110410

GRESHAM INSURANCE COMPANY LIMITED
ANNUAL REPORT AND FINANCIAL STATEMENTS
2009

Gresham Insurance Company Limited

Contents

Gresham Insurance Company Limited

Directors and officer

Directors:

G J Duggan
J R Kitson
D J R McMillan
D K Watson
R J Clarkson (alternate director to G J Duggan)

Officer - Company Secretary:

R H Spicker

Auditor:

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

Registered office:

8 Surrey Street
Norwich
NR1 3NG

Company number:

Registered in England and Wales No 110410

Other information:

Gresham Insurance Company 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")

Gresham Insurance Company Limited

Registered in England and Wales: No. 110410

Directors' report

For the year ended 31 December 2009

The directors present their annual report and financial statements for the Company for the year ended 31 December 2009

Directors

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

Those in office since 1 January 2009 have been as follows

G J Duggan, J R Kitson and D K Watson have served as directors throughout the period

R J Clarkson has served as an alternate director to G J Duggan throughout the period

I M Mayer resigned as a director on 31 December 2009

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

Gresham Insurance Company 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 gross written premiums, and
- combined operating ratio ("COR") - this comprises the sum of the following ratios
  - gross incurred claims to gross earned premiums,
  - gross written commission to gross written premiums, and
  - gross written expenses to gross written premiums

A summary of the KPIs is set out below

Measure	**2009**	**2008**
Decrease in gross written premiums	(8%)	(1%)
Combined operating ratio (before restructuring costs)	100%	104%
Gross incurred claims ratio	68%	74%
Gross written commission ratio	19%	16%
Gross written expenses ratio	13%	14%

The written expenses ratio excludes restructuring costs of £11 million (2008 £13 million)

Financial position and performance

The financial position of the Company at 31 December 2009 is shown in the statement of financial position on page 15, with the trading results shown in the income statement on page 14 and the statement of cash flows on page 17

Aviva plc, the Company's ultimate parent company, has stated its intention to meet or beat a COR of 98% across the cycle The Company is seeking to support Aviva plc in meeting this target

Profit before tax for the year is £8 million (2008 £15 million) This decrease is due to several factors as reflected by the KPIs and also detailed below As described in note 21(a)(i), the Company has a 100% quota share reinsurance arrangement with its parent company, Aviva International Insurance Limited

Premium decreased in 2009, which is due to the continuing tough market conditions and the Company's focus on sustainable profitability rather than on volume

The gross COR decreased The principal factor in the improved COR is improved claims experience

The reduction in profit before tax from £15 million to £8 million is due to a reduction in investment and other operating income of £7 million

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 note 19 to the financial statements

Gresham Insurance Company Limited

Directors' report (continued)

Major events

On 10 November 2009, the trading agreement between the Company and Barclays Bank plc was renewed for a period of five years with effect from 1 April 2010

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 19 to the financial statements

Dividends

No interim dividend for the year was paid (2008 £nil) The directors do not recommend the payment of a final dividend (2008 £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

Gresham Insurance Company 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 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

On behalf of the Board

D J R McMillan
Director

23RD MARCH 2010

Gresham Insurance Company Limited

Independent auditor's report (continued)

To the members of Gresham Insurance Company 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 2010

Gresham Insurance Company Limited

Independent auditor's report

To the members of Gresham Insurance Company Limited

We have audited the financial statements of Gresham Insurance Company Limited for the year ended 31 December 2009 which comprise 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 21 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 2009 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

Gresham Insurance Company Limited

Accounting policies

The Company is a limited liability company incorporated and domiciled in Great Britain Its principal activity is the transaction of general insurance business in the United Kingdom ("UK")

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 2009

The following recently issued pronouncements are effective for the 2009 financial statements and, with the exception of the Improvements to IFRSs (issued in April 2009), were endorsed by the EU during 2009 With the exception of IAS 1 Presentation of Financial Statements A Revised Presentation and Amendments to IFRS 7 Improving Disclosures about Financial Instruments, none of these pronouncements materially impact the Company's financial reporting

- IAS 1 Presentation of Financial Statements A Revised Presentation
- Amendment to IAS 23 Borrowing Costs
- Amendments to IAS 32 and IAS 1 Puttable Financial Instruments and Obligations Arising on Liquidation
- Amendment to IAS 39 Reclassification of Financial Assets Effective Date and Transition
- Amendments to IAS 39 and IFRS 7 Reclassification of Financial Instruments
- Improvements to IFRSs (issued in May 2008)
- Improvements to IFRSs (issued in April 2009)
- Amendments to IFRS 1 and IAS 27 Cost of an Investment in a Subsidiary, Jointly-controlled Entity or Associate
- Amendment to IFRS 2 Share-based Payment Vesting Conditions and Cancellations
- Amendments to IFRS 7 Improving Disclosures about Financial Instruments
- IFRS 8 Operating Segments
- Amendments to IFRIC 9 and IAS 39 Embedded Derivatives
- IFRIC 13 Customer Loyalty Programmes
- IFRIC 15 Agreements for the Construction of Real Estate
- IFRIC 16 Hedges of a Net Investment in a Foreign Operation
- IFRIC 18 Transfers of Assets from Customers

