

COMMERCIAL UNION CORPORATE MEMBER LIMITED

FINANCIAL STATEMENTS

2005



LD2 *LJ5UUK0H* 290
COMPANIES HOUSE 27/10/2006

Commercial Union Corporate Member Limited

Report and accounts 2005

| Contents | Page |
|--|------|
| Directors and officer | 1 |
| Directors' report | 2 |
| Independent auditors' report | 6 |
| Accounting policies | 7 |
| Income statement | 13 |
| Balance sheet | 14 |
| Statement of changes in shareholder's equity | 15 |
| Cash flow statement | 16 |
| Notes to the financial statements | |
| 1 First time adoption of International Financial Reporting Standards | 17 |
| 2 Details of income | 18 |
| 3 Details of expenses | 18 |
| 4 Analysis of investment return | 19 |
| 5 Employee information | 19 |
| 6 Directors and auditors' remuneration | 19 |
| 7 Tax | 20 |
| 8 Financial investments | 21 |
| 9 Reinsurance assets | 22 |
| 10 Receivables and other financial assets | 23 |
| 11 Insurance liabilities | 23 |
| 12 Tax assets and liabilities | 25 |
| 13 Payables and other financial liabilities | 26 |
| 14 Ordinary share capital | 26 |
| 15 Retained earnings | 26 |
| 16 Contingent liabilities and other risk factors | 26 |
| 17 Cash flow statement | 27 |
| 18 Risk management policies | 28 |
| 19 Related party transactions | 33 |

Commercial Union Corporate Member Limited

Directors and officer

Directors:

S Egan
D J R McMillan
J Seaton

Officer:

Company Secretary:
Aviva Company Secretarial Services Limited

Auditors:

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

Registered office:

St Helen's
1 Undershaft
London
EC3P 3DQ

Registered in England and Wales: No. 3381519

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

Commercial Union Corporate Member Limited

Directors' report

For the year ended 31 December 2005

The directors present their annual report and audited financial statements for Commercial Union Corporate Member Limited (the Company) for the year ended 31 December 2005.

Principal activity and future developments

The principal activity of the Company during 2005 was that of a Corporate Underwriting Member of Lloyd's. Following a strategic review during 2000 by Aviva plc, the Company's ultimate controlling entity, a decision was made to withdraw fully from the London Market. On 21 December 2000, Tonicstar Limited, a member of the Berkshire Hathaway Group, agreed to replace the Company and provide capacity for 2001 and subsequent years of account. In a separate agreement a Berkshire Hathaway affiliated company agreed to provide Aviva plc with protection on the Company's results for underwriting years prior to 2001. On 1 September 2006, the name of the Company's immediate holding company was changed from CGU International Insurance plc to Aviva International Insurance Limited.

Results for the year

Full details of the results for the year are set out on page 13.

Dividend

No interim dividend was paid during the year (2004: £ nil). The directors do not recommend the payment of a final dividend (2004: £ nil).

Employees

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

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 are set out in note 18 to the financial statements.

Payment policy

It is the Company's policy to pay creditors when they fall due for payment. Terms of payment are agreed with suppliers when negotiating each transaction and the policy is to abide by those terms, provided that the suppliers also comply with all relevant terms and conditions.

There were no amounts due to trade creditors at 31 December 2005 or 31 December 2004.

Resolutions

On 26 August 1999, the members of the Company passed resolutions to dispense with the holding of Annual General Meetings, the laying of directors' reports, financial statements and auditors' reports before the members in general meetings and the obligation to appoint auditors annually.

Commercial Union Corporate Member Limited

Directors' report (continued)

Directors' interests

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

M S Hodges and P J R Snowball served as directors of the Company throughout the year.

B F McIntyre resigned as a director on 9 June 2005 and P C Easter was appointed as a director on the same date.

P C Easter and P J R Snowball resigned as directors on 14 March 2006.

J Seaton and S Egan were appointed as directors on 14 March 2006.

M S Hodges resigned as a director on 9 May 2006 and D J R McMillan was appointed as a director on the same date.

The table below shows the interests held by each person who was a director at the end of the financial year in the ordinary shares of 25 pence each in Aviva plc. Details of any options and awards held through Aviva plc's share schemes and incentive plans are shown on this page and page 4. All the disclosed interests are beneficial.

| | At 1 January 2005 (or appointment if later) | At 31 December 2005 |
|------------|--|---------------------|
| | Number | Number |
| M S Hodges | 4,710 | 5,437 |
| P C Easter | 6,477 | 6,628 |

P J R Snowball is a director of the Company's ultimate parent undertaking, Aviva plc, and details of his interests are given in that company's financial statements.

Incentive plans

Details of the directors who held office at the end of the financial year, and hold or held options to subscribe for ordinary shares of Aviva plc or hold or held awards over shares in Aviva plc, pursuant to Aviva plc's share based incentive plans, are set out below.

| (i) Share options | At 1 January 2005 (or appointment if later) | Options granted during the year | Options exercised during the year | At 31 December 2005 |
|-------------------------|--|--|--|---------------------------|
| | Number | Number | Number | Number |
| M S Hodges | | | | |
| Savings related options | 2,356 | - | (2,356) | - |
| P C Easter | | | | |
| Savings related options | 4,096 | - | - | 4,096 |

- (i) "Savings related options" are options granted under the Inland Revenue approved SAYE Share Option Scheme. Options granted from 1999 to 2005 are normally exercisable during the six month period following either the third, fifth or seventh anniversary of the relevant savings contract.

