94405

CGU UNDERWRITING LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS

2010

CGU Underwriting Limited

Contents

CGU Underwriting Limited

Directors and officer

Directors:

C J Abrahams
S Egan
D J R McMillan
A Schmidt

Officer - Company Secretary:

R H Spicker
St Helen's
1 Undershaft
London
EC3P 3DQ

Auditor:

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

Registered office:

St Helen's
1 Undershaft
London
EC3P 3DQ

Company number:

Registered in England and Wales No 94405

Other information:

CGU Underwriting Limited ("the Company") is a member of the Association of British Insurers and the Financial Ombudsman Service, and is authorised and regulated by the Financial Services Authority ("FSA")

The Company is a member of the Aviva plc group of companies ("the Group")

CGU Underwriting Limited

Registered in England and Wales No. 94405

Directors' report
For the year ended 31 December 2010

The directors present their annual report and financial statements for the Company for the year ended 31 December 2010

Directors

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

Those in office since 1 January 2010 have been as follows

D J R McMillan was appointed as a director on 23 February 2010

J R Kitson and D K Watson resigned as directors on 31 March 2010

S Egan was appointed as a director on 1 April 2010

A Schmidt was appointed as a director on 5 May 2010

C J Abrahams was appointed as a director on 26 July 2010

Principal activity

The principal activity of the Company is the transaction of general insurance business in the United Kingdom ("UK") through a business arrangement with Santander UK plc

Business review

Basis of preparation

This business review is addressed to, and written for, the members of the Company with the aim of providing a fair review of the business development, performance during the financial period and position both at the end of the financial period and at the current time In providing this review, the aim is to present a view that is both balanced and comprehensive and is consistent with the size and complexity of the business

Objectives and future developments

High level strategies are determined by Aviva plc and these are shown in its financial statements The directors consider that the Company's principal activity will continue unchanged into the foreseeable future

Financial key performance indicators

The directors consider that the Company's key performance indicators ("KPIs") that communicate the financial performance are as follows

- increase/(decrease) in net written premiums, and
- combined operating ratio ("COR") - this comprises the sum of the following ratios
    - net incurred claims to net earned premiums,
    - net written commission to net written premiums, and
    - net written expenses to net written premiums

CGU Underwriting Limited

Directors' report (continued)

Business review (continued)

Financial key performance indicators (continued)

A summary of the KPIs is set out below

Measure	2010	2009
Decrease in net written premiums	(10%)	(0%)
Combined operating ratio	95%	104%
Net incurred claims ratio	45%	59%
Net written commission ratio	50%	45%
Net written expenses ratio	0%	0%

Financial position and performance

The financial position of the Company at 31 December 2010 is shown in the statement of financial position on page 14, with the results shown in the income statement on page 13 and the statement of cash flows on page 16

During 2010, Aviva plc's UK Life business and its UK General Insurance business have been brought together as one UK region to bring scale benefits and underpin future growth

For 2011, the UK General Insurance business has stated its intention to meet or beat a COR of 97% The Company is seeking to support meeting this target

The Company has a profit before tax of £23 million (2009 a loss of £14 million)

Gross written premiums have decreased by £20 million to £195 million (2009 £215 million) This is due to a fall of £23 million in personal property premiums, partially offset by an increase of £3 million in personal creditor Net earned premiums have fallen by £16 million to £204 million (2009 £220 million)

Claims paid during the year are £100 million (2009 £124 million) Gross claims outstanding reduced by £9 million (2009 increased by £5 million), therefore claims incurred during the year are £91 million (2009 £129 million) representing a net incurred claims ratio of 45% (2009 59%)

Commission written during the year is £93 million (2009 £94 million), the deferred acquisition costs have decreased by £7 million (2009 £2 million)

Net investment income is £10m (2009 expense of £9m) The main components of the increase in investment income are interest from investments designated other than trading of £9m (2009 £12m) realised losses of £1m (2009 £65m) and unrealised gains of £2m (2009 £45m)

Principal risks and uncertainties

A description of the principal risks and uncertainties facing the Company and the Company's risk management policies are set out in notes 19 and 21 to the financial statements

Events after the reporting period

In 2010, a test case was taken to the European Court of Justice (ECJ) to rule on the current law and practice whereby insurers may take into account a person's gender in calculating the costs and benefits of their insurance On 1 March 2011 the ECJ ruled that, with effect from 21 December 2012, insurers will no longer be able to use a person's gender in this way The directors are assessing the ruling and its potential impact on the Company

CGU Underwriting Limited

Directors' report (continued)

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 in preparing the financial statements

Financial instruments

The business of the Company includes the use of financial instruments Details of the Company's risk management objectives, policies and exposures to risk relating to financial instruments are set out in note 21 to the financial statements

Dividends

No interim dividend for the year was paid (2009 £nil) The directors do not recommend the payment of a final dividend (2009 £nil)

Employees

All employees are employed by a fellow Group company, Aviva Employment Services Limited Disclosures relating to employees may be found in the Annual Report and Accounts of Aviva plc

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 company, has granted an indemnity to the directors against liability in respect of proceedings brought by third parties, subject to the conditions set out in the Companies Act 1985 This indemnity 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 by virtue of the transitional provisions to the Companies Act 2006

CGU Underwriting Limited

Directors' report (continued)

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 his report, of which the auditor is unaware Each director has taken all the steps that he ought to have taken as a director in order to make himself 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 2006 and International Financial Reporting Standards ("IFRS") as adopted by the European Union ("EU"), 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 the 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 adequate accounting records which are intended to disclose with reasonable accuracy, at any time, the financial position of the Company at the time 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

Richard H Spicker

R H Spicker
Company Secretary
22 MARCH 2011

CGU Underwriting Limited

Independent auditor's report

To the members of CGU Underwriting Limited

We have audited the financial statements of CGU Underwriting Limited for the year ended 31 December 2010, which comprise the Accounting policies, the Income Statement, the Statement of Financial Position, the Statement of Changes in Equity, the Statement of Cash Flows, and the related notes 1 to 24 The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006 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

As explained more fully in the Statement of directors' responsibilities set out on page 5, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view

Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error This includes an assessment of whether the accounting policies are appropriate to the Company's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the directors, and the overall presentation of the financial statements

Opinion on financial statements

In our opinion the financial statements

- give a true and fair view of the state of the Company's affairs as at 31 December 2010 and of its profit for the year then ended,
- have been properly prepared in accordance with IFRSs as adopted by the European Union, and
- have been prepared in accordance with the requirements of the Companies Act 2006

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements

CGU Underwriting Limited

Independent auditor's report (continued)
To the members of CGU Underwriting Limited

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us, or
- the financial statements are not in agreement with the accounting records and returns, or
- certain disclosures of directors' remuneration specified by law are not made, or
- we have not received all the information and explanations we require for our audit

Ernst & Young LLP

Angus Millar (Senior statutory auditor)
for and on behalf of Ernst & Young LLP
London

23 March 2011

CGU Underwriting Limited

Accounting policies

The Company is a limited liability company incorporated and domiciled in Great Britain Its principal activity continues to be underwriting as part of agreements with Santander UK plc

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 and International Accounting Standards ("IAS") as endorsed by the EU, applicable at 31 December 2010

There are no recently issued pronouncements effective for the 2010 financial statements that materially impact the Company's financial reporting

IFRS 7 and IFRS 9 *Financial Instruments* are effective in future years and awaiting endorsement The Company is currently reviewing the potential impact on the financial statements Other external reporting developments continue to be pro-actively monitored

In accordance with IFRS 4, Insurance Contracts, the Company has applied existing accounting practices for insurance contracts, modified as appropriate to comply with the IFRS framework and applicable standards Further details are given in policy C below

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

(B) Use of estimates

The preparation of financial statements requires the Company to make estimates and assumptions that affect items reported in the statement of financial position and income statement and the disclosure of contingent assets and liabilities at the date of the financial statements This is particularly so in the estimation of amounts for insurance liabilities, for which further details are given in policy F overleaf and in note 12 to these financial statements Although these estimates are based on management's best knowledge of current facts, circumstances and, to some extent, future events and actions, actual results ultimately may differ from those estimates, possibly significantly