The following pronouncements are effective in future years and are not expected to have a material impact on the Company's financial reporting With the exception of the Amendments to IFRS 1, the Amendments to IFRS 2 and the Improvements to IFRSs (issued in April 2009), these pronouncements were endorsed by the EU during 2009

- Amendments to IAS 27 Consolidated and Separate Financial Statements
- Amendment to IAS 32 Classification of Rights Issues
- Amendment to IAS 39 Financial Instruments Recognition and Measurement Eligible Hedged Items
- Improvements to IFRSs (issued in April 2009)
- Revised IFRS 1 First Time Adoption of IFRS
- Amendments to IFRS 1 Additional Exemptions for First-time Adopters
- Amendments to IFRS 2 Group Cash-settled Share-based Payment Transactions
- Revised IFRS 3 Business Combinations
- IFRIC 17 Distributions of Non-cash Assets to Owners

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

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

Gresham Insurance Company Limited

Accounting policies (continued)

(A) Basis of presentation (continued)

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 G overleaf and in note 11 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

(D) Premiums earned

Premiums written reflect business incepted during the year, and exclude any sales-based taxes, 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) Other operating income

Other operating income consists primarily of commission revenue for successful customer introductions, which is recognised when earned

(F) Net investment income

Investment income consists of interest for the year, movements in amortised cost on debt securities, realised gains and losses, and unrealised gains and losses on investments held at fair value through profit or loss ("FVPL") 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

Gresham Insurance Company Limited

Accounting policies (continued)

(G) 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 11(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

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 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

Gresham Insurance Company Limited

Accounting policies (continued)

(H) Reinsurance

The Company cedes reinsurance in the normal course 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

(I) 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 asset 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 transferred 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

Gresham Insurance Company Limited

Accounting policies (continued)

(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 within payables and other financial liabilities in 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

(M) 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

Gresham Insurance Company Limited

Accounting policies (continued)

(N) Income taxes

The current tax expense is based on the taxable results 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

(O) 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 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

(P) 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

Gresham Insurance Company Limited

Income statement
For the year ended 31 December 2009

	Note	2009	2008
		£m	£m
Income	2		
Gross written premiums		247	269
Premiums ceded to reinsurers		(245)	(267)
Premiums written and earned, net of reinsurance		2	2
Net investment income		-	3
Other operating income		7	11
		9	16
Expenses	3		
Claims paid, net of reinsurance		4	6
Change in claims provisions, net of reinsurance		(3)	(5)
		1	1
Profit before tax		8	15
Tax expense	7	(2)	(4)
Profit for the year		6	11

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

The accounting policies on pages 8 to 13 and notes on pages 18 to 43 are an integral part of these financial statements

Gresham Insurance Company Limited

Statement of financial position
As at 31 December 2009

	Note	2009	2008
ASSETS		**£m**	**£m**
Reinsurance assets	8	224	229
Receivables and other financial assets	9	126	139
Deferred acquisition costs	10	27	34
Prepayments and accrued income		3	-
Cash and cash equivalents	18(b)	24	23
Total assets		404	425
LIABILITIES			
Insurance liabilities	11	232	240
Deferred tax liability	12(b)	1	3
Current tax liability	12(a)	4	6
Payables and other financial liabilities	13	51	56
Other liabilities	14	40	50
Total liabilities		328	355
Net assets		76	70
EQUITY			
Ordinary share capital	15	61	61
Retained earnings	16	15	9
Total equity		76	70

The accounting policies on pages 8 to 13 and notes on pages 18 to 43 are an integral part of these financial statements

Approved by the Board on 23RD MARCH 2010

D K Watson

Director

Gresham Insurance Company Limited

Statement of changes in equity
For the year ended 31 December 2009

	Ordinary share capital	Retained earnings	Total equity
	£m	£m	£m
Balance at 1 January 2008	61	(2)	59
Total comprehensive income for the year	-	11	11
Total movements in the year	-	11	11
Balance at 31 December 2008	61	9	70
Total comprehensive income for the year	-	6	6
Total movements in the year	-	6	6
Balance at 31 December 2009	61	15	76

The accounting policies on pages 8 to 13 and notes on pages 18 to 43 are an integral part of these financial statements

