General Accident plc
Annual Report and Accounts 2006

AVIVA

Contents

Directors' report

The directors submit their report and accounts for General Accident plc ("GA") for the year ended 31 December 2006.

Business review and principal activities
The Company is a wholly-owned subsidiary of Aviva plc. During 2006, the income of the Company continued to consist of interest from loans to its parent company.

Future outlook
It is anticipated that the Company's significant financial assets will continue to comprise amounts due from its parent, and fellow group companies. Consequently, the positive performance of these loans is expected to continue as the credit risk arising from the parent company failing to meet all or part of its obligations is considered remote.

Principal risks and uncertainties
The risks and uncertainties are set out in note 8 of these financial statements but, in the opinion of the directors, the principal risks and uncertainties are:

(a) Maturity periods and interest rate risk as the fair value or net asset value of the Company's financial resources is exposed to potential fluctuations in interest rates. The effect of a 100 basis point increase in interest rates would be an increase in net interest income of £125 million *(2005: increase of £211 million)*.

(b) Currency risk arising from inter-company loans denominated in US $. These totalled US $75 million at the balance sheet date *(2005: US $75 million)*.

Key performance indicators ("KPIs")
The performance of the business can be assessed through the use of key performance indicators ("KPIs"). These are:

(a) Effective interest rate earned on the loans was 5.2% *(2005: 5.1%)*.

(b) Level of bad debt. The value of loans that perform without defaulting on interest due or loan repayments expressed as a percentage of all loans was 100% during 2006 *(2005: 100%)*.

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.

Results
The Company's results for the year are shown in the income statement on page 7.

Dividend
The directors are proposing a final ordinary dividend for 2006 of £80 million, payable in 2007 *(2005: £6,380 million, settled in 2006)*. An interim dividend for 2006 of £520 million *(2005: £Nil)* was declared and paid on 30 November 2006. The total cost of dividends paid in 2006, including preference dividends, amounted to £6,921 million *(2005: £1,729 million)*.

Authority to purchase own shares
At the Annual General Meeting held on 25 April 2006, shareholders renewed the Company's authority to make market purchases of up to 140 million 8⅞% preference shares and up to 110 million 7⅞% preference shares. This authority was not used during the year and, at the forthcoming Annual General Meeting, shareholders will be asked to renew these authorities for another year.

Directors
The current directors, and those in office during the year, are as follows:

John Ainley (appointed 1 April 2006)
Richard Harvey
Andrew Moss
Michael Pemberton (retired 31 March 2006)
Philip Scott
Patrick Snowball
Tidjane Thiam
Richard Whitaker

Andrew Moss and Tidjane Thiam will retire by rotation in accordance with the Company's articles of association at the forthcoming Annual General Meeting and, being eligible, will offer themselves for reappointment.

John Ainley was appointed by the Board as a director on 1 April 2006. In accordance with the Company's articles of association, Mr. Ainley will retire at the forthcoming Annual General Meeting and, being eligible, will offer himself for election by shareholders.

There were no contracts of significance in existence during or at the end of the year in which a director of the Company was materially interested.

Directors' interests
The table below shows the interests of directors at the end of the financial year in the ordinary shares of 25 pence each in Aviva plc. With the exception of the directors whose details appear below, all of the other directors are also directors of the Company's parent company, Aviva plc, and under the Companies (Disclosure of Directors' Interests) (Exceptions) Regulations 1985 (SI 1985/802), are not required to disclose their share interests in Aviva plc in the Company's financial statements. Their interests can be found in the report and accounts of Aviva plc.

	At 1 January 2006 or date of appointment	At 31 December 2006
J Ainley	11,298	11,814
T Thiam	1,059	1,624
R Whitaker	3,389	37,389

None of the directors who held office at 31 December 2006 had an interest in the share capital of the Company. Details of any options and awards held through Aviva plc's share schemes and incentive plans are shown below. All the disclosed interests are beneficial.

