

**CGU BONUS LIMITED**  
**ANNUAL REPORT AND FINANCIAL STATEMENTS**  
**2011**

WEDNESDAY



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04/07/2012 #171  
COMPANIES HOUSE

# CGU Bonus Limited

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# **CGU Bonus Limited**

## **Directors and officer**

### **Directors:**

C J Abrahams  
J J Burrows  
D J R McMillan

### **Officer - Company Secretary:**

R H Spicker  
Pitheavlis  
Perth  
Scotland  
PH2 ONH

### **Auditor:**

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

### **Registered office:**

Pitheavlis  
Perth  
Scotland  
PH2 ONH

### **Company number:**

Registered in Scotland : No. SC008140

### **Other information:**

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

# **CGU Bonus Limited**

Registered in Scotland: No. SC008140

## **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.

D J R McMillan and C J Abrahams served as directors throughout the period.

S Egan resigned as a director on 20 December 2011.

J J Burrows was appointed 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"). 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 On the same date, the Company's general insurance licence was revoked by the Financial Services Authority.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 this is shown in its financial statements. The directors anticipate that the Company will be placed into liquidation in the near future.

# **CGU Bonus Limited**

## **Directors' report (continued)**

### **Business review (continued)**

#### **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 16, with the results shown in the income statement on page 15 and the statement of cash flows on page 18.

The financial position of the Company on the date of the insurance business transfer is shown in note 24 on page 51.

The result before tax decreased by £10,897 thousand from a profit before tax in 2010 of £39,817 thousand to £28,920 thousand in 2011. This is principally due to a decrease in net investment income of £8,907 from £26,900 thousand in 2010 compared to £17,993 thousand in 2011, mainly arising from lower investment gains. The remainder of the decrease is a mixture of a lower claims release than in the prior year offset by lower claims paid and positive net earned premiums.

#### **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 21 to the financial statements.

### **Major events**

As part of the insurance business transfer described under principal activity above, on 14 November 2011, the Company's parent company became Aviva Insurance Limited.

### **Going concern**

After making enquiries, the directors have a reasonable expectation that the Company has adequate resources to continue in existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements.

# **CGU Bonus Limited**

## **Directors' report (continued)**

### **Financial instruments**

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

### **Dividends**

No interim dividend for the year was paid (2010: £47,000 thousand). The directors do not recommend the payment of a final dividend for the year (2010: £nil).

### **Employees**

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

### **Auditor**

Following a competitive tender process by the Company's ultimate parent company, Aviva plc, PricewaterhouseCoopers LLP are to be appointed as auditor to the Company. Ernst & Young LLP will resign as auditor with effect from the signing of the Company's annual report and financial statements for the year ended 31 December 2011, and the directors will appoint PricewaterhouseCoopers LLP as auditor to the Company in accordance with the provisions of the Companies Act 2006.

### **Directors' liabilities**

Aviva plc, the Company's ultimate parent, 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.

# CGU Bonus 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.

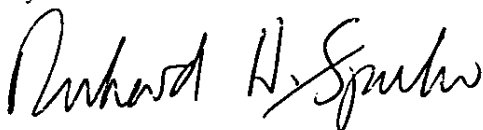
### Statement of directors' responsibilities

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.

By order of the Board



R H Spicker  
Company Secretary

23 MAY 2012

# **CGU Bonus Limited**

## **Independent auditor's report**

### **To the members of CGU Bonus Limited**

We have audited the financial statements of CGU Bonus 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 24. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

### **Respective responsibilities of directors and 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 Bonus Limited

## Independent auditor's report (continued)

To the members of CGU Bonus 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 Bonus 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 UK. 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 has not early adopted any of the above new standards, amendments to existing standards and interpretations, and is currently reviewing their 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 thousands of pounds sterling ("£000").

### (B) Use of estimates

The preparation of financial statements requires the Company to make estimates and assumptions that affect items reported in the statement of financial position and income statement and the disclosure of contingent assets and liabilities at the date of the financial statements. This is particularly so in the estimation of amounts for insurance liabilities, for which further details are given in policy F overleaf and in note 13 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.

# **CGU Bonus Limited**

## **Accounting policies (continued)**

### **(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 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 dividends, interest and rents 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). Dividends on equity securities are recorded as revenue on the ex-dividend date. 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.

# CGU Bonus Limited

## Accounting policies (continued)

### (F) Insurance contract liabilities (continued)

#### *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, including asbestos and environmental pollution exposures, 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 13(c).

Provisions for latent claims and structured settlements are discounted, using rates based on the relevant swap curve, in the relevant currency at the reporting date, having regard to the expected settlement dates of the claims. The discount rate is set at the start of the accounting period with any change in rates between the start and end of the accounting period being reflected as an economic assumption change within claims. Unwind of discount is shown as a finance cost. The range of discount rates used is described in note 13(b).

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 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.

# CGU Bonus Limited

## Accounting policies (continued)

### (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. Where insurance liabilities are discounted, any corresponding reinsurance assets are also discounted using consistent assumptions. 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 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.

# **CGU Bonus 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 9(b), with values based on quoted bid prices or amounts derived from cash flow models.

### **(J) Collateral**

The Company receives and pledges collateral in the form of cash or non-cash assets in respect of stocklending transactions, certain derivative contracts and loans in order to reduce the credit risk of these transactions. The amount and type of collateral required depends on an assessment of the credit risk of the counterparty.

Collateral received in the form of cash, which is not legally segregated from the Company, is recognised as an asset in the statement of financial position with a corresponding liability for the repayment in financial liabilities. Non-cash collateral received is not recognised in the statement of financial position unless the Company either (a) sells or repledges these assets in the absence of default, at which point the obligation to return this collateral is recognised as a liability; or (b) the counterparty to the arrangement defaults, at which point the collateral is seized and recognised as an asset.