(C) Product classification

Insurance contracts are defined as those containing significant insurance risk if, and only if, an insured event could cause an insurer to make significant additional payments in any scenario, excluding scenarios that lack commercial substance, at the inception of the contract Such contracts remain insurance contracts until all rights and obligations are extinguished or expire Contracts can be reclassified as insurance contracts after inception if insurance risk becomes significant Any contracts not considered to be insurance contracts under IFRS are classified as investment or service contracts

Accounting for insurance contracts, as allowed by IFRS 4, is determined in accordance with the Statement of Recommended Practice issued by the Association of British Insurers, the most recent version of which was issued in December 2005 and amended in December 2006

CGU Underwriting Limited

Accounting policies (continued)

(D) Premiums earned

Premiums written reflect business incepted during the year, and exclude any sales-based taxes or duties or levies Written premiums include an estimate of pipeline premiums less a provision for anticipated lapses Premiums collected by intermediaries, but not yet received, are assessed based on estimates from underwriting or past experience, and are included in premiums written Unearned premiums are those proportions of the premiums written in a year that relate to periods of risk after the statement of financial position date

(E) Net investment income

Investment income consists of interest receivable for the year, movements in amortised cost on debt securities, realised gains and losses, and unrealised gains and losses on FVPL investments (as defined in policy I) Interest income is recognised as it accrues, taking into account the effective yield on the investment

A gain or loss on a financial investment is only realised on disposal or transfer, and is the difference between the proceeds received, net of transaction costs, and its original cost or amortised cost as appropriate Unrealised gains and losses, arising on financial investments which have not been derecognised as a result of disposal or transfer, represent the difference between the carrying value at the year end and the carrying value at the previous year end or purchase value during the year, less the reversal of previously recognised unrealised gains and losses in respect of disposals made during the year

(F) Insurance contract liabilities

Claims

Insurance claims incurred include all losses occurring during the year, whether reported or not, loss adjustment expenses, a reduction for the value of salvage and other recoveries, and any adjustments to claims incurred in previous years

Loss adjustment expenses include internal and external costs incurred in connection with the negotiation and settlement of claims Internal costs include all direct expenses of the claims handling department and any part of the general administrative costs directly attributable to the loss adjustment function

Outstanding claims provisions

Insurance outstanding claims provisions are based on the estimated ultimate cost of all claims incurred but not settled at the statement of financial position date, whether reported or not, together with related loss adjustment expenses Significant delays are experienced in the notification and settlement of certain types of general insurance claims, particularly in respect of liability business, the ultimate cost of which cannot be known with certainty at the statement of financial position date Any estimate represents a determination within a range of possible outcomes Further details of estimation techniques are given in note 12(c)

Outstanding claims provisions are valued net of an allowance for expected future recoveries Recoveries include non-insurance assets that have been acquired by exercising rights to salvage and subrogation under the terms of insurance contracts

Provision for unearned premiums

The proportion of written premiums, gross of commission payable to intermediaries, attributable to subsequent periods is deferred as a provision for unearned premiums The change in this provision is taken to the income statement in order that revenue is recognised over the period of risk

CGU Underwriting Limited

Accounting policies (continued)

Liability adequacy

At each reporting date, the Company reviews its unexpired risks and carries out a liability adequacy test for any overall excess of expected claims and deferred acquisition costs over unearned premiums, using the current estimates of future cash flows under its contracts, after taking account of the investment return expected to arise on assets relating to the relevant general business provisions If these estimates show that the carrying amount of its insurance liabilities (less related deferred acquisition costs) is insufficient in light of the estimated future cash flows, the Company recognises the deficiency in the income statement by setting up a provision in the statement of financial position

Other assessments and levies

The Company is subject to various periodic insurance-related assessments or guarantee fund levies Related provisions are established where there is a present obligation (legal or constructive) as a result of a past event Such amounts are not included within insurance liabilities but are included under "other liabilities" in the statement of financial position

(G) Reinsurance

The Company cedes reinsurance in the normal course of business, with retention limits varying by line of business The cost of reinsurance is accounted for over the life of the underlying reinsured policies, using assumptions consistent with those used to account for these policies Gains or losses on buying retroactive reinsurance are recognised in the income statement immediately at the date of purchase and are not amortised

Reinsurance assets primarily include balances due from reinsurance companies for ceded insurance liabilities Amounts recoverable from reinsurers are estimated in a manner consistent with the outstanding claims provisions or settled claims associated with the reinsured policies and in accordance with the relevant reinsurance contract

If a reinsurance asset is impaired, the Company reduces the carrying amount accordingly and recognises that impairment loss in the income statement A reinsurance asset is impaired if there is objective evidence, as a result of an event that occurred after initial recognition of the reinsurance asset, that the Company may not receive all amounts due to it under the terms of the contract, and the event has an impact that can be reliably measured on the amounts that the Company will receive from the reinsurer

(H) Derecognition and offset of financial assets and financial liabilities

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised where

(i) the rights to receive cash flows from the assets have expired,

(ii) the Company retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a "pass-through" arrangement, or

(iii) the Company has transferred its rights to receive cash flows from the asset and either

(a) has transferred substantially all the risks and rewards of the asset, or
(b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has the control of the asset

A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expires Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously

CGU Underwriting Limited

Accounting policies (continued)

(I) Financial investments

The Company classifies its financial investments as financial assets at fair value through profit or loss ("FVPL") The FVPL category is used in all cases as the Company's strategy is to manage its financial investments on a fair value basis

All securities in the FVPL category are classified as other than trading

Purchases and sales of investments are recognised on the trade date, which is the date that the Company commits to purchase or sell the assets, at their fair values less transaction costs Debt securities are initially recorded at their fair value, which is taken to be amortised cost, with amortisation credited or charged to the income statement Investments classified as other than trading are subsequently carried at fair value Changes in the fair value of other than trading investments are included in the income statement in the period in which they arise

Investments carried at fair value are measured using a fair value hierarchy, described in note 8, with values based on quoted bid prices

(J) Deferred acquisition costs

The costs directly attributable to the acquisition of new business for insurance contracts are deferred to the extent that they are expected to be recoverable out of future margins in revenues on those contracts

Where such business is reinsured, an appropriate proportion of the deferred acquisition costs is attributed to the reinsurer, and is treated as a separate liability

Deferred acquisition costs are amortised over the period in which the related revenues are earned The reinsurers' share of deferred acquisition costs is amortised in the same manner as the underlying asset

Deferred acquisition costs are reviewed by category of business at the end of each reporting period and are written off where they are no longer considered to be recoverable

(K) 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 those with less than three months' maturity from the date of acquisition, or which are redeemable on demand with only an insignificant change in their fair values For the purposes of the statement of cash flows, cash and cash equivalents also include bank overdrafts, which are included in payables and other financial liabilities on the statement of financial position

(L) Operating cash flows

Purchases and sales of financial investments, and related investment income, are included within operating cash flows as the purchases are funded from cash flows associated with the origination of insurance contracts, net of payments of related claims

CGU Underwriting Limited

Accounting policies (continued)

(M) Financial guarantee contracts

Financial guarantee contracts are recognised initially at their fair value They are subsequently measured at the higher of the expected receivable or liability under the guarantee and the amount initially recognised less any accumulated amortisation A liability is recognised for amounts payable under the guarantee if it is more likely than not that the guarantee will be called upon and a receivable is recognised if it is virtually certain

(N) Contingent liabilities

Contingent liabilities are disclosed if there is a possible future obligation as a result of a past event, or if there is a present obligation as a result of a past event but either a payment is not probable yet still possible or the amount cannot be reliably estimated

(O) 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 The rates enacted or substantively enacted at the statement of financial position date are used to determine the deferred tax

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

(P) Share capital and dividends

Equity instruments

An equity instrument is a contract that evidences a residual interest in the assets of an entity after deducting all of 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

(Q) Equalisation provision

Equalisation provisions are established in accordance with UK company law These provisions are in addition to the provisions required to meet the anticipated ultimate cost of settlement of outstanding claims at the statement of financial position date Under IFRS, the provisions are not reported in the statement of financial position as no liability exists but are presented within retained earnings, net of attributable tax relief

