Norwich Union Life Holdings Limited

Registered in England No. 2403518 Registered Office: 2 Rougier Street, York, England, YO90 1UU

Directors and Officers

Directors

D Barral
M S Hodges
J R Lister
I M Mayer
N A Nicandrou
A Sahay
T E Strauss

Secretary

J J Wilman

Auditor

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

Norwich Union Life Holdings Limited
Contents

The directors present their annual report and financial statements for Norwich Union Life Holdings Limited (the 2Company) for the year ended 31 December 2008.

Directors

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

I M Mayer and A Sahay were appointed as directors of the Company on 5 February 2008.

C E Riley was appointed as a director of the Company on 5 February 2008 and resigned on 31 December 2008.

D Barral and T E Strauss were appointed as directors of the Company on 2 March 2009.

Business review, principal activities and future outlook

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, Norwich Union Life (NU Life) announced a partnership with Swiss Re to outsource and migrate the administration of almost three million policies records to the Swiss Re Alpha platform. By the end of 2008, over one million policy records have migrated over four separate migration events. The remaining policies are due to migrate throughout this year, in a phased timeline extended to October 2009. This initiative combined with other simplification activity has enabled NU Life to decommission over two hundred systems.

In 2008 we delivered our highest life and pension sales, up 1% to £11,858 million (2007 restated: £11,797 million) increasing our market share to 11.3% (2007: 10.4%). This performance was underpinned by; the success of our pensions strategy, growth in annuities and higher sales through our joint venture with RBSG whose sales were £1,639 million (restated 2007: £1,615 million).

NU Life is a leader in the life and pensions market in the UK sector. Our main operations are based in York, though we have a significant presence in Norwich, Eastleigh, Bristol and Sheffield. We also have outsourcing relationships with a number of partners including Swiss Re in the UK, WNS in India, Scottish Friendly and International Financial Data Services (IFDS). Subsidiaries providing financial services are regulated by the Financial Services Authority.

NU Life's ambition is to create value for our customers and protect what is important to them. We also aim to improve financial literacy and engage with our customers to provide support and advice whenever it is needed.

As Norwich Union we are one of the leading providers of life, pensions and investment products in the UK with a total market share of 11% and a top three position in our key markets of savings, protection, pensions and annuities. Our ambition is to offer products and services that provide financial security and peace of mind for our existing 7 million customers, while attracting new customers and delivering profitable growth for our shareholders.

NU Life successfully completed the efficiency review announced in 2006 and delivered the promised £125 million of annualised savings during 2007, £108 million of which contributed to 2007 financial performance. In October 2007, NU Life committed to a further £100m annualised cost savings. In 2008, £40m of this target has been earned through the P&L (£60m annualised) which has contributed to reducing the existing business expense overrun to £40m in 2008 *(2007: £80m)*. Our IFRS life operating profit has increased by 4% to £751million *(2007: £723 million)*.

During 2008, NU Life has continued to work towards the proposed reattribution of the inherited estate and, in July 2008, agreement was reached with the policyholder advocate. Since then, the value of the estate has reduced significantly, principally as a result of substantial reductions in the value of equity and property investments. Continuing market volatility and exceptional investment market conditions mean that the original reattribution offer no longer meets our criteria of being fair to both policyholders and shareholders. As a consequence NU Life is working closely with the policyholder advocate to see how we can restructure our offer.

In February 2008, NU Life announced a special bonus of £2.1bn for around 1.1 million with profits policyholders who have invested in CGNU Life Assurance Limited and Commercial Union Life Assurance Limited with-profits funds. The first instalment totalling £0.7bn has been allocated to asset shares as at 1 January 2008. The remaining two instalments will be allocated in 2009 and 2010.

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

During 2008, the equity attributable to the Company's shareholders on an IFRS basis decreased by 46.0% to £4,001 million *(2007: decrease of 12.5% to £7,420 million)*. This decrease reflects the change in valuation basis of the subsidiaries, offset by an increase in the dividends paid to the Company.

The outlook for 2009 is very uncertain as the impact of the global financial crises continues to affect customers' ability to save and plan effectively. We expect the trends experienced in 2008 to continue throughout 2009. In the current environment we will maintain our focus on rigorous capital discipline and on driving higher returns through operational efficiency, product innovation and targeted commission changes. We are optimistic that we can continue to deliver profitable growth in these turbulent times.

We are confident that through our strong brand, extensive product range and distribution reach we will emerge from these economic conditions in a strong position. We also expect that our strategy of simplifying and transforming our business, coupled with the resilience of our compelling business model will provide us with the opportunity to capitalise on our leading position in the market place and create further shareholder value.

