting policies set out on pages 8 to 10

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

Respective responsibilities of directors and auditors

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

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

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985 We also report to you whether the information given in the directors' report is consistent with the financial statements

In addition we report to you if, in our opinion, the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed

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

Basis of audit opinion

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

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

Opinion

In our opinion

- the financial statements give a true and fair view, in accordance with IFRS as adopted by the European Union, of the state of the Company's affairs as at 31 December 2007 and of its loss for the year then ended,
- the financial statements have been properly prepared in accordance with the Companies Act 1985, and
- the information given in the directors' report is consistent with the financial statements

Ernst & Young LLP

Ernst & Young LLP
Registered auditor
London

27 March 2008

The Company, a limited company incorporated and domiciled in the United Kingdom (UK), acts as the holding company for subsidiaries providing a range of financial services principally in the UK Its principal subsidiaries are involved in long-term savings and insurance business

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

(A) Basis of presentation

The financial statements have been prepared in accordance with IFRS applicable at 31 December 2007

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

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

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

Unless otherwise noted, the amounts shown in these financial statements are in thousands of pounds sterling (£'000)

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

(B) Use of estimates

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

(C) Subsidiaries

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

Dividends from subsidiaries are recognised when declared and approved

(D) Loans

Loans are included at amortised cost using the effective interest rate method

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

(E) Cash flow statement

Cash and cash equivalents

Cash and cash equivalents consist of cash at banks and in hand, deposits held at call with banks, treasury bills and other short-term highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in value Such investments are normally those with less than three months' maturity from the date of acquisition, and include certificates of deposit For the purposes of the cash flow statement, cash and cash equivalents also include bank overdrafts, which are included within payables on the balance sheet

(F) Provisions

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

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

(G) 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

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

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

(H) Borrowings

Borrowings from group undertakings are recognised initially at their issue proceeds less transaction costs incurred Subsequently, borrowings are 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 All borrowing costs are expensed as they are incurred

(I) Guarantees

Financial guarantees issued are recognised initially at their fair value, and subsequently measured at the higher of the expected liability (or receivable) under the guarantee and the amount initially recognised less any cumulative amortisation

(J) 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

Norwich Union Life Holdings Limited
Income statement
For the year ended 31 December 2007

	Note	2007 £'000	2006 £'000
Income			
Income from shares in group undertakings		**106,552**	263,837
Interest receivable and similar income	1	**7,115**	11,079
(Loss)/gain on disposal of subsidiaries	2	**(108)**	698
Realised gains – investments		**11**	-
Fair value (losses)/gains on investments	7	**(1,089,173)**	588,711
		(975,603)	864,325
Expenses			
Operating expenses		**(1,708)**	(470)
Finance costs	3	**(2,677)**	(1,048)
(Loss)/profit before tax		**(979,988)**	862,807
Tax charge	G & 6	**(1,206)**	(734)
(Loss)/profit for the year		**(981,194)**	862,073

The accounting policies (identified alphabetically) on pages 8 to 10 and the notes (identified numerically) on pages 15 to 27 are an integral part of these financial statements

Norwich Union Life Holdings Limited
Balance sheet
As at 31 December 2007

	Note	2007 £'000	2006 £'000
Assets			
Non-current assets			
Investments in subsidiaries	C & 7	**7,521,724**	8,544,837
Loans to group undertakings	D & 8	**109,670**	57,495
Current assets			
Receivables	9	**7,086**	15,791
Cash and cash equivalents	E	**2,993**	27,451
Total assets		**7,641,473**	8,645,574
Equity			
Ordinary share capital	J & 10	**4,780,841**	4,753,641
Share premium	11	**597,991**	597,991
Retained earnings	11	**2,040,960**	3,128,254
Total equity		**7,419,792**	8,479,886
Liabilities			
Current liabilities			
Provisions	F & 14	**1,586**	745
Current tax liabilities	G & 13	**1,177**	2,992
Borrowings from group undertakings	H & 15	**140,330**	20,030
Payables	16	**78,588**	141,921
Total liabilities		**221,681**	165,688
Total equity and liabilities		**7,641,473**	8,645,574

Approved by the Board on 25 March 2008

N A Nicandrou *Director*

The accounting policies (identified alphabetically) on pages 8 to 10 and the notes (identified numerically) on pages 15 to 27 are an integral part of these financial statements

Norwich Union Life Holdings Limited
Statement of changes in equity
For the year ended 31 December 2007