Gresham Insurance Company Limited

Statement of cash flows
For the year ended 31 December 2009

	Note	2009	2008
		£m	£m
Cash flows from/(used in) operating activities			
Net cash inflow/(outflow) to continuing operations	18(a)	1	(22)
Net cash from/(used in) operating activities		1	(22)
Net increase/(decrease) in cash and cash equivalents		1	(22)
Cash and cash equivalents at 1 January		23	45
Cash and cash equivalents at 31 December	18(b)	24	23

The accounting policies on pages 8 to 13 and notes on pages 18 to 43 are an integral part of these financial statements

Gresham Insurance Company Limited

Notes to the financial statements

1. Presentation changes

(a) The Company has adopted IAS 1 (Revised) Presentation of Financial Statements as at 1 January 2009 The principal effect of this has been in presentation of the financial statements, in the following areas

(i) The titles of some of the prime statements have changed, so that the reconciliation of movements in shareholder's equity is now called the statement of changes in equity, the balance sheet is now called the statement of financial position, and the cash flow statement is now called the statement of cash flows

(ii) The standard requires the income tax effect of each component of comprehensive income to be disclosed This information is given in note 7

(iii) Changes in the year in each element of equity must now be shown on the face of the statement of changes in equity, rather than in the notes

(iv) The standard requires entities to present a comparative statement of financial position as at the beginning of the earliest comparative period when the entity has either applied an accounting policy retrospectively, makes a retrospective restatement or reclassifies items in the financial statements None of these conditions applies

(b) The Company has also adopted Amendments to IFRS 7, Improving Disclosures about Financial Instruments, as at 1 January 2009 The principal impact of these amendments is to require the following additional disclosures

(i) An analysis of financial assets and liabilities carried at fair value using a fair value hierarchy that reflects the significance of inputs used in making the fair value measurements,

(ii) An analysis of transfers of financial assets and liabilities between different levels of the fair value hierarchy,

(iii) A reconciliation from beginning to end of the period of financial assets and liabilities whose fair value is based on unobservable inputs, and

(iv) An enhanced discussion and analysis of liquidity risk, including a maturity analysis of financial assets held for managing liquidity risk, if that information is necessary to enable users of its financial statements to evaluate the nature and extent of liquidity risk

Comparative information for the disclosures required by the IFRS 7 amendments is not needed in the first year of application

Gresham Insurance Company Limited

Notes to the financial statements (continued)

2. Details of income

	2009	2008
	£m	£m
Premiums earned		
Gross written premiums	247	269
Less premiums ceded to reinsurers	(245)	(267)
Gross change in provision for unearned premiums	12	2
Reinsurers' share of change in provision for unearned premiums	(12)	(2)
Net change in provision for unearned premiums	-	-
Net earned premiums	2	2
Other operating income	7	11
Total revenue	9	13
Net investment income		
Interest and similar income from investments designated as other than trading	-	3
Total income	9	16

Gresham Insurance Company Limited

Notes to the financial statements (continued)

3. Details of expenses

	2009	2008
	£m	£m
Claims paid, net of reinsurance		
Claims paid to policyholders	171	212
Less Claims recoveries from reinsurers	(167)	(206)
	4	6
Change in claims provisions, net of reinsurance		
Change in gross claims provisions	4	(13)
Change in reinsurance asset for claims provisions	(7)	8
	(3)	(5)
Total expenses	1	1

The Company has no fee and commission expense or other operating expense net of reinsurance due to a 100% quota share reinsurance agreement

4. 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

5. 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

Gresham Insurance Company Limited

Notes to the financial statements (continued)

6. 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 21(c))

	2009	2008
	£000	£000
Audit services		
Statutory audit of the Company's financial statements	53	50

Audit fees are borne by Aviva Central Services UK Limited, a fellow Group company, and recharged to the Company

7. Tax

(a) Tax charged to the income statement

(i) The total tax charge comprises

	2009	2008
	£m	£m
Current tax:		
For this year	4	6
Adjustment in respect of prior years	-	(1)
Total current tax	4	5
Deferred tax:		
Origination and reversal of timing differences (note 7(a)(ii))	(2)	(1)
Total deferred tax	(2)	(1)
Total tax charged to income statement	2	4

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

	2009	2008
	£m	£m
Insurance items	(2)	(1)
Total deferred tax credited to income statement	(2)	(1)

(b) Tax reconciliation

The tax on the Company's profit before tax is equal to the amount that would be expected to arise using the tax rate in the UK as follows

	2009	2008
	£m	£m
Profit before tax	8	15
Tax charge calculated at standard UK corporation tax rate of 28 0% (2008 28 5%)	2	4
Tax charged for the period (note 7(a)(i))	2	4

Notes to the financial statements (continued)