Collateral pledged in the form of cash, which is legally segregated from the Company, is derecognised from the statement of financial position with a corresponding receivable recognised for its return. Non-cash collateral pledged is not derecognised from the statement of financial position unless the Company defaults on its obligations under the relevant agreement, and therefore continues to be recognised in the statement of financial position within the appropriate asset classification.

# **CGU Bonus Limited**

## **Accounting policies (continued)**

### **(K) 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.

### **(L) 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 on the statement of financial position.

### **(M) Operating cash flows**

Purchases and sales of loans and 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 inflow reflects 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.

### **(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.

# CGU Bonus Limited

## Accounting policies (continued)

### (O) Income taxes (continued)

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) Financial guarantee contracts

Financial guarantees 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.

### (S) 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 Bonus Limited

## Income statement

For the year ended 31 December 2011

	Note	2011	2010
		£000	£000
<b>Income</b>	1		
Gross written premiums		(1)	(38)
Premiums ceded to reinsurers		-	(1,247)
Premiums written, net of reinsurance		(1)	(1,285)
Net change in provision for unearned premiums		56	306
Net earned premiums		55	(979)
Net investment income		17,993	26,900
		<u>18,048</u>	<u>25,921</u>
<b>Expenses</b>	2		
Claims paid, net of reinsurance		9,121	22,781
Change in claims provisions, net of reinsurance		(20,766)	(37,628)
Fee and commission expenses, net of reinsurance		-	(2)
Other operating expenses, net of reinsurance		573	598
Finance costs		200	355
		<u>(10,872)</u>	<u>(13,896)</u>
Profit before tax		28,920	39,817
Tax expense	6	(7,647)	(12,292)
<b>Profit for the year</b>		<u>21,273</u>	<u>27,525</u>

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 14 and notes on pages 19 to 51 are an integral part of these financial statements.

# CGU Bonus Limited

## Statement of financial position As at 31 December 2011

	Note	2011	2010
		£000	£000
<b>ASSETS</b>			
Financial investments	8	-	394,091
Reinsurance assets	10	-	4,705
Receivables	11	-	2,407
Prepayments and accrued income		-	9,204
Cash and cash equivalents	20(b)	-	4,925
<b>Total assets</b>		-	415,332
<b>LIABILITIES</b>			
Insurance liabilities	13	-	65,815
Deferred tax liabilities	15	-	1,527
Current tax liabilities	15	-	14,339
Payables and other financial liabilities	16	-	133,747
Other liabilities	17	-	126
<b>Total liabilities</b>		-	215,554
<b>Net assets</b>		-	199,778
<b>EQUITY</b>			
Ordinary share capital	18	157,000	157,000
Retained earnings	19	(157,000)	42,778
<b>Total equity</b>		-	199,778

The accounting policies on pages 8 to 14 and notes on pages 19 to 51 are an integral part of these financial statements.

Approved by the Board on 23 MAY 2012

C. J. A.

C J Abrahams  
Director

# CGU Bonus Limited

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

	Note	Ordinary share capital £000	Retained earnings £000	Total equity £000
Balance at 1 January 2010		157,000	62,253	219,253
Total comprehensive income for the year		-	27,525	27,525
Dividends		-	(47,000)	(47,000)
Total movements in the year		-	(19,475)	(19,475)
Balance at 31 December 2010		157,000	42,778	199,778
Total comprehensive income for the year		-	21,273	21,273
Insurance business transfer	19	-	(221,051)	(221,051)
Total movements in the year		-	(199,778)	(199,778)
Balance at 31 December 2011		157,000	(157,000)	-

The accounting policies on pages 8 to 14 and notes on pages 19 to 51 are an integral part of these financial statements.

# CGU Bonus Limited

## Statement of cash flows

For the year ended 31 December 2011

	Note	<u>2011</u> £000	<u>2010</u> £000
<b>Cash flows from operating activities</b>			
Net cash inflow from operating activities	20(a)	16,462	13,612
<i>Net cash from operating activities</i>		<u>16,462</u>	<u>13,612</u>
<b>Cash flows from financing activities</b>			
Ordinary dividends paid	7	-	(47,000)
<i>Net cash used in financing activities</i>		<u>-</u>	<u>(47,000)</u>
<b>Cash flows from investing activities</b>			
Cash inflow arising from insurance business transfer	20(c)	56,931	-
<i>Net cash from investing activities</i>		<u>56,931</u>	<u>-</u>
<b>Net increase (decrease) in cash and cash equivalents</b>		<b>73,393</b>	<b>(33,388)</b>
Cash and cash equivalents at 1 January		(73,393)	(40,005)
<b>Cash and cash equivalents at 31 December</b>	20(b)	<u><u>-</u></u>	<u><u>(73,393)</u></u>

The accounting policies on pages 8 to 14 and notes on pages 19 to 51 are an integral part of these financial statements.