Principal risks and uncertainties

A description of the principal risks and uncertainties facing NU Life and its risk management policies are set out in note 20 to the financial statements.

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.

Going concern

After making enquiries, 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 preparing the financial statements.

Financial position and performance

The financial position of the Company at 31 December 2008 is shown in the balance sheet on page 12, with the results shown in the income statement on page 11 and the cash flow statement on page 14.

Major events/Post balance sheet events

On 22 May 2008, the Company drewdown on a loan facility agreement with Norwich Union Life & Pensions Limited (NUL&P) for £27.7 million, where the Company was the Borrower and NUL&P was the Lender.

On 29 July 2008, the board approved proceeding with and announcing the reattribution agreement reached in principle with the Policyholder Advocate.

On 26 August 2008, the Company drewdown on a loan facility agreement with Norwich Union Life & Pensions Limited (NUL&P) for £30.0 million, where the Company was the Borrower and NUL&P was the Lender.

On 1 October 2008, the Company agreed to the novation of Norwich Union Life & Pensions Limited and Norwich Union Annuity Limited loans from Aviva plc.

On 23 October 2008, the Company drewdown on a loan facility agreement with Norwich Union Life & Pensions Limited (NUL&P) for £32.0 million, where the Company was the Borrower and NUL&P was the Lender.

On 12 December 2008, the Company acquired 60,000,000 ordinary shares of £1 each in Norwich Union Life Services Limited (NULS) for a consideration of £60.0 million.

On 31 December 2008, the Company agreed to the rationalisation of three loans held with Aviva Plc and Aviva Group Holdings Limited (AGH) into one loan with AGH.

On 31 December 2008, the Company agreed to write off loans to Lifetime Group Limited of £118.4 million.

On 1 January 2009, the Company agreed the sale of 50% of its subsidiaries Aviva Investors UK Funds Limited *(formerly Norwich Union Investment Funds Limited)* and Aviva Investors UK Fund Services Limited *(formerly Norwich Union Collective Investments Limited)* to Aviva Investors Holdings Limited for a consideration of £16.0 million.

Dividend

During the year, the Company paid a dividend of £127.5 million *(2007: £106.1 million)*.

Auditor

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

Directors' liabilities

Aviva plc, the Company's ultimate parent, has granted an indemnity to the directors against liability in respect of proceedings brought by third parties, subject to the conditions set out in the Companies Act 1985. This indemnity was granted in 2004 and the provisions in the Company's Articles of Association constitute "qualifying third party indemnities" for the purposes of sections 309A to 309C of the Companies Act 1985. These qualifying third party indemnity provisions remain in force as at the date of approving the Directors' report.

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.

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 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 for safeguarding the assets of the Company and for the prevention and detection of fraud and other irregularities.

By order of the Board

JJWilman

J J Wilman *Secretary* 24TH APRIL *2009*

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 2008 which comprise the Income Statement, Balance Sheet, Cash Flow Statement, Statement of Changes in Shareholders' Equity and the related notes 1 to 22. 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 2008 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

24 April 2009

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 2008. The financial statements are prepared on the historical cost basis, except for investments in subsidiaries which have been measured at fair value.

In October 2008, the IASB issued (and the EU subsequently endorsed) amendments to IAS 39, Financial Instruments: Recognition and measurement and IFRS 7, Financial Instruments: Disclosures on reclassifying assets. The Company has not reclassified its investments.

During 2007 and 2008, the IASB issued IAS 1, Presentation of Financial Statements : A Revised Presentation, and amendments to IFRS 1, First Time Adoption of IFRS, IFRS 2, Share-Based Payment, IAS 1, IAS 23, Borrowing Costs, IAS 27, Consolidated and Separate Financial Statements, IAS 32, Financial Instruments : Presentation, and IAS 39, and the results of its annual improvements project. It also issued revised versions of IFRS 1 and IFRS 3, Business Combinations, as well as further amendments to IAS 27, none of which has yet been endorsed by the EU. These are not applicable for the current accounting period and, on adoption, they will not have any material impact on the Group's financial reporting.

IFRIC interpretation 11, *IFRS 2 Group Treasury Share transactions* and interpretation 14, *IAS 19 The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their interaction,* were issued and became effective during 2008. There has been no impact on the Company's financial reporting.