Commercial Union Corporate Member Limited

Directors' report (continued)

Directors' interests (continued)

(ii) Share awards

| | At 1 January 2005 (or appointment if later) | Awards granted during the year | Awards vested during the year | Awards lapsed during the year | At 31 December 2005 |
|-------------------------------------|--|---|--|--|---------------------------|
| | Number | Number | Number | Number | Number |
| M S Hodges | | | | | |
| Aviva Long Term Incentive Plan | 113,414 | - | (13,042) | (14,775) | 85,597 |
| Aviva Long Term Incentive Plan 2005 | - | 35,046 | - | - | 35,046 |
| Aviva Deferred Bonus Plan | 83,376 | 34,344 | (19,126) | - | 98,594 |
| P C Easter | | | | | |
| Aviva Long Term Incentive Plan | 123,577 | - | - | - | 123,577 |
| Aviva Long Term Incentive Plan 2005 | 46,728 | - | - | - | 46,728 |
| Aviva Deferred Bonus Plan | 126,232 | - | - | - | 126,232 |

- (i) The Aviva Long Term Incentive Plan; awards under the Plan are made on an annual basis and the 2005 award was made in March. Awards are subject to the attainment of performance conditions over a three year period.
- (ii) The Aviva Long Term Incentive Plan 2005; awards under the Plan are made on an annual basis and the 2005 award was made in March. Awards are subject to the attainment of performance conditions over a three year period.
- (iii) The Aviva Deferred Bonus Plan; awards disclosed include those made in lieu of some or all of the cash bonus earned and deferred under Aviva plc's Annual Bonus Plan and also the matching awards granted on a one for one basis. The awards are not subject to performance conditions and vest on the third anniversary of their grant.

Directors' liabilities

Aviva plc, the ultimate parent undertaking, 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 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. Such qualifying third party indemnity provision remains in force as at the date of approving the directors' report.

Commercial Union Corporate Member Limited

Directors' report (continued)

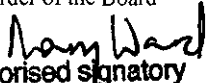
Statement of directors' responsibilities

The directors are required to prepare financial statements for each accounting period that comply with the relevant provisions of the Companies Act 1985 and of the International Financial Reporting Standards (IFRS) as adopted by the European Union, 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 keeping proper accounting records which are intended to disclose with reasonable accuracy, at any time, the financial position of the Company. They are also ultimately responsible for the systems of internal control maintained by the Company for safeguarding the assets of the Company and for the prevention and detection of fraud and other irregularities.

By order of the Board


Authorised signatory

For and on behalf of Aviva Company Secretarial Services Limited

Aviva Company Secretarial Services Limited

Secretary

25th OCTOBER 2006

Commercial Union Corporate Member Limited

Independent auditors' report

To the shareholders of Commercial Union Corporate Member Limited

We have audited the Company's financial statements for the year ended 31 December 2005, which comprise the Accounting Policies, the Income Statement, the Balance Sheet, the Statements of Changes in Shareholder's Equity, the Cash Flow Statement, and the related notes 1 to 19. These financial statements have been prepared on the basis of the accounting policies set out therein.

This report is made solely to the Company's members, as a body, in accordance with Section 235 of the Companies Act 1985. 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 auditors' 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

The directors are responsible for preparing the financial statements in accordance with the applicable United Kingdom law and International Financial Reporting Standards (IFRS) as adopted by the European Union as set out in the statement of directors' responsibilities in the Directors' Report.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Directors' Report is not consistent with the financial statements, if the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements within it.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements:

- give a true and fair view, in accordance with IFRS as adopted by the European Union, of the state of the Company's affairs as at 31 December 2005 and of its loss for the year then ended; and
- have been properly prepared in accordance with the Companies Act 1985.



Ernst & Young LLP
Registered Auditor
London

26 October 2006

Commercial Union Corporate Member Limited

Accounting policies

The Company is a limited liability company incorporated and domiciled in the United Kingdom (UK) and is a Corporate Underwriting Member of Lloyd's. In December 2000, Tonicstar Limited, a member of the Berkshire Hathaway Group, replaced the Company and provided capacity for 2001 and subsequent years of account. In a separate agreement, a Berkshire Hathaway affiliated company agreed to provide Aviva plc with protection on the Company's results for underwriting years prior to 2001.

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 International Financial Reporting Standards (IFRS) and International Accounting Standards (IAS) as endorsed by the European Union, applicable at 31 December 2005.

The IASB issued amendments to IAS 19, Employee Benefits, and IAS 39, The Fair Value Option, in December 2004 and June 2005 respectively. Their requirements are applicable for accounting periods beginning on or after 1 January 2006, but the Company has decided to adopt them early and reflect their impact in these financial statements.

In August 2005, the IASB issued IFRS 7, Financial Instruments: Disclosures, and amendments to IAS 1, Capital Disclosures, and IAS 39/IFRS 4, Financial Guarantee Contracts. Their requirements are applicable for accounting periods beginning on or after 1 January 2007 for the first two and, for the third, 1 January 2006. The Company has decided not to adopt any of them early in these financial statements but the impact of adopting these standards is not expected to have a material effect on the results of the Company. IFRS 7 will result in amendments to the disclosure of financial assets and liabilities, whilst the amendments to IAS 1 bring the capital disclosures into line with IFRS 7. The amendments to IAS 39 and IFRS 4 will not affect the manner in which the Company accounts for financial guarantee business. In addition, IFRS 6 and IFRIC Interpretations 5 and 6 have been issued during 2005 but are not relevant to the activities of the Company.

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

This is the Company's first set of full year results prepared in accordance with IFRS accounting policies and its previously reported 2004 financial statements have accordingly been restated to comply with IFRS, with the date of transition to IFRS being 1 January 2004. The principal effects of the adoption of IFRS have been reflected within note 1 on first time adoption of IFRS.

The financial statements are stated in British pounds, which is the Company's functional and presentation currency. Unless otherwise noted, the amounts shown in these financial statements are in thousands of British pounds (£'000).

Commercial Union Corporate Member Limited

Accounting policies (continued)

(B) Recognition of insurance transactions

In preparing these financial statements, the Company recognises its proportion of all the transactions undertaken by the Lloyd's syndicates in which it participates (the syndicates).

For each syndicate, the Company's proportion of the underwriting transactions, investment return and operating expenses has been reflected within the Company's income statement. Similarly, its proportion of the syndicate's assets and liabilities has been reflected in its balance sheet (under the column heading "syndicate"). The syndicate assets are held subject to trust deeds for the benefit of the Company's insurance creditors.