8. Reinsurance assets

(a) Carrying amounts

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

	2009			2008		
	Gross insurance provisions	Reinsurance assets	Net	Gross insurance provisions	Reinsurance assets	Net
	£m	£m	£m	£m	£m	£m
Outstanding claims provisions	92	86	6	88	79	9
Provisions for claims incurred but not reported	8	6	2	8	6	2
	100	92	8	96	85	11
Provision for unearned premiums	132	132	-	144	144	-
Total	232	224	8	240	229	11

Of the above total, £72 million (2008 £71 million) of the reinsurance assets is expected to be recovered in more than one year after the statement of financial position date

(b) Assumptions

The assumptions used for reinsurance contracts follow those used for insurance contracts, shown in note 11(c)

Reinsurance assets are valued net of any provisions for their recoverability

(c) Movements

(i) Reinsurers' share of claims provisions	2009	2008
	£m	£m
Carrying amount at 1 January	85	93
Reinsurers' share of claims losses and expenses incurred in current year	166	182
Reinsurers' share of claims losses and expenses incurred in prior years	8	16
Reinsurers' share of incurred claims losses and expenses	174	198
Less		
Reinsurance recoveries received on claims incurred in current year	(99)	(113)
Reinsurance recoveries received on claims incurred in prior years	(68)	(93)
Reinsurance recoveries received in the year	(167)	(206)
Change in reinsurance asset	7	(8)
Carrying amount at 31 December	92	85

(ii) Reinsurers' share of the provision for unearned premiums	2009	2008
	£m	£m
Carrying amount at 1 January	144	146
Premiums ceded to reinsurers in the year	245	267
Less		
Reinsurers' share of premiums earned during the year	(257)	(269)
Change in reinsurance asset	(12)	(2)
Carrying amount at 31 December	132	144

Gresham Insurance Company Limited

Notes to the financial statements (continued)

9. Receivables and other financial assets

	2009	2008
	£m	£m
Amounts due from insurance contract holders	118	125
Amounts due from reinsurers	8	11
Other financial assets	-	3
Total	126	139
Expected to be recovered in less than one year	126	139

10. Deferred acquisition costs

(a) The carrying amount comprises

	2009	2008
	£m	£m
Deferred acquisition costs	27	34

(b) The movements in deferred acquisition costs during the year are

	2009	2008
	£m	£m
Carrying amount at 1 January	34	40
Acquisition costs written during the year, gross of reinsurance	60	66
Amortisation	(67)	(72)
Carrying amount at 31 December	27	34

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

Gresham Insurance Company Limited

Notes to the financial statements (continued)

11. Insurance liabilities

(a) Carrying amount

Gross insurance liabilities at 31 December comprise

	2009 £m	2008 £m
Provision for outstanding claims	92	88
Provision for claims incurred but not reported	8	8
	100	96
Provision for unearned premiums	132	144
Total	232	240

(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

Gresham Insurance Company Limited

Notes to the financial statements (continued)

11. 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

Gresham Insurance Company Limited

Notes to the financial statements (continued)

11. Insurance liabilities (continued)

(d) Movements

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

	2009	2008
	£m	£m
Carrying amount at 1 January	96	109
Claims losses and expenses incurred in the current year	166	182
Claims losses and expenses incurred in prior years	9	17
Incurred claims losses and expenses	175	199
Less		
Payments made on claims incurred in the current year	(99)	(113)
Payments made on claims incurred in prior years	(72)	(99)
Claims payments made in the year	(171)	(212)
Change in gross claims	4	(13)
Carrying amount at 31 December	100	96

Effect of changes in estimates during the year

During the year, prior years' gross claims provisions of £9 million (2008 £17 million), £1 million net of reinsurance (2008 £1 million), were charged to the income statement The main reason for this was reassessment of the levels of provision for motor and household claims

(e) Loss development tables

The table that follows presents the development of claims payments and the estimated ultimate cost of claims for the accident years 2001 to 2009 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 2009 £40 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 £41 million was re-estimated to be £40 million at 31 December 2009 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, as shown in the loss development tables and movements table (d) above However, in order to maintain strong reserves, the Company transfers some of this release to current accident year (2009) reserves where the development of claims is less mature and there is much greater uncertainty attaching to the ultimate cost of claims

Notes to the financial statements (continued)

11. Insurance liabilities (continued)

(e) Loss development tables (continued)