IFRIC interpretation 12, *Service Concession Arrangements* and interpretation 13, *Customer Loyalty Programmes,* were issued during 2007 but are not applicable for the current accounting period. In addition, IFRIC interpretation 15, *Agreements for the Construction of Real Estate,* interpretation 16, *Hedges of a Net Investment in a Foreign Operation,* and interpretation 17, *Distributions of Non-cash Assets to Owners,* were issued during 2008. They have not yet been endorsed by the EU and none of them are applicable for the current accounting period. On adoption, none of these interpretations will have any 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, the Company has elected not to present consolidated financial statements. These financial statements present information about the Company as an individual undertaking and not about its group. Information on the ultimate controlling parent and immediate parent can be found in note 22.

(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.

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

Item	Accounting policy
Valuation of subsidiaries	C
Provisions	F

(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 Market Consistent Embedded Value (MCEV), and with a de minimis value of the IFRS net assets of the subsidiary, 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. Subsidiaries for which fair values cannot be measured reliably are recognised at cost less impairment, including Norwich Union Life (RBS) JV Limited. Fair values cannot be measured reliably where there is no active market for shares in the subsidiary and the variability in the range of reasonable fair value estimates is significant.

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 2008

	Note	2008 £'000	2007 £'000
Income			
Income from shares in group undertakings		**131,830**	106,552
Interest receivable and similar income	1	**11,939**	7,115
Other income		**1,409**	-
Loss on disposal of subsidiaries	2	**-**	(108)
Realised gains – investments		**8,100**	11
		153,278	113,570
Expenses			
Operating expenses		**(477)**	(1,708)
Finance costs	3	**(13,205)**	(2,677)
Write off of inter-company loans	4	**(118,400)**	-
Fair value losses on investments	8	**(3,313,415)**	(1,089,173)
Loss before tax		**(3,292,219)**	(979,988)
Tax credit/(charge)	G & 7	**589**	(1,206)
Loss for the year		**(3,291,630)**	(981,194)

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 2008

	Note	2008 £'000	2007 £'000
Assets			
Non-current assets			
Investments in subsidiaries	C & 8	**4,268,464**	7,521,724
Loans to group undertakings	D & 9	**209,500**	109,670
Current assets			
Current tax assets	G & 14	**495**	-
Receivables	10	**16,087**	7,086
Cash and cash equivalents	E	**4,964**	2,993
Total assets		**4,499,510**	7,641,473
Equity			
Ordinary share capital	J & 11	**4,780,841**	4,780,841
Share premium	12	**597,991**	597,991
Retained earnings	12	**(1,378,170)**	2,040,960
Total equity		**4,000,662**	7,419,792
Liabilities			
Current liabilities			
Provisions	F & 15	**1,344**	1,586
Current tax liabilities	G & 14	**-**	1,177
Borrowings from group undertakings	H & 16	**417,504**	140,330
Payables	17	**80,000**	78,588
Total liabilities		**498,848**	221,681
Total equity and liabilities		**4,499,510**	7,641,473

Approved by the Board on 24TH APRIL 2009

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 2008

	Note	2008 £'000	2007 £'000
Balance at 1 January		**7,419,792**	8,479,886
Loss for the year	12	**(3,291,630)**	(981,194)
Dividends	12	**(127,500)**	(106,100)
Issue of share capital	11	**-**	27,200
Balance at 31 December		**4,000,662**	7,419,792

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 2008

	Note	2008 £'000	2007 £'000
Cash flows (used in)/from operating activities			
Cash (used in)/generated from operations	18(a)	**(126,742)**	26,589
Dividends received		**131,830**	106,552
Tax paid		**(7,601)**	(279)
Net cash (used in)/from operating activities		**(2,513)**	132,862
Cash flows used in investing activities			
Acquisition of subsidiaries		**(32,156)**	(178,540)
Disposal of subsidiaries		**1**	34,672
Loans granted		**(99,830)**	(52,175)
Net cash used in investing activities		**(131,985)**	(196,043)
Cash flows from financing activities			
Proceeds from issue of ordinary shares		**-**	27,200
New borrowings drawn down		**277,174**	120,300
Interest paid on borrowings		**(13,205)**	(2,677)
Dividends paid		**(127,500)**	(106,100)
Net cash from financing activities		**136,469**	38,723
Net increase/(decrease) in cash and cash equivalents		**1,971**	(24,458)
Cash and cash equivalents at 1 January		**2,993**	27,451
Cash and cash equivalents at 31 December	18(b)	**4,964**	2,993

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

	2008 £'000	2007 £'000
Interest receivable from group undertakings	11,287	5,920
Other interest	652	1,195
	11,939	7,115

2. Loss on disposal of subsidiaries

	2008 £'000	2007 £'000
Proceeds	1	34,780
Carrying value on disposal	(1)	(34,780)
Costs	-	(108)
Net loss	-	(108)

3. Finance costs

	2008 £'000	2007 £'000
Interest payable to group undertakings	13,205	2,677

4. Write off of inter-company loans

During 2008, inter-company loans amounting to £118,400,000 were written off, following agreement with the relevant group companies.