The proportion referred to above is calculated by reference to the Company's participation as a percentage of the syndicate's total capacity.

(C) Use of estimates

The preparation of financial statements requires the Company to make estimates and assumptions that affect items reported in the balance sheet and income statement and the disclosure of contingent assets and liabilities at the date of the 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.

(D) Foreign currency translation

Foreign currency transactions are accounted for at the exchange rates prevailing at the date of the transactions. Gains and losses resulting from the settlement of such transactions, and from the translation of monetary assets and liabilities denominated in foreign currencies, are recognised in the income statement.

Translation differences on debt securities and other monetary financial assets measured at fair value and designated at fair value through profit and loss (as defined in policy L) are included in foreign exchange gains and losses in the income statement.

(E) Product classification

Insurance contracts are defined as those containing significant insurance risk if, and only if, an insured event could cause an insurer to pay significant additional benefits 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.

As noted in policy A above, insurance contracts in general continue to be measured and accounted for under existing accounting practices at the date of transition to IFRS. Accounting for insurance contracts is determined in accordance with the Statement of Recommended Practice issued by the Association of British Insurers in December 2005.

(F) Premiums written

Insurance premiums written reflect business incepted during the year, and exclude any sales-based taxes or duties or levies. Written premiums include an estimate of pipeline premiums less a provision for anticipated lapses.

Commercial Union Corporate Member Limited

Accounting policies (continued)

(G) 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 L). 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.

The realised gain or loss on disposal of an investment is the difference between the proceeds received, net of transaction costs and its original cost or amortised cost as appropriate. Unrealised gains and losses 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.

(H) Insurance contract liabilities

Claims

Insurance claims incurred include all losses occurring during the year, whether reported or not, related handling costs, 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 claims handling function.

Outstanding claims provisions

Insurance outstanding claims provisions are based on the estimated ultimate cost of all claims incurred but not settled at the balance sheet date, whether reported or not, together with related loss adjustment expenses. Significant delays are experienced in the notification and settlement of certain types of general insurance claims, particularly in respect of liability business, the ultimate cost of which cannot be known with certainty at the balance sheet date. Any estimate represents a determination within a range of possible outcomes. Further details of estimation techniques are given in note 11 (c).

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

Commercial Union Corporate Member Limited

Accounting policies (continued)

(I) Reinsurance

Reinsurance ceded

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

Reinsurance assets primarily include balances due from both insurance and 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 a reliably measurable impact on the amounts that the Company will receive from the reinsurer.

(J) Reinsurance to close (RITC)

Each syndicate underwriting account is normally closed at the end of the third year by means of reinsurance into the following year, which reinsures all future liabilities for a closed year and all previous years in return for a premium calculated by the underwriter and approved by the managing agent.

The payment of a reinsurance to close does not eliminate the liability of the closed year for outstanding claims. If the reinsuring syndicate were to be unable to meet its obligations and other elements of the Lloyd's chain of security were to fail, then the members of the closed underwriting year would have to settle outstanding claims. The directors consider the likelihood of such failure of the reinsurance to close is extremely remote and, therefore the reinsurance to close has been deemed to settle liabilities outstanding at the closure of the underwriting year and no provision is made for the ultimate liability of that year of account.

The Company remains a member of two syndicates participating in certain years of account which are yet to close: Syndicate 62 (1999 and 2000 years of account) and Syndicate 1047 (2000 year of account). A reinsurance to close contract has yet to be agreed in respect of these syndicates for the Company's participating years of account.

Commercial Union Corporate Member Limited

Accounting policies (continued)

(K) 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 balance sheet 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.

(L) Financial investments

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

The FVPL category has two sub-categories – those that meet the definition as being held for trading and those the Company chooses to designate as FVPL (referred to in this accounting policy as "other than trading"). Fixed maturities, purchased loans and equity securities, which the Company buys with the intention to resell in the near term (typically between three and six months), are classified as trading. All other 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 trading and other than trading are subsequently carried at fair value. Changes in the fair value of trading and other than trading investments are included in the income statement in the period in which they arise.

The fair values of investments are based on quoted bid prices or amounts derived from cash flow models.

Commercial Union Corporate Member Limited

Accounting policies (continued)

(M) 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 with less than 90 days' maturity from the date of acquisition.

(N) Contingent liabilities

Contingent liabilities are disclosed if the future obligation is probable and the amount cannot be reasonably 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 principal temporary differences arise from differences between declared syndicate losses and reinsurance recoveries. The rates enacted or substantively enacted at the balance sheet date are used to determine the deferred tax.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

(P) Share capital and dividends

Equity instruments

An equity instrument is a contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Accordingly, a financial instrument is treated as equity if:

- (i) there is no contractual obligation to deliver cash or other financial assets or to exchange financial assets or liabilities on terms that may be unfavourable; and
- (ii) the instrument will not be settled by delivery of a variable number of shares or is a derivative that can be settled other than for a fixed amount of cash, shares or other financial assets.

Dividends

Interim dividends on ordinary shares are recognised in equity in the period in which they are paid. Final dividends on these shares are recognised when they have been approved by shareholders.

Commercial Union Corporate Member Limited

Income statement

For the year ended 31 December 2005

| | <u>Note</u> | <u>2005</u> <u>£'000</u> | <u>2004</u> <u>£'000</u> |
|---|-------------|-----------------------------|-----------------------------|
| Income | 2 | | |
| Gross written premiums | | 214 | 285 |
| Premiums ceded to reinsurers | | (325) | (415) |
| Premiums written net of reinsurance and net premiums earned | | (111) | (130) |
| Net investment income | | 332 | 340 |
| | | <u>221</u> | <u>210</u> |
| Expenses | 3 | | |
| Claims and benefits paid net of recoveries from reinsurers | | 4,463 | 393 |
| Change in insurance liabilities, net of reinsurance | | (4,399) | (451) |
| Fee and commission expense | | 39 | 62 |
| Other operating expenses | | 363 | 391 |
| Finance costs | | (245) | (185) |
| | | <u>221</u> | <u>210</u> |
| Profit before tax | | - | - |
| Tax (charge) / credit | 7 | (171) | 3,182 |
| (Loss) / Profit for the year | | <u>(171)</u> | <u>3,182</u> |

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

The accounting policies on pages 7 to 12 and notes on pages 17 to 33 are an integral part of these financial statements.

