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CGU UNDERWRITING LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS

2011

CGU Underwriting Limited

Contents

CGU Underwriting Limited

Directors and officer

Directors:

C J Abrahams
D J R McMillan
A Schmidt

Officer - Company Secretary:

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

Auditor:

Ernst & Young LLP
Statutory 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:

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 2011

The directors present their annual report and financial statements for the Company for the year ended 31 December 2011

Directors

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

Those in office since 1 January 2011 have been as follows

C J Abrahams, D J R McMillan and A Schmidt have served as directors throughout the period

S Egan resigned as a director on 20 December 2011

Principal activity

The principal activity of the Company was formerly the transaction of general insurance business in the United Kingdom ("UK") through a business arrangement with Santander UK plc On 14 November 2011, all of the assets and liabilities of the Company were transferred at carrying value to Aviva Insurance Limited, its parent company, by way of an insurance business transfer under Part VII of the Financial Services and Markets Act 2000 On the same date, the Company's general insurance licence was revoked by the Financial Services Authority The directors anticipate that the Company will be placed in liquidation in the near future

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

The strategy of the Group is determined by the board of Aviva plc, and a summary of these are shown in its financial statements The directors anticipate that the Company will be placed into liquidation in the near future

CGU Underwriting Limited

Directors' report (continued)

Business review (continued)

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

A summary of the KPIs is set out below

Measure	**2011**	**2010**
Decrease in annualised net written premiums	(5%)	(10%)
Combined operating ratio	81%	95%
Net incurred claims ratio	30%	45%
Net written commission ratio	51%	50%
Net written expenses ratio	0%	0%

Financial position and performance

As described in the principal activity note above, during the period the Company transferred all of its assets and liabilities to its parent company, by way of an insurance business transfer under Part VII of the Financial Services and Markets Act 2000

The financial position of the Company at 31 December 2011 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

The financial position of the Company on the date of the Insurance Business Transfer is shown in disclosure note 23 on page 46

The Company has a profit before tax of £38 million (2010 £23 million)

Gross written premiums have decreased by £34 million to £161 million (2010 £195 million) This is due to a fall of £21 million in personal property premiums and £13 million in personal creditor Net earned premiums have fallen by £47 million to £157 million (2010 £204 million)

Claims paid during the year are £77 million (2010 £100 million) Claims outstanding reduced by £30 million (2010 £9 million) and therefore claims incurred during the year are £47 million (2010 £91 million) representing a net incurred claims ratio of 30% (2010 45%) The claims ratio has benefitted from a release of prior year claims provisions of £11 million

Commission written during the year is £79 million (2010 £93 million) and the deferred acquisition costs have decreased by £4 million (2010 £7 million)

Net investment income is £11m (2010 £10m) The components of investment income are interest from investments designated other than trading of £8m (2010 £9m), realised gains of £6m (2010 losses of £1m), unrealised losses of £5m (2010 gains of £2m) and movement in amortised income on debt securities of £2m (2010 £nil)

CGU Underwriting Limited

Directors' report (continued)

Business review (continued)

Fınancıal posıtıon and performance (contınued)

Prıncıpal rısks and uncertaıntıes

A descrıptıon of the prıncıpal rısks and uncertaıntıes facıng the Company and the Company's rısk management polıcıes are set out ın note 20 to the financıal statements

Major events

As part of the ınsurance busıness transfer descrıbed under prıncıpal actıvıty above, on 14 November 2011, the Company's parent company became Avıva Insurance Lımıted

Going concern

After makıng enquırıes, the dırectors have a reasonable expectatıon that the Company has adequate resources to contınue ın exıstence for the foreseeable future For thıs reason, they contınue to adopt the goıng concern basıs ın preparıng the financıal statements

Financial instruments

The busıness of the Company ıncluded the use of financıal ınstruments Detaıls of the Company's rısk management objectıves, polıcıes and exposures to rısk relatıng to financıal ınstruments are set out ın note 20 to the financıal statements

Dividends

No ınterım dıvıdend for the year was paıd (2010 £nıl) The dırectors do not recommend the payment of a final dıvıdend for the year (2010 £nıl)