CGU Underwriting Limited

Income statement
For the year ended 31 December 2010

	Note	2010	2009
		£m	£m
Income	1		
Gross written premiums		195	215
Premiums ceded to reinsurers		(9)	(8)
Premiums written, net of reinsurance		186	207
Net change in provision for unearned premiums		18	13
Net earned premiums		204	220
Net investment income/(expense)		10	(9)
		214	211
Expenses	2		
Claims paid, net of reinsurance		100	124
Change in claims provisions, net of reinsurance		(9)	5
Fee and commission expense, net of reinsurance		100	96
		191	225
Profit/(loss) before tax		23	(14)
Tax (expense)/credit	6	(6)	4
Profit/(loss) for the year		17	(10)

The Company has no other comprehensive income other than those included in the results above and therefore a separate statement of comprehensive income has not been presented

The accounting policies on pages 8 to 12 and notes on pages 17 to 45 are an integral part of these financial statements

CGU Underwriting Limited

Statement of financial position
As at 31 December 2010

	Note	2010 £m	2009 £m
ASSETS			
Financial investments	7	235	173
Reinsurance assets	9	-	-
Receivables	10	67	21
Current tax assets	14(a)	-	6
Deferred acquisition costs	11	35	42
Prepayments and accrued income		5	3
Cash and cash equivalents	20(b)	24	158
Total assets		366	403
LIABILITIES			
Insurance liabilities	12	154	181
Current tax liabilities	14(a)	3	-
Deferred tax liabilities	14(b)	4	3
Payables and other financial liabilities	15	28	58
Other liabilities	16	4	5
Total liabilities		193	247
Net assets		173	156
EQUITY			
Ordinary share capital	17	185	185
Retained earnings	18	(12)	(29)
Total equity		173	156

The accounting policies on pages 8 to 12 and notes on pages 17 to 45 are an integral part of these financial statements

Approved by the Board on 22 MARCH 2011

C J Abrahams
Director

CGU Underwriting Limited

Statement of changes in equity
For the year ended 31 December 2010

	Note	Ordinary share capital	Retained earnings	Total equity
		£m	£m	£m
Balance at 1 January 2009		135	(19)	116
Issue of share capital		50	-	50
Total comprehensive income for the year	18	-	(10)	(10)
Total movements in the year		50	(10)	40
Balance at 31 December 2009		185	(29)	156
Total comprehensive income for the year	18	-	17	17
Total movements in the year		-	17	17
Balance at 31 December 2010		185	(12)	173

The accounting policies on pages 8 to 12 and notes on pages 17 to 45 are an integral part of these financial statements

CGU Underwriting Limited

Statement of cash flows
For the year ended 31 December 2010

	Note	2010 £m	2009 £m
Cash flows from operating activities			
Net cash (outflow)/inflow from operating activities	20(a)	(96)	14
Net cash (used in)/from operating activities		(96)	14
Cash flows from financing activities			
Proceeds from issue of ordinary shares, net of transaction costs		-	50
Net cash from financing activities		-	50
Net (decrease)/increase in cash and cash equivalents		(96)	64
Cash and cash equivalents at 1 January		118	54
Cash and cash equivalents at 31 December	20(b)	22	118

The accounting policies on pages 8 to 12 and notes on pages 17 to 45 are an integral part of these financial statements

CGU Underwriting Limited

Notes to the financial statements

1. Details of income

	2010 £m	2009 £m
Premiums earned		
Gross written premiums	195	215
Less premiums ceded to reinsurers	(9)	(8)
Gross change in provision for unearned premium	18	13
Reinsurers' share of change in provision for unearned premium	-	-
Net change in provision for unearned premiums	18	13
Net earned premiums	204	220
Net investment income/(expense)		
Interest and similar income		
From investments designated as other than trading	9	12
Realised losses on disposals	(1)	(65)
Unrealised gains	2	45
Movement in amortised cost on debt securities	-	(1)
Gains/(losses) on investments	1	(21)
Net investment income/(expense)	10	(9)
Total income	214	211

CGU Underwriting Limited

Notes to the financial statements (continued)

2. Details of expenses

	2010	2009
	£m	£m
Claims paid, net of reinsurance		
Claims paid to policyholders	100	124
Less Claims recoveries from reinsurers	-	-
	100	124
Change in claims provisions, net of reinsurance		
Change in gross claims provisions	(9)	5
Change in reinsurance asset for claims provisions	-	-
	(9)	5
Fee and commission expenses, net of reinsurance		
Acquisition costs		
Commission expenses	93	94
Change in deferred acquisition costs	7	2
	100	96
Total expenses	191	225

CGU Underwriting Limited

Notes to the financial statements (continued)

3. Employee information

All employees are employed by a fellow Group company, Aviva Employment Services Limited Disclosures relating to employees may be found in the Annual Report and Accounts of Aviva plc

4. Directors

All directors of the Company are remunerated as employees by Aviva Employment Services Limited This remuneration is recharged to all operating divisions of the Group under management service agreements However, no cost is borne by the Company for the services of the directors in their capacity as directors

5. Auditor's remuneration

The total remuneration payable by the Company, excluding VAT, to its auditor, Ernst & Young LLP, in respect of the audit of these financial statements, is shown below The Company is exempt from disclosing other fees payable to its auditor in respect of other work, by virtue of regulation 5(1)(b) of The Companies (Disclosure of Auditor Remuneration and Liability Limitation Agreements) Regulations 2008, as it is disclosed within the Annual Report and Accounts of Aviva plc, the Company's ultimate controlling entity (see note 23(c))

	2010	2009
	£000	£000
Audit services		
Statutory audit of the Company's financial statements	58	53

Audit fees are paid by Aviva Central Services UK Limited, a fellow Group company, and recharged as appropriate to the Company and fellow Aviva Group companies

6. Tax

(a) Tax credited to the income statement

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

	2010	2009
	£m	£m
Current tax:		
For this year	5	(6)
Total current tax	5	(6)
Deferred tax:		
Origination and reversal of temporary differences (note 6(a)(ii))	1	2
Total deferred tax	1	2
Total tax charged/(credited) to income statement	6	(4)

CGU Underwriting Limited

Notes to the financial statements (continued)

6. Tax (continued)

(ii) Deferred tax charged to the income statement represents movements on the following items

	2010	2009
	£m	£m
Insurance items	1	2
Total deferred tax charged to income statement	1	2

(b) Tax reconciliation

The tax on the Company's profit/(loss) before tax is the same as the theoretical amount that would arise using the tax rate in the UK as follows

	2010	2009
	£m	£m
Net profit/(loss) before tax	23	(14)
Tax calculated at standard UK corporation tax rate of 28% (2009 28%)	6	(4)
Tax charge/(credit) for the period (note 6(a)(i))	6	(4)

A gradual reduction in the UK corporation tax rate from 28% to 24% over 4 years was announced in the Emergency Budget of 22 June 2010 The Finance Act published on 29 July 2010 included the first of the 1% rate reductions with effect from April 2011, with subsequent reductions to be enacted by future legislation No material impact is expected to arise from these reductions

7. Financial investments

(a) Carrying amount

Financial investments comprise

	At fair value through profit or loss	
	2010	**2009**
	£m	**£m**
Fixed maturity securities		
Debt securities		
UK Government	43	24
Non-UK Government	44	11
Public utilities	5	-
Other corporates	143	138
Total financial investments	235	173

Of the above total, £196 million (2009 £134 million) is expected to be recovered in more than one year after the statement of financial position date

(b) Cost, unrealised gains and fair value

The following is a summary of the cost/amortised cost, gross unrealised gains and losses and fair value of financial investments

				2010
	Cost/ amortised cost	**Unrealised gains**	**Unrealised losses and impairments**	**Fair value**
	£m	**£m**	**£m**	**£m**
Debt securities	230	6	(1)	235

				2009
	Cost/ amortised cost	**Unrealised gains**	**Unrealised losses and impairments**	**Fair value**
	£m	**£m**	**£m**	**£m**
Debt securities	170	4	(1)	173

All unrealised gains and losses on financial investments classified as fair value through profit or loss are recognised in the income statement

