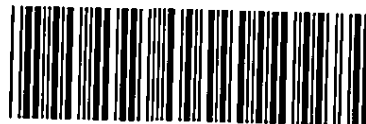




CGU BONUS LIMITED
ANNUAL REPORT AND FINANCIAL STATEMENTS
2010

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CGU Bonus Limited

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CGU Bonus Limited

Directors and officer

Directors:

C J Abrahams
S Egan
D J R McMillan

Officer - Company Secretary:

R H Spicker
Pitheavlis
Perth
Scotland
PH2 ONH

Auditor:

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

Registered office:

Pitheavlis
Perth
Scotland
PH2 ONH

Company number:

Registered in Scotland : No. SC008140

Other information:

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

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 2010

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

Directors

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

Those in office since 1 January 2010 have been as follows:

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

J Kitson resigned as a director on 31 March 2010.

D K Watson resigned as a director on 31 March 2010.

S Egan was appointed as a director on 1 April 2010.

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

Principal activity

The principal activity of the Company was the writing of general insurance business in the United Kingdom ("UK"). The Company's business however has now been renewed in fellow Group companies and it is now managing its claims in run-off. The Company is expected to become dormant in the medium term.

Business review

Basis of preparation

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

Objectives and future developments

High level strategies are determined by Aviva plc and these are shown in its financial statements. The Company has completed the transfer of its general insurance business for commercial and personal lines on renewal to its parent companies, Aviva Insurance Limited (commercial) and Aviva Insurance UK Limited (personal).

CGU Bonus Limited

Directors' report (continued)

Business review (continued)

Financial position and performance

The financial position of the Company at 31 December 2010 is shown in the statement of financial position on page 16, with the trading results shown in the income statement on page 15 and the statement of cash flows on page 18.

The result before tax decreased from a profit before tax in 2009 of £80,499 thousand to £39,817 thousand in 2010. This is principally due to the Company benefiting in 2009 from prior year claims releases of £42,889 thousand. In addition, net investment income is £26,900 thousand in 2010 compared to £39,089 thousand in 2009, mainly due to lower investment gains.

Principal risks and uncertainties

A description of the principal risks and uncertainties facing the Company and the Company's risk management policies are set out in notes 20 and 22 to the financial statements.

Going concern

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

CGU Bonus Limited

Directors' report (continued)

Financial instruments

The business of the Company includes 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 22 to the financial statements.

Dividends

An interim dividend of £47,000 thousand was paid in December 2010 (2009: £nil). The directors do not recommend the payment of a final dividend (2009: £ nil).

Employees

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

Auditor

It is the intention of the directors to reappoint the auditor under the deemed appointment rules of section 487 of the Companies Act 2006.

Directors' liabilities

Aviva plc, the Company's ultimate parent company, has granted an indemnity to the directors against liability in respect of proceedings brought by third parties, subject to the conditions set out in the Companies Act 1985. This indemnity was granted in 2004 and the provisions in the Company's Articles of Association constitute "qualifying third party indemnities" for the purposes of sections 309A to 309C of the Companies Act 1985. These qualifying third party indemnity provisions remain in force as at the date of approving the directors' report by virtue of the transitional provisions to the Companies Act 2006.

CGU 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.

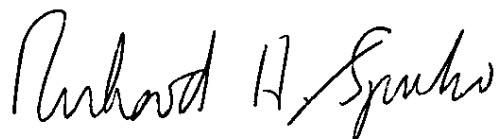
Statement of directors' responsibilities

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

22 JUNE 2011

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 2010, which comprise the Accounting policies, the Income Statement, the Statement of Financial Position, the Statement of Changes in Equity, the Statement of Cash Flows and the related notes 1 to 24. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

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

Respective responsibilities of directors and auditors

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

Our responsibility is to audit the financial statements in accordance with applicable legal and regulatory requirements 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 2010 and of its profit for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

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

CGU 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

23 June 2011

CGU Bonus Limited

Accounting policies

The Company is a limited liability company incorporated and domiciled in Great Britain. Its principal activity was the writing of general insurance business in the UK.

The principal accounting policies adopted in the preparation of these financial statements are set out below.

(A) Basis of presentation

The financial statements have been prepared in accordance with IFRS and International Accounting Standards ("IAS") as endorsed by the EU, applicable at 31 December 2010.

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

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

IFRS 13 Fair Value Measurement was issued in May 2011 and is effective from 1 January 2013. The Company is currently reviewing the potential impact on the financial statements.

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

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.

(C) Product classification

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

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

CGU Bonus Limited

Accounting policies (continued)

(D) Premiums earned

Premiums written reflect business inception 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 1). 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. Realised gains or losses on investment property represent the difference between the net disposal proceeds and the carrying amount of the property.

(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. Fair values for unlisted equity securities are estimated using applicable price/earnings or price/cash flow ratios refined to reflect the specific circumstances of the issuer.

(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. Non-cash collateral received is not recognised in the statement of financial position unless the Company either sells or repledges these assets in the absence of default, at which point the obligation to return this collateral is recognised as a liability.