Employees

All staff are employed by a fellow undertakıng of Avıva plc, Avıva Employment Servıces Lımıted Dısclosures relatıng to employees may be found ın the annual report and financıal statements of Avıva Employment Servıces Lımıted

Auditor

Followıng a competıtıve tender process by the Company's ultımate parent company, Avıva plc, PrıcewaterhouseCoopers LLP are to be appoınted as audıtor to the Company Ernst & Young LLP wıll resıgn as audıtor wıth effect from the sıgnıng of the Company's annual report and financıal statements for the year ended 31 December 2011, and the dırectors wıll appoınt PrıcewaterhouseCoopers LLP as audıtor to the Company ın accordance wıth the provısıons of the Companıes Act 2006

CGU Underwriting Limited

Directors' report (continued)

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, which continue to apply in relation to any provision made before 1 October 2007

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 paragraph 15, Schedule 3 of The Companies Act 2006 (Commencement No 3, Consequential Amendments, Transitional Provisions and Savings) Order 2007

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 that 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

23 MAY 2012

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 2011, 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 23 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 auditor

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 and express an opinion on 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 In addition, we read all the financial and non-financial information in the Directors' Report to identify material inconsistencies with the audited financial statements If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report

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 2011 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 (Statutory Auditor)
London

25 May 2012

CGU Underwriting Limited

Accounting policies

The Company is a limited liability company incorporated and domiciled in Great Britain The principal activity of the Company was formerly the transaction of general insurance business in the United Kingdom ("UK") through a business arrangement with Santander UK plc On 14 November 2011, all of the assets and liabilities of the Company were transferred at carrying value to Aviva Insurance Limited, its parent company, by way of an insurance business transfer under Part VII of the Financial Services and Markets Act 2000 On the same date, the Company's general insurance licence was revoked by the Financial Services Authority The directors anticipate that the Company will be placed in liquidation in the near future

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 2011

There are no recently issued pronouncements effective for the 2011 financial statements that materially impact the Company's financial reporting

IFRS 9 *Financial Instruments* is effective in future years and awaiting endorsement The Company is currently reviewing the potential impact on the financial statements

IFRS 10 *Consolidated Financial Statements*, IFRS 11 *Joint Arrangements*, IFRS 12 *Disclosure of Interests in Other Entities*, IFRS 13 *Fair Value Measurement*, and amendments to IAS 27 *Separate Financial Statements*, IAS 28 *Investments in Associates and Joint Ventures*, and IAS 19 *Employee Benefits* were issued in May 2011 and are effective from 1 January 2013 and awaiting endorsement Amendments to IAS 1 *Presentation of Financial Statements* was issued in June 2011 and is effective from 1 July 2012 and awaiting endorsement The Company is currently reviewing the potential impact on the financial statements

Other external reporting developments continue to be proactively 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 below 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

CGU Underwriting Limited

Accounting policies (continued)

(C) Product classification (continued)

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

(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)

(F) Insurance contract liabilities (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 During the year, the net operating cash flow relects a number of factors including changes in the investment strategy of funds to hold a lower weighting of cash and higher levels of financial investments, the level of premium income and the timing of receipts of premiums and the payment of creditors, claims and surrenders It also includes changes in the size and value of consolidated cash investment funds

(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

Accounting policies (continued)

(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 profit before tax 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

(R) Insurance business transfers

Where an insurance business transfer is carried out under Part VII of the Financial Services and Markets Act 2000 between entities that are under common control, assets and liabilities are transferred at carrying value, for no consideration Transfers from a parent company to a subsidiary company are accounted for as a capital contribution, with the excess of assets over liabilities recognised in a capital reserve Transfers from a subsidiary company to its parent company are accounted for as a distribution The income statement of the transferee company includes the results of the insurance business transferred from the effective date of the transfer, the transferor company excludes the results of the insurance business transferred from the effective date of the transfer Corresponding amounts for the previous year are not restated