# CGU Bonus Limited

## Notes to the financial statements

### 1. Details of income

	<u>2011</u>	<u>2010</u>
	<u>£000</u>	<u>£000</u>
<b>Premiums earned</b>		
Gross written premiums	(1)	(38)
Less: premiums ceded to reinsurers	-	(1,247)
Reinsurers' share of change in provision for unearned premiums	56	306
Net change in provision for unearned premiums	56	306
Net earned premiums	55	(979)
Total revenue	55	(979)
<b>Net investment income</b>		
Interest and similar income		
From investments designated as other than trading	15,043	21,979
Realised gains / (losses ) on disposals	12,436	(3,526)
Unrealised gains / (losses)	(12,925)	11,133
Movement in amortised cost on debt securities	3,619	(2,387)
Gains on investments	3,130	5,220
Other investment expenses	(180)	(299)
Net investment income	17,993	26,900
<b>Total income</b>	18,048	25,921

# CGU Bonus Limited

## Notes to the financial statements (continued)

### 2. Details of expenses

	<u>2011</u> £000	<u>2010</u> £000
<b>Claims paid, gross and net of reinsurance</b>		
Gross claims paid to policyholders	9,299	22,981
Less: claims recoveries from reinsurers	(178)	(200)
	<u>9,121</u>	<u>22,781</u>
<b>Change in claims provisions, gross and net of reinsurance</b>		
Change in gross claims provisions	(20,898)	(37,062)
Change in reinsurance asset for claims provisions	(508)	(979)
Impact of change in discounting rate assumption	640	413
	<u>(20,766)</u>	<u>(37,628)</u>
<b>Fee and commission expenses, net of reinsurance</b>		
Acquisition costs		
Commission expenses	-	(2)
<b>Other operating expenses, net of reinsurance</b>		
Operating expenses	<u>573</u>	<u>598</u>
<b>Finance costs</b>		
Unwind of discounting	<u>200</u>	<u>355</u>
<b>Total expenses</b>	<u>(10,872)</u>	<u>(13,896)</u>

### 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.

# CGU Bonus Limited

## Notes to the financial statements (continued)

### 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 (note 23(c)).

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

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:

	<u>2011</u>	<u>2010</u>
	<u>£000</u>	<u>£000</u>
<b>Current tax:</b>		
For this year	(9,326)	(14,339)
Prior year adjustments	(15)	55
Total current tax	<u>(9,341)</u>	<u>(14,284)</u>
<b>Deferred tax:</b>		
Origination and reversal of temporary differences (note 6(a)(ii))	1,676	1,935
Changes in tax rates or tax laws	18	57
Total deferred tax	<u>1,694</u>	<u>1,992</u>
Total tax charged to income statement	<u>(7,647)</u>	<u>(12,292)</u>

# CGU Bonus Limited

## Notes to the financial statements (continued)

### 6. Tax (continued)

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

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

	2011	2010
	£000	£000
Insurance items	1,719	2,126
Provision and other timing differences	(10)	(118)
Accelerated capital allowances	(15)	(16)
Total deferred tax credited to income statement	<u>1,694</u>	<u>1,992</u>

#### (b) Tax reconciliation

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

	2011	2010
	£000	£000
Net profit before tax	28,920	39,817
Tax calculated at standard UK corporation tax rate of 26.5% (2010: 28%)	(7,664)	(11,149)
Adjustment to tax credit in respect of prior years	(1)	-
Non allowable expenses	-	(1,200)
Impact of change in tax rate	18	57
Tax charged for the period (note 6(a)(i))	<u>(7,647)</u>	<u>(12,292)</u>

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.

### 7. Dividends

	2011	2010
	£000	£000
Ordinary dividends declared and charged to equity in the year		
Interim 2010 - 29.94p per share paid in December 2010	<u>-</u>	<u>47,000</u>



# CGU Bonus Limited

## Notes to the financial statements (continued)

### 8. Financial investments

#### (a) Carrying amount

Financial investments comprise:

	At fair value through profit or loss	
	2011	2010
	£000	£000
<b>Fixed maturity securities</b>		
<i>Debt securities</i>		
UK Government	-	36,264
Non-UK Government	-	139,564
Public utilities	-	16,015
Other corporates	-	202,248
	-	394,091

Of the above total, £nil (2010: £325,124 thousand) 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, 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 Decemeber 2011.

	2010			
	Cost/ amortised cost	Unrealised gains	Unrealised losses and impairments	Fair value
	£000	£000	£000	£000
Debt securities	381,166	15,626	(2,701)	394,091

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

The £12,925 thousand 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 24.

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 and the recognition of impairment losses.

Total impairments of financial investments classified as fair value through profit or loss recognised in the income statement in the year were £nil (2010: £nil).

# **CGU Bonus Limited**

## **Notes to the financial statements (continued)**

### **8. Financial investments (continued)**

#### **(c) Stocklending**

The Company has entered into stocklending arrangements in the UK and overseas during the year in accordance with established market conventions. The majority of the Company's stocklending transactions occur in the UK, where investments are lent to European Economic Area-regulated, locally-domiciled counterparties and governed by agreements written under English law.

#### **Non-cash Collateral received**

The Company receives collateral in order to reduce the credit risk of these arrangements. The level of collateral held is monitored regularly, with further collateral obtained where this is considered necessary to manage the Company's risk exposure.

#### **Non-cash collateral pledged**

In 2011, no collateral has been sold. In certain markets, the Company or the Company's appointed stock lending managers obtain legal ownership of the collateral received and can re-pledge it as collateral elsewhere or sell outright in the absence of default. All collateral is received with full legal title transferred. There has been no collateral re-pledged throughout 2011.

The carrying amounts of financial assets received and pledged in this manner at 31 December 2011 were £nil and £nil respectively (2010: £113,833 thousand and £104,737 thousand respectively). The value of collateral that was actually sold or re-pledged in the absence of default was £nil (2010: £nil).

### **9. 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.

# CGU Bonus Limited

## Notes to the financial statements (continued)

### 9. Fair value (continued)

#### 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, listed debt or equity securities in a market that is inactive, and investments in subsidiaries valued using applicable models underpinned by Aviva plc's market capitalisation.