Unrealised gains and losses on financial investments classified as at fair value through profit or loss recognised in the income statement in the year are a net gain of £2 million (2009 £45 million net gain)

The movement in the unrealised gain/loss position reported in the statement of financial position during the year, shown in the table above, includes transfers due to the realisation of gains and losses on disposal

There are no impairments of financial investments classifed as fair value through profit or loss recognised in the income statement in the year (2009 £nil)

Of the £1 million net gain recognised in the income statement during the year a £2 million gain relates to investments still held at 31 December 2010 All the net gains recognised in the income statement are included in net investment income

CGU Underwriting Limited

Notes to the financial statements (continued)

8. Fair value

(a) Fair value methodology

For financial assets and liabilities carried at fair value, the Company has categorised the measurement basis into a 'fair value hierarchy' as follows

Quoted market prices in active markets – ("Level 1")

Inputs to Level 1 fair values are quoted prices (unadjusted) in active markets for identical assets and liabilities An active market is one in which transactions for the asset or liability occur with sufficient frequency and volume to provide pricing information on an ongoing basis Examples are listed equities in active markets, listed debt securities in active markets and quoted unit trusts in active markets

Modelled with significant observable market inputs – ("Level 2")

Inputs to Level 2 fair values are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly If the asset or liability has a specified (contractual) term, a Level 2 input must be observable for substantially the full term of the instrument Level 2 inputs include the following

- quoted prices for similar (i e not identical) assets and liabilities in active markets,
- quoted prices for identical or similar assets and liabilities in markets that are not active, the prices are not current, or price quotations vary substantially either over time or among market makers, or in which little information is released publicly,
- inputs other than quoted prices that are observable for the asset or liability (for example, interest rates and yield curves observable at commonly quoted intervals, volatilities, prepayment speeds, loss severities, credit risks, and default rates), and
- inputs that are derived principally from, or corroborated by, observable market data by correlation or other means (market-corroborated inputs)

Examples of these are securities measured using discounted cash flow models based on market observable swap yields, investment property measured using market observable information, and listed debt or equity securities in a market that is inactive

Modelled with significant unobservable market inputs – ("Level 3")

Inputs to Level 3 fair values are unobservable inputs for the asset Unobservable inputs may have been used to measure fair value to the extent that observable inputs are not available, thereby allowing for situations in which there is little, if any, market activity for the asset or liability at the measurement date (or market information for the inputs to any valuation models) As such, unobservable inputs reflect the assumptions the Company considers that market participants would use in pricing the asset Examples are certain private equity investments and private placements

CGU Underwriting Limited

Notes to the financial statements (continued)

8. Fair value (continued)

(a) Fair value methodology (continued)

Modelled with significant unobservable market inputs – ("Level 3") (continued)

The Company's investments are valued based on quoted market information or observable market data None of the total assets recorded at fair value is based on estimates and recorded as Level 3 investments Where estimates are used, these are based on a combination of independent third party evidence and internally developed models, calibrated to market observable data where possible Third party valuations using significant unobservable inputs validated against Level 2 internally modelled valuations are classified as Level 3, where there is a significant difference between the third party price and the internally modelled value Where the difference is insignificant, the instrument would be classified as Level 2

(b) Fair value hierarchy

				2010
	Fair value hierarchy			Statement of financial
	Level 1	Level 2	Level 3	position total
	£m	£m	£m	£m
Fixed maturity securities	235	-	-	235

				2009
	Fair value hierarchy			Statement of financial
	Level 1	Level 2	Level 3	position total
	£m	£m	£m	£m
Fixed maturity securities	173	-	-	173

All 2010 Level 1 debt securities were also listed at Level 1 in 2009

(c) There were no Level 2 or Level 3 stocks as at 31st December 2010 or as at 31st December 2009

Notes to the financial statements (continued)

9. Reinsurance assets

(a) Carrying amounts

The following is a summary of the reinsurance assets and related insurance provisions as at 31 December

	2010			2009		
	Gross insurance provisions	Reinsurance assets	Net	Gross insurance provisions	Reinsurance assets	Net
	£m	£m	£m	£m	£m	£m
Outstanding claims provisions	68	-	68	74	-	74
Provisions for claims incurred but not reported	9	-	9	12	-	12
	77	-	77	86	-	86
Provision for unearned premiums	77	-	77	95	-	95
Total	154	-	154	181	-	181

(b) Assumptions

The assumptions used for reinsurance contracts follow those used for insurance contracts, shown in note 12 (c)

Reinsurance assets are valued net of any provisions for their recoverability

CGU Underwriting Limited

Notes to the financial statements (continued)

9. Reinsurance assets (continued)

(c) Movements

Reinsurers' share of the provision for unearned premiums

	2010 £m	2009 £m
Carrying amount at 1 January	-	-
Premiums ceded to reinsurers in the year	9	8
Less		
Reinsurers' share of premiums earned during the year	(9)	(8)
Change in reinsurance asset	-	-
Carrying amount at 31 December	-	-

10. Receivables

	2010 £m	2009 £m
Amounts due from intermediaries	7	2
Amounts due from related parties (note 23 (a)(i))	58	16
Other Receivables	2	3
Total	67	21
Expected to be recovered in less than one year	67	19
Expected to be recovered in more than one year	-	2
	67	21

All receivables are carried at amortised cost, which approximates to fair value

CGU Underwriting Limited

Notes to the financial statements (continued)

11. Deferred acquisition costs

The movements in deferred acquisition costs during the year are

	2010	2009
	£m	£m
Carrying amount at 1 January	42	44
Acquisition costs written during the year, gross of reinsurance	93	94
Amortisation	(100)	(96)
Carrying amount at 31 December	35	42

Deferred acquisition costs are generally amortised within one year of the statement of financial position date

12. Insurance liabilities

(a) Carrying amount

Gross insurance liabilities at 31 December comprise

	2010	2009
	£m	£m
Provisions for outstanding claims	68	74
Provisions for claims incurred but not reported	9	12
	77	86
Provision for unearned premiums	77	95
Total	154	181

(b) Provisions for outstanding claims

Delays occur in the notification and settlement of claims and a substantial measure of experience and judgement is involved in assessing outstanding liabilities, the ultimate cost of which cannot be known with certainty at the statement of financial position date The reserves are based on information currently available However, it is inherent in the nature of the business written that the ultimate liabilities may vary as a result of subsequent developments

Provisions for outstanding claims are established to cover the outstanding expected ultimate liability for losses and loss adjustment expenses ("LAE") in respect of all claims that have already occurred The provisions established cover reported claims and associated LAE, as well as claims incurred but not yet reported and associated LAE

Outstanding claims provisions are based on undiscounted estimates of future claims payments

Loss reserves are only established for losses that have already occurred

CGU Underwriting Limited

Notes to the financial statements (continued)

12. Insurance liabilities (continued)

(c) Assumptions

Outstanding claims provisions are estimated based on known facts at the date of estimation Case estimates are generally set by skilled claims technicians applying their experience and knowledge to the circumstances of individual claims, taking into account all available information and correspondence regarding the circumstances of the claim, such as medical reports, investigations and inspections Claims technicians set case estimates according to documented claims department policies and specialise in setting estimates for certain lines of business or types of claim Claims above certain limits are referred to senior claims handlers for authorisation

No adjustments are made to the claims technicians' case estimates included in booked claims provisions, except for rare occasions when the estimated ultimate cost of a large or unusual claim may be adjusted, subject to internal reserve committee approval, to allow for uncertainty regarding, for example, the outcome of a court case The ultimate cost of outstanding claims is then estimated by using a range of standard actuarial claims projection techniques, such as the Chain Ladder and Bornhuetter-Ferguson methods The main assumption underlying these techniques is that the Company's past claims development experience can be used to project future claims development and hence ultimate claims costs As such, these methods extrapolate the development of paid and incurred losses, average costs per claim and claims numbers based on the observed development of earlier years and expected loss ratios

Historical claims development is mainly analysed by accident period, although underwriting or notification period is also used where this is considered appropriate Claims development is separately analysed by each line of business Certain lines of business are also further analysed by claims type or type of coverage In addition, large claims are usually separately assessed, either by being reserved at the face value of loss adjusted estimates, or separately projected in order to reflect their future development