CGU Underwriting Limited

Income statement

For the year ended 31 December 2011

	Note	2011	2010
		£m	£m
Income	1		
Gross written premiums		161	195
Premiums ceded to reinsurers		(7)	(9)
Premiums written, net of reinsurance		154	186
Net change in provision for unearned premiums		3	18
Net earned premiums		157	204
Net investment income		11	10
		168	214
Expenses	2		
Claims paid, net of reinsurance		77	100
Change in claims provisions, net of reinsurance		(30)	(9)
Fee and commission expense, net of reinsurance		83	100
		130	191
Profit before tax		38	23
Tax expense	6	(10)	(6)
Profit for the year		28	17

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

The accounting policies on pages 8 to 12 and notes on pages 17 to 46 are an integral part of these financial statements

CGU Underwriting Limited

Statement of financial position
As at 31 December 2011

	Note	2011 £m	2010 £m
ASSETS			
Financial investments	7	-	235
Reinsurance assets	9	-	-
Receivables	10	-	67
Deferred acquisition costs	11	-	35
Prepayments and accrued income		-	5
Cash and cash equivalents	19(b)	-	24
Total assets		-	366
LIABILITIES			
Insurance liabilities	12	-	154
Current tax liabilities	14(a)	-	3
Deferred tax liabilities	14(b)	-	4
Payables and other financial liabilities	15	-	28
Other liabilities	16	-	4
Total liabilities		-	193
Net assets		-	173
EQUITY			
Ordinary share capital	17	185	185
Retained earnings	18	(185)	(12)
Total equity		-	173

The accounting policies on pages 8 to 12 and notes on pages 17 to 46 are an integral part of these financial statements

Approved by the Board on 23 MAY 2012

C. J. A

C J Abrahams
Director

CGU Underwriting Limited

Statement of changes in equity
For the year ended 31 December 2011

	Note	Ordinary share capital	Retained earnings	Total equity
		£m	£m	£m
Balance at 1 January 2010		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
Total comprehensive income for the year	18	-	28	28
Insurance business transfer	18	-	(201)	(201)
Total movements in the year		-	(173)	(173)
Balance at 31 December 2011		185	(185)	-

The accounting policies on pages 8 to 12 and notes on pages 17 to 46 are an integral part of these financial statements

CGU Underwriting Limited

Statement of cash flows
For the year ended 31 December 2011

	Note	2011 £m	2010 £m
Cash flows from operating activities			
Net cash inflow from/(outflow to) operating activities	19(a)	16	(96)
Net cash from/(used in) operating activities		16	(96)
Cash flows to investing activities			
Cash outflow arising from insurance business transfer	19(c)	(38)	-
Net cash used in investing activities		(38)	-
Net decrease in cash and cash equivalents		(22)	(96)
Cash and cash equivalents at 1 January		22	118
Cash and cash equivalents at 31 December	19(b)	-	22

The accounting policies on pages 8 to 12 and notes on pages 17 to 46 are an integral part of these financial statements

CGU Underwriting Limited

Notes to the financial statements

1. Details of income

	2011 £m	2010 £m
Premiums earned		
Gross written premiums	161	195
Less premiums ceded to reinsurers	(7)	(9)
Gross change in provision for unearned premium	3	18
Net change in provision for unearned premiums	3	18
Net earned premiums	157	204
Net investment income		
Interest and similar income		
From investments designated as other than trading	8	9
Realised gains/(losses) on disposals	6	(1)
Unrealised (losses)/gains	(5)	2
Movement in amortised income on debt securities	2	-
Gains on investments	3	1
Net investment income	11	10
Total income	168	214

CGU Underwriting Limited

Notes to the financial statements (continued)

2. Details of expenses

	2011	2010
	£m	£m
Claims paid, gross and net of reinsurance		
Claims paid to policyholders	77	100
Change in claims provisions, gross and net of reinsurance		
Change in claims provisions	(30)	(9)
Fee and commission expenses, net of reinsurance		
Acquisition costs		
Commission expenses	79	93
Change in deferred acquisition costs	4	7
	83	100
Total expenses	130	191

CGU Underwriting Limited

Notes to the financial statements (continued)

3. Employee information

All staff are employed by a fellow Group company, Aviva Employment Services Limited Disclosures relating to employees may be found in the annual report and financial statements of Aviva Employment Services Limited

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 22(c))

	2011	2010
	£000	£000
Audit services		
Statutory audit of the Company's financial statements	29	58