Accident Year	All prior years	2001	2002	2003	2004	2005	2006	2007	2008	2009	Total
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Gross cumulative claims payments											
At end of accident year		(24)	(28)	(35)	(50)	(57)	(83)	(150)	(113)	(99)	
One year later		(35)	(43)	(52)	(74)	(94)	(151)	(233)	(169)		
Two years later		(37)	(45)	(56)	(79)	(101)	(159)	(246)			
Three years later		(38)	(46)	(58)	(82)	(105)	(161)				
Four years later		(38)	(46)	(60)	(82)	(105)					
Five years later		(39)	(46)	(60)	(83)						
Six years later		(39)	(47)	(60)							
Seven years later		(40)	(47)								
Eight years later		(40)									
Estimate of gross ultimate claims											
At end of accident year		41	46	64	84	90	138	239	182	166	
One year later		40	47	63	83	101	162	247	181		
Two years later		39	47	62	82	104	167	255			
Three years later		39	47	61	84	107	168				
Four years later		39	47	62	84	107					
Five years later		39	47	61	85						
Six years later		39	47	61							
Seven years later		40	47								
Eight years later		40									
Estimate of ultimate claims		40	47	61	85	107	168	255	181	166	
Cumulative payments		(40)	(47)	(60)	(83)	(105)	(161)	(246)	(169)	(99)	
Gross outstanding claims provisions recognised in the statement of financial position	-	-	-	1	2	2	7	9	12	67	100

Gresham Insurance Company Limited

Notes to the financial statements (continued)

11. 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	Total
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Net cumulative claims payments											
At end of accident year		(24)	(28)	(35)	(50)	(57)	(46)	-	-	-	
One year later		(35)	(43)	(52)	(73)	(94)	(51)	-	-		
Two years later		(37)	(45)	(56)	(78)	(101)	(52)	-			
Three years later		(38)	(46)	(58)	(81)	(103)	(55)				
Four years later		(38)	(46)	(60)	(82)	(103)					
Five years later		(39)	(46)	(60)	(82)						
Six years later		(39)	(47)	(60)							
Seven years later		(39)	(47)								
Eight years later		(40)									
Estimate of net ultimate claims											
At end of accident year		41	46	64	83	90	61	-	-	-	
One year later		40	47	63	82	100	59	-	-		
Two years later		39	47	62	82	104	59	-			
Three years later		39	47	61	83	104	59				
Four years later		39	47	62	83	105					
Five years later		39	47	61	83						
Six years later		39	47	61							
Seven years later		40	47								
Eight years later		40									
Estimate of ultimate claims		40	47	61	83	105	59	-			
Cumulative payments		(40)	(47)	(60)	(82)	(103)	(55)	-			
Net outstanding claims provisions recognised in the statement of financial position	-	-	-	1	1	2	4	-	-	-	8

Gresham Insurance Company Limited

Notes to the financial statements (continued)

11. Insurance liabilities (continued)

(f) Provision for unearned premiums

Movements

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

	2009	2008
	£m	£m
Carrying amount at 1 January	144	146
Premiums written during the year	247	269
Less Premiums earned during the year	(259)	(271)
Change in year	(12)	(2)
Carrying amount at 31 December	132	144

12. Tax assets and liabilities

(a) Current tax

	2009	2008
	£m	£m
(i) Tax liability		
Expected to be payable in more than one year	4	6
Tax liability recognised in statement of financial position	4	6

Assets and liabilities for prior years' tax settled by group relief of £nil and £6 million (2008 £nil and £4 million) are included within payables and other financial liabilities (note 13) and within the related party transactions (note 21(a)(iii)) and are recoverable or payable in less than one year

(b) Deferred tax

(i) The balance at the year end comprises

	2009	2008
	£m	£m
Temporary differences arising on insurance items	1	3
Net deferred tax liability	1	3

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

	2009	2008
Net liability at 1 January	3	4
Amounts (credited)/charged to profit (note 7(a)(i))	(2)	(1)
Net liability at 31 December	1	3

Gresham Insurance Company Limited

Notes to the financial statements (continued)

13. Payables and other financial liabilities

	2009	2008
	£m	£m
Payables arising out of direct insurance and assumed reinsurance	12	10
Payables arising out of ceded reinsurance	-	1
Amounts due to related parties (note 21(a)(iii))	24	27
Other financial liabilities	15	18
Total	51	56
Expected to be settled within one year	51	56

Profit commission of £6 million (2008 £12 million), included in amounts due to related parties, is payable when the equalisation provision within equity becomes distributable The directors consider the book value approximates to fair value

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

14. Other liabilities

	2009	2008
	£m	£m
Reinsurers' share of deferred acquisition costs	27	34
Deferred income	4	5
Accruals	9	11
Total	40	50
Expected to be settled within one year	40	50

Accruals includes £3 million (2008 £6 million) for restructuring costs

Gresham Insurance Company Limited

Notes to the financial statements (continued)

15. Ordinary share capital

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

	2009	2008
	£m	£m
Authorised		
100,000,000 (2008 100,000,000) Ordinary shares of £1 each	100	100
Allotted, called up and fully paid		
61,400,000 (2008 61,400,000) Ordinary shares of £1 each	61	61

