

Report by the Boards of CGNU/CULAC to CGNU/CULAC with-profits policyholders for the year 2008



Introduction

Since 1 May 2004 each company managing a with-profits fund has had to publish and maintain its Principles and Practices of Financial Management (PPFM). The PPFM document states the principles and practices that the company follows when managing its with-profits business. The PPFM for these funds is available to policyholders on request and can be obtained on the web site www.norwichunion.com/savings-and-investments/ppfm.

Governance arrangements

It is the responsibility of the Boards of the companies to report to the with-profits policyholders at the end of each year in which they must

- State they have complied with their obligations relating to the PPFM, and set out the reasons for that belief.
- Address all significant issues, including exercise, or not, of discretion and potential conflicting rights of interests or expectations
- Address any competing or conflicting rights, interests, or expectations of policyholders (or groups of policyholders) and if applicable shareholders (or groups of shareholders) including the competing interests of different classes and generations.

This report is for the year 2008.

Additionally a company must appoint a With-Profits Actuary, who is not a member of the Board, to advise it on its use of discretion and the implications for the fair treatment of with-profits customers in the exercise of any discretion.

The With-Profits Actuary reports to the Boards each year on the discretion used. He must also produce an annual report to with-profits policyholders documenting whether, in his opinion, the company has taken the with-profits policyholders' interests into account in a reasonable and proportionate manner. His report to the with-profits policyholders is attached as Appendix 1 to this report.

Further, the companies must obtain some independent judgement in the assessment of compliance with the PPFM and how any competing or conflicting rights and interests have been addressed. A With-Profits Committee with a majority of independent members is in place and has provided the independent judgement. A firm of consulting actuaries provide advice to the With-Profits Committee. The With-Profits Committee has been involved in the review of issues throughout the year and has reported to the Boards.

The With-Profits Actuary and the consulting actuaries attend and contribute to the meetings of the With-Profits Committee.

The opinions of the With-Profits Actuary, and the With-Profits Committee were taken into account in the production of this report.

The With-Profits Committee is required to report to the Boards on its views regarding a company's compliance with its PPFM for the relevant period. The With-Profits Committee has confirmed that from papers it has seen and discussions held, its view is discretionary actions have been in line with the PPFM and policyholders' interests have been taken into account in a reasonable and proportionate manner.

Named directors of the companies also certified to the Financial Services Authority (FSA) that the with-profits funds had been managed in all material aspects in line with the PPFM.

Compliance with PPFM during the year

This report provides comment on specific areas, in particular where discretion was used and where the rights of policyholders and shareholders were taken into consideration. The PPFM is split into sections and the same terminology is used here.

Section 1: Introduction

A number of changes were made to the practices in 2008 and details of these have been published on the web site. There were no changes to the principles in 2008. A compliance statement in respect of 2007 was also published on the web site during 2008. Customer friendly PPFMs were also published and these are issued at the time of sale and with the annual statement as well as being available on the web site. They have been updated as appropriate to reflect the PPFM changes.

Section 2: The amount payable under a with-profits policy

2008 was a year of considerable market turmoil. The possible implications for bonus rates, Market Value Reductions (MVR) and surrender value bases was kept under close consideration throughout the year.

- The annual bonus declaration was made in January 2008
- A special bonus payable over 3 years was announced in February 2008
- Final Bonus rates were cut with effect 1 September 2008
- MVR were introduced with effect from 21 October 2008.

The Boards decided upon the rates bearing in mind the opinion of the With-Profits Actuary and the views of the With-Profits Committee who took into account the PPFM requirements. The rate reviews bore in mind the requirements of different classes of policies and different years of entry to ensure that the rates were consistent, appropriate and in line with the PPFM, in particular as regards smoothing of payments.

The Boards have assessed how payments compared to the underlying asset shares during 2008 and confirm they met the practices set out in the PPFM.

Section 3: Investment strategy

Monthly meetings were held with Aviva Investors Global Services Limited to review investment performance and to discuss investment matters and requirements. The Boards are satisfied that the investment action taken is consistent with the PPFM and the investments are appropriate for the with-profits policyholders. The With-Profits Actuary, or a representative acting on his behalf, attended these meetings.

The mix of assets held by the funds is published on the web site. Some changes to the asset mix were implemented in 2008, in particular a reduction in the equity content. The Boards also decided to switch the majority of the inherited estate not covering guarantees into fixed interest assets and the PPFM is being updated to reflect this.

All investments undertaken were in accordance with the Investment Management Agreement (IMA) for the management of the funds.

Section 4: Business risk

Consideration of the business risks of the funds is incorporated within the Group's Individual Capital Adequacy assessment and the action taken within this is consistent with the PPFM requirements.

Section 5: Charges and expenses

Management Service Agreements (MSA) are in operation between CGNU/CULAC and Norwich Union Life Services (NULS), the service company that administers the business. Fees and service requirements are defined within the MSA and an annual review has been conducted by the With-Profits Actuary to monitor that fees and services during 2008 were in accordance with the agreements.

The MSA expired at the end of 2008, and during the year new MSA were negotiated. These came into operation 1 January 2009 and are a 10 year agreement. There was full governance around the determination of the new agreements to ensure the negotiated terms were fair and reasonable to policyholders and shareholders.

An agreement was made in 2007 for Admin Re to administer a proportion of CGNU/CULAC policies. The transfer of this work to their systems commenced in 2008 and is due to be completed in 2009.

Investment fees have continued to be levied in line with relevant IMA.

Tax is allocated to the funds based on an apportionment of the total costs of the companies which were considered fair and reasonable and in line with FSA requirements.

Section 6: Management of the inherited estate

The inherited estates were only used for the purposes as described in the PPFM. The estate provided some capital support to new business which is expected to be repaid over the lifetime of the policy.

Section 7: Volumes of new business and arrangements on stopping taking new business

The funds are open to new business and checks are made that the premium rates for this new business are not expected to have an adverse effect on existing business.

Section 8: Equity between the with-profits fund and shareholders

The basis for determining the shareholders' share did not change from previous years and was in line with FSA requirements.

The Boards confirm that in their belief they have complied with their obligations relating to their PPFM.

Mark Hodges

Chief Executive

Nicolaos Nicandrou

Director

John Lister

Director

March 2009