#### 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.

The Company's investments are valued based on quoted market information or observable market data. 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 24), 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.

	Fair Value Hierarchy				2010 Statement of financial position total
	Level 1 £000	Level 2 £000	Level 3 £000	Sub-total £000	Amortised cost £000
Fixed maturity securities	394,091	-	-	394,091	-

# CGU Bonus Limited

## Notes to the financial statements (continued)

### 10. Reinsurance assets

#### (a) Carrying amounts

Following the insurance business transfer, the Company held 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
	£000	£000	£000
Outstanding claims provisions	59,021	4,178	54,843
Provisions for claims incurred but not reported	6,794	-	6,794
	65,815	4,178	61,637
Provision for unearned premiums	-	527	(527)
<b>Total</b>	<b>65,815</b>	<b>4,705</b>	<b>61,110</b>

#### (b) Assumptions

The assumptions, including discount rates, used for reinsurance contracts follow those used for insurance contracts, shown in notes 13(b) and 13(c).

Reinsurance assets are valued net of any provisions for their recoverability.

# CGU Bonus Limited

## Notes to the financial statements (continued)

### 10. Reinsurance assets (continued)

#### (c) Movements

##### (i) Reinsurers' share of claims provisions

	<u>2011</u>	<u>2010</u>
	<u>£000</u>	<u>£000</u>
<b>Carrying amount at 1 January</b>	4,178	2,917
Impact of changes in discount rate assumptions	447	178
Reinsurers' share of claims losses and expenses incurred in current year	-	-
Reinsurers' share of claims losses and expenses incurred in prior years	686	1,179
Reinsurers' share of incurred claims losses and expenses	1,133	1,357
Less:		
Reinsurance recoveries received on claims incurred in current year	-	-
Reinsurance recoveries received on claims incurred in prior years	(178)	(200)
Reinsurance recoveries received in the year	(178)	(200)
Unwind of discount	32	104
Change in reinsurance asset	987	1,261
Insurance business transfer (see note 24)	(5,165)	-
<b>Carrying amount at 31 December</b>	<u>-</u>	<u>4,178</u>

##### (ii) Reinsurers' share of the provision for unearned premiums

	<u>2011</u>	<u>2010</u>
	<u>£000</u>	<u>£000</u>
<b>Carrying amount at 1 January</b>	527	221
Premiums ceded to reinsurers in the year	-	1,247
Less:		
Reinsurers' share of premiums earned during the year	56	(941)
Change in reinsurance asset	56	306
Insurance business transfer (see note 24)	(583)	-
<b>Carrying amount at 31 December</b>	<u>-</u>	<u>527</u>

# CGU Bonus Limited

## Notes to the financial statements (continued)

### 11. Receivables

	<u>2011</u>	<u>2010</u>
	<u>£000</u>	<u>£000</u>
Amounts due from intermediaries	-	1,195
Amounts due from reinsurers	-	143
Amounts due from related parties (note 23(a)(ii))	-	1,069
Total	<u>-</u>	<u>2,407</u>
Expected to be recovered in less than one year	<u>-</u>	<u>2,407</u>

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

### 12. Deferred acquisition costs

The movements in deferred acquisition costs during the year are:

	<u>2011</u>	<u>2011</u>
	<u>£000</u>	<u>£000</u>
Carrying amount at 1 January	-	-
Acquisition costs written during the year, gross of reinsurance	-	(2)
Amortisation	-	2
Carrying amount at 31 December	<u>-</u>	<u>-</u>

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

# CGU Bonus Limited

## Notes to the financial statements (continued)

### 13. Insurance liabilities

#### (a) Carrying amount

Gross insurance liabilities at 31 December comprise:

	2011	2010
	£000	£000
Provisions for outstanding claims	-	59,021
Provisions for claims incurred but not reported	-	6,794
Total	-	65,815

#### (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, except for the following classes of business for which discounted provisions are held:

	Discounting rate		Mean term of liabilities	
	At		At	
	14 November		14 November	
	2011	2010	2011	2010
Latent claims	3.11% to 1.16%	4.17% to 0.88%	15 years	15 years
Periodic payment orders	3.11% to 1.16%	4.17% to 0.88%	35 years	35 years

The gross outstanding claims provisions before discounting are £nil (2010: £73,942 thousand). The period of time which will elapse before the liabilities are settled has been estimated by modelling the settlement patterns of the underlying claims.

Loss reserves are only established for losses that have already occurred.

#### (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.

# **CGU Bonus Limited**

## **Notes to the financial statements (continued)**

### **13. Insurance liabilities (continued)**

#### **(c) Assumptions (continued)**

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.

The level of uncertainty associated with latent claims is considerable due to the relatively small number of claims and the long-tail nature of the liabilities. Mesothelioma claims account for a large proportion of the Company's latent claims. The key assumptions underlying the estimation of these claims include claims numbers, the base average cost per claim, future inflation in the average cost of claims, legal fees and the life expectancy of potential sufferers.

Lump sum payments in settlement of bodily injury claims decided by the UK courts are calculated in accordance with the Ogden Tables. The Ogden Tables contain a discount rate that is set by the Lord Chancellor and that is applied when calculating the present value of loss of earnings for claims settlement purposes. Periodically the Ogden discount rate is reviewed by the Lord Chancellor. A reduction in the Ogden discount rate will increase lump sum payments to UK bodily injury claimants.



