# The Lancashire and Yorkshire Reversionary Interest Company Limited

**Registered in England No. 19770 Registered Office 2 Rougier Street, York, England, YO90 1UU**

## Directors and Officers

### Directors

M S Hodges
N A Nicandrou
C E Riley

### Secretary

Aviva Company Secretarial Services Limited

### Auditor

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

# The Lancashire and Yorkshire Reversionary Interest Company Limited
## Contents

# The Lancashire and Yorkshire Reversionary Interest Company Limited
## Directors' report

The directors present their annual report and audited financial statements for The Lancashire and Yorkshire Reversionary Interest Company Limited (the Company) for the year ended 31 December 2007

**Business review**

The principal activity of the Company is the purchase of, and secured lending on, life interests and reversions

Further details of the results are given in the income statement on page 8

The directors consider that the Company will continue to operate in a manner consistent with 2007 into the foreseeable future

Shareholders' equity has risen by £325,000, reflecting profit for the year *(2006 fell by £520,000)*

**Key performance indicators**

Revenue for the year is £853,000 *(2006 £981,000)*

Profit after tax for the year is £325,000 *(2006 £480,000)*

**Risk management**

A description of the principal risks and uncertainties facing the Company and its risk management policies are set out in note 13 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

**Dividends**

The directors do not recommend the payment of a dividend for the year *(2006 £1 million)*

**Directors**

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

M S Hodges, N A Nicandrou and C E Riley served as directors of the Company throughout the year

**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

**Aviva Company Secretarial Services Limited** *Secretary* 28 May *2008*

**Independent auditor's report to the shareholders of The Lancashire and Yorkshire Reversionary Interest Company Limited**

We have audited the financial statements of The Lancashire and Yorkshire Reversionary Interest Company Limited for the year ended 31 December 2007 which comprise the Income Statement, Balance Sheet, Statement of Changes in Equity, Cash Flow Statement and the related notes 1 to 14 These financial statements have been prepared under the accounting policies set out on pages 6 and 7

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 auditor's report and for no other purpose To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed

**Respective responsibilities of directors and auditors**

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

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

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

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

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

**Basis of audit opinion**

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

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

**Opinion**

In our opinion

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

Ernst & Young LLP
Registered auditor
London

30 May 2008

The Company is a limited company incorporated and domiciled in the United Kingdom (UK) and is involved in the purchase of, and secured lending on, life interests and reversions

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 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)

**(B) Use of estimates**

The preparation of financial statements requires the Company to select accounting policies and make estimates and assumptions that affect items reported in the income statement, balance sheet, other primary statements and notes to the financial statements All estimates are based on management's knowledge of current facts and circumstances, assumptions based on that knowledge and their predictions of future events and actions Actual results can always differ from those estimates, possibly significantly

**(C) Revenue**

Revenue represents gross receipts from life interests, reversions and property, including interest on loans The basis of recognition of revenue is as follows

| | |
|---|---|
| Life interests | - when they become receivable |
| Absolute and contingent reversions | - as received |
| Interest on loans | - on an accruals basis |

**(D) Interest receivable**

Interest income is recognised as it accrues

**(E) Investments**

Investments with fixed or determinable payments are classified as loans and receivables and carried at amortised cost using the effective interest method Impairments in value are charged to the income statement

All other investments are classified as available for sale and carried at fair value Where there is no reliable estimate of fair value, the investment is carried at cost Fair values cannot be measured reliably where there is no active market for the investment and the variability in the range of reasonable fair value estimates is significant

Investments are derecognised where the rights to receive cash flows from the asset have expired

**(F) Cash flow statement**

*Cash and cash equivalents*

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

**(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

**(H) 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

# The Lancashire and Yorkshire Reversionary Interest Company Limited
## Income statement
## For the year ended 31 December 2007

| | Note | 2007 £'000 | 2006 £'000 |
|---|---|---|---|
| **Income** | | | |
| Revenue | C | **853** | 981 |
| Cost of sales | | **(335)** | (257) |
| **Gross profit** | | **518** | 724 |
| Interest receivable | D & 2 | **-** | 20 |
| | | **518** | 744 |
| **Expenses** | | | |
| Operating expenses | 1 | **(28)** | (58) |
| Finance costs | 3 | **(26)** | (1) |
| **Profit before tax** | | **464** | 685 |
| Tax | G & 5 | **(139)** | (205) |
| **Profit for the year** | 8 | **325** | 480 |

The accounting policies (identified alphabetically) on pages 6 and 7 and the notes (identified numerically) on pages 12 to 17 are an integral part of these financial statements