Commercial Union Corporate Member Limited

Balance Sheet

As at 31 December 2005

| | Note | 2005 | | | 2004 | | |
|--|------|--------------------|-----------------|----------------|--------------------|-----------------|----------------|
| | | Syndicate £'000 | Other £'000 | Total £'000 | Syndicate £'000 | Other £'000 | Total £'000 |
| Assets | | | | | | | |
| Financial investments | 8 | 11,591 | - | 11,591 | 6,022 | - | 6,022 |
| Reinsurance | 9 | 15,384 | - | 15,384 | 18,595 | - | 18,595 |
| Receivables and other financial assets | 10 | 140,525 | 32 | 140,557 | 176,262 | 66 | 176,328 |
| Cash and cash equivalents | 17b | 6,196 | - | 6,196 | 6,504 | - | 6,504 |
| Total assets | | <u>173,696</u> | <u>32</u> | <u>173,728</u> | <u>207,383</u> | <u>66</u> | <u>207,449</u> |
| Liabilities | | | | | | | |
| Insurance | 11 | 45,904 | - | 45,904 | 51,670 | - | 51,670 |
| Deferred tax | 12 | - | 16,169 | 16,169 | - | 16,859 | 16,859 |
| Current tax | 12 | - | 1,445 | 1,445 | - | 8,441 | 8,441 |
| Payables and other financial liabilities | 13 | 95,455 | 11,336 | 106,791 | 123,376 | 3,513 | 126,889 |
| Total liabilities | | <u>141,359</u> | <u>28,950</u> | <u>170,309</u> | <u>175,046</u> | <u>28,813</u> | <u>203,859</u> |
| Net assets / (liabilities) | | <u>32,337</u> | <u>(28,918)</u> | <u>3,419</u> | <u>32,337</u> | <u>(28,747)</u> | <u>3,590</u> |
| Equity | | | | | | | |
| Capital | | | | | | | |
| Ordinary share capital | 14 | - | 30,000 | 30,000 | - | 30,000 | 30,000 |
| Retained earnings | 15 | 32,337 | (58,918) | (26,581) | 32,337 | (58,747) | (26,410) |
| Total equity | | <u>32,337</u> | <u>(28,918)</u> | <u>3,419</u> | <u>32,337</u> | <u>(28,747)</u> | <u>3,590</u> |

The accounting policies on pages 7 to 12 and notes on pages 17 to 33 are an integral part of these financial statements.

Approved by the Board on 25th OCTOBER 2006

Director

Commercial Union Corporate Member Limited

Statement of changes in shareholder's equity

For the year ended 31 December 2005

| | Ordinary Share capital £'000 | Retained earnings £'000 | Total equity £'000 |
|--|---------------------------------------|-------------------------------|--------------------------|
| Balance at 1 January 2004 | - | (29,592) | (29,592) |
| Total recognised income and expense for the year | - | 3,182 | 3,182 |
| Issue of share capital | 30,000 | - | 30,000 |
| Total movements in the year | 30,000 | 3,182 | 33,182 |
| Balance at 31 December 2004 | 30,000 | (26,410) | 3,590 |
| Total recognised income and expense for the year | - | (171) | (171) |
| Total movements in the year | - | (171) | (171) |
| Balance at 31 December 2005 | 30,000 | (26,581) | 3,419 |

The accounting policies on pages 7 to 12 and notes on pages 17 to 33 are an integral part of these financial statements.

Commercial Union Corporate Member Limited

Cash flow statement

For the year ended 31 December 2005

| | <u>Note</u> | <u>2005</u> <u>£'000</u> | <u>2004</u> <u>£'000</u> |
|--|-------------|-----------------------------|-----------------------------|
| Cash flows from operating activities | | | |
| <i>Net cash used in operating activities</i> | 17a | <u>(308)</u> | <u>(37,303)</u> |
| Cash flows from financing activities | | | |
| Issue of ordinary shares | | <u>-</u> | <u>30,000</u> |
| <i>Net cash from financing activities</i> | | <u>-</u> | <u>30,000</u> |
| Net decrease in cash and cash equivalents | | (308) | (7,303) |
| Cash and cash equivalents at 1 January | | 6,504 | 13,807 |
| Cash and cash equivalents at 31 December | 17b | <u><u>6,196</u></u> | <u><u>6,504</u></u> |

The accounting policies on pages 7 to 12 and notes on pages 17 to 33 are an integral part of these financial statements.

Commercial Union Corporate Member Limited

Notes to the financial statements

1. First time adoption of International Financial Reporting Standards

The Company has adopted International Financial Reporting Standards (IFRS) for these financial statements for the year ended 31 December 2005. In order to show comparative balances, the year ended 31 December 2004 is also shown under IFRS. The date of transition to IFRS is 1 January 2004.

In general, a company is required to determine its IFRS accounting policies and apply these retrospectively to determine its opening balance sheet under IFRS. However, International Financial Reporting Standard 1, First time adoption of International Financial Reporting Standards, (IFRS 1) allows a number of exemptions to this general principle upon adoption of IFRS. The Company has taken advantage of the following transitional arrangements.

Estimate

Where estimates had previously been made under the former basis, consistent estimates (after adjustments to reflect any difference in accounting policies) have been made for the same date on transition to IFRS (i.e. judgements affecting the Company's opening balance sheet have not been revisited for the benefit of hindsight).

Transitional provision

The Company has not taken advantage of the exemption within IFRS 1 that allows comparative information presented in the first year of adoption of IFRS not to comply with IAS 32, IAS 39 and IFRS 4. It has elected to disclose only five years of data in its loss development tables, as permitted by IFRS 4 in the year of adoption of IFRS. This will be increased in each succeeding additional year, until the full ten years of information is included.