# CGU Bonus Limited

## Notes to the financial statements (continued)

### 13. Insurance liabilities (continued)

#### (d) Movements

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

	2011	2010
	£000	£000
<b>Carrying amount at 1 January</b>	65,815	101,827
Impact of changes in discount rate assumptions	1,087	591
Claims losses and expenses incurred in the current year	547	876
Decrease in estimated claims losses and expenses incurred in prior years	(12,146)	(14,957)
Incurred claims losses and expenses	(10,512)	(13,490)
Less:		
Payments made on claims incurred in the current year	(434)	(869)
Payments made on claims incurred in prior years	(8,865)	(22,112)
Claims payments made in the year	(9,299)	(22,981)
Unwind of discounting	232	459
Changes in gross claims	(19,579)	(36,012)
Insurance business transfer as for claims (see note 24)	(46,236)	-
<b>Carrying amount at 31 December</b>	-	65,815

On 14 November 2011, all of the general insurance business of the Company was transferred at carrying value to its parent company, 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 claims liabilities transferred was £46,236 thousand.

#### Discount rate

The discount rate that has been applied to latent claims reserves and periodic payment orders is based on the relevant swap rate, in the relevant currency, having regard to the expected settlement dates of the claims. The range of discount rates used depends on the duration of the claims and is given in the table in section (b) above. The duration of the latent claims spans 40 years, with the average duration 15 years, and for periodic payment orders, the average duration is 35 years. Any change in discount rates between the start and the end of the accounting period is reflected as an economic assumption change. The decrease in average interest rates in 2011 has resulted in an increase in the net discounted provision of £640 thousand prior to the insurance business transfer (2010: £413 thousand).

#### Effect of changes in estimates during the year

During the year, gross prior years' claims provisions of £12,146 thousand (£11,460 thousand, net of reinsurance) (2010: £14,957 thousand, £13,778 thousand net of reinsurance) were released to the income statement. The main reason for this release is the reassessment of the level of provision for commercial liability claims.

# CGU Bonus Limited

## Notes to the financial statements (continued)

### 13. Insurance liabilities (continued)

#### (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 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 £98,196 thousand 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 £98,138 thousand was re-estimated to be £102,302 thousand at 31 December 2010. This increase 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.

Prior to the insurance business transfer, the Company aimed to maintain strong reserves in order to protect against adverse future claims experience and development. As claims developed and the ultimate cost of claims became more certain, the absence of adverse claims experience would 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 transferred some of this release to current accident year (2011) reserves where the development of claims is less mature and there is much greater uncertainty attaching to the ultimate cost of claims.

On 14 November 2011, all of the general insurance business of the Company was transferred at carrying value to its parent company, 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 claims liabilities transferred was £46,236 thousand with related reinsurance assets of £5,165 thousand.

The final diagonals of the tables below represent the cumulative claims payments and cumulative incurred cost of claims at 14 November 2011 being the point when the business was transferred out of the Company.

# CGU Bonus Limited

## Notes to the financial statements (continued)

### 13. Insurance liabilities (continued)

#### (e) Loss development tables (continued)

Accident year	Prior years £000	2002 £000	2003 £000	2004 £000	2005 £000	2006 £000	2007 £000	2008 £000	2009 £000	2010 £000	2011 £000	Total £000
<b>Gross cumulative claims payments</b>												
At end of accident year		(37,780)	(38,950)	(40,563)	(58,245)	(37,691)	(36,744)	(9,735)	(1,538)	(869)	(434)	
One year later		(69,919)	(72,246)	(70,833)	(101,367)	(69,253)	(59,950)	(13,056)	(1,856)	(874)		
Two years later		(78,944)	(83,231)	(85,917)	(114,763)	(80,796)	(66,444)	(14,909)	(1,995)			
Three years later		(85,069)	(94,383)	(99,074)	(127,384)	(92,861)	(72,212)	(16,407)				
Four years later		(92,001)	(111,587)	(107,809)	(135,648)	(100,049)	(75,978)					
Five years later		(94,612)	(115,420)	(112,321)	(138,540)	(101,654)						
Six years later		(97,058)	(117,296)	(113,594)	(140,113)							
Seven years later		(97,898)	(118,764)	(113,866)								
Eight years later		(98,196)	(117,863)									
Nine years later		(98,276)										
<b>Estimate of gross ultimate claims</b>												
At end of accident year		98,138	141,580	163,222	188,594	145,084	111,578	42,075	2,266	876	547	
One year later		114,621	131,332	149,865	163,190	117,304	88,933	23,905	2,142	878		
Two years later		108,307	134,552	133,505	161,085	117,501	87,416	23,103	2,114			
Three years later		110,204	123,910	128,884	163,930	114,907	85,853	20,911				
Four years later		105,332	125,689	119,043	150,361	112,193	81,936					
Five years later		102,620	123,763	117,779	145,299	109,055						
Six years later		102,795	126,974	115,446	142,090							
Seven years later		102,492	126,442	116,818								
Eight years later		102,302	126,952									
Nine years later		103,142										
Estimate of ultimate claims		103,142	126,952	116,818	142,090	109,055	81,936	20,911	2,114	878	547	
Cumulative payments		(98,276)	(117,863)	(113,866)	(140,113)	(101,654)	(75,978)	(16,407)	(1,995)	(874)	(434)	
Gross outstanding claims provisions recognised in the statement of financial position		15,687	4,866	9,089	2,952	1,977	7,401	4,504	119	4	113	52,670
Effect of discounting		(3,850)	-	(1,280)	-	(1,304)	-	-	-	-	-	(6,434)
Present value recognised in balance sheet		11,837	4,866	7,809	2,952	1,977	6,097	4,504	119	4	113	46,236
Transfer of reserves at 14 Nov 2011		(11,837)	(4,866)	(7,809)	(2,952)	(1,977)	(6,097)	(4,504)	(119)	(4)	(113)	(46,236)
Present value recognised in the statement of financial position		-	-	-	-	-	-	-	-	-	-	-