# The Lancashire and Yorkshire Reversionary Interest Company Limited
## Balance sheet
## As at 31 December 2007

| | Note | **2007** **£'000** | 2006 £'000 |
|---|---|---|---|
| **Assets** | | | |
| **Non-current assets** | | | |
| Investments | E & 6 | **1,367** | 1,670 |
| **Current assets** | | | |
| Prepayments and accrued income | | **49** | 55 |
| **Total assets** | | **1,416** | 1,725 |
| **Equity** | | | |
| Ordinary share capital | H & 7 | **462** | 462 |
| Retained earnings | 8 | **548** | 223 |
| **Total equity** | | **1,010** | 685 |
| **Current liabilities** | | | |
| Current tax liabilities | G & 9 | **130** | 170 |
| Payables and other financial liabilities | 10 | **276** | 870 |
| **Total liabilities** | | **406** | 1,040 |
| **Total equity and liabilities** | | **1,416** | 1,725 |

Approved by the Board on 28 May 2008

**N A Nicandrou** *Director*

The accounting policies (identified alphabetically) on pages 6 and 7 and the notes (identified numerically) on pages 12 to 17 are an integral part of these financial statements

# The Lancashire and Yorkshire Reversionary Interest Company Limited
## Statement of changes in equity
## For the year ended 31 December 2007

| | Note | 2007 £'000 | 2006 £'000 |
|---|---|---|---|
| **Balance at 1 January** | | **685** | 1,205 |
| Profit for the year | 8 | **325** | 480 |
| Dividends | H & 8 | - | (1,000) |
| **Balance at 31 December** | | **1,010** | 685 |

The accounting policies (identified alphabetically) on pages 6 and 7 and the notes (identified numerically) on pages 12 to 17 are an integral part of these financial statements

# The Lancashire and Yorkshire Reversionary Interest Company 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 | 11 | **229** | 979 |
| Tax (paid)/received | | **(229)** | 22 |
| **Net cash from operating activities** | | **-** | 1,001 |
| | | | |
| **Cash flows from financing activities** | | | |
| Dividends paid | 8 | **-** | (1,000) |
| **Net cash used in financing activities** | | **-** | (1,000) |
| | | | |
| **Net increase in cash and cash equivalents** | | **-** | 1 |
| Cash and cash equivalents at 1 January | | - | (1) |
| | | | |
| **Cash and cash equivalents at 31 December** | | **-** | - |

The accounting policies (identified alphabetically) on pages 6 and 7 and the notes (identified numerically) on pages 12 to 17 are an integral part of these financial statements

## 1. Operating expenses

Under a management agreement Norwich Union Life Services Limited (NULS), a fellow group undertaking, supplies and makes charges for the provision of operational assets and staff to the Company The agreement specifies the amounts payable in respect of these expenses

**Director's emoluments**

None of the directors received any emoluments during the year in respect of services as a director of the Company

## 2. Interest receivable

| | **2007** | 2006 |
|---|---|---|
| | **£'000** | £'000 |
| Interest receivable from group undertakings | - | 9 |
| Interest received on tax repayment | - | 11 |
| | - | 20 |

## 3. Finance costs

| | **2007** | 2006 |
|---|---|---|
| | **£'000** | £'000 |
| Interest payable to group undertakings | **26** | 7 |
| Release of accrual in respect of interest on overdue tax | - | (6) |
| | **26** | 1 |

## 4. Auditor's remuneration

| | **2007** | 2006 |
|---|---|---|
| | **£** | £ |
| Fees for the statutory audit of the Company's financial statements | **2,900** | 3,800 |

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

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

## 5. Tax

### (a) Tax charged to the income statement

The total tax charge comprises

| | 2007 £'000 | 2006 £ 000 |
|---|---|---|
| **Current tax** | | |
| For this year | 139 | 180 |
| Total current tax charge | 139 | 180 |
| **Deferred tax** | | |
| Origination and reversal of timing differences | - | 25 |
| Total deferred tax | - | 25 |
| Total tax charge in the income statement | 139 | 205 |

### (b) Tax reconciliation

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

| | 2007 £'000 | 2006 £'000 |
|---|---|---|
| Profit before tax | 464 | 685 |
| Tax calculated at standard UK corporation tax rate of 30% *(2006 30%)* | 139 | 205 |

## 6. Investments

**Carrying amounts**

| | Life interests £'000 | Absolute Reversions £'000 | Contingent reversions £'000 | Loans and interest outstanding £'000 | Total £'000 |
|---|---|---|---|---|---|
| Balance at 1 January 2006 | 1,407 | 244 | 39 | 200 | 1,890 |
| Additions | - | - | - | 11 | 11 |
| Realisations | (45) | (178) | - | (8) | (231) |
| Balance at 31 December 2006 | 1,362 | 66 | 39 | 203 | 1,670 |
| Realisations | (132) | (50) | - | (121) | (303) |
| **Balance at 31 December 2007** | 1,230 | 16 | 39 | 82 | 1,367 |