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 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.

(N) Contingent liabilities

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

(O) Income taxes

The current tax expense is based on the taxable profits for the year, after any adjustments in respect of prior years. Tax, including tax relief for losses if applicable, is allocated over profits before taxation and amounts charged or credited to reserves as appropriate.

Provision is made for deferred tax liabilities, or credit taken for deferred tax assets, using the liability method, on all material temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements. The rates enacted or substantively enacted at the statement of financial position date are used to determine the deferred tax.

CGU Bonus Limited

Accounting policies (continued)

(O) Income taxes (continued)

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.

CGU Bonus Limited

Income statement

For the year ended 31 December 2010

	Note	<u>2010</u>	<u>2009</u>
		£000	£000
Income	1		
Gross written premiums		(38)	(152)
Premiums ceded to reinsurers		(1,247)	(2,982)
Premiums written, net of reinsurance		(1,285)	(3,134)
Net change in provision for unearned premiums		306	2,647
Net earned premiums		(979)	(487)
Net investment income		26,900	39,089
		<u>25,921</u>	<u>38,602</u>
Expenses	2		
Claims paid, net of reinsurance		22,781	41,196
Change in claims provisions, net of reinsurance		(37,628)	(85,017)
Fee and commission expenses, net of reinsurance		(2)	(203)
Other operating expenses, net of reinsurance		598	1,735
Finance costs		355	392
		<u>(13,896)</u>	<u>(41,897)</u>
Profit before tax		39,817	80,499
Tax expense	6	(12,292)	(22,181)
Profit for the year		<u>27,525</u>	<u>58,318</u>

The accounting policies on pages 8 to 14 and notes on pages 19 to 50 are an integral part of these financial statements.

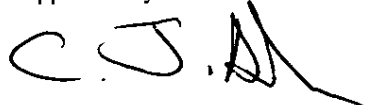
CGU Bonus Limited

Statement of financial position As at 31 December 2010

	Note	2010	2009
		£000	£000
ASSETS			
Financial investments	8	394,091	406,626
Reinsurance assets	10	4,705	3,138
Receivables	11	2,407	2,764
Prepayments and accrued income		9,204	10,300
Cash and cash equivalents	21(b)	4,925	16,525
Total assets		415,332	439,353
LIABILITIES			
Insurance liabilities	13	65,815	101,827
Deferred tax liabilities	15	1,527	3,519
Current liability for tax	15	14,339	24,648
Payables and other financial liabilities	16	133,747	88,539
Other liabilities	17	126	1,567
Total liabilities		215,554	220,100
Net assets		199,778	219,253
EQUITY			
Ordinary share capital	18	157,000	157,000
Retained earnings	19	42,778	62,253
Total equity		199,778	219,253

The accounting policies on pages 8 to 14 and notes on pages 19 to 50 are an integral part of these financial statements.

Approved by the Board on 22 JUNE 2011



C J Abrahams
Director

CGU Bonus Limited

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

	Note	Ordinary share capital £000	Retained earnings £000	Total equity £000
Balance at 1 January 2009		157,000	3,935	160,935
Total comprehensive income for the year		-	58,318	58,318
Total movements in the year		-	58,318	58,318
Balance at 31 December 2009		157,000	62,253	219,253
Total comprehensive income for the year		-	27,525	27,525
Dividends	7	-	(47,000)	(47,000)
Total movements in the year		-	(19,475)	(19,475)
Balance at 31 December 2010		157,000	42,778	199,778

The accounting policies on pages 8 to 14 and notes on pages 19 to 50 are an integral part of these financial statements.

CGU Bonus Limited

Statement of cash flows

For the year ended 31 December 2010

	Note	<u>2010</u>	<u>2009</u>
		£000	£000
Cash flows from operating activities			
Net cash inflow from / (outflow to) operating activities	21(a)	13,612	(67,775)
<i>Net cash from / (used in) operating activities</i>		<u>13,612</u>	<u>(67,775)</u>
Cash flows from financing activities			
Ordinary dividends paid	7	(47,000)	-
<i>Net cash used in financing activities</i>		<u>(47,000)</u>	<u>-</u>
Net decrease in cash and cash equivalents		(33,388)	(67,775)
Cash and cash equivalents at 1 January		(40,005)	27,770
Cash and cash equivalents at 31 December	21(b)	<u><u>(73,393)</u></u>	<u><u>(40,005)</u></u>

The accounting policies on pages 8 to 14 and notes on pages 19 to 50 are an integral part of these financial statements.