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

6. Tax

(a) Tax charged to the income statement

(i) The total tax charge comprises

	2011	2010
	£m	£m
Current tax:		
For this year	14	5
Total current tax	14	5
Deferred tax:		
Origination and reversal of temporary differences (note 6(a)(ii))	(4)	1
Total deferred tax	(4)	1
Total tax charged to income statement	10	6

Notes to the financial statements (continued)

6. Tax (continued)

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

	2011	2010
	£m	£m
Insurance items	(4)	1
Total deferred tax (credited)/charged to income statement	(4)	1

(b) Tax reconciliation

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

	2011	2010
	£m	£m
Net profit before tax	38	23
Tax calculated at standard UK corporation tax rate of 26 5% (2010 28%)	10	6
Tax charge for the period (note 6(a)(i))	10	6

A reduction in the UK corporation tax rate from 28% to 26% was substantively enacted in March 2011 and is effective from 1 April 2011 A further reduction from 26% to 25% was substantively enacted in July 2011 to be effective from 1 April 2012 Accordingly, the 25% rate has been applied in the measurement of the Company's deferred tax assets and liabilities as at 31 December 2011

In addition, a further 1% reduction in the UK corporation tax rate to 24%, effective from 1 April 2012, was announced in the 2012 Budget on 21 March 2012 and was substantively enacted on 26 March 2012 It was also announced that the UK corporation tax rate would reduce to 23% from 1 April 2013 and to 22% from 1 April 2014 There is no impact to the Company's net assets from the reduction in the rate as the Company has no net deferred tax asset or liability

CGU Underwriting Limited

Notes to the financial statements (continued)

7. Financial investments

(a) Carrying amount

Financial investments comprise	At fair value through profit or loss 2011 £m	At fair value through profit or loss 2010 £m
Fixed maturity securities		
Debt securities		
UK Government	-	43
Non-UK Government	-	44
Public utilities	-	5
Other corporates	-	143
Total financial investments	-	235

Of the above total, £nil (2010 £196 million) is expected to be recovered in more than one year after the statement of financial position date

(b) Cost, unrealised gains and losses and fair value

Following the insurance business transfer (note 23), the Company holds no financial investments at 31 December 2011

The following is a summary of the cost/amortised cost, gross unrealised gains and losses and fair value of financial investments at 31 December 2010

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

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

The £5 million unrealised losses on financial investments classified as at fair value through profit and loss recognised in the income statement in the year represents the accounting impact of transferring accumulated net unrealised gains of previous years to realised gains in the current year due to all financial investments being transferred to Aviva Insurance Limited at carrying value as part of the insurance business transfer detailed in note 23

The movement in the unrealised gain/loss position reported in the statement of financial position during the year, shown in the table above, included 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 (2010 £nil)

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

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

Following the insurance business transfer (note 23), the Company holds no financial investments at 31 December 2011

The table below shows an analysis of financial assets according to fair value hierarchy at 31 December 2010

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

9. Reinsurance assets

(a) Carrying amounts

Following the insurance business transfer (note 23), the Company holds no reinsurance assets at 31 December 2011

The following is a summary of the reinsurance assets and related insurance provisions as at 31 December 2010

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

(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

(c) Movements

Reinsurers' share of the provision for unearned premiums

	2011	2010
	£m	£m
Carrying amount at 1 January	-	-
Premiums ceded to reinsurers in the year	7	9
Less		
Reinsurers' share of premiums earned during the year	(7)	(9)
Change in reinsurance asset	-	-
Carrying amount at 31 December	-	-

CGU Underwriting Limited

Notes to the financial statements (continued)

10. Receivables

	2011 £m	2010 £m
Amounts due from intermediaries	-	7
Amounts due from related parties (note 22 (a)(i))	-	58
Other receivables	-	2
Total	-	67
Expected to be recovered in less than one year	-	67
Expected to be recovered in more than one year	-	-
	-	67

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

11. Deferred acquisition costs

The movements in deferred acquisition costs during the year are

	2011 £m	2010 £m
Carrying amount at 1 January	35	42
Acquisition costs written during the year, gross of reinsurance	79	93
Amortisation	(83)	(100)
Insurance business transfer (see note 23)	(31)	-
Carrying amount at 31 December	-	35