Directors' report continued

Incentive plans

Details of Messrs Ainley's, Thiam's and Whitaker's options to subscribe for ordinary shares of Aviva plc or 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 2006 Number	Options granted during year Number	Options exercised or lapsed during year Number	At 31 December 2006 Number
T Thiam				
Savings related options[1]	–	1,593	–	1,593
R A Whitaker				
Savings related options[1]	3,276	522	–	3,828
Executive options[2]	39,675	–	–	39,675
Bonus Plan options[3]	4,123	–	–	4,123

1. "Savings related options" are options granted under the HMRC approved Savings Related Share Option Scheme. Options are normally exercisable during the six month period following the relevant (three, five or seven year) savings contract.
2. "Executive options" are those granted under the Aviva Executive Share Option Schemes, or predecessor schemes. No options have been granted to executive directors under these schemes. Options, granted on various dates from 1998 to 2003, are normally exercisable between the third and tenth anniversaries of their date of grant. Options are only exercisable if certain performance conditions are met.
3. "Bonus Plan options" are the options granted in 1999 and 2000 under the CGU Deferred Bonus Plan. Participants, who deferred their annual cash bonuses and instead received an award of shares, also received a matching award over an equivalent number of options. These options, which are not subject to performance conditions, are normally exercisable between the third and tenth anniversary of their grant.

(ii) Share awards

	At 1 January 2006 or date of appointment Number	Awards granted during year Number	Awards vested during year Number	Awards lapsed during year Number	At 31 December 2006 Number
J Ainley					
Aviva Long-Term Incentive Plan[1]	88,673	–	31,638	17,112	39,923
Aviva Long-Term Incentive Plan 2005[2]	44,781	30,487	–	–	75,268
Aviva Deferred Bonus Plan[3]	53,836	–	19,158	–	34,678
Aviva Annual Bonus Plan 2006[4]	–	17,784	–	–	17,784
T Thiam					
Aviva Long-Term Incentive Plan[1]	109,033	–	36,506	19,744	52,783
Aviva Long-Term Incentive Plan 2005[2]	53,457	78,048	–	–	131,505
Aviva Deferred Bonus Plan[3]	91,070	–	5,658	–	85,412
Aviva Annual Bonus Plan 2006[4]	–	30,985	–	–	30,985
R Whitaker					
Aviva Long-Term Incentive Plan[1]	96,702	–	35,046	18,954	42,702
Aviva Long-Term Incentive Plan 2005[2]	28,555	23,121	–	–	51,676
Aviva Deferred Bonus Plan[3]	85,338	–	18,900	–	66,438
Aviva Annual Bonus Plan 2006[4]	–	22,563	–	–	22,563

1. The "Aviva Long-Term Incentive Plan" was approved by shareholders at Aviva plc's 2001 Annual General Meeting and awards were made on an annual basis up to and including 2004. Shares vest are subject to the attainment of Total Shareholders Return (TSR) and Return on Capital Employed (ROCE) performance conditions over a three-year performance period. The three-year performance condition relating to the awards granted in March 2003 fell due for testing during the year. Aviva plc's TSR, when compared with the TSR of a comparator group of European financial services companies needs to match at least median performance for 20% of the awards to vest. At upper decile performance, 70% of the awards vest. Between median and upper decile, vesting is determined on a straight-line basis. Aviva plc's ROCE of 24% in excess of RPI over the three-year performance period results in 24% of the shares vesting, rising to a maximum of 30% if the ROCE exceeds 30% over the same period. At the end of the performance period relating to the awards granted in 2003, Aviva plc was ranked eighth out of the 20 companies in the comparator group and the ROCE was 33.6%. As a result, 34.9% of the awards vested based on the TSR part of the Plan and 30% of the awards vested on the ROCE part. The 35.1% of the awards, which did not vest, lapsed.