# CGU Bonus Limited

## Notes to the financial statements (continued)

### 13. Insurance liabilities (continued)

#### (e) Loss development tables (continued)

After the effect of reinsurance, the loss development table is:

Accident Year	Prior years £000	2002 £000	2003 £000	2004 £000	2005 £000	2006 £000	2007 £000	2008 £000	2009 £000	2010 £000	2011 £000	Total £000
<b>Net cumulative claims payments</b>												
At end of accident year		(37,780)	(38,950)	(40,429)	(55,880)	(37,547)	(36,768)	(9,735)	(1,538)	(869)	(434)	
One year later		(69,664)	(72,246)	(70,699)	(100,636)	(69,109)	(59,974)	(13,056)	(1,856)	(874)		
Two years later		(78,686)	(83,224)	(84,124)	(113,892)	(80,652)	(66,468)	(14,909)	(1,995)			
Three years later		(84,811)	(94,205)	(97,281)	(126,619)	(92,717)	(72,183)	(16,407)				
Four years later		(91,570)	(111,409)	(106,016)	(135,369)	(99,848)	(75,940)					
Five years later		(94,181)	(115,242)	(110,528)	(138,279)	(101,394)						
Six years later		(96,627)	(117,118)	(111,801)	(139,852)							
Seven years later		(97,467)	(118,478)	(112,073)								
Eight years later		(97,765)	(117,467)									
Nine years later		(97,845)										
<b>Estimate of net ultimate claims</b>												
At end of accident year		98,137	141,401	163,088	188,328	144,940	111,554	42,075	2,266	876	547	
One year later		114,365	131,328	148,072	162,151	117,138	88,856	23,905	2,142	878		
Two years later		108,048	134,374	131,711	160,017	117,357	87,311	23,103	2,114			
Three years later		109,773	123,732	127,090	163,142	114,763	85,672	20,911				
Four years later		104,901	125,446	117,250	149,924	108,766	81,886					
Five years later		102,189	123,586	115,985	145,194	105,623						
Six years later		102,364	121,308	113,652	141,985							
Seven years later		102,059	123,369	115,024								
Eight years later		101,869	122,656									
Nine years later		102,709										
<b>Estimate of ultimate claims</b>		102,709	122,656	115,024	141,985	105,623	81,886	20,911	2,114	878	547	
<b>Cumulative payments</b>		(97,845)	(117,467)	(112,073)	(139,852)	(101,394)	(75,940)	(16,407)	(1,995)	(874)	(434)	
<b>Net outstanding claims provisions recognised in statement of financial position</b>		4,864	5,189	2,951	2,133	4,229	5,946	4,504	119	4	113	45,489
<b>Effect of discounting</b>		(3,850)	(213)	-	-	(355)	-	-	-	-	-	(4,418)
<b>Present value recognised in balance sheet</b>		11,587	4,976	2,951	2,133	3,874	5,946	4,504	119	4	113	41,071
<b>Transfer of reserves at 14 Nov 2011</b>		(11,587)	(4,976)	(2,951)	(2,133)	(3,874)	(5,946)	(4,504)	(119)	(4)	(113)	(41,071)
<b>Present value recognised in the statement of financial position</b>		-	-	-	-	-	-	-	-	-	-	-

## CGU Bonus Limited

### Notes to the financial statements (continued)

#### 13. Insurance liabilities (continued)

##### (f) Provision for unearned premiums

###### *Movements*

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

	2011 £000	2010 £000
Carrying amount at 1 January	-	-
Premiums written during the year	(1)	(38)
Less: Premiums earned during the year	1	38
Change in year	-	-
Carrying amount at 31 December	-	-

#### 14. 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 Bonus Limited

## Notes to the financial statements (continued)

### 15. Tax assets and liabilities

#### (a) Current tax

Tax liability	2011 £000	2010 £000
Expected to be payable in more than one year	-	(14,339)

Liabilities for prior years tax settled by group relief of £nil (2010: £24,593 thousand) are included within payables and other financial liabilities (note 16) and within the related party transactions (note 23).

#### (b) Deferred taxes

##### (i) The balance at the period end comprises:

	2011 £000	2010 £000
Temporary differences arising on insurance items	-	(1,719)
Provisions and other timing differences	-	139
Accelerated capital allowances	-	53
Net deferred tax balance	-	(1,527)

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

Balance at 1 January	(1,527)	(3,519)
Amounts credited to profit (note 6)	1,694	1,992
Transferred with insurance business (note 24)	(167)	-
Balance at 31 December	-	(1,527)

### 16. Payables and other financial liabilities

	2011 £000	2010 £000
Amounts due to related parties (note 23(a)(iii))	-	54,806
Other financial liabilities	-	623
Bank overdrafts (note 20(b))	-	78,318
	-	133,747
Expected to be settled within one year	-	133,747

Bank overdrafts are unsecured and form part of a pooling arrangement with fellow Group companies.

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

# CGU Bonus Limited

## Notes to the financial statements (continued)

### 17. Other liabilities

	<u>2011</u>	<u>2010</u>
	<u>£000</u>	<u>£000</u>
Accruals	-	126
Expected to be settled within one year	-	126

### 18. Ordinary share capital

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

	<u>2011</u>	<u>2010</u>
	<u>£000</u>	<u>£000</u>
<b>Authorised</b>		
157,000,000 (2010: 157,000,000) Ordinary shares of £1 each	157,000	157,000
<b>Allotted, called up and fully paid</b>		
157,000,000 (2010: 157,000,000) Ordinary shares of £1 each	157,000	157,000

### 19. Retained earnings

	<u>2011</u>	<u>2010</u>
	<u>£000</u>	<u>£000</u>
<b>Balance at 1 January</b>	42,778	62,253
Profit for the year	21,273	27,525
Dividends (note 7)	-	(47,000)
Insurance business transfer (see note 24)	(221,051)	-
<b>Balance at 31 December</b>	<u>(157,000)</u>	<u>42,778</u>

In accordance with the accounting policy Q, retained earnings includes £nil (2010: £4,584 thousand) relating to equalisation provisions, net of attributable tax relief, which are not distributable.