16. Retained earnings

	2009	2008
	£m	£m
Balance at 1 January	9	(2)
Profit for the year	6	11
Balance at 31 December	15	9

In accordance with accounting policy (P), retained earnings include £4 million (2008 £12 million) relating to equalisation provisions, net of attributable tax relief, which are not distributable

17. Contingent liabilities and other risk factors

Uncertainty over claims provisions

Note 11(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

Gresham Insurance Company Limited

Notes to the financial statements (continued)

18. Statement of cash flows

	2009 £m	2008 £m
(a) The reconciliation of profit before tax to the net cash inflow from/(outflow to) operating activities is:		
Profit before tax	8	15
Adjustments for		
Changes in working capital		
(Increase)/decrease in reinsurance assets	5	10
(Increase)/decrease in deferred acquisition costs	7	7
(Increase)/decrease in receivables and other financial assets	13	(5)
(Increase)/decrease in prepayments and accrued income	(3)	1
Increase/(decrease) in insurance liabilities	(8)	(15)
Increase/(decrease) in payables and other financial liabilities	(11)	(68)
Increase/(decrease) in other liabilities	(10)	(5)
Net sales of operating assets		
Financial investments	-	38
Net cash inflow from/(outflow to) operating activities	1	(22)

"Increase/(decrease) in payables and other financial liabilities" is stated after eliminating £6 million (2008 £4 million) of corporation tax settled or to be settled by group relief

	2009 £m	2008 £m
(b) Cash and cash equivalents in the statement of cash flows at 31 December comprise:		
Cash at bank and in hand	2	1
Cash equivalents	22	22
	24	23

Gresham Insurance Company Limited

Notes to the financial statements (continued)

19. Risk management

The Company has established a risk management framework to protect the Company from events that hinder the sustainable achievement of the Company's performance objectives, including failing to exploit opportunities This framework is operated by a group of companies, "UKGI" (including the UK general insurance business carried out within Aviva Insurance Limited and Aviva International Insurance Limited), within the Aviva plc group ("the Group"), that are engaged in writing general insurance business and in various non-insurance activities in the UK The risks faced by the Company can be categorised as follows

- financial risks, which cover market, credit, general insurance and liquidity risks,
- strategic risks, which include issues such as customer, products and markets as well as any risks to the Company's business model arising from changes in the market, and risks arising from mergers and acquisitions, and
- operational risks, which arise from inadequately controlled internal processes or systems, human error or non-compliance as well as from external events Operational risks include taxation, reputation and regulatory risks, such as compliance

The risk management framework provides the means to identify, assess, measure, manage and monitor all of the different types of risk faced by UKGI to provide a single picture of the threats and uncertainties faced and the opportunities that exist

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

UKGI's risk management framework is designed to manage, rather than eliminate, the risk of failure to achieve business objectives and can provide only reasonable assurance against material financial misstatement or loss New risks or risks currently considered immaterial may also impair the future achievement of business objectives

UKGI recognises the critical importance of maintaining an efficient and effective risk management framework To this end, UKGI 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 within UKGI,

- 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

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 business and control risks

Gresham Insurance Company Limited

Notes to the financial statements (continued)

19. Risk management (continued)

(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 from fluctuations in interest rates, equity prices, property prices and foreign currency exchange rates Market risk arises due to credit spread widening, and 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 Capital Management Committee, which also receives regular information on market risk

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 within 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

(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 Investment 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 concerned

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 2009	**AAA**	**AA**	**A**	**BBB**	**Speculative grade**	**Non-rated**	**Carrying value in the statement of financial position**
	£m	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**
Reinsurance assets	-	224	-	-	-	-	224
Cash and cash equivalents	-	-	10	-	4	10	24

	Credit rating						
31 December 2008	**AAA**	**AA**	**A**	**BBB**	**Speculative grade**	**Non-rated**	**Carrying value in the statement of financial position**
	£m	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**
Reinsurance assets	-	229	-	-	-	-	229
Cash and cash equivalents	22	1	-	-	-	-	23

Gresham Insurance Company Limited

Notes to the financial statements (continued)

19. Risk management (continued)

(a) Financial risk management (continued)

(ii) Credit risk (continued)

The Company is not generally exposed to significant concentrations of credit risk due to compliance with the FSA's regulations limiting investments in individual assets and classes

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

The Company has a significant exposure to its parent company, Aviva International Insurance Limited, arising from a quota share reinsurance agreement entered into from 2006 Further details are set out in note 21 on related party transactions

Reinsurance assets of £224 million (2008 £229 million) are neither past due nor impaired

At 31 December 2009, receivables are £126 million (2008 £139 million) 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 Investment Committee for all UKGI exposures greater than £20 million

Gresham Insurance Company Limited

Notes to the financial statements (continued)

19. Risk management (continued)

(a) Fmancıal risk management (contmued)