In most cases no explicit assumptions are made regarding future rates of claims inflation or loss ratios Instead, the assumptions used are those implicit in the historic claims development data on which the projections are based Additional qualitative judgement is used to assess the extent to which past trends may not apply in the future, for example, to reflect one-off occurrences, changes in external or market factors such as public attitudes to claiming, economic conditions, levels of claims inflation, judicial decisions and legislation, as well as internal factors such as portfolio mix, policy conditions and loss adjustment procedures, in order to arrive at the estimated ultimate cost of claims, that represent the most likely outcome, from the range of possible outcomes, taking account of all the uncertainties involved The range of possible outcomes does not, however, result in the quantification of a reserve range

CGU Underwriting Limited

Notes to the financial statements (continued)

12. Insurance liabilities (continued)

(d) Movements

The following changes have occurred in the claims provisions during the year

	2010	2009
	£m	£m
Carrying amount at 1 January	86	81
Claims losses and expenses incurred in the current year	97	119
Claims losses and expenses incurred in prior years	(6)	10
Incurred claims losses and expenses	91	129
Less		
Payments made on claims incurred in the current year	(52)	(62)
Payments made on claims incurred in prior years	(48)	(62)
Claims payments made in the year	(100)	(124)
Changes in gross claims	(9)	5
Carrying amount at 31 December	77	86

Effect of changes in estimates during the year

During the year, gross prior years' claims provisions of £6 million (2009 £10 million charge), £6 million net of reinsurance (2009 £10 million charge), were credited to the income statement The main reason for this was reassessment of the levels of provision for household claims

CGU Underwriting Limited

Notes to the financial statements (continued)

12. Insurance liabilities (continued)

(e) Loss development tables

The tables that follow present the development of claims payments and the estimated ultimate cost of claims for the accident years 2001 to 2010 The upper half of the table shows the cumulative amounts paid during successive years related to each accident year For example, with respect to the accident year 2001, by the end of 2010 £188 million had actually been paid in settlement of claims In addition, as reflected in the lower section of the table, the original estimated ultimate cost of claims of £202 million was re-estimated to be £188 million at 31 December 2010 This decrease from the original estimate would generally be a combination of a number of factors, including claims being settled for larger or smaller amounts than originally estimated The original estimates will also be increased or decreased as more information becomes known about the individual claims and overall claims frequency and severity patterns

The Company aims to maintain strong reserves in order to protect against adverse future claims experience and development As claims develop and the ultimate cost of claims becomes more certain, the absence of adverse claims experience will then result in a release of reserves from earlier accident years However, in order to maintain strong reserves, the Company transfers some of this release to current accident year (2010) reserves where the development of claims is less mature and there is much greater uncertainty attaching to the ultimate cost of claims

CGU Underwriting Limited

Notes to the financial statements (continued)

12. Insurance liabilities (continued)

(e) Loss development tables (continued)

Accident Year	All Prior Years	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	Total
		£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Gross cumulative claims payments												
At end of accident year		(104)	(108)	(90)	(79)	(68)	(76)	(99)	(65)	(62)	(52)	
One year later		(162)	(170)	(140)	(135)	(122)	(147)	(164)	(111)	(99)		
Two years later		(175)	(176)	(149)	(139)	(130)	(155)	(173)	(116)			
Three years later		(178)	(180)	(151)	(144)	(133)	(158)	(176)				
Four years later		(182)	(183)	(157)	(146)	(134)	(159)					
Five years later		(183)	(186)	(160)	(147)	(135)						
Six years later		(185)	(189)	(160)	(147)							
Seven years later		(188)	(191)	(161)								
Eight years later		(188)	(191)									
Nine years later		(188)										
Estimate of gross ultimate claims												
At end of accident year		202	208	193	174	168	155	178	121	119	97	
One year later		185	190	150	143	135	154	177	118	108		
Two years later		186	186	157	146	137	160	183	120			
Three years later		187	191	161	146	136	162	183				
Four years later		192	191	160	146	138	163					
Five years later		191	191	160	147	139						
Six years later		191	190	161	148							
Seven years later		189	191	162								
Eight years later		189	192									
Nine years later		188										
Estimate of ultimate claims		188	192	162	148	139	163	183	120	108	97	
Cumulative payments		(188)	(191)	(161)	(147)	(135)	(159)	(176)	(116)	(99)	(52)	
Gross outstanding claims provisions recognised in the statement of financial position	1	-	1	1	1	4	4	7	4	9	45	77

CGU Underwriting Limited

Notes to the financial statements (continued)

12. Insurance liabilities (continued)

(e) Loss development tables (continued)

After the effect of reinsurance, the loss development table is

Accident Year	All Prior Years	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	Total
		£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Net cumulative claims payments												
At end of accident year		(101)	(103)	(86)	(79)	(68)	(75)	(86)	(65)	(62)	(52)	
One year later		(154)	(159)	(130)	(135)	(121)	(146)	(140)	(111)	(99)		
Two years later		(166)	(165)	(139)	(138)	(129)	(149)	(149)	(116)			
Three years later		(171)	(169)	(141)	(143)	(132)	(151)	(152)				
Four years later		(174)	(171)	(147)	(145)	(133)	(152)					
Five years later		(176)	(174)	(150)	(146)	(134)						
Six years later		(178)	(177)	(150)	(146)							
Seven years later		(181)	(178)	(151)								
Eight years later		(181)	(178)									
Nine years later		(181)										
Estimate of net ultimate claims												
At end of accident year		194	194	185	174	168	151	153	121	119	97	
One year later		178	175	142	143	132	150	153	118	108		
Two years later		177	175	148	145	134	154	159	120			
Three years later		180	180	150	145	135	156	159				
Four years later		184	179	149	145	137	156					
Five years later		184	179	150	146	138						
Six years later		184	178	151	147							
Seven years later		182	179	152								
Eight years later		182	179									
Nine years later		181										
Estimate of ultimate claims		181	179	152	147	138	156	159	120	108	97	
Cumulative payments		(181)	(178)	(151)	(146)	(134)	(152)	(152)	(116)	(99)	(52)	
Net outstanding claims provisions recognised in the statement of financial position	1	-	1	1	1	4	4	7	4	9	45	77

CGU Underwriting Limited

Notes to the financial statements (continued)

12. Insurance liabilities (continued)

(f) Provision for unearned premiums

Movements

The following changes have occurred in the provision for unearned premium during the year

	2010 £m	2009 £m
Carrying amount at 1 January	95	108
Premiums written during the year	195	215
Less Premiums earned during the year	(213)	(228)
Change in year	(18)	(13)
Carrying amount at 31 December	77	95

13. Financial guarantees and options

With the approval of the FSA, Aviva International Insurance Limited, a Group company, and certain of its UK insurance subsidiaries transacting general insurance business, of which the Company is one, have mutually guaranteed to discharge all liabilities attaching to their respective policies The guarantee enables a company, if it is unable to pay a policyholder claim, to seek financial support from one of the other guarantors The guarantors are not obliged to make the payment if in so doing they would breach their own solvency requirement If any payments are made under the guarantee, the guarantors are entitled to seek repayment from the company benefiting from the guarantee The guarantee cannot be relied upon by any other person, including without limitation the holder of any contracts of insurance issued by a party to the guarantee There is no maximum amount the Company would have to pay under the guarantee but, in the opinion of the directors, the fair value of the guarantee above is not material and no material loss is expected to arise therefrom

14. Tax assets and liabilities

(a) Current tax

	2010	2009
	£m	£m
(i) Tax asset		
Expected to be recoverable in more than one year	-	6
Tax asset recognised in statement of financial position	-	6
(ii) Tax liability		
Expected to be payable in more than one year	3	-
Tax liability recognised in statement of financial position	3	-

Assets for prior years' tax settled by group relief of £6 million (2009 £14 million) are included within receivables (note 10) and within related party transactions (note 23(i)) of which £6 million are recoverable in less than one year and £nil recoverable in more than one year

(b) Deferred tax

(i) The balance at the year end comprises

	2010	2009
	£m	£m
Temporary differences arising on insurance items	4	3
Net deferred tax liability	4	3