CGU Bonus Limited

Notes to the financial statements

1. Details of income

	<u>2010</u>	<u>2009</u>
	<u>£000</u>	<u>£000</u>
Premiums earned		
Gross written premiums	(38)	(152)
Less: premiums ceded to reinsurers	(1,247)	(2,982)
Gross change in provision for unearned premiums	-	2,428
Reinsurers' share of change in provision for unearned premiums	306	219
Net change in provision for unearned premiums	306	2,647
Net earned premiums	(979)	(487)
Total revenue	(979)	(487)
 Net investment income		
Interest and similar income		
From investments designated as other than trading	21,979	21,615
Realised losses	(3,526)	(33,911)
Unrealised gains	11,133	51,641
Movement in amortised cost on debt securities	(2,387)	178
Gains on investments	5,220	17,908
Other investment expenses	(299)	(434)
Net investment income	26,900	39,089
Total income	25,921	38,602

CGU Bonus Limited

Notes to the financial statements (continued)

2. Details of expenses

	<u>2010</u> £000	<u>2009</u> £000
Claims paid, net of reinsurance		
Claims paid to policyholders	22,981	40,710
Less: Claims recoveries (from) / to reinsurers	(200)	486
	<u>22,781</u>	<u>41,196</u>
Change in claims provisions, net of reinsurance		
Change in gross claims provisions	(37,062)	(81,333)
Change in reinsurance asset for claims provisions	(979)	(2,746)
Impact of change in discounting rate assumption	413	(938)
	<u>(37,628)</u>	<u>(85,017)</u>
Fee and commission expenses, net of reinsurance		
Acquisition costs		
Commission expenses	(2)	66
Change in deferred acquisition costs	-	(269)
	<u>(2)</u>	<u>(203)</u>
Other operating expenses, net of reinsurance		
Operating expenses	<u>598</u>	<u>1,735</u>
Finance costs		
Unwind of discounting	<u>355</u>	<u>392</u>
Total expenses	<u>(13,896)</u>	<u>(41,897)</u>

3. Employee information

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

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 24(c)).

	<u>2010</u>	<u>2009</u>
	<u>£000</u>	<u>£000</u>
Audit services		
Statutory audit of the Company's financial statements	<u>58</u>	<u>50</u>

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

6. Tax

(a) Tax charged to the income statement

(i) The total tax charge comprises:

	<u>2010</u>	<u>2009</u>
	<u>£000</u>	<u>£000</u>
Current tax:		
For this year	(14,339)	(24,649)
Adjustments in respect of prior years	<u>55</u>	<u>238</u>
Total current tax	<u>(14,284)</u>	<u>(24,411)</u>
Deferred tax:		
Origination and reversal of temporary differences (note 6(a)(ii))	<u>1,992</u>	<u>2,230</u>
Total deferred tax	<u>1,992</u>	<u>2,230</u>
Total tax charged to income statement	<u>(12,292)</u>	<u>(22,181)</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:

	2010	2009
	£000	£000
Insurance items	2,126	1,904
Provision and other timing differences	(118)	258
Accelerated capital allowances	(16)	68
Total deferred tax credited to income statement	1,992	2,230

(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:

	2010	2009
	£000	£000
Net profit before tax	39,817	80,499
Tax calculated at standard UK corporation tax rate of 28% (2009: 28%)	(11,149)	(22,540)
Adjustment to tax charge in respect of prior years	-	359
Non allowable expenses	(1,200)	-
Impact of change in tax rate	57	-
Tax charged for the period (note 6(a)(i))	(12,292)	(22,181)

Legislation already enacted at the statement of financial position date means that with effect from 1 April 2011 the corporation tax rate was expected to reduce to 27% (from 28%).

On the basis that it is anticipated that the Company's deferred tax liabilities are expected to unwind after 1 April 2011 the closing recognised deferred tax liability balance has been tax effected at the lower rate of 27%.

In the Budget of 23 March 2011 the Chancellor announced that instead of reducing to 27% from 1 April 2011, the corporation tax rate would in fact reduce to 26%, although this further reduction was not substantively enacted at 31 December 2010, hence the 27% rate has been applied in the accounts. The maximum impact of the reduction in corporation tax to 26% from 1 April 2011 is not material.

Subsequent reductions of 1% each year thereafter until it reaches 23% from 1 April 2014 were also confirmed, and are to be dealt with by future legislation. The maximum impact of the reduction in corporation tax to 23% is not material.

7. Dividends

	2010	2009
	£000	£000
Ordinary dividends declared and charged to equity in the year		
Interim 2010 - 29.94p per share paid in December 2010	47,000	-

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	
	2010	2009
	£000	£000
Fixed maturity securities		
<i>Debt securities</i>		
UK Government	36,264	72,249
Non-UK Government	139,564	43,777
Public utilities	16,015	15,527
Other corporates	202,248	275,073
	<u>394,091</u>	<u>406,626</u>

Of the above total, £325,124 thousand (2009: £372,900 thousand) is expected to be recovered in more than one year after the balance sheet date.

(b) Cost, unrealised gains and fair value

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

	2010			
	Cost/ amortised cost £000	Unrealised gains £000	Unrealised losses and impairments £000	Fair value £000
Debt securities	381,166	15,626	(2,701)	394,091
				<u>2009</u>
	Cost/ amortised cost £000	Unrealised gains £000	Unrealised losses and impairments £000	Fair value £000
	£000	£000	£000	£000
Debt securities	404,834	11,398	(9,606)	406,626

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.