There are no differences between equity and profit for the year ended 31 December 2004 as previously reported and as reported under IFRS.

At 31 December 2004, £4,277 thousand of the Company's investments meet the definition of cash and cash equivalents and so have been reclassified to "cash and cash equivalents" (1 January 2004: £7,550 thousand).

Commercial Union Corporate Member Limited

Notes to the financial statements (continued)

2. Details of income

| | <u>2005</u> £'000 | <u>2004</u> £'000 |
|------------------------------------|----------------------|----------------------|
| Premiums earned | | |
| Gross premiums written | 214 | 285 |
| Less: premiums ceded to reinsurers | (325) | (415) |
| Total revenue | <u>(111)</u> | <u>(130)</u> |
| Net investment income | | |
| Interest and similar income | 570 | 607 |
| Realised gains and losses | (56) | (10) |
| Unrealised gains and losses | (98) | (118) |
| Losses on investments | (154) | (128) |
| Other investment expense | (84) | (139) |
| Net investment income | <u>332</u> | <u>340</u> |
| Total income | <u>221</u> | <u>210</u> |

3. Details of expenses

| | <u>2005</u> £'000 | <u>2004</u> £'000 |
|--|----------------------|----------------------|
| Claims and benefits paid, net of recoveries from reinsurers | | |
| Claims and benefits paid to policyholders | 8,037 | 11,234 |
| Less: Claim recoveries from reinsurers | (3,574) | (10,841) |
| | <u>4,463</u> | <u>393</u> |
| Change in insurance liabilities, net of reinsurance | | |
| Change in insurance liabilities | (8,664) | (7,138) |
| Less: Change in reinsurance asset for insurance provisions | 4,265 | 6,687 |
| | <u>(4,399)</u> | <u>(451)</u> |
| Fees and commission expense | | |
| Acquisition costs | | |
| Commission expenses | 39 | 62 |
| Other operating expenses | | |
| Operating expenses | 363 | 391 |
| Other net foreign exchange (gains) / losses | (245) | (185) |
| Total expenses | <u>221</u> | <u>210</u> |

Commercial Union Corporate Member Limited

Notes to the financial statements (continued)

4. Analysis of investment return

Effective interest rates

The table below summarises the average effective interest rate by major currency for monetary financial instruments:

| | <u>2005</u> | <u>2004</u> |
|-----------------------------------|-------------|-------------|
| | % | % |
| Monetary assets in British pounds | | |
| Debt securities | 4.0 | 3.4 |
| Cash and cash equivalents | 3.3 | 1.5 |

5. Employee information

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

6. Directors and auditors' remuneration

The emoluments of the directors and the auditors' remuneration have been borne in both 2004 and 2005 by the parent undertaking, Aviva International Insurance Ltd (formerly CGU International Insurance plc).

Commercial Union Corporate Member Limited

Notes to the financial statements (continued)

7. Tax

(a) Tax charged to the income statement

| | <u>2005</u> £'000 | <u>2004</u> £'000 |
|---|----------------------|----------------------|
| Current tax: | | |
| For this year | 852 | 8,441 |
| Prior year adjustments | 9 | (28,782) |
| Total current tax | <u>861</u> | <u>(20,341)</u> |
| Deferred tax: | | |
| Origination and reversal of timing differences | (690) | 17,159 |
| Total deferred tax | <u>(690)</u> | <u>17,159</u> |
| Total tax charge / (credit) in income statement | <u>171</u> | <u>(3,182)</u> |

(b) Tax reconciliation

The tax on the Company's profit before tax differs from the tax calculated at the standard UK corporation tax rate as follows:

| | <u>2005</u> £'000 | <u>2004</u> £'000 |
|---|----------------------|----------------------|
| Net profit / (loss) before tax | - | - |
| Tax calculated at standard UK corporation tax rate of 30% (2004: 30%) | - | - |
| Adjustment to tax charge in respect of prior years | 9 | (3,182) |
| Disallowable expenses | 34 | - |
| Other | 128 | - |
| Tax charge / (credit) for the period (note 7(a)) | <u>171</u> | <u>(3,182)</u> |

Commercial Union Corporate Member Limited

Notes to the financial statements (continued)

8. Financial investments

(a) Financial investment comprised:

| | Other than trading at fair value through profit or loss | |
|--------------------------|---|-------|
| | 2005 | 2004 |
| | £'000 | £'000 |
| Debt securities - Listed | 11,591 | 6,022 |

The Company has met its funds at Lloyd's requirements to support its underwriting capacity by way of letters of credit to the value of £103,430 thousand (2004: £95,152 thousand). The current letters of credit have been arranged by Aviva plc.

Of the above total, £10,035 thousand (2004: £4,276 thousand) is expected to be recovered in more than one year after the balance sheet date.

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

| | 2005 | | | |
|-----------------|---------------------|------------------|-------------------|------------|
| | Cost/amortised cost | Unrealised gains | Unrealised losses | Fair value |
| | £'000 | £'000 | £'000 | £'000 |
| Debt securities | 11,656 | - | (65) | 11,591 |

| | 2004 | | | |
|-----------------|---------------------|------------------|-------------------|------------|
| | Cost/amortised cost | Unrealised gains | Unrealised losses | Fair value |
| | £'000 | £'000 | £'000 | £'000 |
| Debt securities | 5,989 | 46 | (13) | 6,022 |

Commercial Union Corporate Member Limited

Notes to the financial statements (continued)

9. Reinsurance assets

(a) Carrying amounts

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

| | 2005 | | | 2004 | | |
|---|---|--------------------------------|--------------|---|--------------------------------|--------------|
| | Gross insurance provisions £'000 | Reinsurance assets £'000 | Net £'000 | Gross insurance provisions £'000 | Reinsurance assets £'000 | Net £'000 |
| Outstanding claim provisions | 26,402 | 10,227 | 16,175 | 32,332 | 13,937 | 18,395 |
| Provisions for claims incurred but not reported | 19,502 | 5,157 | 14,345 | 19,338 | 4,658 | 14,680 |
| Total | 45,904 | 15,384 | 30,520 | 51,670 | 18,595 | 33,075 |

Of the above total, £8,769 thousand (2004: £15,938 thousand) of the reinsurance assets is expected to be recovered in more than one year after the balance sheet date.