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

Net liability at 1 January	3	1
Amounts charged to profit (note 6 (a)(i))	1	2
Net liability at 31 December	4	3

15. Payables and other financial liabilities

	2010	2009
	£m	£m
Payables arising out of direct insurance	11	-
Amounts due to related parties (note 23 (a)(ii))	15	18
Bank overdrafts (note 20(b))	2	40
	28	58
Expected to be settled within one year	28	58

All payables and other financial liabilities are carried at cost, which approximates to fair value

16. Other liabilities

	2010	2009
	£m	£m
Other liabilities	4	5
Expected to be settled within one year	4	5

17. Ordinary share capital

Details of the Company's ordinary share capital are as follows

	2010	2009
	£m	£m
Authorised		
100 (2009 100) Ordinary A shares of £1 each	-	-
184,999,900 (2009 184,999,900) Ordinary B shares of £1 each	185	185
Allotted, called up and fully paid		
100 (2009 100) Ordinary A shares of £1 each	-	-
184,999,900 (2009 184,999,900) Ordinary B shares of £1 each	185	185

The rights and provisions attaching to the A ordinary share capital

The "A" ordinary shares shall not entitle the holders thereof to receive any dividend or other distribution of the profits of the Company and shall entitle the holders thereof to exercise all voting rights in relation to the Company in proportion to their respective holdings

The rights and provisions attaching to the B ordinary share capital

Subject to any special or additional rights attached to any class of shares, the profits of the Company available for distribution and resolved to be distributed shall be distributed by way of dividend among the holders of the "B" ordinary shares pro rata to the number of such shares held by each of them On a winding-up or other return of capital the holders shall be entitled to receive, subject to any special or additional rights attached to any class of shares, 100 per cent of the assets of the Company available to shareholders (after the return of the capital paid up on each of the "A" ordinary shares and the "B" ordinary shares held by them) pro rata to the number of "B" ordinary shares held by them The holders shall not be entitled to receive notice of any general meeting of the Company or to attend, speak or vote at any such general meeting by virtue or in respect of their holdings of such shares

18. Retained earnings

	2010	2009
	£m	£m
Balance at 1 January	(29)	(19)
Profit/(loss) for the year	17	(10)
Balance at 31 December	(12)	(29)

In accordance with accounting policy Q, retained earnings include £11 million (2009 £8 million) relating to equalisation provisions, net of attributable tax relief, which are not distributable

CGU Underwriting Limited

Notes to the financial statements (continued)

19. Contingent liabilities and other risk factors

Uncertainty over claims provisions

Note 12(c) gives details of the estimation techniques used in determining the outstanding claims provisions, which are designed to allow for prudence These are estimated to give a result within the normal range of outcomes To the extent that the ultimate cost falls outside this range, for example where future claims inflation differs from that expected, there is uncertainty in respect of this liability

Levy schemes

The Company pays contributions into levy schemes in the UK in which it operates Given the economic environment, there is a heightened risk that the levy contributions will need to be increased to protect policyholders if an insurance company falls into financial difficulties The directors continue to monitor the situation but are not aware of any need to increase provisions at the statement of financial position date

FSA review of payment protection insurance

In September 2009, the FSA launched an investigation into sales practices for payment protection insurance On 10 August 2010, the FSA announced that mis-selling of PPI policies had been widespread and that consumers who could prove mis-selling would be entitled to financial redress from distributors of the policies In October 2010, on behalf of distributors, the British Bankers Association elected to seek judicial review of this ruling and no conclusion of this legal process has yet been reached The directors do not consider that the Company is liable for mis-selling in its role as underwriter, and hence no provision is currently necessary

20. Statement of cash flows

	2010	2009
	£m	£m
(a) The reconciliation of profit/(loss) before tax to the net cash (outflow to)/inflow from operating activities is:		
Profit/(loss) before tax	23	(14)
Adjustments for		
Gains on investments (note 1)	(2)	(44)
Changes in working capital		
(Increase)/decrease in deferred acquisition costs	7	2
(Increase)/decrease in receivables and other financial assets	(42)	15
(Increase)/decrease in prepayments and accrued income	(2)	2
Increase/(decrease) in insurance liabilities	(27)	(8)
Increase/(decrease) in payables and other financial liabilities	8	(35)
Increase/(decrease) in other liabilities	(1)	(13)
Net sales/(purchases) of operating assets		
Financial investments	(60)	109
Net cash (outflow to)/inflow from operating activities	(96)	14

"Increase/(decrease) in receivables and other financial assets" is stated after eliminating £4 million (2009 £10 million) of corporation tax recoverable settled or to be settled by group relief

Notes to the financial statements (continued)

20. Statement of cash flows (continued)

(b) Cash and cash equivalents in the statement of cash flows at 31 December comprise·

	2010	2009
	£m	£m
Cash at bank and in hand	-	80
Cash equivalents	24	78
	24	158
Bank overdrafts (note 15)	(2)	(40)
	22	118

21. Risk management

The ultimate parent company, Aviva plc, and its subsidiaries, joint ventures and associates, (collectively known as "the Group"), operate a risk management framework ("RMF"), which is the collection of processes and tools that have been put in place to ensure that the risks to which it is exposed are identified, measured, managed, monitored and reported on a continuous basis The RMF is designed to facilitate a common approach to, and language regarding, the management of risk across the Group The key instruments of the RMF include the risk management policies, risk reports, risk models, the governance and oversight infrastructure and the risk appetite framework The RMF has been adopted in the UK ("the UK Region") including the businesses collectively referred to as "UKGI" (including this Company and the UK general insurance business carried out within Aviva Insurance Limited and Aviva International Insurance Limited)

Risks are usually grouped by risk type market, credit, general insurance, liquidity and operational risk Risk falling within these types may affect a number of key metrics including those relating to balance sheet strength, liquidity and profit They may also affect the performance of the products that the Company delivers to customers and the service to customers and distributors, which can be categorised as risks to brand and reputation

The Group has a set of formal risk policies that facilitate a consistent approach to the management of all the Company's risks across all businesses and locations in which the Company operates These risk policies define the Company's appetite for different, granular risk types and set out risk management and control standards for the Group's world-wide operations

Risk models are an important tool in the Company's measurement of risk and are used to support the monitoring and reporting of the risk profile and in the evaluation of alternative risk management actions The Company carries out a range of stress (where one risk factor, such as equity returns, is assumed to vary) and scenario (where combinations of risk factors are assumed to vary) tests to evaluate their impact on the business and the management actions available to respond to the conditions envisaged Monthly assessments are made of the economic capital available within the business and the economic capital required to cover the current risk profile of the business and these assessments are included in the regular reporting to the risk committees

UKGI sets limits to manage material risks to ensure the risks stay within risk appetite (the amount of risk UKGI is willing to accept) UKGI assesses the size and scale of a risk by considering how likely it is that the risk will materialise and the potential impact the risk could have on its business and its stakeholders Where risks are outside of appetite, actions are agreed to mitigate the exposure Impact assessments are considered against financial, operational and reputational criteria and take into account underlying factors such as economic conditions, for example, UK economic growth and inflation

The UK Region has an established governance framework, which has the following key elements

- defined terms of reference for the legal entity Boards and the associated executive management and other committees across the UK Region including the UK Region Board, UK Region Risk Committee and UK Region Audit Committee,
- a clear organisational structure with documented delegated authorities and responsibilities from the legal entity Boards to executive management committees and senior management, and
- adoption of the Group policy framework that defines risk appetite measures and sets out risk management and control standards for the Group's worldwide operations The policies also set out the roles and responsibilities of businesses, regions, policy owners and risk oversight committees

Notes to the financial statements (continued)

21. Risk management (continued)

The UK Region operates a three lines of defence risk management model that encourages close working relationships, between line management and the risk function whilst facilitating independent assurance by internal audit Primary responsibility for risk identification and management lies with business management (the first line of defence) Support for and challenge on the completeness and accuracy of risk assessment, risk reporting and adequacy of mitigation plans are performed by specialist risk functions (the second line of defence) Independent and objective assurance on the robustness of the risk management framework and the appropriateness and effectiveness of internal control is provided by group audit (the third line of defence)