Unrealised gains and losses on financial investments classified as at fair value through profit or loss recognised in the income statement in the year were a net gain of £11,133 thousand (2009: £51,641 thousand net gain).

The movement in the unrealised gains/losses 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 (2009: £nil).

Of the £5,220 thousand net gains recognised in the income statement during the year, all of which is included in net investment income, £3,304 thousand relates to investments still held at 31 December 2010.

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. 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.

In 2010, no collateral has been sold. In certain markets, the Company or the Company's appointed stocklending 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 2010.

The carrying amounts of financial assets received and pledged in this manner at 31 December 2010 were £113,833 thousand and £104,737 thousand respectively (2009: £90,700 thousand and £83,600 thousand respectively). The value of collateral that was actually sold or re-pledged in the absence of default was £nil million (2009: £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 occur with sufficient frequency and volume to provide pricing information on an ongoing basis. Examples are listed equities in active markets, listed debt securities in active markets and quoted unit trusts in active markets.

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

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

CGU Bonus Limited

Notes to the financial statements (continued)

9. Fair value (continued)

(a) Fair value methodology (continued)

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

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

	2009				
	Fair Value Hierarchy				Statement of financial position
	Level 1	Level 2	Level 3	Sub-total	Amortised cost
	£000	£000	£000	£000	£000
Fixed maturity securities	406,626	-	-	406,626	-

There are no significant transfers between Level 1 and Level 2 of the fair value hierarchy.

(c) The tables below show movements in the assets measured at fair value.

	2010	2009
	£000	£000
Balance at 1 January	-	532
Disposals	-	(532)
Balance at 31 December	-	-

There are no level 3 stocks as at 31 December 2010.

CGU Bonus Limited

Notes to the financial statements (continued)

10. Reinsurance assets

(a) Carrying amounts

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

	2010			2009		
	Gross insurance provisions	Reinsurance assets	Net	Gross insurance provisions	Reinsurance assets	Net
	£000	£000	£000	£000	£000	£000
Outstanding claims provisions	59,021	4,178	54,843	93,005	2,917	90,088
Provisions for claims incurred but not reported	6,794	-	6,794	8,822	-	8,822
	65,815	4,178	61,637	101,827	2,917	98,910
Provision for unearned premiums	-	527	(527)	-	221	(221)
Total	65,815	4,705	61,110	101,827	3,138	98,689

Of the above total, £4,044 thousand (2009: £2,662 thousand) of the reinsurance assets is expected to be recovered in more than one year after the statement of financial position date.

The reinsurers' share of outstanding claims provisions and provisions for claims incurred but not reported is reduced by £2,084 thousand (2009: £2,862 thousand) as a result of the discounting of latent claims and periodic payment orders.

(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

	2010	2009
	£000	£000
(i) Reinsurers' share of claims provisions		
Carrying amount at 1 January	2,917	260
Impact of changes in discount rate assumptions	178	(99)
Reinsurers' share of claims losses and expenses incurred in current year	-	-
Reinsurers' share of claims losses and expenses incurred in prior years	1,179	2,260
Reinsurers' share of incurred claims losses and expenses	1,357	2,161
Less:		
Reinsurance recoveries received on claims incurred in current year	-	-
Reinsurance recoveries received on claims incurred in prior years	(200)	486
Reinsurance recoveries received in the year	(200)	486
Unwind of discount	104	10
Change in reinsurance asset	1,261	2,657
Carrying amount at 31 December	4,178	2,917
(ii) Reinsurers' share of the provision for unearned premiums		
	2010	2009
	£000	£000
Carrying amount at 1 January	221	2
Premiums ceded to reinsurers in the year	1,247	2,982
Less:		
Reinsurers' share of premiums earned during the year	(941)	(2,763)
Change in reinsurance asset	306	219
Carrying amount at 31 December	527	221

CGU Bonus Limited

Notes to the financial statements (continued)

11. Receivables

	<u>2010</u>	<u>2009</u>
	<u>£000</u>	<u>£000</u>
Amounts due from intermediaries	1,195	2,681
Amounts due from reinsurers	143	83
Amounts due from related parties (note 24(a)(ii))	1,069	-
Total	<u>2,407</u>	<u>2,764</u>
Expected to be recovered in less than one year	<u>2,407</u>	<u>2,764</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 were:

	<u>2010</u>	<u>2009</u>
	<u>£000</u>	<u>£000</u>
Carrying amount at 1 January	-	-
Acquisition costs written during the year, gross of reinsurance	(2)	(203)
Amortisation	2	203
Carrying amount at 31 December	<u>-</u>	<u>-</u>

CGU Bonus Limited

Notes to the financial statements (continued)

13. Insurance liabilities

(a) Carrying amount

Gross insurance liabilities at 31 December comprise:

	<u>2010</u>	<u>2009</u>
	<u>£000</u>	<u>£000</u>
Provisions for outstanding claims	59,021	93,005
Provisions for claims incurred but not reported	6,794	8,822
	<u>65,815</u>	<u>101,827</u>
Provision for unearned premiums	-	-
Total	<u>65,815</u>	<u>101,827</u>

(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:

	<u>Discounting rate</u>		<u>Mean term of liabilities</u>	
	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>
Latent claims	4.17% to 0.88%	4.58% to 1.02%	15 years	15 years
Periodic payment orders	4.17% to 0.88%	4.58% to 1.02%	35 years	31 years

The gross outstanding claims provisions before discounting are £73,942 thousand (2009: £110,946 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.