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

CGU Underwriting Limited

Notes to the financial statements (continued)

12. Insurance liabilities

(a) Carrying amount

Gross insurance liabilities at 31 December comprise

	2011	2010
	£m	£m
Provisions for outstanding claims	-	68
Provisions for claims incurred but not reported	-	9
	-	77
Provision for unearned premiums	-	77
Total	-	154

On 14 November 2011, all of the assets and liabilities of the Company were transferred at carrying value to its parent undertaking, Aviva Insurance Limited, by way of an insurance business transfer under Part VII of the Financial Services and Markets Act 2000 The carrying value of the insurance liabilities transferred was £121 million with related reinsurance assets of £nil (see note 23)

The final diagonals of the loss development tables (see note 12(e)) represent the cumulative payments and cummulative incurred cost of claims at 14 November 2011, being the point when the business was transferred out of the Company

(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

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

Where discount rate assumptions are based on current market yields on fixed interest securities, allowance is made for default risk implicit in the yields on the underlying assets

In 2010, a test case was taken to the European Court of Justice to rule on the current law and practice whereby insurers may take into account a person's gender in the assessment of risk and consequently the pricing of insurance products, the ruling for which was issued on 1 March 2011 At 31 Decemeber 2011, the impact of the ruling was £nil (2010 not applicable)

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

	2011 £m	2010 £m
Carrying amount at 1 January	77	86
Claims losses and expenses incurred in the current year	58	97
Claims losses and expenses incurred in prior years	(11)	(6)
Incurred claims losses and expenses	47	91
Less		
Payments made on claims incurred in the current year	(34)	(52)
Payments made on claims incurred in prior years	(43)	(48)
Claims payments made in the year	(77)	(100)
Changes in gross claims	(30)	(9)
Insurance business transfer (see note 23)	(47)	-
Carrying amount at 31 December	-	77

Effect of changes in estimates during the year

During the year, gross prior years' claims provisions of £11 million (2010 £6 million), £11 million net of reinsurance (2010 £6 million), 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 2002 to 2011 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 2002, by the end of 2010 £191 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 £208 million was re-estimated to be £191 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

CGU Underwriting Limited

Notes to the financial statements (continued)

12. Insurance liabilities (continued)

(e) Loss development tables (continued)

Accident Year	Prior Years	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	Total
		£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Gross cumulative claims payments												
At end of accident year		(108)	(90)	(79)	(68)	(76)	(99)	(65)	(62)	(52)	(34)	
One year later		(170)	(140)	(135)	(122)	(147)	(164)	(111)	(99)	(89)		
Two years later		(176)	(149)	(139)	(130)	(155)	(173)	(116)	(102)			
Three years later		(180)	(151)	(144)	(133)	(158)	(176)	(118)				
Four years later		(183)	(157)	(146)	(134)	(159)	(177)					
Five years later		(186)	(160)	(147)	(135)	(159)						
Six years later		(189)	(160)	(147)	(135)							
Seven years later		(191)	(161)	(147)								
Eight years later		(191)	(161)									
Nine years later		(191)										
Estimate of gross ultimate claims												
At end of accident year		208	193	174	168	155	178	121	119	97	58	
One year later		190	150	143	135	154	177	118	108	89		
Two years later		186	157	146	137	160	183	120	106			
Three years later		191	161	146	136	162	183	120				
Four years later		191	160	146	138	163	183					
Five years later		191	160	147	139	163						
Six years later		190	161	148	138							
Seven years later		191	162	148								
Eight years later		192	162									
Nine years later		191										
Estimate of ultimate claims		191	162	148	138	163	183	120	106	89	58	
Cumulative payments		(191)	(161)	(147)	(135)	(159)	(177)	(118)	(102)	(89)	(34)	
Gross outstanding claims provisions recognised in the statement of financial position	2	-	1	1	3	4	6	2	4	-	24	47
Transfer of reserves at 14 November 2011	(2)	-	(1)	(1)	(3)	(4)	(6)	(2)	(4)	-	(24)	(47)
Present value recognised in the statement of financial position	-	-	-	-	-	-	-	-	-	-	-	-