(b) Assumptions

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

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

(c) Movements

Reinsurance asset

| | 2005 £'000 | 2004 £'000 |
|---|---------------|---------------|
| Carrying amount at 1 January | 18,595 | 26,251 |
| Reinsurers' share of claims losses and expenses incurred in prior years | (1,609) | (275) |
| Less: | | |
| Reinsurance recoveries received on claims incurred in prior years | (2,656) | (6,412) |
| Change in reinsurance asset recognised as income | (4,265) | (6,687) |
| Foreign exchange rate movements | 1,054 | (969) |
| Carrying amount at 31 December | 15,384 | 18,595 |

Commercial Union Corporate Member Limited

Notes to the financial statements (continued)

10. Receivables and other financial assets

| | <u>2005</u> | <u>2004</u> |
|---|----------------|----------------|
| | <u>£'000</u> | <u>£'000</u> |
| Amounts owed by insurance contract holders | 2 | 796 |
| Amounts due from reinsurers | 62,343 | 70,344 |
| Other financial assets | 1,981 | 1,854 |
| Amounts due from related undertakings (note 19) | 76,231 | 103,334 |
| Total | <u>140,557</u> | <u>176,328</u> |
| Expected to be recovered in less than one year | <u>7,215</u> | <u>11,687</u> |

11. Insurance liabilities

(a) Carrying amount

Gross insurance liabilities at 31 December comprised:

| | <u>2005</u> | <u>2004</u> |
|--|---------------|---------------|
| | <u>£'000</u> | <u>£'000</u> |
| Outstanding claims provisions | 26,402 | 32,332 |
| Provision for claims incurred but not reported | 19,502 | 19,338 |
| Total | <u>45,904</u> | <u>51,670</u> |

(b) Provisions for outstanding claims

Significant 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 balance sheet 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 claim payments.

No equalisation or catastrophe reserves have been recognised.

Commercial Union Corporate Member Limited

Notes to the financial statements (continued)

11. Insurance liabilities (continued)

(c) Assumptions

Outstanding claims provisions are estimated based on known facts at the date of estimation. Case estimates are generally set by skilled claims technicians applying their experience and knowledge to the circumstances of individual claims. 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 claim 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 for each line of business. Certain lines of business are also further analysed by claim type or type of coverage. In addition large claims are usually separately assessed, either by being reserved at the face value of loss adjuster 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 claims handling procedures, in order to arrive at the estimated ultimate cost of claims.

(d) Movements

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

| | <u>2005</u> <u>£'000</u> | <u>2004</u> <u>£'000</u> |
|---|-----------------------------|-----------------------------|
| Carrying amount at 1 January | 51,670 | 60,632 |
| (Decrease) / increase in estimated claims losses and expenses incurred in prior years | (627) | 4,096 |
| Less: | | |
| Payments made on claims incurred in prior years | (8,037) | (11,234) |
| Changes in claims provisions reserve recognised as an expense | (8,664) | (7,138) |
| Foreign exchange rate movements | 2,898 | (1,824) |
| Carrying amount at 31 December | <u>45,904</u> | <u>51,670</u> |

Commercial Union Corporate Member Limited

Notes to the financial statements (continued)

11. Insurance liabilities (continued)

(e) Loss development tables

The table that follows presents the development of claim payments and the estimated ultimate cost of claims for the accident years 2000 and prior only. The Company ceased to write business in the London Market in 1995. In 2000 all business was wholly reinsured with the National Indemnity Company. In the year of adoption of IFRS, only five years are required to be disclosed and therefore all claims fall into the category of 2000 and prior years.

| Accident Year | Gross 2000 and prior years £'000 | Net of reinsurance 2000 and prior years £'000 |
|--|---|---|
| Estimate of outstanding claims provisions | 45,904 | 30,520 |
| <i>Outstanding claims provisions recognised in the balance sheet</i> | <u>45,904</u> | <u>30,520</u> |

12. Tax assets and liabilities

(a) General

Current tax liabilities payable in more than one year are £852,000 (2004: £8,441,000).

(b) Deferred taxes

(i) The balance at the period end comprises:

| | 2005 £'000 | 2004 £'000 |
|---|---------------|---------------|
| Provisions and other timing differences | 16,169 | 16,859 |
| Net deferred tax liability | <u>16,169</u> | <u>16,859</u> |

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

| | | |
|--|---------------|---------------|
| Net liability / (asset) at 1 January | 16,859 | (300) |
| Amounts (credited) / charged to profit (note 7a) | (690) | 17,159 |
| Net liability at 31 December | <u>16,169</u> | <u>16,859</u> |

Commercial Union Corporate Member Limited

Notes to the financial statements (continued)

13. Payables and other financial liabilities

| | <u>2005</u> £'000 | <u>2004</u> £'000 |
|--|----------------------|----------------------|
| Payables arising out of direct insurance and assumed reinsurance | 557 | 763 |
| Payables arising out of ceded reinsurance | 16,072 | 17,404 |
| Other financial liabilities | 2,596 | 1,875 |
| Amounts due to related undertakings (note 19) | 87,566 | 106,847 |
| Total | <u>106,791</u> | <u>126,889</u> |
| Expected to be settled within one year | <u>2,267</u> | <u>1,701</u> |

14. Ordinary share capital

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

| | <u>2005</u> £'000 | <u>2004</u> £'000 |
|--|----------------------|----------------------|
| Authorised, allotted, called up and fully paid | | |
| 30,000,000 Ordinary shares of £1 each | <u>30,000</u> | <u>30,000</u> |

15. Retained earnings

| | <u>2005</u> £'000 | <u>2004</u> £'000 |
|------------------------------|----------------------|----------------------|
| Balance at 1 January | (26,410) | (29,592) |
| (Loss) / profit for the year | (171) | 3,182 |
| Balance at 31 December | <u>(26,581)</u> | <u>(26,410)</u> |

16. Contingent liabilities and other risk factors

Uncertainty over claims provisions

Note 11 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.