CGU Bonus Limited

Notes to the financial statements (continued)

13. Insurance liabilities (continued)

(c) Assumptions

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

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

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

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

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:

	2010 £000	2009 £000
Carrying amount at 1 January	101,827	183,795
Impact of changes in discount rate assumptions	591	(1,037)
Claims losses and expenses incurred in the current year	876	2,266
Decrease in estimated claims losses and expenses incurred in prior years	(14,957)	(42,889)
Incurred claims losses and expenses	(13,490)	(41,660)
Less:		
Payments made on claims incurred in the current year	(869)	(1,538)
Payments made on claims incurred in prior years	(22,112)	(39,172)
Claims payments made in the year	(22,981)	(40,710)
Unwind of discounting	459	402
Changes in gross claims	(36,012)	(81,968)
Carrying amount at 31 December	65,815	101,827

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 2010 has resulted in an increase in the net discounted provision of £413 thousand (2009: £938 thousand release).

Effect of changes in estimates during the year

During the year, gross prior years' claims provisions of £14,957 thousand (£13,778 thousand, net of reinsurance) (2009: £42,889 thousand, £40,629 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 2001 to 2010. The upper half of the table shows the cumulative amounts paid during successive years related to each accident year. For example, with respect to the accident year 2001, by the end of 2010 £106,878 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 £105,606 thousand was re-estimated to be £107,524 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.

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

CGU Bonus Limited

Notes to the financial statements (continued)

13. Insurance liabilities (continued)

(e) Loss development tables (continued)

Accident Year	All prior years £000	2001 £000	2002 £000	2003 £000	2004 £000	2005 £000	2006 £000	2007 £000	2008 £000	2009 £000	2010 £000	Total £000
Gross cumulative claims payments												
At end of accident year		(38,600)	(37,780)	(38,950)	(40,563)	(58,245)	(37,691)	(36,744)	(9,735)	(1,538)	(869)	
One year later		(68,997)	(69,919)	(72,246)	(70,833)	(101,367)	(69,253)	(59,950)	(13,056)	(1,856)		
Two years later		(81,993)	(78,944)	(83,231)	(85,917)	(114,763)	(80,796)	(66,444)	(14,909)			
Three years later		(94,281)	(85,069)	(94,383)	(99,074)	(127,384)	(92,861)	(72,212)				
Four years later		(100,081)	(92,001)	(111,587)	(107,809)	(135,648)	(100,049)					
Five years later		(104,137)	(94,612)	(115,420)	(112,321)	(138,540)						
Six years later		(105,645)	(97,058)	(117,296)	(113,594)							
Seven years later		(106,296)	(97,898)	(118,764)								
Eight years later		(106,635)	(98,196)									
Nine years later		(106,878)										
Estimate of gross ultimate claims												
At end of accident year		105,606	98,138	141,580	163,222	188,594	145,084	111,578	42,075	2,266	876	
One year later		109,838	114,621	131,332	149,865	163,190	117,304	88,933	23,905	2142		
Two years later		119,919	108,307	134,552	133,505	161,085	117,501	87,416	23,103			
Three years later		118,038	110,204	123,910	128,884	163,930	114,907	85,853				
Four years later		117,194	105,332	125,689	119,043	150,361	112,193					
Five years later		112,156	102,620	123,763	117,779	145,299						
Six years later		109,869	102,795	126,974	115,446							
Seven years later		109,027	102,492	126,442								
Eight years later		108,373	102,302									
Nine years later		107,524										
Estimate of ultimate claims												
Cumulative payments		107,524	102,302	126,442	115,446	145,299	112,193	85,853	23,103	2,142	876	
Gross outstanding claims provisions recognised in the balance sheet		(106,878)	(98,196)	(118,764)	(113,594)	(138,540)	(100,049)	(72,212)	(14,909)	(1,856)	(869)	
Effect of discounting		18,629	4,106	7,678	1,852	6,759	12,144	13,641	8,194	286	7	73,942
Present value recognised in balance sheet		(4,704)	-	(1,677)	-	-	(1,746)	-	-	-	-	(8,127)
		13,925	4,106	6,001	1,852	6,759	10,398	13,641	8,194	286	7	65,815