	Note	2007 £'000	2006 £'000
Balance at 1 January		**8,479,886**	7,877,813
(Loss)/profit for the year	11	**(981,194)**	862,073
Dividends	11	**(106,100)**	(260,000)
Issue of share capital	10	**27,200**	-
Balance at 31 December		**7,419,792**	8,479,886

The accounting policies (identified alphabetically) on pages 8 to 10 and the notes (identified numerically) on pages 15 to 27 are an integral part of these financial statements

Norwich Union Life Holdings Limited
Cash flow statement
For the year ended 31 December 2007

	Note	2007 £'000	2006 £'000
Cash flows from operating activities			
Cash generated from operations	17(a)	**26,589**	(53,456)
Dividends received		**106,552**	263,837
Tax paid		**(279)**	(1,607)
Net cash from operating activities		**132,862**	208,774
Cash flows from investing activities			
Acquisition of subsidiaries		**(178,540)**	(71,646)
Disposal of subsidiaries		**34,672**	811
Loans granted		**(52,175)**	(18,765)
Net cash used in investing activities		**(196,043)**	(89,600)
Cash flows from financing activities			
Proceeds from issue of ordinary shares		**27,200**	-
New borrowings drawn down		**120,300**	-
Repayments of borrowings		**-**	(1,750)
Interest paid on borrowings		**(2,677)**	(1,048)
Dividends paid		**(106,100)**	(260,000)
Net cash from/used in financing activities		**38,723**	(262,798)
Net decrease in cash and cash equivalents		**(24,458)**	(143,624)
Cash and cash equivalents at 1 January		**27,451**	171,075
Cash and cash equivalents at 31 December	17(b)	**2,993**	27,451

The accounting policies (identified alphabetically) on pages 8 to 10 and the notes (identified numerically) on pages 15 to 27 are an integral part of these financial statements

1. Interest receivable and similar income

	2007 £'000	2006 £'000
Interest receivable from group undertakings	5,920	5,403
Other interest	1,195	5,676
	7,115	11,079

2. Loss on disposal of subsidiaries

	2007 £'000	2006 £'000
Proceeds	34,780	16,827
Carrying value on disposal	(34,780)	(16,129)
Costs	(108)	-
Net (loss)/gain	(108)	698

3. Finance costs

	2007 £'000	2006 £'000
Interest payable to group undertakings	2,677	1,040
Other interest	-	8
	2,677	1,048

4. Directors' emoluments

A management charge in respect of administration services has been made by Norwich Union Life Services (NULS), a fellow group undertaking, which includes a negligible element in respect of directors' time spent in managing the Company

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

Emoluments of the other directors were

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

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

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

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

5. Auditor's remuneration

	2007 £'000	2006 £'000
Fees for the statutory audit of the Company's financial statements	**84**	98

The fees are payable to Ernst & Young LLP, and form part of the recharge from NULS

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

6. Tax

(a) Tax charged to the income statement

The total tax charge comprises

	2007 £'000	2006 £'000
Current tax		
For the year	**(1,177)**	(2,992)
Prior year adjustments	**(29)**	2,258
Total tax charged to the income statement (note 6(b))	**(1,206)**	(734)

(b) Tax reconciliation

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

	2007 £'000	2006 £'000
(Loss)/profit before tax	**(979,988)**	862,807
Tax calculated at standard UK corporation tax rate of 30% *(2006 30%)*	**293,997**	(258,842)
Adjustment to tax charge in respect of prior years	**(29)**	2,258
Non-assessable dividends	**31,966**	79,151
Disallowed expenses	**(388)**	(123)
Non-taxable fair value gains on subsidiaries	**(326,752)**	176,613
Non-taxable gain on sale of subsidiaries	**-**	209
Total tax charged to income statement (note 6(a))	**(1,206)**	(734)

7. Investments in subsidiaries

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

	2007 £'000	2006 £'000
Carrying amount at 1 January	**8,544,837**	7,790,908
Additions	**100,840**	181,347
Disposals	**(34,780)**	(16,129)
Fair value (losses)/gains	**(1,089,173)**	588,711
At 31 December	**7,521,724**	8,544,837

In the absence of any comparable market transactions, fair value is based on valuation techniques Where applicable, multiples of EEV have been used The embedded value is the total net worth of a business and the value of in-force business The value of in-force business is the present value of the distributable profits to shareholders

The Company's approach to managing its investments and associated risks is given in note 19

(b) Additions

On 22 June 2007, the Company acquired an additional 32,000,000 ordinary shares of £1 each in NULS for a consideration of £32 million