2. The "Aviva Long-Term Incentive Plan 2005" was approved by shareholders at Aviva plc's 2005 Annual General Meeting. This "2005 Plan" replaced the Aviva Long-Term Incentive Plan described above.
3. The "Aviva Deferred Bonus Plan" was approved by shareholders at Aviva plc's 2001 Annual General Meeting. The 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 vesting of the awards on the third anniversary of their grant is not subject to performance conditions.
4. The "Aviva Annual Bonus Plan 2006" was approved by shareholders at Aviva plc's 2005 Annual General Meeting. This plan replaced the Aviva Deferred Bonus Plan described above.

Creditor payment policy and practice
The Company has no trade creditors.

Auditor and the 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 its 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. This confirmation is given and should be interpreted in accordance with the provisions of Section 234ZA of the Companies Act 1985.

In accordance with Section 385 of the Companies Act 1985, a resolution is to be proposed at the Annual General Meeting for the reappointment of Ernst & Young LLP as auditor of the Company. A resolution will also be proposed authorising the directors to determine the auditor's remuneration.

Directors' liabilities
Aviva plc, the parent company, has granted an indemnity to its directors against liability in respect of any 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.

The Combined Code on Corporate Governance
The Combined Code on Corporate Governance sets out guidance in the form of principles and provisions on how companies should be directed and controlled to follow good governance practice. The Financial Services Authority requires companies listed in the United Kingdom to disclose, in relation to Section 1 of the Combined Code, how they have applied its principles.

The Company is a wholly-owned subsidiary of Aviva plc, a company listed on the London Stock Exchange. In terms of the governance structure of the Aviva group, it is the view of the Board of that company that Aviva plc has been fully compliant throughout the accounting period with the provisions set down in Section 1 of the Combined Code.

The Company has listed preference shares and the payment of dividends to the preference shareholders is reviewed by the Aviva plc Audit Committee and approved by the directors of the Company. There are no other significant risks associated with the Company's assets and liabilities, and the Company seeks to maintain sufficient funds to meet dividends payable on the preference shares as they fall due.

By order of the Board.

Richard Whitaker
Company Secretary

28 March 2007

Registered Office
Pitheavlis, Perth, Scotland PH2 0NH
Registered in Scotland No. 119505

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 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 ensure they are applied consistently in preparing the financial statements on a 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 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 for safeguarding its assets, and for the prevention and detection of fraud and other irregularities.

Independent auditors' report
to the members of General Accident plc

We have audited the Company's financial statements for the year ended 31 December 2006 which comprise Income Statement, the Statement of Recognised Income and Expense, the Reconciliation of Movements in Shareholders' Equity, the Balance Sheet, the Cash Flow Statement and the related notes 1 to 10. These financial statements have been prepared under 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' responsibilities for preparing the financial statements in accordance with applicable United Kingdom law and International Financial Reporting Standards (IFRSs) as adopted by the European Union are set out in the Statement of Directors' Responsibilities.

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 whether the information given in the directors' report is consistent with the financial statements.

In addition we report to you if, in our opinion, 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 judgments 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 IFRSs as adopted by the European Union, of the state of the company's affairs as at 31 December 2006 and of its profit for the year then ended;

– the financial statements have been properly prepared in accordance with the Companies Act 1985; and

– the information given in the directors' report is consistent with the financial statements.

Ernst & Young LLP
Registered Auditor
London
28 March 2007

Accounting policies

General Accident plc (the "Company"), is a public limited company incorporated and domiciled in the United Kingdom ("UK") and until 20 December 2005, was a holding company for some of the Aviva Group's subsidiaries.

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the Company's financial statements.

(A) Basis of presentation
The financial statements of the Company have been prepared in accordance with International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) and endorsed by the European Union. The date of transition to IFRS was 1 January 2004.

In August 2005, the IASB issued IFRS 7, *Financial Instruments: Disclosures*. Although its requirements are applicable for accounting periods beginning on or after 1 January 2007, the Company has decided to adopt this standard early and reflect its impact in these financial statements.