5. 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.

M S Hodges was a director of Aviva plc, and details of his remuneration are given in the financial statements of that company.

Emoluments of the other directors were:

	2008 £'000	2007 £'000
Aggregate emoluments in respect of services as directors	3,645	2,403
Emoluments of the highest paid director:		
Aggregate emoluments and benefits	1,130	1,165
Accrued pension at end of year from defined benefit pension scheme	-	-
	1,130	1,165

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 four directors exercised share options, including the highest paid director, and all directors received shares under long term incentive schemes.

6. Auditor's remuneration

	2008 £'000	Restated 2007 £'000
Fees for the statutory audit of the Company's financial statements	**82**	103

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

The restated 2007 amount relates to a reallocation of the 2007 fees to reflect the amount of work actually required.

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.

7. Tax

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

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

	2008 £'000	2007 £'000
Current tax		
For the year	**495**	(1,177)
Prior year adjustments	**94**	(29)
Total tax credit/(charge) to the income statement (note7(b))	**589**	(1,206)

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

(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:

	2008 £'000	2007 £'000
Loss before tax	**(3,292,219)**	(979,988)
Tax calculated at standard UK corporation tax rate of 28.5% *(2007: 30%)*	**938,282**	293,997
Adjustment to tax charge in respect of prior years	**94**	(29)
Non-assessable dividends	**37,572**	31,966
Disallowed expenses	**(2)**	(388)
Non deductible fair value losses on subsidiaries	**(944,323)**	(326,752)
Non deductible loan write offs	**(33,744)**	-
Non-taxable income	**2,710**	-
Total tax credit/(charge) to income statement (note 7(a))	**589**	(1,206)

8. Investments in subsidiaries

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

	2008 £'000	2007 £'000
Carrying amount at 1 January	**7,521,724**	8,544,837
Additions	**60,156**	100,840
Disposals	**(1)**	(34,780)
Fair value losses	**(3,313,415)**	(1,089,173)
At 31 December	**4,268,464**	7,521,724

In the absence of any comparable market transactions, fair value is based on valuation techniques. Where applicable, multiples of MCEV or IFRS NAV 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 20.

(b) Additions

On 12 December 2008 the Company agreed to subscribe for 60,000,000 ordinary shares of £1 each in the share capital of Norwich Union Life Services Limited at a total subscription price of £60,000,000.

During 2008 the Company's investment in Hamilton Life Assurance Company Limited increased by £156,000 following the finalisation of its acquistion.

(c) 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
Hamilton Life Assurance Company Limited	Long-term assurance
Lifetime Group Limited	Personal portfolio 'wrap' products
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 Occupational Health Limited	Provision of occupational health services
Aviva Investors UK Funds Limited *(formerly Norwich Union Investment Funds Limited)*	Investment management
Aviva Investors UK Fund Services Limited *(formerly Norwich Union Collective Investments Limited)*	Investment management
Norwich Union Life & Pensions Limited	Long-term insurance
Norwich Union Life Services Limited	Corporate administration services

9. Loans

Carrying amounts	2008 £'000	2007 £'000
Loans to group undertakings	**209,500**	109,670

Of the above total, £69.5 million *(2007: £88.4 million)* is expected to be recovered more than one year after the balance sheet date.

10. Receivables

	2008 £'000	2007 £'000
Amounts owed by group undertakings	**16,080**	5,262
Other debtors	**7**	1,824
	16,087	7,086

11. Ordinary share capital

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

	2008 £'000	2007 £'000
The authorised share capital of the Company was:		
4,792,200,000 Ordinary shares of £1 each	**4,792,200**	4,792,200
The allotted, called up and fully paid share capital of the Company was:		
4,780,840,913 Ordinary shares of £1 each	**4,780,841**	4,780,841

(b) Details of share movements are as follows:

During 2008, no ordinary shares of £1 each *(2007: 27.2 million)* were allotted and issued by the Company:

	2008 Number of shares	2008 Share capital £'000	2007 Number of shares	2007 Share capital £'000
At 1 January	**4,780,840,913**	**4,780,841**	4,753,640,913	4,753,641
New shares issued	**-**	**-**	27,200,000	27,200
At 31 December	**4,780,840,913**	**4,780,841**	4,780,840,913	4,780,841

12. Share premium and retained earnings

	2008 Share premium £'000	2008 Retained earnings £'000	2007 Share premium £'000	2007 Retained earnings £'000
At 1 January	**597,991**	**2,040,960**	597,991	3,128,254
Loss for the year	**-**	**(3,291,630)**	-	(981,194)
Dividends	**-**	**(127,500)**	-	(106,100)
At 31 December	**597,991**	**(1,378,170)**	597,991	2,040,960

13. 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.