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	All prior years											Total
	£000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	£000
Net cumulative claims payments												
At end of accident year	(38,247)	(37,780)	(38,950)	(40,429)	(55,880)	(37,547)	(36,744)	(9,735)	(1,538)	(869)		
One year later	(68,824)	(69,664)	(72,246)	(70,699)	(100,636)	(69,109)	(59,974)	(13,056)	(1,856)			
Two years later	(81,822)	(78,686)	(83,224)	(84,124)	(113,916)	(80,652)	(66,468)	(14,909)				
Three years later	(94,111)	(84,811)	(94,205)	(97,281)	(126,619)	(92,717)	(72,183)					
Four years later	(100,011)	(91,570)	(111,409)	(106,016)	(135,369)	(99,848)						
Five years later	(103,931)	(94,181)	(115,242)	(110,528)	(138,279)							
Six years later	(105,439)	(96,627)	(117,118)	(111,801)								
Seven years later	(106,090)	(97,467)	(118,478)									
Eight years later	(106,428)	(97,765)										
Nine years later	(106,672)											
Estimate of net ultimate claims												
At end of accident year	105,447	98,137	141,401	163,088	188,328	144,940	111,554	42,075	2,266	876		
One year later	109,667	114,365	131,328	148,072	162,151	117,138	88,856	23,905	2,142			
Two years later	119,247	108,048	134,374	131,711	160,017	117,357	87,311	23,103				
Three years later	117,468	109,773	123,732	127,090	163,142	114,763	85,672					
Four years later	116,988	104,901	125,446	117,250	149,924	108,766						
Five years later	111,949	102,189	123,586	115,985	145,194							
Six years later	109,661	102,364	121,308	113,652								
Seven years later	108,821	102,059	123,369									
Eight years later	108,165	101,869										
Nine years later	107,316											
Estimate of ultimate claims	107,316	101,869	123,369	113,652	145,194	108,766	85,672	23,103	2,142	876		
Cumulative payments	(106,672)	(97,765)	(118,478)	(111,801)	(138,279)	(99,848)	(72,183)	(14,909)	(1,856)	(869)		
Net outstanding claims provisions recognised												
in the balance sheet	18,381	644	4,104	4,891	1,851	6,915	8,918	13,489	8,194	286	7	67,680
Effect of discounting	(4,704)	-	-	(798)	-	-	(541)	-	-	-	-	(6,043)
Present value recognised in balance sheet	13,677	644	4,104	4,093	1,851	6,915	8,377	13,489	8,194	286	7	61,637

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:

	2010	2009
	£000	£000
Carrying amount at 1 January	-	2,428
Premiums written during the year	(38)	(152)
Less: Premiums earned during the year	38	(2,276)
Change in year	-	(2,428)
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 is one, have mutually guaranteed to discharge all liabilities attaching to their respective policies. The guarantee enables a company, if it is unable to pay a policyholder claim, to seek financial support from one of the other guarantors. The guarantors are not obliged to make the payment if in so doing they would breach their own solvency requirement. If any payments are made under the guarantee, the guarantors are entitled to seek repayment from the company benefiting from the guarantee. The guarantee cannot be relied upon by any other person, including without limitation the holder of any contracts of insurance issued by a party to the guarantee. There is no maximum amount the Company would have to pay under the guarantee but, in the opinion of the directors, the fair value of the guarantee above is not material and no material loss is expected to arise therefrom.

CGU Bonus Limited

Notes to the financial statements (continued)

15. Tax assets and liabilities

(a) Current tax

	<u>2010</u>	<u>2009</u>
	<u>£000</u>	<u>£000</u>
Tax liability		
Expected to be payable in more than one year	<u>(14,339)</u>	<u>(24,648)</u>

Assets and liabilities for prior years tax settled by Group Relief of £nil and £24,593 thousand (2009: £3,092 thousand and £nil) are included within payables and other financial liabilities (note 16) and within the related party transactions (note 24) of which £24,593 thousand is payable in less than one year.

(b) Deferred taxes

(i) The balance at the period end comprises:

	<u>2010</u>	<u>2009</u>
	<u>£000</u>	<u>£000</u>
Temporary differences arising on insurance items	(1,719)	(3,845)
Provisions and other timing differences	139	258
Accelerated capital allowances	53	68
Net deferred tax liability	<u>(1,527)</u>	<u>(3,519)</u>

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

Net liability at 1 January	(3,519)	(5,749)
Amounts credited to profit (note 6)	1,992	2,230
Net liability at 31 December	<u>(1,527)</u>	<u>(3,519)</u>

16. Payables and other financial liabilities

	<u>2010</u>	<u>2009</u>
	<u>£000</u>	<u>£000</u>
Amounts due to related parties (note 24(a)(iii))	54,806	31,173
Other financial liabilities	623	836
Bank overdrafts (note 21 (b))	<u>78,318</u>	<u>56,530</u>
	<u>133,747</u>	<u>88,539</u>
Expected to be settled within one year	<u>133,747</u>	<u>88,539</u>

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

	2010	2009
	£000	£000
Accruals	126	1,567
Expected to be settled within one year	126	1,567

18. Ordinary share capital

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

	2010	2009
	£000	£000
Authorised		
157,000,000 (2009: 157,000,000) Ordinary shares of £1 each	157,000	157,000
Allotted, called up and fully paid		
157,000,000 (2009: 157,000,000) Ordinary shares of £1 each	157,000	157,000

19. Retained earnings

	2010	2009
	£000	£000
Balance at 1 January	62,253	3,935
Profit for the year	27,525	58,318
Dividends (note 7)	(47,000)	-
Balance at 31 December	42,778	62,253

In accordance with the accounting policy Q, retained earnings includes £4,584 thousand (2009: £10,045 thousand) relating to equalisation provisions, net of attributable tax relief, which are not distributable.