On 1 November 2007, the Company acquired HLAC from HFC Bank Limited (a subsidiary of US based HSBC Finance Corporation) for a consideration of £44 8 million The amount of cash and cash equivalent in HLAC at the date of acquisition was £2 8 million Total assets and total liabilities in HLAC at the date of acquisition were £127 7 million and £106 3 million respectively

On 6 December 2007, the Company acquired an additional 24,000,000 ordinary shares of £1 each in LG for a consideration of £24 0 million

(c) Disposals

On 21 September 2007, the Company placed its subsidiary LAPAS in liquidation following a buy back of preference shares

On 21 September 2007, NU SIPP purchased and cancelled 26,799,001 of its own shares at par for consideration of £26 8 million

(d) The Company's principal subsidiaries, all of which are wholly-owned and incorporated in England, are shown below:

Subsidiary	Principal activity
CGNU Life Assurance Limited	Long-term insurance
Commercial Union Life Assurance Company Limited	Long-term insurance
Norwich Union Annuity Limited	Annuity life assurance
Norwich Union Equity Release Limited	Equity release mortgage provider
Norwich Union Healthcare Limited	Marketing and administration of healthcare products
Norwich Union Investment Funds Limited	Investment management
Norwich Union Collective Investments Limited	Investment management
Norwich Union Life & Pensions Limited	Long-term insurance
Norwich Union Life Services Limited	Corporate administration services
Lifetime Group Limited	Personal portfolio 'wrap' products
Hamilton Life Assurance Company Limited	Long-term assurance

8. Loans

Carrying amounts	2007 £'000	2006 £'000
Loans to group undertakings	109,670	57,495

Of the above total, £88 4 million *(2006 £30 4 million)* is expected to be recovered more than one year after the balance sheet date

9. Receivables

	2007 £'000	2006 £'000
Amounts owed by group undertakings	5,262	15,441
Other debtors	1,824	350
	7,086	15,791

10. Ordinary share capital

(a) Details of the Company's ordinary share capital at 31 December are as follows·

	2007 £'000	2006 £'000
The authorised share capital of the Company was 4,792,200,000 *(2006 4,765,000,000)* Ordinary shares of £1 each	4,792,200	4,765,000
The allotted, called up and fully paid share capital of the Company was 4,780,840,913 *(2006 4,753,640,913)* Ordinary shares of £1 each	4,780,841	4,753,641

(b) Details of share movements are as follows:

During 2007, a total of 27 2 million *(2006 nil)* ordinary shares of £1 each were allotted and issued by the Company as follows

	2007 Number of shares	2007 Share capital £'000	2006 Number of shares	2006 Share capital £'000
At 1 January	4,753,640,913	4,753,641	4,051,040,000	4,051,040
Reclassified	-	-	702,600,913	702,601
New shares issued	27,200,000	27,200	-	-
At 31 December	4,780,840,913	4,780,841	4,753,640,913	4,753,641

11. Share premium and retained earnings

	2007 Share premium £'000	2007 Retained earnings £'000	2006 Share premium £'000	2006 Retained earnings £'000
At 1 January	**597,991**	**3,128,254**	597,991	2,526,181
(Loss)/profit for the year	**-**	**(981,194)**	-	862,073
Dividends	**-**	**(106,100)**	-	(260,000)
At 31 December	**597,991**	**2,040,960**	597,991	3,128,254

12. Guarantees

Several of the Company's subsidiaries have guaranteed the overdrafts and borrowings of certain subsidiaries and associates In the opinion of the directors, no material loss will arise in respect of these guarantees and indemnities

In addition, in line with standard business practice, various Group companies have given guarantees, indemnities and warranties in connection with disposals in recent years of subsidiaries and associates to parties outside the Aviva Group In the opinion of the directors, no material loss will arise in respect of these guarantees, indemnities and warranties

The Company has given two financial guarantees to EXL Holdings and WNS Global Services for the financial obligations of Norwich Union Central Services Limited (NUCS), a fellow group undertaking, in respect of the services contract with EXL and WNS These relate to the provision of business processing and other related services The maximum liability is capped at £8 million for EXL and £6 million for WNS The guarantee expires upon payment by NUCS of all sums due under the service contract

In the view of management, the risk of these guarantees being called upon is very low and no such calls have been made to date Accordingly, no liability has been recorded in these financial statements

13. Tax assets & liabilities

(a) General

Current tax liabilities payable in more than one year are £1 2 million *(2006 £3 0 million)*