(ııı) General ınsurance rısk

UKGI consıders ınsurance rısk wıthın ıts general ınsurance actıvıty to comprıse the followıng

- ınaccurate prıcıng and selectıon of rısks when underwrıtten,
- fluctuatıons ın the tımıng, frequency and severıty of claıms and claıms settlements, relatıve to expectatıons,
- unexpected claıms arısıng from a sıngle source,
- ınadequate reınsurance protectıon or other rısk transfer technıques, and
- ınadequate reserves

The majorıty of the general ınsurance busıness underwrıtten by the Company ıs of a short-taıl nature such as household ınsurance

The Group's underwrıtıng strategy and appetıte ıs agreed by the Avıva Group Executıve Commıttee and communıcated vıa specıfic polıcy statements and guıdelınes UKGI sets ıts own underwrıtıng strategy, consıstent wıth the Group strategy The vast majorıty of the Company's general ınsurance busıness ıs managed and prıced ın the same country as the domıcıle of the customer, predomınantly ın the UK

UKGI has developed mechanısms that ıdentıfy, quantıfy and manage accumulated exposures to contaın them wıthın the lımıts of the appetıte of UKGI UKGI has ın place varıous methodologıes to manage effectıvely exposures arısıng from specıfic perıls UKGI analyses accumulatıons of ınsurance rısk under varıous headıngs, ıncludıng type of busıness, locatıon, profile of customers and type of claım and uses these analyses to ınform underwrıtıng and reservıng

Reınsurance purchases are revıewed to verıfy that the levels of protectıon beıng bought reflect any developments ın exposure and the rısk appetıte of UKGI The basıs of these purchases ıs underpınned by extensıve financıal and capıtal modellıng and actuarıal analyses whıch consıder the cost and capıtal efficıency benefits Thıs ınvolves utılısıng externally sourced probabılıstıc models to verıfy the accumulatıons and loss probabılıtıes based on UKGI's specıfic portfolıos of busıness In addıtıon to external models, scenarıos are developed and tested usıng UKGI's data to determıne potentıal losses and approprıate levels of reınsurance protectıon Reınsurance covers sıngle large exposures and concentratıons of exposures UKGI has processes ın place to manage catastrophe rısk It purchases catastrophe reınsurance to protect agaınst sıgnıficant natural hazard events For a sıngle realıstıc catastrophıc event, UKGI's maxımum retentıon ıs approxımately £235 mıllıon

The adequacy of UKGI's general ınsurance claıms provısıons ıs overseen by the UKGI Reservıng Commıttee Actuarıal claıms reservıng ıs conducted by UKGI's actuarıes ın complıance wıth the Group General Insurance Reservıng Polıcy There are perıodıc external revıews by consultant actuarıes

Rısk-based capıtal models are beıng used to support the quantıficatıon of rısk under the Indıvıdual Capıtal Assessment ("ICA") framework UKGI undertakes a quarterly revıew of ınsurance rısks, the output from whıch ıs a key ınput ınto the ICA and rısk-based capıtal assessments

The management of ınsurance rısk ıs overseen by specıfic UKGI senıor management commıttees, namely the Underwrıtıng Performance Groups, the Claıms Performance Group and the Reservıng Commıttee

Gresham Insurance Company Limited

Notes to the financial statements (continued)

19. Risk management (continued)

(a) Financial risk management (continued)

(iv) Liquidity risk

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 unearned premium provisions, which are available to fund the repayment of liabilities as they crystallise

31 December 2009	Total	Within 1 year	1 to 5 years	5 to 15 years	Over 15 years
	£m	£m	£m	£m	£m
Reinsurers' share of claims provisions	92	54	31	7	-
Reinsurers' share of unearned premium provisions	132	98	30	4	-
Receivables and other financial assets	126	126	-	-	-
Cash and cash equivalents	24	24	-	-	-
	374	302	61	11	-

The assets above are analysed in accordance with the earliest possible redemption date of the instrument at the initiation of the Company

As explained in note 1(b), comparative information for the disclosures required by the IFRS 7 amendments is not needed in the first year of application and so no table for 2008 is presented above

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

31 December 2009	Total	Within 1 year	1 to 5 years	5 to 15 years	Over 15 years
	£m	£m	£m	£m	£m
Provision for outstanding claims	100	56	37	7	-
Provision for unearned premiums	132	98	30	4	-
Payables and other financial liabilities	51	51	-	-	-
	283	205	67	11	-

Restated 31 December 2008	Total	Within 1 year	1 to 5 years	5 to 15 years	Over 15 years
	£m	£m	£m	£m	£m
Provision for outstanding claims	96	60	27	9	-
Provision for unearned premiums	144	106	35	3	-
Payables and other financial liabilities	56	56	-	-	-
	296	222	62	12	-