UKGI has developed economic capital models that support the measurement, comparison and further understanding of its risks The results of the modelling are incorporated into key strategic planning and decision-making processes These models show the relative impact to economic capital from the risks faced In turn this supports the assessment of appropriate and effective mitigating strategies where risks are outside of appetite

The FSA also requires UKGI to assess its economic capital requirements to ensure that it adequately reflects the risks facing the business

(a) Financial risk management

(i) Market risk

Market risk is the risk of adverse financial impact due to changes in fair values or future cash flows of financial instruments due to fluctuations in interest rates, equity prices, property prices and foreign currency exchange rates Market risk arises due to fluctuations in both the value of liabilities and the value of investments held

UKGI manages market risk locally within its market risk framework, within local regulatory constraints and in line with established Group policy, including minimum principles for matching liabilities with appropriate assets

Interest rate risk arises primarily from the Company's investments, which are exposed to fluctuations in interest rates UKGI maintains a close matching of assets and the economic value of its technical liabilities, by duration, using derivative instruments if necessary, to minimise this risk

The Company operates predominantly in the UK and there is no material exposure to foreign currency exchange rates

Derivatives are used within policy guidelines agreed by the Aviva plc Board of Directors Derivatives are only used for efficient portfolio management or risk hedging purposes The Company did not have any derivatives during the year or at the year-end

The management of market risk is overseen by the UKGI Asset and Liability Committee

CGU Underwriting Limited

Notes to the financial statements (continued)

21. Risk management (continued)

(a) Financial risk management (continued)

(ii) 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

UKGI's management of credit risk is carried out in accordance with Group credit risk processes, which include setting exposure limits and monitoring exposures in accordance with ratings set by credit ratings agencies such as Standard & Poor's Exposure levels are reported to, and reviewed by, the UKGI Asset and Liability Committee

Financial assets are graded according to current credit ratings issued AAA is the highest possible rating Investment grade financial assets are classified within the range of AAA to BBB ratings Financial assets which fall outside this range are classified as speculative grade Credit limits for each counterparty are set based on default probabilities that are in turn based on the rating of the counterparty and the type of exposure

The following table provides information regarding the aggregated credit risk exposure of the Company 'Non-rated' captures assets not rated by external ratings agencies

	Credit rating						
31 December 2010	AAA	AA	A	BBB	Speculative grade	Non-rated	Carrying value in the statement of financial position
	£m	£m	£m	£m	£m	£m	£m
Debt securities	101	20	77	37	-	-	235
Cash and cash equivalents	-	2	22	-	-	-	24

	Credit rating						
31 December 2009	AAA	AA	A	BBB	Speculative grade	Non-rated	Carrying value in the statement of financial position
	£m	£m	£m	£m	£m	£m	£m
Debt securities	74	17	57	25	-	-	173
Cash and cash equivalents	-	90	40	-	10	18	158

The Company is not generally exposed to significant concentrations of credit risk to third parties

UKGI manages exposure to reinsurance counterparties in accordance with Group policy Exposure limits are set by the Group Credit Approvals Committee which maintains a list of reinsurers that have acceptable credit standing Reinsurer exposure and the impact of any reinsurer default are monitored regularly by the Group Credit Approvals Committee

CGU Underwriting Limited

Notes to the financial statements (continued)

21. Risk management (continued)

(a) Financial risk management (continued)

(ii) Credit risk (continued)

Debt securities of £235 million (2009 £173 million) are neither past due nor impaired

At 31 December 2010, receivables are £67 million (2009 £21 million) Of the Company's receivables, £58 million (2009 £16 million) is due from related parties, details of which are set out in note 23

Concentrations of credit risk with respect to receivables are limited due to the size and spread of the Company's trading base

Exposure by counterparty is monitored by the UKGI Asset and Liability Committee for all UKGI exposures greater than £20 million

The management of credit risk is overseen by the UKGI Asset and Liability Committee

(iii) General insurance risk

UKGI considers insurance risk within its general insurance activity to comprise the following

- inaccurate pricing and selection of risks when underwritten,
- fluctuations in the timing, frequency and severity of claims and claims settlements, relative to expectations,
- unexpected claims arising from a single source,
- inadequate reinsurance protection or other risk transfer techniques, and
- inadequate reserves

The majority of the general insurance business underwritten by the Company is of a short-tail nature such as household insurance

The Group's underwriting strategy and appetite is agreed by the Aviva Group Executive Committee and communicated via specific policy statements and guidelines UKGI sets its own underwriting strategy, consistent with the Group strategy Underwriting strategy is communicated to underwriters, with underwriting licences granted to individual underwriters according to competence and experience The vast majority of the Company's general insurance business is managed and priced in the same country as the domicile of the customer, predominantly in the UK

UKGI has developed mechanisms that identify, quantify and manage accumulated exposures to contain them within the limits of the appetite of UKGI UKGI has in place various methodologies to manage effectively exposures arising from specific perils UKGI analyses accumulations of insurance risk under various headings, including type of business, location, profile of customers and type of claim and uses these analyses to inform underwriting and reserving

CGU Underwriting Limited

Notes to the financial statements (continued)

21. Risk management (continued)

(a) Financial risk management (continued)

(iii) General insurance risk (continued)

Reinsurance purchases are reviewed to verify that the levels of protection being bought reflect any developments in exposure and the risk appetite of UKGI The basis of these purchases is underpinned by extensive financial and capital modelling and actuarial analyses which consider the cost and capital efficiency benefits This involves utilising externally sourced probabilistic models to verify the accumulations and loss probabilities based on UKGI's specific portfolios of business In addition to external models, scenarios are developed and tested using UKGI's data to determine potential losses and appropriate levels of reinsurance protection Reinsurance covers single large exposures and concentrations of exposures UKGI has processes in place to manage catastrophe risk UKGI purchases catastrophe reinsurance to protect against significant natural hazard events For a single realistic catastrophic event, UKGI's maximum retention is approximately £210 million

The adequacy of UKGI's general insurance claims provisions is overseen by the UKGI Reserve Committee Actuarial claims reserving is conducted by the UKGI's actuaries in compliance with the Group General Insurance Reserving Policy There are periodic external reviews by consultant actuaries

Risk-based capital models are being used to support the quantification of risk under the Individual Capital Assessment ("ICA") framework UKGI undertakes a quarterly review of insurance risks, the output from which is a key input into the ICA and risk-based capital assessments

The management of insurance risk is overseen by specific UKGI senior management committees, namely the Underwriting and Pricing Groups, the Reserve Committee and the Projections Committee

(iv) Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities

UKGI has set its investment strategy to ensure it has sufficient liquid funds to meet its expected obligations as they fall due In extreme circumstances, the Company would approach the Group for additional short-term borrowing whilst the Company liquidated other assets The Group maintains significant committed borrowing facilities from a range of highly rated banks to mitigate this risk further

The following table provides an analysis, by maturity date of the principal, of the carrying value of financial assets and reinsurers' share of the unearned premium provision, which are available to fund the repayment of liabilities as they crystallise

31 December 2010	Within 1 year	1 to 5 years	5 to 15 years	Over 15 years	No fixed terms	Total
	£m	£m	£m	£m	£m	£m
Debt securities	39	122	74	-	-	235
Receivables	67	-	-	-	-	67
Cash and cash equivalents	24	-	-	-	-	24
	130	122	74	-	-	326

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Notes to the financial statements (continued)

21. Risk management (continued)

(a) Financial risk management (continued)

(iv) Liquidity risk (continued)

31 December 2009	Within 1 year	1 to 5 years	5 to 15 years	Over 15 years	No fixed terms	Total
	£m	£m	£m	£m	£m	£m
Debt securities	39	93	41	-	-	173
Receivables	19	2	-	-	-	21
Cash and cash equivalents	158	-	-	-	-	158
	216	95	41	-	-	352

The assets above are analysed in accordance with the earliest possible redemption date of the instrument at the initiation of the Company Where an instrument is puttable back to the issuer on demand, such as a unit trust or similar type of investment vehicle, it is included in the "Within 1 year" column All of the Company's debt securities are market traded and, therefore, if required, can be liquidated for cash at short notice

The following table shows the Company's financial liabilities and the provision for unearned premiums analysed by duration