(b) Deferred Tax

The Company has no provided or unprovided deferred tax *(2006 £nil)*

14. Provisions

	2007	2006
	£'000	£'000
At 1 January	**745**	841
Provisions made in year	**1,600**	739
Amounts utilised	**(342)**	(508)
Amounts released	**(417)**	(327)
At 31 December	**1,586**	745

As part of the e surv limited sale agreement, the Company became liable for professional indemnity claims arising after 30 June 2004, in respect of advice given by e surv limited up to 30 June 2004

The provisions have been made in respect of ongoing legal claims and are the directors' best estimate of the likely outcome of such claims

15. Borrowings from group undertakings

	2007	2006
	£'000	£'000
Loan from parent	**20,030**	20,030
Loans from subsidiaries	**120,300**	-
	140,330	**20,030**

Of the above total, £20 million *(2006 £20 million)* is expected to be recovered more than one year after the balance sheet date

The increase in loans from group undertakings during the year is as a result of additional funding requirements for LG and NULS

16. Payables

	2007	2006
	£'000	£'000
Amounts owed to group undertakings	**78,588**	141,921

17. Cash flow statement

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

	2007 £'000	2006 £'000
(Loss)/profit before tax	**(979,988)**	862,807
Adjustments for		
Dividends received	**(106,552)**	(263,837)
Net loss/(gain) on disposal of subsidiaries	**108**	(698)
Fair value losses/(gains) on investments	**1,089,173**	(588,711)
Interest expense on borrowings	**2,677**	1,048
Changes in working capital		
(Increase)/decrease in receivables	**(1,474)**	256
Decrease in other assets	**7,437**	4,120
Increase/(decrease) in provisions	**841**	(96)
Increase/(decrease) in payables	**14,367**	(68,345)
Cash generated from operations	**26,589**	(53,456)

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

	2007 £'000	2006 £'000
Cash at bank and in hand	**2,993**	17,458
Cash equivalents	**-**	9,993
	2,993	27,451

18. Capital

In managing its capital, the Company seeks to

- Take account of the risks inherent in the business,
- Retain financial flexibility by maintaining liquidity, and
- Allocate capital efficiently to support growth and repatriate excess capital where appropriate

The Company is not a regulated company and hence not subject to any regulatory capital requirements

The Company mostly considers the traditional sources of capital funding, including loans and capital injections from its parent company The analysis below sets out the Company's capital resources available to meet its liabilities

	2007 £'000	2006 £'000
Total IFRS shareholders' funds and available capital resources	**7,420,134**	8,479,886

Further details on risk and capital management are given in note 19

19. Risk management

(a) Risk management framework

The primary objective of the Company's risk and financial management framework is to protect it and its subsidiaries (collectively NU Life) from events that hinder the sustainable achievement of its 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

A significant proportion of the principal subsidiaries' long-term savings business involves 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 the 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

The Company is exposed to fair value movements on its investments in subsidiaries The fair value will fluctuate as the underlying assets, including the value of in-force business where appropriate, and liabilities held by the companies within NU Life change

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's subsidiaries 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

NU Life manages market risks within the asset/liability management (ALM) framework and within regulatory constraints

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

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

NU Life'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

NU Life is subject to equity price risk due to changes in the market values of its equity securities portfolio The underlying Companies are exposed to direct equity holdings in shareholder assets, to indirect impacts in the value of equities from which management charges or a share of performance are taken, and to 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 subsidiaries hold diversified portfolios of assets thereby reducing exposure to individual equities

NU Life 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

NU Life actively monitors its directly owned equity assets including subsidiary investments and shareholdings in strategic business partners, with regular management information presented to the Investment Governance 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

NU Life 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 NU Life'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 NU Life 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

The impact of exposure to sustained low interest rates is regularly monitored

(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 NU Life's policies, thereby reducing the risk of credit loss NU Life 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 operational risk assessment FCRs also consider scenarios involving a number of correlated events

(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 NU Life'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

The carrying amount of assets included on the balance sheet represents the maximum credit exposure

In cases where a subsidiary is particularly exposed to credit risk, this risk is translated into a more conservative discount rate used to value the liabilities held by the subsidiary, creating a greater capital requirement, and this credit risk is actively managed The impact of aggregation of credit risk is monitored as described above

(d) Life insurance risk

(i) Type of risk

Life insurance risk in NU Life 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