(B) 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.

(C) Foreign currency translation
Translation differences on monetary financial assets and liabilities are included in foreign exchange gains and losses in the income statement.

(D) Net investment income
Investment income consists of dividends and interest receivable for the year. Interest income is recognised as it accrues, taking into account the effective yield on the investment.

(E) Financial instruments
Loans to, or from other Aviva Group companies are recognised when cash is advanced to, or received from these companies. These loans are carried at their unpaid principal balances.

The Company reviews the carrying value of loans on a regular basis. If the carrying value of the loan is greater than the recoverable amount, the carrying value is reduced through a charge to the income statement in the period of impairment.

(F) 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 90 days or less to maturity from the date of acquisition.

(G) Income taxes
The current tax expense is based on the taxable result 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.

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.

(H) Share capital
Equity instruments
An equity instrument is a contract that evidences a residual interest in the assets of an entity after deducting all 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 is a non-derivative that contains no contractual obligation to deliver a variable number of shares, or is a derivative that will be settled only by the Company exchanging a fixed amount of cash or other assets for a fixed number of the Company's own equity instruments.

Dividends
Dividends on ordinary shares are recognised in equity in the period in which they are declared and, for the final dividend, approved by shareholders. Dividends on preference shares are recognised in the period in which they are declared and appropriately approved.

Income statement
For the year ended 31 December 2006

	Note	2006 £m	2005 £m
Income			
Net investment income	D & 9	**891**	8,170
Other income		**–**	1
Expenses			
Net foreign exchange gains/(losses)		**7**	(6)
Finance costs	9	**(34)**	(47)
Profit before tax		**864**	8,118
Tax credit	G & 3	**(253)**	–
Profit for the year		**611**	8,118

The accounting policies (identified alphabetically) on page 6 and the notes (identified numerically) on pages 11 to 16 are an integral part of these financial statements.
The auditors' report is on page 5.

Statement of recognised income and expense
For the year ended 31 December 2006

	2006 £m	2005 £m
Fair value losses on investment in subsidiary	–	(5,642)
Net expense recognised directly in equity	–	(5,642)
Profit for the year	**611**	8,118
Total recognised income and expense for the year	**611**	2,476

Reconciliation of movements in shareholders' equity
For the year ended 31 December 2006

	2006 £m	2005 £m
Balance as at 1 January	**20,298**	19,021
Total recognised income and expense for the year	**611**	2,476
Dividends (note 7)	**(6,921)**	(1,729)
Issue of share capital	–	530
Balance as at 31 December	**13,988**	20,298

The accounting policies (identified alphabetically) on page 6 and the notes (identified numerically) on pages 11 to 16 are an integral part of these financial statements.
The auditors' report is on page 5.

Balance sheet
At 31 December 2006

	Note	2006 £m	2005 £m
Assets			
Non-current assets			
Amounts owed by parent company	9	**12,566**	21,258
Amounts owed by fellow Group companies	9	**–**	37
		12,566	21,295
Current assets			
Amounts owed by parent company	9	**924**	33
Amounts owed by fellow Group companies	9	**1,320**	4,304
Cash and cash equivalents	F	**13**	5
Total assets		**14,823**	25,637
Equity			
Ordinary share capital	H & 4	**4,781**	4,781
Preference share capital	5	**250**	250
Called up capital		**5,031**	5,031
Share premium account		**8,859**	8,859
Retained earnings	6	**98**	6,408
Total equity		**13,988**	20,298
Liabilities			
Non-current liabilities			
Amounts owed to parent company	9	**445**	445
		445	445
Current liabilities			
Amounts owed to parent company	9	**121**	4,785
Amounts owed to fellow Group companies	9	**2**	101
Corporation tax payable	3	**259**	–
Other creditors		**8**	8
Total liabilities		**835**	5,339
Total equity and liabilities		**14,823**	25,637

Approved by the Board on 28 March 2007.