Commercial Union Corporate Member Limited

Notes to the financial statements (continued)

17. Cash flow statement

| | <u>2005</u> £'000 | <u>2004</u> £'000 |
|--|----------------------|----------------------|
| (a) The reconciliation of profit / (loss) before tax to the net cash flow from operating activities is: | | |
| Profit / (loss) before tax | - | - |
| Adjustments for: | | |
| Losses on investments (note 2) | 154 | 128 |
| Changes in working capital: | | |
| Decrease in reinsurance assets | 3,211 | 7,656 |
| (Increase) / decrease in receivables and other financial assets | (820) | 681 |
| Decrease in insurance liabilities | (5,766) | (8,962) |
| Increase / (decrease) in payables and other financial liabilities | 8,636 | (57,502) |
| Net (purchases) / sales of operating assets: | | |
| Financial investments | (5,723) | 20,696 |
| Net cash flow from operating activities | <u>(308)</u> | <u>(37,303)</u> |

Purchases and sales of loans and financial investments are included within operating cash flows as the purchases are funded from cash flows associated with the origination of insurance contracts, net of repayments of claims.

| | <u>2005</u> £'000 | <u>2004</u> £'000 |
|---|----------------------|----------------------|
| (b) Cash and cash equivalents in the cash flow statement at 31 December comprised: | | |
| Cash at bank and in hand | 2,351 | 2,227 |
| Cash equivalents | 3,845 | 4,277 |
| | <u>6,196</u> | <u>6,504</u> |

Commercial Union Corporate Member Limited

Notes to the financial statements (continued)

18. Risk management policies

(a) The Company's approach to financial risk and capital management

The Company manages financial risk and capital within an overall risk and financial management framework operated by a group of companies (NUI Group), within the Aviva plc Group, that are engaged in writing general insurance business and non-insurance activities such as risk management and accident prevention in the company car fleet in the UK.

The primary objective of the NUI Group's risk and financial management framework is to protect against events that hinder the sustainable achievement of the Company's performance objectives, including failing to exploit opportunities. The NUI Group recognises the critical importance of having efficient and effective risk management systems in place. To this end, the NUI Group has an established governance framework, including:-

- > clear terms of reference for the legal entity Boards and the associated executive management and other committees within the NUI Group;
- > a clear organisational structure with documented delegated authorities and responsibilities from the legal entity Boards to executive management committees and senior management within the NUI Group; and
- > adoption of the Group policy framework which sets out risk appetite, risk management, control and business conduct standards for the Group's worldwide operations. Each policy has a member of senior management who is charged with overseeing compliance with the policy throughout the NUI Group.

This governance structure and policy set is regularly reviewed to reflect the changing commercial and regulatory requirement. For example, following the regulatory changes brought about by the FSA's Prudential Sourcebook, which came into effect on 1 January 2004, the NUI Group has placed a greater emphasis on assessment and documentation of risks and controls, including the development of an articulation of risk appetite. As a result the NUI Group has clearly articulated its risk appetite for financial risks (insurance, market, credit and liquidity risks) and where appropriate, non-financial risks (operational, group and strategic risks).

The NUI Group has adopted Group established policies focusing on the management of financial and non-financial risks. The NUI Group also monitors risks on an ongoing basis and prepares quarterly reports identifying all material risks, along with information on likelihood, severity and mitigating actions taken or planned.

The NUI Group has developed a framework using the Internal Capital Assessment (ICA) principles for identifying the risks to which it is exposed, quantifying their impact on economic capital. The ICA estimates how much capital is needed to mitigate the risk of insolvency to a selected remote level of risk applied to a number of tests (both financial and non-financial) on the capital position of the business. The ICA works to a 99.5% confidence level of economic solvency over one year, in line with UK FSA regulatory requirements. The ICA combines the results of financial and operating experience tests. Although the ICA is an internal process, from 2005 the FSA can use ICA information in discussing the target capital levels it believes the Company must have available.

In addition, the NUI Group has developed a risk-based capital model for its businesses which provides a more detailed assessment of the economic capital needs of the business.

The NUI Group also provides a Financial Condition Report (FCR) to inform decisions on capital management issues. The FCR is a medium term projection of the overall financial position of the business under a variety of economic and operating scenarios, allowing for new business. The FCR considers a number of key performance indicators in addition to solvency and capital requirements. The FCR enables the NUI Group to assess the range of risks to which the business is exposed, their evolution over time, and the impact of mitigating actions which might be taken.

Commercial Union Corporate Member Limited

Notes to the financial statements (continued)

18. Risk management policies (continued)

(b) Management of financial and non-financial risks

General insurance risk

The Company is in run-off and in the light of this considers insurance risk within its general insurance activity to be comprised of the following:

- > the management of claims, and
- > the adequacy of reserving

The ICA framework is used to identify the risks to which the NUI Group is exposed, quantifying their impact and calculating appropriate capital requirements. The NUI Group undertakes a quarterly review of its insurance risks, the output from which is a key input into the ICA and RBC assessments. The NUI Group has implemented Group policies for underwriting, claims, reinsurance and reserving.

Reinsurance is purchased by the managing agents of each syndicate in which the Company participates to mitigate exposure and, in addition, a reinsurance agreement was entered into with National Indemnity Company, an affiliate of the Berkshire Hathaway Group, to provide Aviva plc with substantial protection in excess of current gross liabilities for underwriting years prior to 2001.

The Company's claims reserves are reviewed by the NUI Group's actuaries in compliance with the Group General Insurance Reserving Policy and reviewed by the NUI Group's Reserving Committee.

Liquidity risk

The Company's liquidity position is supported through membership of the NUI Group of companies.