The carrying amount of the above investments that are stated at amortised cost is £664,000 *(2006 £812,000)*

Fair values have not been disclosed for these investments The fair values cannot be measured reliably, as there is no active market for these investments and the variability in the range of reasonable fair value estimates is significant The Company does not intend to dispose of these investments

## 7. Ordinary share capital

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

| | 2007 £'000 | 2006 £'000 |
|---|---|---|
| The authorised share capital of the Company was 50,000 Ordinary shares of £9 25 each | **462** | 462 |
| The allotted, called up and fully paid share capital of the Company was 50,000 Ordinary shares of £9 25 each | **462** | 462 |

## 8. Retained earnings

| | 2007 £'000 | 2006 £'000 |
|---|---|---|
| Balance at 1 January | **223** | 743 |
| Profit for the year | **325** | 480 |
| Dividends | **-** | (1 000) |
| **Balance at 31 December** | **548** | 223 |

## 9. Tax assets and liabilities

### (a) General

Current tax liabilities payable in more than one year are £130,000 *(2006 £170,000)*

### (b) Deferred tax

The Company had no recognised or unrecognised deferred tax amounts at the year end *(2006 £nil)*

## 10. Payables and other financial liabilities

| | 2007 £'000 | 2006 £'000 |
|---|---|---|
| Amounts owed to group undertakings | **276** | 870 |

None of the above total is expected to be paid more than one year after the balance sheet date *(2006 £nil)*

## 11. Cash flow statement

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

| | 2007 £'000 | 2006 £'000 |
|---|---|---|
| **Profit before tax** | **464** | 685 |
| Changes in working capital | | |
| Decrease in prepayments and accrued income | **6** | 264 |
| Decrease in payables and other financial liabilities | **(544)** | (190) |
| Net sale of operating assets | | |
| Investments | **303** | 220 |
| **Cash generated from operations** | **229** | 979 |

There were no cash and cash equivalents held at 31 December 2007 *(2006 £nil)*

## 12. Capital

In managing its capital, the Company seeks to

- Retain financial flexibility by maintaining strong liquidity, and
- Allocate capital efficiently to support growth and repatriate excess capital where appropriate

The Company manages IFRS shareholders' equity of £1,010,143 *(2006 £685,148)* as capital

The Company is not subject to any externally imposed capital requirements

## 13. Risk management

### Governance framework

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

- Market
- Credit
- Liquidity

The Company is exposed to financial risk through its financial assets and liabilities in the ordinary course of its business The major component is credit risk due to counterparties failing to meet all or part of their obligations in a timely fashion

The Company is also exposed to operational risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events, including regulatory risk Management are responsible for the identification, assessment, control and monitoring of operational risks and for reporting these in accordance with the Aviva Group's escalation criteria for assessment in terms of their probability and impact in accordance with Group policy

**(a) Market risk**

The Company is indirectly exposed to market risk as it has an interest in the underlying trust assets, and income receivable may be affected by the value of those underlying investments Independent trustees are responsible for maintaining the trust assets in accordance with the trustee agreements

To reduce the risk that income receivable is not sufficient to recover the initial cost of the Company's investment, the Company has taken out life insurance policies for all life interest and contingent reversion customers

**(b) Credit risk**

Credit risk is the risk of loss in the value of financial assets due to counterparties failing to meet all or part of their obligations, or changes to the market value of assets caused by changed perceptions of the credit worthiness of such counterparties

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

**(c) Liquidity risk**

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

**(d) Sensitivity analysis and capital management**

No profit sensitivity analysis has been provided as there is a negligible impact on profit and shareholders' equity of reasonably possible changes in market risk variables

## 14. Related party transactions

**(a)** The members of the Board of Directors are listed on page 1 of these financial statements There are no amounts receivable from or payments due to members of the Board of Directors

**(b) Income from related parties**

During the year the Company received interest of £nil *(2006 £9,000)* from its parent

**(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 £28,000 *(2006 £57,000)*

During the year the Company paid interest of £26,000 *(2006 £7,000)* to its parent

Amounts payable at year end were £67,000 *(2006 £546,000)* due to parent and £209,000 *(2006 £325,000)* due to fellow group undertakings

The related party payables are not secured and no guarantees were received in respect thereof

**(d) Key management compensation**

No charge is borne by the Company for key management personnel due to the insignificant amount of time spent managing the Company's affairs

**(e) Parent entity**

The immediate holding company is CGNU Life Assurance 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