NU Life 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 NU Life as part of the control cycle of business management Exposure is monitored through the assessment of liabilities, the asset liability management framework, profit reporting (under both IFRS and EEV), FCR, and the ICA process Significant insurance risks will be overseen by the Insurance Risk Committee

Mortality and morbidity risks are mitigated by use of reinsurance NU Life 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 NU Life has used reinsurance solutions to reduce the risks from longevity where desirable and continually monitors emerging market solutions to mitigate this risk further

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

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

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

(iii) Concentration risk

NU Life writes a diverse mix of business that is subject to similar risks (mortality, persistency etc) It assesses the relative costs and concentrations of each type of risk through the ICA requirements and material issues are escalated to and addressed at the Insurance Risk committee This analysis enables NU Life to assess whether accumulations of risk exceed risk appetite

The main concentrations of insurance risk for NU Life are persistency, mortality, morbidity and longevity It continually monitors these risks and the opportunities for mitigating actions through reinsurance, improved asset liability matching, or innovative solutions that emerge in the market

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

(iv) Embedded derivatives within insurance contracts

NU Life 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 NU Life 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,

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

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

(e) Liquidity risk

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

(f) Risk and capital management

NU Life uses a number of sensitivity test-based risk management tools to understand the volatility of earnings, the volatility of its capital requirements, and to manage its capital more efficiently Primarily, EEV, FCR and ICA are used Sensitivities to economic and operating experience are regularly produced on all of NU Life'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 NU Life is exposed

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

Sensitivity Factor	Description of sensitivity factor applied
Interest rate and investment return	The impact of a change in market interest rates by +/- 1% (e g if a current interest rate is 5%, the impact of an immediate change to 4% and 6%) The test allows consistently for consequential changes to investment returns and movements in the market value of fixed interest securities
Equity/property market values	The impact of a change in equity/property market values by +/- 10%
Assurance and annuitant mortality/morbidity	The impact of an increase in mortality/morbidity rates for assurance and annuitant contracts by +/- 5%

The above sensitivity factors are applied using actuarial and statistical models, with the following impacts on profit and shareholders' equity at 31 December

Impact on profit and shareholders' equity

	Interest rates +1% £m	Interest rates -1% £m	Equity/ property +10% £m	Equity/ property -10% £m	Mortality/ morbidity +5% £m	Mortality/ morbidity -5% £m
2007	**(387)**	**454**	**440**	**(451)**	**82**	**(89)**
2006	(381)	434	542	(541)	49	(55)

Limitations of sensitivity analysis

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

The sensitivity analyses do not take into consideration that NU Life's assets and liabilities are actively managed and may be different at the time that any actual market movement occurs

Other limitations in the above sensitivity analyses include the assumption that all interest rates move in an identical fashion Also, hypothetical market movements have been used representing NU Life's view of possible near-term market changes, but these cannot be predicted with any certainty

20. Contingent liabilities

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

21. Related party transactions

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

(b) Income receivable from related parties

During the year, the Company received dividend income of £106,552,000 *(2006 £263,837,000)* from its subsidiaries

During the year, the Company received interest of £4,320,000 *(2006 £4,087,000)* from subsidiaries and £1,600,000 *(2006 £1,316,000)* from fellow group undertakings

Loans receivable at year end are due from the following

	2007 £'000	2006 £'000
Subsidiaries	**97,900**	30,400
Fellow group undertakings	**11,770**	27,095
	109,670	57,495

Other amounts receivable at year end are due from the following

	2007 £'000	2006 £'000
Subsidiaries	**4,469**	8,136
Fellow group undertakings	**793**	7,305
	5,262	15,441

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

(c) Services provided by related parties

Under a management agreement, NULS supplies and makes charges for the provision of operational assets and staff to the Company The agreement specifies the amounts payable to NULS in respect of these expenses, which were £524,000 *(2006 £55,000)*

During the year the Company paid interest of £1,192,000 *(2006 £995,700)* to its ultimate parent, £1,265,000 *(2006 £44,000)* to its subsidiaries and £220,000 *(2006 £nil)* to its fellow group subsidiary undertakings

Amounts payable at year end are due to the following

	2007 £'000	2006 £'000
Ultimate parent	**22,318**	21,126
Parent	**-**	4,652
Subsidiaries	**196,258**	136,173
	218,576	161,951

(d) Key management

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

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

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

Information concerning directors' emoluments is given in note 4

(e) Parent entity

The immediate holding company is Aviva Group Holdings Limited (formerly Norwich Union Holdings Limited), a company registered in England

(f) 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