Andrew Moss
Director

The accounting policies (identified alphabetically) on page 6 and the notes (identified numerically) on pages 11 to 16 are an integral part of these financial statements.
The auditors' report is on page 5.

Cash flow statement

For the year ended 31 December 2006

All the Company's operating and investing cash requirements are met by fellow Group companies and settled through inter-company accounts. As the direct method of presentation has been adopted for these activities, no further disclosure is required. In respect of financing activities, the following items pass through the Company's own bank account.

	2006 £m	2005 £m
Cash flows from financing activities		
Funding provided by fellow Group companies	**8**	5
Net cash from financing activities	**8**	5
Net increase in cash and cash equivalents	**8**	5
Cash and cash equivalents at 1 January	**5**	–
Cash and cash equivalents at 31 December	**13**	5

Cash and cash equivalents in the cash flow statement at 31 December comprised

	2006 £m	2005 £m
Cash at bank and in hand	**13**	5
	13	5

The accounting policies (identified alphabetically) on page 6 and the notes (identified numerically) on pages 11 to 16 are an integral part of these financial statements.
The auditors' report is on page 5.

Notes to the Financial Statements
For the year ended 31 December 2006

1 – Directors and employees
All directors are remunerated by Aviva Employment Services Limited, a fellow subsidiary of the ultimate holding company, Aviva plc. The emoluments of these directors are not recharged to the Company.

The Company has no employees.

2 – Auditors' remuneration
Fees for the audit of the Company were £15,000 for 2006 *(2005: £25,000)* which was borne by Aviva plc in both years.

3 – Tax
a) Tax expensed to income statement:

	2006 £m	2005 £m
Current tax		
For this year	**(259)**	5
Prior year adjustments	**6**	(5)
Total current tax	**(253)**	–

b) Tax reconciliation:
The tax on the Company's profit before tax reconciles to the theoretical amount that would arise using the tax rate of the home country of the Company as follows:

	2006 £m	2005 £m
Profit before tax	**864**	8,118
Tax calculated at standard UK corporation tax rate of 30% *(2005: 30%)*	**(259)**	(2,436)
Adjustment to tax charge in respect of prior years	**6**	(5)
Non-assessable dividends	**–**	2,441
Total tax credited to income statement	**(253)**	–

Notes to the Financial Statements

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

	2006 £m	2005 £m
The authorised share capital of the Company at 31 December was: 19,920,572,490 *(2005: 19,920,572,490)* ordinary shares of 25 pence each	**4,980**	4,980
The allotted, called up and fully paid share capital of the Company at 31 December was: 19,125,600,632 *(2005: 19,125,600,632)* ordinary shares of 25 pence each	**4,781**	4,781

Ordinary shares in issue in the Company rank pari passu. All the ordinary shares in issue carry the same right to receive all dividends and other distributions declared, made or paid by the Company.

5 – Preference share capital
The preference share capital of the Company at 31 December was:

	2006 £m	2005 £m
Authorised		
300,000,000 cumulative irredeemable preference shares of £1 each	**300**	300
	300	300
Issued and paid up		
140,000,000 8⅞% cumulative irredeemable of £1 each	**140**	140
110,000,000 7⅞% cumulative irredeemable of £1 each	**110**	110
	250	250

The Company's preference shares are listed on the London Stock Exchange. They are irredeemable but, subject to the provisions of the Companies Act 1985, the Company may at any time purchase any preference shares upon such terms as the Board shall determine.

The preference shares are non-voting except where their dividends are in arrears, on a winding up or where their rights are altered. On a winding up, they carry a preferential right of return of capital ahead of the ordinary shares.