20. Contingent liabilities and other risk factors

Uncertainty over claims provisions

Note 13(c) gives details of the estimation techniques used in determining the outstanding claims provisions, which are designed to allow for prudence. These are estimated to give a result within the normal range of outcomes. To the extent that the ultimate cost falls outside this range, for example where future claims inflation differs from that expected, there is uncertainty in respect of this liability.

Levy schemes

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

CGU Bonus Limited

Notes to the financial statements (continued)

21. Statement of cash flows

	<u>2010</u> £000	<u>2009</u> £000
(a) The reconciliation of profit before tax to the net cash outflow from operating activities is:		
Profit before tax	39,817	80,499
Adjustments for:		
Gains on investments (note 1)	5,220	17,602
Changes in working capital:		
(Increase)/decrease in reinsurance assets	(1,567)	(2,876)
(Increase)/decrease in receivables and other financial assets	357	333
(Increase)/decrease in prepayments and accrued income	1,096	648
Increase/(decrease) in insurance liabilities	(36,012)	(84,396)
Increase/(decrease) in payables and other financial liabilities	(1,172)	10,281
Increase/(decrease) in other liabilities	(1,441)	(614)
Net sales/(purchases) of operating assets:		
Financial investments	7,314	(89,252)
Net cash inflow / (outflow) from operating activities	<u>13,612</u>	<u>(67,775)</u>

"(Increase)/decrease in receivables" is stated after eliminating £24,593 thousand (2009:

"Increase/(decrease) in payables and other financial liabilities" £3,092 thousand) of corporation tax liability settled, or to be settled, by group relief.

	<u>2010</u> £000	<u>2009</u> £000
(b) Cash and cash equivalents in the statement of cash flows at 31 December comprised:		
Cash at bank and in hand	4,925	16,525
Bank overdrafts (note 16)	(78,318)	(56,530)
	<u>(73,393)</u>	<u>(40,005)</u>

CGU Bonus Limited

Notes to the financial statements (continued)

22. Risk management

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

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

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

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

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

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

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

CGU Bonus Limited

Notes to the financial statements (continued)

22. Risk management (continued)

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

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

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

(a) Financial risk management

(i) Market risk

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

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

The Company operates predominantly in the UK 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.

CGU Bonus Limited

Notes to the financial statements (continued)

22. Risk management (continued)

(a) Financial risk management (continued)

(ii) Credit risk

Credit risk is the risk of loss in the value of financial assets due to counterparties failing to meet all or part of their obligations.

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

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

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

	Credit rating						Carrying value in the statement of financial position
	AAA	AA	A	BBB	Speculative grade	Non-rated	
31 December 2010	£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
	Credit rating						Carrying value in the statement of financial position
	AAA	AA	A	BBB	Speculative grade	Non-rated	
31 December 2009	£000	£000	£000	£000	£000	£000	£000
Debt securities	164,716	49,980	94,840	93,860	3,230	-	406,626
Cash and cash equivalents	-	424	8,001	-	-	8,100	16,525

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

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

CGU Bonus Limited

Notes to the financial statements (continued)

22. 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:

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

31 December 2009	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	406,626	-	-	-	-	-	406,626

At 31 December 2010, receivables are £2,407 thousand (2009: £2,764 thousand). Exposure by counterparty is monitored by the UKGI Asset and Liability Committee for all exposures greater than £20 million.

CGU Bonus Limited

Notes to the financial statements (continued)

22. Risk management (continued)

(a) Financial risk management (continued)

(iii) General insurance risk

The Company is in run-off and considers insurance risks within its general insurance activity to be the management of claims and the adequacy of 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.

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 in compliance with the Group General Insurance Reserving Policy. There are periodic external reviews by consultant actuaries.

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

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

CGU Bonus Limited

Notes to the financial statements (continued)

22. Risk management (continued)

(iv) Liquidity risk

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

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

The following table provides an analysis, by maturity date of the principal, of the carrying value of financial assets 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 provision	134	587	1,236	2,221	-	4,178
Reinsurers' share of unearned premium provision	527	-	-	-	-	527
Receivables and other financial assets	1,338	-	-	-	1,069	2,407
Cash and cash equivalents	4,925	-	-	-	-	4,925
	75,891	175,123	131,669	2,221	21,224	406,128

31 December 2009	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	33,690	218,850	105,630	48,456	-	406,626
Reinsurers' share of outstanding claims provision	255	473	787	1,402	-	2,917
Reinsurers' share of unearned premium provision	221	-	-	-	-	221
Receivables and other financial assets	2,764	-	-	-	-	2,764
Cash and cash equivalents	16,525	-	-	-	-	16,525
	53,455	219,323	106,417	49,858	-	429,053

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. Most of the Company's investments in fixed maturity securities are market traded and, therefore, if required, can be liquidated for cash at short notice.