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	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	Total
		£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Net cumulative claims payments												
At end of accident year		(103)	(86)	(79)	(68)	(75)	(86)	(65)	(62)	(52)	(34)	
One year later		(159)	(130)	(135)	(121)	(146)	(140)	(111)	(99)	(89)		
Two years later		(165)	(139)	(138)	(129)	(149)	(149)	(116)	(102)			
Three years later		(169)	(141)	(143)	(132)	(151)	(152)	(118)				
Four years later		(171)	(147)	(145)	(133)	(152)	(153)					
Five years later		(174)	(150)	(146)	(134)	(152)						
Six years later		(177)	(150)	(146)	(134)							
Seven years later		(178)	(151)	(146)								
Eight years later		(178)	(151)									
Nine years later		(178)										
Estimate of net ultimate claims												
At end of accident year		194	185	174	168	151	153	121	119	97	58	
One year later		175	142	143	132	150	153	118	108	89		
Two years later		175	148	145	134	154	159	120	106			
Three years later		180	150	145	135	156	159	120				
Four years later		179	149	145	137	156	159					
Five years later		179	150	146	138	156						
Six years later		178	151	147	137							
Seven years later		179	152	147								
Eight years later		179	152									
Nine years later		178										
Estimate of ultimate claims		178	152	147	137	156	159	120	106	89	58	
Cumulative payments		(178)	(151)	(146)	(134)	(152)	(153)	(118)	(102)	(89)	(34)	
Net outstanding claims provisions recognised in the statement of financial position	2	-	1	1	3	4	6	2	4	-	24	47
Transfer of reserves at 14 November 2011	(2)	-	(1)	(1)	(3)	(4)	(6)	(2)	(4)	-	(24)	(47)
Present value recognised in the statement of financial position	-	-	-	-	-	-	-	-	-	-	-	-

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

	2011	2010
	£m	£m
Carrying amount at 1 January	77	95
Premiums written during the year	161	195
Less Premiums earned during the year	(164)	(213)
Change in year	(3)	(18)
Insurance business transfer (see note 23)	(74)	-
Carrying amount at 31 December	-	77

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 was formerly one, mutually guaranteed to discharge all liabilities attaching to their respective policies The guarantee enabled a company, if it was unable to pay a policyholder claim, to seek financial support from one of the other guarantors The guarantors were not obliged to make the payment if in so doing they would breach their own solvency requirement If any payments were made under the guarantee, the guarantors were entitled to seek repayment from the company benefiting from the guarantee The guarantee could not 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 was 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 was not material and no material loss was expected to arise therefrom

On 14 November 2011, the Company ceased to be a party to this guarantee and all of its assets and liabilities under the guarantee were extinguished

CGU Underwriting Limited

Notes to the financial statements (continued)

14. Tax assets and liabilities

(a) Current tax

	2011 £m	2010 £m
(i) Tax liability		
Expected to be payable in more than one year	-	3
Tax liability recognised in statement of financial position	-	3

Liabilities for prior years' tax settled by group relief of £nil (2010 £6 million) are included within receivables (note 10) and within related party transactions (note 22(ii))

(b) Deferred tax

(i) The balance at the year end comprises

	2011 £m	2010 £m
Temporary differences arising on insurance items	-	4
Net deferred tax balance	-	4

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

	2011 £m	2010 £m
Balance at 1 January	4	3
Amounts (credited)/charged to profit (note 6 (a)(i))	(4)	1
Balance at 31 December	-	4

15. Payables and other financial liabilities

	2011 £m	2010 £m
Payables arising out of direct insurance	-	11
Amounts due to related parties (note 22 (a)(iii))	-	15
Bank overdrafts (note 19(b))	-	2
	-	28
Expected to be settled within one year	-	28

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

CGU Underwriting Limited

Notes to the financial statements (continued)

16. Other liabilities

	2011	2010
	£m	£m
Other liabilities	-	4
Expected to be settled within one year	-	4

17. Ordinary share capital

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

	2011	2010
	£m	£m
Authorised		
100 (2010 100) Ordinary A shares of £1 each	-	-
184,999,900 (2010 184,999,900) Ordinary B shares of £1 each	185	185
Allotted, called up and fully paid		
100 (2010 100) Ordinary A shares of £1 each	-	-
184,999,900 (2010 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