31 December 2010	Within 1 year	1 to 5 years	5 to 15 years	Over 15 years	Total
	£m	£m	£m	£m	£m
Provisions for outstanding claims	44	29	4	-	77
Provision for unearned premiums	58	18	1	-	77
Payables and other financial liabilities	28	-	-	-	28
	130	47	5	-	182

31 December 2009	Within 1 year	1 to 5 years	5 to 15 years	Over 15 years	Total
	£m	£m	£m	£m	£m
Provisions for outstanding claims	51	31	4	-	86
Provision for unearned premiums	73	20	2	-	95
Payables and other financial liabilities	58	-	-	-	58
	182	51	6	-	239

For insurance contracts, the analysis of liabilities above is based on the estimated timing of future cash flows

The management of liquidity risk is overseen by the UKGI Asset and Liability Committee

(b) Strategic risks

UKGI is exposed to a number of strategic risks UKGI's strategy supports its vision, purpose and objectives and is responsive to both the external and internal environment, for example, changes in the competitive landscape arising from economic conditions, customer demands and competitor activity, regulatory changes, merger and acquisition opportunities and emerging trends (such as climate change and pandemic events)

Strategic risk is explicitly considered throughout UKGI's strategic review and planning process Developments are assessed during the quarterly performance management process where all aspects of the risk profile are considered

21. Risk management (continued)

(b) Strategic risks (continued)

UKGI actively engages with external bodies to share the benefit of its expertise in supporting responses to emerging risks as well as challenging developments that could be damaging to the business and the industry as a whole

(c) Operational risk management

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events Operational risks include taxation, reputation and regulatory risks, such as compliance Only financial instrument risk requires quantification under IFRS and consequently no quantification of this risk is provided

Operational risk is managed in accordance with control standards set out in the Group policy framework

The management of operational risk is overseen by the UKGI Operational Risk Committee

(d) Risk and capital management

UKGI uses a number of risk management tools to understand the volatility of earnings, the volatility of its capital requirements, and to manage its capital more efficiently Primarily, risk-based capital models and scenario tests are used Sensitivities to economic and operating experience are regularly produced on all of UKGI's financial performance measurements to inform UKGI's decision-making and planning processes, and as part of the framework for identifying and quantifying the risks to which UKGI is exposed

General insurance claims liabilities are estimated by using standard actuarial claims projection techniques These methods extrapolate the claims development for each accident year based on the observed development of earlier years In most cases, no explicit assumptions are made as projections are based on assumptions implicit in the historic claims development on which the projections are based As such, in the analysis below, the sensitivity of general insurance claims liabilities is primarily based on the financial impact of changes to the reported loss ratio

Some results of sensitivity testing for general insurance business 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 1% increase or decrease in market interest rates (e g if a current interest rate is 5%, the impact of an immediate change to 4% or 6%) The test allows consistently for similar changes to investment returns and movements in the market value of fixed interest securities
Gross loss ratios	The impact of an increase in gross loss ratios for general insurance by 5%

For general insurance, the impact of the expense sensitivity on profit also includes the increase in ongoing administration expenses

21. Risk management (continued)

(d) Risk and capital management (continued)

The above sensitivity factors are applied using actuarial and statistical models, with the following pre-tax impacts on profit and shareholder's equity at 31 December 2010

	Increase/(decrease) in shareholder's equity (£m)	Increase/(decrease) in profit before tax (£m)
	Gross of reinsurance	Gross of reinsurance
Interest rates +1%	(8)	(8)
Interest rates -1%	8	8
Gross loss ratios + 5%	5	5

The above tables demonstrate the effect of a change in a key assumption while other assumptions remain unchanged In reality, there is a correlation 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 the Company's assets and liabilities are actively managed Additionally, the financial position of the Company may vary at the time that any actual market movement occurs For example, UKGI's financial risk management strategy aims to manage the exposure to market fluctuations As investment markets move past various trigger levels, management actions could include selling investments, changing investment portfolio allocation, and taking other protective action

Other limitations in the above sensitivity analyses include the use of hypothetical market movements to demonstrate potential risk that only represent UKGI's view of possible short-term market changes that cannot be predicted with any certainty and the assumption that all interest rates move in an identical fashion

22. Capital structure

The Company maintains an efficient capital structure from equity shareholder's funds, consistent with the Company's overall risk profile and the regulatory and market requirements of the business This note describes the way the Company manages capital and shows where this is employed

(a) General

IFRS underpins the Company's capital structure and, accordingly, the capital structure is analysed on this basis UKGI uses risk management tools to assess its internal economic capital requirements

The Company as a regulated company is required to hold sufficient capital to meet acceptable solvency levels based on applicable FSA regulations The Company's ability to transfer retained earnings to its parent company is therefore restricted to the extent that these earnings form part of UK regulatory capital

CGU Underwriting Limited

Notes to the financial statements (continued)

22. Capital structure (continued)

(b) Capital management

In managing its capital, the Company seeks to

(i) match the expected cash flows from its assets with the expected cash outflows from the Company's insurance liabilities as they fall due,
(ii) maintain financial strength to support new business growth and satisfy the requirements of its policyholders and regulators,
(iii) retain financial flexibility by maintaining strong liquidity, and
(iv) allocate capital efficiently to support growth and repatriate excess capital where appropriate

The Company considers not only the traditional sources of capital funding but the alternative sources of capital including reinsurance, as appropriate, when assessing its deployment and usage of capital

(c) Different measures of capital

The Company measures its capital on a number of different bases These include measures which comply with the regulatory regime within which the Company operates and those which the directors consider appropriate for the management of the business The measures which the Company uses are -

(i) Accounting basis

The Company is required to report its results on an IFRS basis

(ii) Regulatory bases

Relevant capital and solvency regulations are used to measure and report the Company's financial strength These measures are based on the FSA's regulatory requirements under Solvency I and the ICA regime The regulatory capital tests verify that the Company retains an excess of solvency capital above the required minimum level calculated using a series of prudent assumptions about the type of business that is underwritten

The Company fully complied with these regulatory requirements during the year

(iii) Economic bases

Notwithstanding the required levels of capital laid out by the FSA, UKGI also measures its capital using various risk-based management tools that take into account a more realistic set of financial and non-financial assumptions Note 21, Risk management, gives further details

(d) Capital structure

	IFRS net assets 2010 £m	IFRS net assets 2009 £m
General insurance	173	156
Total capital employed	173	156
Financed by		
Equity shareholder's funds	173	156

CGU Underwriting Limited

Notes to the financial statements (continued)

23. Related party transactions

(a) The Company had the following related party transactions in 2010 and 2009.

(i) Other services provided to related parties

	2010		2009	
	Income earned in year	Receivable at year end	Income earned in year	Receivable at year end
	£m	£m	£m	£m
Parent	-	-	-	2
Other Group companies	-	58	-	14
	-	58	-	16

Transactions with Group companies for settlement of corporation tax assets and liabilities by group relief are described in note 14

(ii) Other services provided by related parties

	2010		2009	
	Expense incurred in year	Payable at year end	Expense incurred in year	Payable at year end
	£m	£m	£m	£m
Parent	-	15	-	-
Other Group companies	-	-	-	18
	-	15	-	18

(iii) Key management compensation

The directors and key management of the Company are considered to be the same as for Aviva Insurance UK Limited, the immediate parent company Information on key management compensation may be found in note 30 - Related party transactions, of Aviva Insurance UK Limited's financial statements

(b) Immediate parent company

The Company's immediate parent company is Aviva Insurance UK Limited, registered in England and Wales

(c) Ultimate controlling entity

The ultimate controlling entity is Aviva plc Its Annual Report and Accounts are available on application to the Group Company Secretary, Aviva plc, St Helen's, 1 Undershaft, London, EC3P 3DQ

24. Events after the reporting period

In 2010, a test case was taken to the European Court of Justice (ECJ) to rule on the current law and practice whereby insurers may take into account a person's gender in calculating the costs and benefits of their insurance On 1 March 2011 the ECJ ruled that, with effect from 21 December 2012, insurers will no longer be able to use a person's gender in this way The directors are assessing the ruling and its potential impact on the Company