CGU Bonus Limited

Notes to the financial statements (continued)

22. Risk management (continued)

The following table shows the Company's financial liabilities analysed by duration:

	Within 1 year	1 to 5 years	5 to 15 years	Over 15 years	No fixed terms	Total
31 December 2010	£000	£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
	106,521	38,250	6,902	7,422	54,806	213,901

	Within 1 year	1 to 5 years	5 to 15 years	Over 15 years	No fixed terms	Total
31 December 2009	£000	£000	£000	£000	£000	£000
Provision for outstanding claims	47,342	41,853	6,715	5,917	-	101,827
Liability for current tax	-	24,648	-	-	-	24,648
Payables and other financial liabilities	88,539	-	-	-	-	88,539
	135,881	66,501	6,715	5,917	-	215,014

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

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

(b) Strategic risks

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

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

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

(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 policy framework.

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

CGU Bonus Limited

Notes to the financial statements (continued)

22. Risk management (continued)

(d) Risk and capital management

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

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

Some results of sensitivity testing for general insurance business are set out below. For each sensitivity test the impact of a change in a single factor is shown, with other assumptions left unchanged.

<u>Sensitivity factor</u>	<u>Description of sensitivity factor applied</u>
Interest rate and investment return	The impact of a 1% increase or decrease in market interest rates (e.g. if a current interest rate is 5%, the impact of an immediate change to 4% or 6%). The test allows consistently for similar changes to investment returns and movements in the market value of fixed interest securities.

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

	<u>Increase/(decrease) in shareholder's equity (£000)</u>	<u>Increase/(decrease) in profit before tax (£000)</u>
	<u>Gross of reinsurance</u>	<u>Gross of reinsurance</u>
Interest rates +1%	(12,682)	(12,682)
Interest rates -1%	13,241	13,241

CGU Bonus Limited

Notes to the financial statements (continued)

22. Risk management (continued)

(d) Risk and capital management (continued)

The above tables demonstrate the effect of a change in a key assumption while other assumptions remain unchanged. In reality, there is a correlation between the assumptions and other factors. It should also be noted that these sensitivities are non-linear, and larger or smaller impacts should not be interpolated or extrapolated from these results.

The sensitivity analyses do not take into consideration that the Company's assets and liabilities are actively managed. Additionally, the financial position of the Company may vary at the time that any actual market movement occurs. For example, UKGI's financial risk management strategy aims to manage the exposure to market fluctuations. As investment markets move past various trigger levels, management actions could include selling investments, changing investment portfolio allocation, and taking other protective action.

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

23. 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. Increasingly, the Company uses risk management tools to assess its own internal economic capital requirements.

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

(b) Capital management

In managing its capital, the Company seeks to:

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

23. 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 year.

(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 22, Risk management, gives further details.

(d) Capital structure

	IFRS net assets 2010 £000	IFRS net assets 2009 £000
General insurance	199,778	219,253
Total capital employed	199,778	219,253
Financed by		
Equity shareholder's funds	199,778	219,253

CGU Bonus Limited

Notes to the financial statements (continued)

24. Related party transactions

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

(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 are:

	2010	2009
	£000	£000
Premiums written	(2,949)	2,942
Premiums earned	(2,727)	2,721
Claims incurred	2,731	(2,721)
Net result ceded	4	-

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

	2010	2009
	£000	£000
Reinsurance asset	-	2,622
Amounts owed to Aviva UKGI Investments Limited	-	(2,915)

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 have been reinsured to Aviva Annuity UK Limited under the arrangement are:

	2010	2009
	£000	£000
Reinsurance premiums ceded to reinsurers	4,445	-
Net earned premiums	3,921	-
Reinsurance claims incurred	(3,921)	-
Net result ceded	-	-

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

	2010	2009
	£000	£000
Reinsurance asset	3,928	-
Amounts owed to Aviva UKGI Investments Limited	(3,930)	-

CGU Bonus Limited

Notes to the financial statements (continued)

24. Related party transactions (continued)

(ii) Other services provided to related parties

	2010		2009	
	Income earned in year	Receivable at year end	Income earned in year	Receivable at year end
	£000	£000	£000	£000
Other 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.

	2010		2009	
	Expense incurred in year	Payable at year end	Expense incurred in year	Payable at year end
	£000	£000	£000	£000
Parent companies	-	21,900	-	984
Other Group companies	1,864	32,906	2,187	30,189
	1,864	54,806	2,187	31,173

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

(b) Immediate parent company

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

(c) Ultimate controlling entity

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