CGU Underwriting Limited

Notes to the financial statements (continued)

18. Retained earnings

	2011	2010
	£m	£m
Balance at 1 January	(12)	(29)
Profit for the year	28	17
Insurance business transfer (see note 23)	(201)	-
Balance at 31 December	(185)	(12)

In accordance with accounting policy Q, retained earnings include £nil (2010 £11 million) relating to equalisation provisions, net of attributable tax relief, which are not distributable

19. Statement of cash flows

	2011	2010
	£m	£m
(a) The reconciliation of profit before tax to the net cash inflow from /(outflow to) operating activities is:		
Profit before tax	38	23
Adjustments for		
Gains on investments	(3)	(2)
Changes in working capital		
(Increase)/decrease in deferred acquisition costs	4	7
(Increase)/decrease in receivables and other financial assets	(14)	(42)
(Increase)/decrease in prepayments and accrued income	-	(2)
Increase/(decrease) in insurance liabilities	(33)	(27)
Increase/(decrease) in payables and other financial liabilities	15	8
Increase/(decrease) in other liabilities	-	(1)
Net sales/(purchases) of operating assets		
Financial investments	9	(60)
Net cash inflow from/(outflow to) operating activities	16	(96)

"Increase/(decrease) in receivables and other financial assets" is stated after eliminating £nil (2010 £4 million) of corporation tax recoverable settled or to be settled by group relief

(b) Cash and cash equivalents in the statement of cash flows at 31 December comprise:	2011	2010
	£m	£m
Cash equivalents	-	24
Bank overdrafts (note 15)	-	(2)
	-	22

19. Statement of cash flows (continued)

(c) Cash flows in respect of insurance business transfer	£m
Cash transferred as part of insurance business transfer (note 23)	
Cash equivalents	44
Bank overdrafts	(6)
	38

20. Risk management

As described in note 23, on 14 November 2011 the Company transferred all of its assets and liabilities to Aviva Insurance Limited by way of an insurance business transfer under Part VII of the Financial Services and Markets Act 2000 Accordingly, at the year end, the Company had no risks The note which follows describes the risk management framework ("RMF") that applied during the period to 14 November 2011 and the changes to the Company's risks since 31 December 2010 This Company, as part of the Aviva's UK Region, has adopted the RMF

The ultimate parent company, Aviva plc, and its subsidiaries, joint ventures and associates, (collectively known as "the Group"), operate a 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 Aviva businesses ("the UK Region") including the Aviva businesses collectively referred to as "UKGI" (including the UK general insurance business primarily carried out within Aviva Insurance Limited and Aviva Insurance International 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 strength within the statement of financial position, 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 the Company's franchise value

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

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, customers and other 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

CGU Underwriting Limited

Notes to the financial statements (continued)

20. Risk management (continued)

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 risk management framework that defines risk appetite measures and sets out risk management and control standards for the Group's worldwide operations The risk management framework also set out the roles and responsibilities of businesses, regions, policy owners and risk oversight committees

UKGI operates a three lines of defence risk management model 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)

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

In addition to monitoring regulatory Solvency under applicable FSA regulations, the FSA also requires UKGI to assess its economic capital requirements to ensure that it adequately reflects the risks facing the business

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 agreed risk limits

(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 UKGI's market risk appetite is set by the UKGI Asset and Liability Committee

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

CGU Underwriting Limited

Notes to the financial statements (continued)

20. Risk management (continued)

(a) Financial risk management (continued)

(i) Market risk (continued)

The Company operated predominantly within the UK and there was 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

(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 Company holds no financial assets at 31 December 2011 The following table provides information regarding the aggregated credit risk exposure of the Company at 31 December 2010 '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

The Company was 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)

20. Risk management (continued)

(a) Financial risk management (continued)

(ii) Credit risk (continued)

Debt securities of £nil (2010 £235 million) are neither past due nor impaired

At 31 December 2011, receivables are £nil (2010 £67 million) Of the Company's receivables, £nil (2010 £58 million) is due from related parties, details of which are set out in note 22