# CGU Bonus Limited

## Notes to the financial statements (continued)

### 20. Statement of cash flows

	2011 £000	Restated 2010 £000
<b>(a) The reconciliation of profit before tax to the net cash inflow from operating activities is:</b>		
Profit before tax	28,920	39,817
Adjustments for:		
Gains on investments (note 1)	(3,130)	(5,220)
Changes in working capital:		
(Increase)/decrease in reinsurance assets	(1,043)	(1,567)
(Increase)/decrease in receivables and other financial assets	625	357
(Increase)/decrease in prepayments and accrued income	(1,078)	1,096
Increase/(decrease) in insurance liabilities	(19,579)	(36,012)
Increase/(decrease) in payables and other financial liabilities	(8,432)	(1,172)
Increase/(decrease) in other liabilities	(10)	(1,441)
Net sales/(purchases) of operating assets:		
Financial investments	20,189	17,754
Net cash inflow from operating activities	<u>16,462</u>	<u>13,612</u>

"(Increase)/decrease in receivables and other financial assets" is stated after eliminating £nil (2010: £24,593 thousand) of corporation tax liability settled, or to be settled, by group relief.

Gains on investments in 2010 have been restated to be negative, rather than positive as previously shown, with a compensating adjustment of £10,440 thousand made to net sales of operating assets.

	2011 £000	2010 £000
<b>(b) Cash and cash equivalents in the statement of cash flows at 31 December comprised:</b>		
Cash at bank and in hand	-	4,925
Bank overdrafts (note 16)	-	(78,318)
	<u>-</u>	<u>(73,393)</u>

#### (c) Cash flows in respect of insurance business transfer

	£000
Net bank overdrafts transferred as part of insurance business transfer (note 24)	<u>(56,931)</u>



# CGU Bonus Limited

## Notes to the financial statements (continued)

### 21. Risk management

As described in note 24, 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 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 Company. 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 International Insurance Limited).

Risks are usually grouped by risk type: market, credit, general insurance, liquidity and operational risk. Risk falling within these types may affect a number of key metrics including those relating to 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, granular 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 and its stakeholders. Where risks are outside of appetite, actions are agreed to mitigate the exposure. Impact assessments are considered against financial, operational and reputational criteria and take into account underlying factors such as economic conditions, for example, UK economic growth and inflation.

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

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

# **CGU Bonus Limited**

## **Notes to the financial statements (continued)**

### **21. Risk management (continued)**

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 UKGI'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. UKGI 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 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 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 Bonus Limited

## Notes to the financial statements (continued)

### 21. Risk management (continued)

#### (a) Financial risk management (continued)

##### (i) Market risk (continued)

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

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

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

##### (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 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 concerned.

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:

31 December 2010	Credit rating						Carrying value in the statement of financial position
	AAA	AA	A	BBB	Speculative grade	Non-rated	
	£000	£000	£000	£000	£000	£000	£000
Debt securities	168,361	31,732	89,438	101,693	2,867	-	394,091
Cash and cash equivalents	-	25	4,900	-	-	-	4,925
Reinsurance assets	-	4,702	-	-	-	3	4,705

The Company is not 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 Bonus Limited

## Notes to the financial statements (continued)

### 21. Risk management (continued)

#### (a) Financial risk management (continued)

##### (ii) Credit risk (continued)

The following table provides information regarding the carrying value of financial assets that have been impaired and the ageing of financial assets that are past due but not impaired at 31 December 2010.

31 December 2010	Neither past due nor impaired £000	Financial assets that are past due but not impaired				Carrying value of impaired financial assets £000	Carrying value in the statement of financial position £000
		0 to 3 months £000	3 to 6 months £000	6 months to 1 year £000	Greater than 1 year £000		
Debt securities	394,091	-	-	-	-	-	394,091

At 31 December 2011, receivables are £nil (2010: £2,407 thousand).

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

# **CGU Bonus Limited**

## **Notes to the financial statements (continued)**

### **21. Risk management (continued)**

#### **(a) Financial risk management (continued)**

##### **(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 claims settlements. This includes the risk of inadequate reserves.

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 developments to manage effectively exposures arising from specific perils. UKGI analyses accumulations of insurance risk under various headings, including type of business, location, profile of customer and type of claim and uses these analyses to inform underwriting and reserving.

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 exposure and concentrations of exposures. UKGI has processes in place to manage catastrophe risk. It 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 UKGI's actuaries, with periodic independent external reviews by consulting 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.

# CGU Bonus Limited

## Notes to the financial statements (continued)

### 21. Risk management (continued)

#### (a) Financial risk management (continued)

##### (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 expected 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, the Company's financial assets and reinsurer's share of unearned premium provisions are £nil. The following table provides an analysis, by maturity date of the principal, of the carrying value of financial assets 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
	£000	£000	£000	£000	£000	£000
Debt securities	68,967	174,536	130,433	-	20,155	394,091
Reinsurers' share of outstanding claims	134	587	1,236	2,221	-	4,178
Reinsurers' share of unearned premium	527	-	-	-	-	527
Receivables and other financial assets	1,338	-	-	-	1,069	2,407
Cash and cash equivalents	4,925	-	-	-	-	4,925
	<u>75,891</u>	<u>175,123</u>	<u>131,669</u>	<u>2,221</u>	<u>21,224</u>	<u>406,128</u>

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 investments are market traded and, therefore, if required, can be liquidated for cash at short notice.