Commercial Union Corporate Member Limited

Notes to the financial statements (continued)

18. Risk management policies (continued)

The following table provides an analysis of investment and reinsurance assets into their relevant maturity groups based on the remaining period at the balance sheet date to their contractual maturities.

| | Total | Within 1 | 1 - 5 | 5 - 15 | Over 15 |
|--|--------------|-----------------|--------------|---------------|----------------|
| | £m | Year | years | years | years |
| | £m | £m | £m | £m | £m |
| 31 December 2005 | | | | | |
| Financial investments | 11,591 | 1,556 | 10,035 | - | - |
| Reinsurance | 15,384 | 6,615 | 8,769 | - | - |
| Receivables and other financial assets | 140,557 | 7,215 | 133,342 | - | - |
| Cash and cash equivalents | 6,196 | 6,196 | - | - | - |
| 31 December 2004 | | | | | |
| Financial investments | 6,022 | 1,746 | 4,276 | - | - |
| Reinsurance | 18,595 | 2,657 | 15,938 | - | - |
| Receivables and other financial assets | 176,328 | 11,687 | 164,641 | - | - |
| Cash and cash equivalents | 6,504 | 6,504 | - | - | - |

The following table shows the gross liabilities analysed by duration:

| | Total | Within 1 | 1 - 5 | 5 - 15 | Over 15 |
|--|--------------|-----------------|--------------|---------------|----------------|
| | £m | Year | years | years | years |
| | £m | £m | £m | £m | £m |
| 31 December 2005 | | | | | |
| Gross insurance liabilities | 45,904 | 22,450 | 23,454 | - | - |
| Liability for current tax | 1,445 | 593 | 852 | - | - |
| Payables and other financial liabilities | 106,791 | 2,267 | 104,524 | - | - |
| 31 December 2004 | | | | | |
| Gross insurance liabilities | 51,670 | 8,037 | 43,633 | - | - |
| Liability for current tax | 8,441 | - | 8,441 | - | - |
| Payables and other financial liabilities | 126,889 | 1,701 | 125,188 | - | - |

Commercial Union Corporate Member Limited

Notes to the financial statements (continued)

18. Risk management policies (continued)

Market risk

Market risk is the risk of adverse financial impact due to changes in fair values of financial instruments arising from fluctuations in interest rates. Market risk arises due to fluctuations in the value of investments, including those backing shareholder's funds. The Company manages market risk within its ALM framework and within local regulatory constraints.

The fair value of the Company's investments is exposed to potential fluctuations in interest rates.

The Company has no derivatives.

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.

The Company's management of credit risk is carried out in accordance with the NUI Group's Credit Risk Policy, which includes the monitoring of exposure levels and setting exposure limits in accordance with rating categories devised by credit rating agencies such as Standard & Poor's.

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 concerned.

The following table provides information regarding the aggregated credit risk exposure at 31 December 2005 of certain financial assets.

| | Credit rating | | | | | | Total £'000 |
|-----------------------|---------------|-------------|------------|--------------|-------------------------------|--------------------|----------------|
| | AAA £'000 | AA £'000 | A £'000 | BBB £'000 | Speculative grade £'000 | Non-rated £'000 | |
| Financial investments | 10,831 | 554 | 206 | - | - | - | 11,591 |
| Reinsurance | 15,384 | - | - | - | - | - | 15,384 |

Of the Company's receivables of £140,557 thousand, £76,231 thousand is due from related undertakings and £57,776 thousand is ultimately due from one reinsurer, which is AAA rated.

Operational risk

Operational risk arises as a result of inadequate or failed internal processes, people or systems, or from external events. Operational risks include, for example, IT infrastructure and systems, business interruption, information security, project, outsourcing, legal, fraud and compliance risks. As with other risk categories, line management of business areas have primary responsibility for how risks are assessed according to the potential impact and probability of the event concerned. These impact assessments are made against financial, operational and reputational criteria. Operational risks are reported, as with other risks, on a quarterly basis to Group.

Commercial Union Corporate Member Limited

Notes to the financial statements (continued)

18. Risk management policies (continued)

(c) Sensitivity analysis and capital management

The NUI Group uses a number of sensitivity test-based risk management tools to understand the volatility of earnings, the volatility of its capital requirements, and to manage capital more efficiently. Primarily, the NUI Group uses financial condition reporting and increasingly ICA. However, sensitivities to economic and operating experience are regularly produced on all of our key financial performance indicators (KPIs) as part of our decision making and planning processes and set the framework for identifying and quantifying the risks to which the NUI Group is exposed.

The Company's activities are the run-off of general insurance business, which is fully reinsured. A reinsurance agreement was entered into with National Indemnity Company, an affiliate of the Berkshire Hathaway Group, to provide Aviva plc with protection on the Company's results for underwriting years prior to 2001. As a result of this protection, any change in market interest rates will not have any impact on the Company's profit before tax or shareholder's equity.

Commercial Union Corporate Member Limited

Notes to the financial statements (continued)

19. Related party transactions

(a) Transactions with related parties represent movements on an investment pool and allocations of taxation balances.

(i) Services provided to related parties

| | 2005 | | 2004 | |
|---------------------|-----------------------------|---------------------------|-----------------------------|---------------------------|
| | Income earned in year | Receivable at year end | Income earned in year | Receivable at year end |
| | £'000 | £'000 | £'000 | £'000 |
| Fellow subsidiaries | - | 76,231 | - | 103,334 |

(ii) Services provided by related parties

| | 2005 | | 2004 | |
|--------|--------------------------------|------------------------|--------------------------------|------------------------|
| | Expense incurred in year | Payable at year end | Expense incurred in year | Payable at year end |
| | £'000 | £'000 | £'000 | £'000 |
| Parent | - | 87,566 | - | 106,847 |

(ii) Compensation to those employees classified as key management

The directors and key management of the Company are considered to be the same as for Norwich Union Insurance Limited. Information on key management compensation may be found in note 30 - Related Party Transactions of the Norwich Union Insurance Limited financial statements.

(b) Immediate parent undertaking

The Company's immediate parent undertaking is Aviva International Insurance Limited (formerly CGU International Insurance plc), registered in England and Wales.

(c) Ultimate controlling entity

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