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 Financial Risk Committee for all material UKGI exposures

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

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

Until 14 November 2011, after which no further liabilities were underwritten, the majority of the general insurance business underwritten by the Company was 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 was 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)

20. 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 in 2011

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, with periodic independent 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 as they fall due

UKGI has set its investment strategy to ensure it has sufficient liquid funds to meet its obligations on an expected basis and under adverse circumstances 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

At 31 December 2011, financial assets and reinsurers' share of the unearned premium provision are £nil 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 held at 31 December 2010, 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

20. Risk management (continued)

(a) Financial risk management (continued)

(iv) Liquidity risk (continued)

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 The vast majority of the Company's debt securities were market traded and, therefore, if required, could be liquidated for cash at short notice

At 31 December 2011, the Company's financial liabilities and the provision for unearned premiums are £nil The following table shows the Company's financial liabilities and the provision for unearned premiums at 31 December 2010, 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

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

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

CGU Underwriting Limited

Notes to the financial statements (continued)

20. Risk management (continued)

(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 risk management 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 In general, 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

The Company has been deregulated and has no insurance business activities at 31 December 2011 Accordingly, no sensitivity analysis is presented

CGU Underwriting Limited

Notes to the financial statements (continued)

21. 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 was 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 was therefore restricted to the extent that these earnings form part of UK regulatory capital

(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

CGU Underwriting Limited

Notes to the financial statements (continued)

21. Capital structure (continued)

(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 period to deregulation on 14 November 2011

(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 20, Risk management, gives further details

(d) Capital structure

	IFRS net assets 2011 £m	IFRS net assets 2010 £m
General insurance	-	173
Total capital employed	-	173
Financed by		
Equity shareholder's funds	-	173

CGU Underwriting Limited

Notes to the financial statements (continued)

22. Related party transactions

(a) The Company had the following related party transactions in 2011 and 2010.

(i) Insurance business transfer

On 14 November 2011, all of the assets and liabilities of the Company were transferred at carrying value to Aviva Insurance Limited by way of an insurance business transfer under Part VII of the Financial Services and Markets Act 2000 The carryng value of the net assets and liabilities transferred to Aviva Insurance Limited was £201 million See note 23 for further details

(ii) Other services provided to related parties

	2011		2010	
	Income earned in year	**Receivable at year end**	**Income earned in year**	**Receivable at year end**
	£m	**£m**	**£m**	**£m**
Fellow Group companies	-	-	-	58

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

(iii) Other services provided by related parties

	2011		2010	
	Expense incurred in year	**Payable at year end**	**Expense incurred in year**	**Payable at year end**
	£m	**£m**	**£m**	**£m**
Parent	-	-	-	15

(iv) Key management compensation

The key management of the Company are considered to be the same as for Aviva Insurance Limited, the parent company Information on key management compensation may be found in the related party transactions note in the financial statements of Aviva Insurance Limited

(b) Immediate parent company

On 14 November 2011, Aviva Insurance UK Limited transferred its entire shareholding in the issued share capital of the Company to Aviva Insurance Limited, the parent company Aviva Insurance Limited is registered in Scotland

(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

CGU Underwriting Limited

Notes to the financial statements (continued)

23. Insurance business transfer

On 10 June 2011, the Board approved the transfer of the assets and liabilities of the Company to Aviva Insurance Limited, its parent company The transfer was effected on 14 November 2011

All assets and liabilities of the Company were transferred at carrying value to Aviva Insurance Limited by way of an insurance business transfer under Part VII, Section 105 of the Financial Services and Markets Act 2000 On 14 November 2011, the Company's general insurance licence was revoked by the Financial Services Authority

The assets and liabilities transferred were as follows

	£m	£m
Assets		
Financial investments		229
Receivables		81
Deferred acquisition costs		31
Prepayments and accrued income		5
Cash and cash equivalents		44
Total assets		390
Liabilities		
Insurance liabilities		121
Provision for outstanding claims	47	
Provision for unearned premiums	74	
Current tax liabilities		17
Payables and other financial liabilities		47
Other liabilities		4
Total liabilities		189
Total assets less liabilities		201

All assets and liabilities were transferred at carrying value for £nil consideration