The Company's financial liabilities are £nil at 31 December 2011. The following table shows the Company's financial liabilities at 31 December 2010 analysed by duration.

31 December 2010	Within 1 year	1 to 5 years	5 to 15 years	Over 15 years	No fixed terms	Total
	£000	£000	£000	£000		£000
Provision for outstanding claims	27,580	23,911	6,902	7,422	-	65,815
Liability for current tax	-	14,339	-	-	-	14,339
Payables and other financial liabilities	78,941	-	-	-	54,806	133,747
	<u>106,521</u>	<u>38,250</u>	<u>6,902</u>	<u>7,422</u>	<u>54,806</u>	<u>213,901</u>

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.

# **CGU Bonus Limited**

## **Notes to the financial statements (continued)**

### **21. Risk management (continued)**

#### **(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.

#### **(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 Group risk management framework.

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

# **CGU Bonus Limited**

## **Notes to the financial statements (continued)**

### **21. 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. 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 overleaf, 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 Bonus Limited**

## **Notes to the financial statements (continued)**

### **22. Capital structure**

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

#### **(a) General**

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

The Company as a regulated company 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 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 Bonus Limited

## Notes to the financial statements (continued)

### 22. 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, the Company also measures its capital using various risk management tools that take into account a more realistic set of financial and non-financial assumptions. Note 21, Risk management, gives further details.

#### (d) Capital structure

	<b>IFRS net assets 2011 £000</b>	<b>IFRS net assets 2010 £000</b>
General insurance	-	199,778
<b>Total capital employed</b>	-	199,778
<b>Financed by</b>		
Equity shareholder's funds	-	199,778

# CGU Bonus Limited

## Notes to the financial statements (continued)

### 23. Related party transactions

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 carrying value of the net assets and liabilities transferred to Aviva Insurance Limited was £221,051 thousand. See note 24 for further details.

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

#### (i) Structured settlements arrangement

In 2009, the Company entered into an arrangement with Aviva Life Re Limited, a fellow Group company, for the reinsurance of its obligations in respect of structured settlements, also known as periodic payment orders.

In 2010, the Company paid Aviva Life Re Limited £2,949 thousand under this arrangement to reinsure new structured settlements arising during the year. The consideration paid was in the form of investments assigned to Aviva Life Re Limited by Aviva UKGI Investments Limited and, as a consequence, a corresponding intercompany liability between the Company and Aviva UKGI Investments Limited was established.

On 30 November 2010, the arrangement with Aviva Life Re Limited was terminated and amounts due were repaid. The premiums and claims which have been reinsured or refunded to Aviva Life Re Limited under the arrangement in 2010 were:

	2010
	£000
Premiums written	(2,949)
Premiums earned	(2,727)
Claims incurred	2,731
Net result ceded	4

On 17 December 2010, following the termination of the arrangement with Aviva Life Re Limited, the Company entered into an arrangement with Aviva Annuity UK Limited, a fellow Group company, for the reinsurance of its obligations in respect of structured settlements. Consistent with the previous arrangement, the consideration paid was in the form of investments assigned to Aviva Annuity UK Limited by Aviva UKGI Investments Limited and, as a consequence, a corresponding intercompany liability between the Company and Aviva UKGI Investments Limited has been established.

In 2010, the Company paid Aviva Annuity UK Limited £4,445 thousand under this arrangement to reinsure its existing structured settlements obligations.

The premiums and claims which were reinsured to Aviva Annuity UK Limited in 2010 under the arrangement were:

	2010
	£000
Reinsurance premiums ceded to reinsurers	4,445
Net earned premiums	3,921
Reinsurance claims incurred	(3,921)
Net result ceded	-

No periodic payment orders were reinsured to Aviva Annuity UK Limited in 2011

At 31 December 2010, the material balances in the statement of financial position relating to this arrangement are:

	2010
	£000
Reinsurance asset	3,928
Amounts owed to Aviva UKGI Investments Limited	(3,930)

# CGU Bonus Limited

## Notes to the financial statements (continued)

### 23. Related party transactions (continued)

#### (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
	£000	£000	£000	£000
Fellow Group companies	-	-	-	1,069

#### (iii) Other services provided by related parties

The Company received income and incurred expenses on behalf of fellow Group companies in the course of its business.

	2011		2010	
	Expense incurred in year	Payable at year end	Expense incurred in year	Payable at year end
	£000	£000	£000	£000
Parent companies	-	-	-	21,900
Fellow Group companies	1,204	-	1,864	32,906
	1,204	-	1,864	54,806

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

## Notes to the financial statements (continued)

### 24. 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:

	<u>£000</u>	<u>£000</u>
<b>Assets</b>		
Financial investments		377,033
Reinsurance assets		5,748
Reinsurers' share of claims provisions	5,165	
Reinsurers' share of the provision for unearned premiums	<u>583</u>	
Receivables		1,782
Deferred tax assets		167
Prepayments and accrued income		10,282
Cash and cash equivalents		<u>30,806</u>
<b>Total assets</b>		<u>425,818</u>
<b>Liabilities</b>		
Insurance liabilities		46,236
Current tax liabilities		23,680
Payables and other financial liabilities		134,735
Other liabilities		<u>116</u>
<b>Total liabilities</b>		<u>204,767</u>
<b>Total assets less liabilities</b>		<u>221,051</u>

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