14. Tax assets & liabilities

(a) General

Current tax assets receivable in more than one year are £495,000 *(2007: Current tax liability £1,200,000).*

(b) Deferred tax

The Company has no provided or un-provided deferred tax *(2007:£nil).*

15. Provisions

	2008	2007
	£'000	£'000
At 1 January	**1,586**	745
Provisions made in year	**449**	1,600
Amounts utilised	**(111)**	(342)
Amounts released	**(580)**	(417)
At 31 December	**1,344**	1,586

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.

16. Borrowings from group undertakings

	2008	2007
	£'000	£'000
Loan from parent	**7,504**	20,030
Loans from subsidiaries	**410,000**	120,300
	417,504	140,330

Of the above total, £347.5 million *(2007: £20.0 million)* is expected to be paid more than one year after the balance sheet date.

The increase in loans from group undertakings during the year is partly due to the novation of the Aviva loans, which has resulted in increased borrowings from NUL&P. The Company has also continued to meet additional funding requirements for LG and NULS.

17. Payables

	2008	2007
	£'000	£'000
Amounts owed to group undertakings	**80,000**	78,588

18. Cash flow statement

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

	2008 £'000	2007 £'000
Loss before tax	**(3,292,219)**	(979,988)
Adjustments for:		
Dividends received	**(131,830)**	(106,552)
Net loss on disposal of subsidiaries	**-**	108
Fair value losses on investments	**3,313,415**	1,089,173
Interest expense on borrowings	**13,205**	2,677
Changes in working capital:		
Decrease/(increase) in receivables	**1,817**	(1,474)
(Increase)/decrease in other assets	**(4,301)**	7,437
(Decrease)/increase in provisions	**(242)**	841
(Decrease)/increase in payables	**(26,587)**	14,367
Cash (used in)/generated from operations	**(126,742)**	26,589

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

	2008 £'000	2007 £'000
Cash at bank and in hand	**4,964**	2,993

19. 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.

	2008 £'000	2007 £'000
Total IFRS shareholders' funds and available capital resources	**4,000,662**	7,419,792

Further details on risk and capital management are given in note 20.

20. 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 MCEV 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 8 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 MCEV), 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 MCEV 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 MCEV 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 MCEV reporting and managed as a part of the asset liability framework.

(e) Liquidity risk

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

(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, MCEV, 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 MCEV 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
2008	**(100)**	**86**	**398**	**(407)**	**127**	**(119)**
2007	(387)	454	440	(451)	82	(89)

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.

21. 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.

22. 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 £131,830,000 *(2007: £106,552,000)* from its subsidiaries.

During the year, the Company received interest of £9,055,000 *(2007: £4,320,000)* from subsidiaries and £2,232,000 *(2007: £1,600,000)* from fellow group undertakings.

Loans receivable at year end are due from the following:

	2008 £'000	2007 £'000
Subsidiaries	**209,500**	97,900
Fellow group undertakings	**-**	11,770
	209,500	109,670

Other amounts receivable at year end are due from the following:

	2008 £'000	2007 £'000
Parent	**2,724**	322
Subsidiaries	**6,367**	4,469
Fellow group undertakings	**6,989**	793
	16,080	5,584

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 £470,000 *(2007: £524,000)*.

During the year the Company paid interest of £1,258,000 *(2007: £1,192,000)* to its ultimate parent, £10,633,000 *(2007: £1,265,000)* to its subsidiaries and £1,314,000 *(2007: £220,000)* to its fellow group undertakings.

Loans payable at year end are due to the following:

	2008 £'000	2007 £'000
Ultimate parent	-	20,030
Parent	7,504	-
Subsidiaries	410,000	120,300
	417,504	140,330

Other amounts payable at year end are due to the following:

	2008 £'000	2007 £'000
Ultimate parent	-	2,288
Subsidiaries	79,752	75,957
Fellow group undertakings	248	343
	80,000	78,588

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

(d) Key management

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

	2008 £'000	2007 £'000
Salary and other short-term benefits	4,625	5,267
Post-employment benefits	67	93
Other long-term benefits	714	664
Termination benefits	419	-
Equity compensation plans	1,222	2,831
Total	7,047	8,855

There are no amounts receivable from, or payments due to, key management of NU Life.

Information concerning directors' emoluments is given in note 5.

(e) Parent entity

The immediate holding company is Aviva Group 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.