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

Gresham Insurance Company Limited

Notes to the financial statements (continued)

19. Risk management (continued)

(b) Strategic risks

(i) Types of strategic risk

UKGI is exposed to a number of strategic risks UKGI's strategy needs to support its vision, purpose and objectives and be 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, pandemic events and improving longevity)

(ii) Management of strategic risks

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

(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

UKGI is responsible for identifying and managing operational risks in line with minimum standards of control set out in Group policies Each operational risk is assessed by considering the potential impact and the probability of the event occurring Impact assessments are considered against financial, operational and reputational criteria Business management teams must be satisfied that all material risks falling outside the Group's risk appetite are being mitigated, monitored and reported to an appropriate level Any risks with a high potential impact level are monitored locally

The UKGI risk management and governance function is responsible for ensuring implementation of the Group risk management methodologies and frameworks to assist line management in this work It also provides support and independent challenge on the completeness, accuracy and consistency of risk assessments, and the adequacy of mitigating action plans

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

As a consequence of the above, the business unit executive management team satisfies itself that material risks are being mitigated and reported to an acceptable level

Gresham Insurance Company Limited

Notes to the financial statements (continued)

19. Risk management (continued)

(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
Expenses	The impact of an increase in expenses by 10%
Gross loss ratios	The impact of an increase in gross loss ratios for general insurance by 5%

Due to the importance of reinsurance, the impact of sensitivities on profit and equity is shown gross and net of reinsurance For general insurance, the impact of the expense sensitivity on profit also includes the increase in ongoing administration expenses in addition to the increase in the loss adjustment expense provision The impact on equity does not include the impact of administration expenses

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 2009

	Impact on shareholder's equity (£m)		Impact on profit before tax (£m)	
	Gross of reinsurance	Net of reinsurance	Gross of reinsurance	Net of reinsurance
Expenses +10%	-	-	(5)	-
Gross loss ratios + 5%	(9)	-	(9)	-

Gresham Insurance Company Limited

Notes to the financial statements (continued)

19. Risk management (continued)

(d) Risk and capital management (continued)

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

20. 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

(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

Gresham Insurance Company Limited

Notes to the financial statements (continued)

20. Capital structure (continued)

(c) Different measures of capital (continued)

(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 current 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 19, Risk management, gives further details

(d) Capital structure

	IFRS net assets 2009 £m	IFRS net assets 2008 £m
General insurance	76	70
Total capital employed	76	70
Financed by		
Equity shareholder's funds	76	70

Gresham Insurance Company Limited

Notes to the financial statements (continued)

21. Related party transactions

(a) The Company had the following related party transactions in 2009 and 2008

(i) Quota share arrangement

The Company has entered into a quota share reinsurance arrangement with its parent company, Aviva International Insurance Limited, with effect from 1 January 2006

The key terms of the agreement are

- a 100% cession rate on premiums, claims costs and underwriting expense costs is applied in respect of the underwriting year, and
- a requirement for the Company to retain a percentage in relation to the Financial Services Compensation Scheme levy

The premiums, claims and expenses which have been reinsured to Aviva International Insurance Limited under the arrangement are

Quota share	2009 £m	2008 £m
Premiums earned	241	255
Claims incurred	(175)	(198)
Fee and commission expenses and operating expenses	(97)	(103)
Loss ceded	(31)	(46)

The material balances in the statement of financial position relating to this arrangement are

	2009 £m	2008 £m
Reinsurance assets	224	229
Receivable arising out of ceded reinsurance	6	6
Reinsurers' share of deferred acquisition costs	(27)	(34)

(ii) Other reinsurance arrangements

The Company also paid premiums of £257 thousand (2008 £905 thousand) to a fellow Group company, Aviva Re Limited, in respect of reinsurance arrangements

Gresham Insurance Company Limited

Notes to the financial statements (continued)

21. Related party transactions (continued)

(iii) Other services provided by related parties

	2009		2008	
	Expense incurred in year	Payable at year end	Expense incurred in year	Payable at year end
	£m	£m	£m	£m
Parent	-	24	-	27
Other Group companies	44	-	58	-
	44	24	58	27

Expense incurred in the year of £44 million (2008 £58 million) represents recharges of costs payable to Aviva Insurance UK Limited, a fellow Group company

Transactions with Group companies for settlement of corporation tax assets and liabilities by group relief are described in note 12(a)

(iv) Key management compensation

The directors and key management of the Company are considered to be the same as for Aviva Insurance UK Limited (formerly Norwich Union Insurance Limited), a fellow Group company Information on key management compensation may be found in note 31 - Related Party Transactions of the Aviva Insurance UK Limited financial statements

(b) Immediate parent company

The Company's immediate parent company is Aviva International Insurance 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