6 – Reserves

	Investment valuation reserve £m	Retained earnings £m	Total £m
Balance at 1 January 2005	5,642	19	5,661
Arising in the year:			
Profit for the year	–	8,118	8,118
Dividends and appropriations	–	(1,729)	(1,729)
Fair value gains	(5,642)	–	(5,642)
Balance at 31 December 2005	–	6,408	6,408
Arising in the year:			
Profit for the year	–	611	611
Dividends and appropriations	–	(6,921)	(6,921)
Balance at 31 December 2006	–	98	98

7 – Dividends

	2006 £m	2005 £m
Ordinary dividends declared and charged to equity in the year		
Final 2004 – declared and settled on 25 July 2005	**–**	1,708
Final 2005 – declared and settled on 25 April 2006	**6,380**	–
Interim 2006 – declared and settled on 30 November 2006	**520**	–
	6,900	1,708
Preference dividends declared and charged to equity in the year	**21**	21
Total dividends	**6,921**	1,729

Notes to the Financial Statements

8 – Risk management policies

The Company's approach to risk and capital management

Governance framework

The primary objective of the Company's risk financial management is to protect it from events or unforeseen circumstances that might hinder the sustainable achievement of the Company's objectives and financial performance, including failure to exploit opportunities as they arise.

The directors recognise the critical importance of having efficient and effective risk management systems in place and acknowledge that they are responsible for the Company's framework of internal control and of reviewing its effectiveness. The framework is designed to manage rather than eliminate the risk of failure to achieve the Company's objectives, and can only provide reasonable assurance against misstatement or loss. The Company forms part of the Aviva plc Group where the framework has been established for identifying, evaluating and managing the significant financial and non-financial risks faced. The directors of the Company are satisfied that their adherence to this Group framework provides an adequate means of managing risk in the Company. These are documented as follows.

Management of financial and non-financial risks

Market risk

Market risk is the risk of adverse impact due to changes in interest rates and foreign currency exchange rates, interest rates and equity prices.

Currency risk arises from a US $75 million *(2005: US $75 million)* inter-company loan payable. The effect of a 10% increase in US $: GB £ average exchange rates would be an increase in net interest expense of £0.21 million *(2005: increase of £0.14 million)*.

Cash flow interest rate risk arises from the inter-company loans payable and receivable (see note 9). The effect of a 100 basis point increase in interest rates would be an increase in net interest income of £125 million *(2005: increase of £211 million)*.

The fair value or net asset value of the Company's financial resources is exposed to potential fluctuations in interest rates. Exposure to interest rate risk is managed through the monitoring of several risk measures.

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, or changes to the market value of assets caused by changing perceptions of the creditworthiness of such counterparties.

The Company's significant financial assets comprise amounts due from its parent, Aviva plc, and fellow group companies, and as such the credit risk arising from counterparties failing to meet all or part of their obligations is considered remote. Due to the nature of the financial assets, and the fact that the loans are settled, and not traded, the Company is not exposed to the risk of changes to the market value caused by changing perceptions of the creditworthiness of such counterparties.

Liquidity risk

The Company seeks to maintain sufficient financial resources available to meet its obligations as they fall due.

Operational risk

Operational risk arises as a result of inadequately controlled internal processes or systems, human error, or from external events. This definition is intended to include all risks to which the Company is exposed. Hence operational risks include, for example, information technology, information security, project management, tax, legal, fraud and compliance risks.

The line management in the Company has primary responsibility for the effective identification, management, monitoring and reporting of risks to the Company executive management team. The Company executive management team is responsible for satisfying itself that material risks are being mitigated and reported to an acceptable level.

Operational 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.

9 – Related party transactions

Apart from inter-company dividends receivable and payable, the only related party transactions are loans to and from the Aviva Group companies related parties made on normal arm's length contractual terms. The related party loans can be settled by either party at any point. The maturity analysis of the related party loans and interest payable on those are as follows:

		Loans – Contractual repricing or maturity dates			
Receivables	Denominated currency	Within 1 year £m	1-5 years £m	5-10 years £m	Total £m
2006	**£**	**–**	**12,566**	**–**	**12,566**
2005	£	–	21,258	–	21,258

		Loans – Contractual repricing or maturity dates			
Payables	Denominated currency	Within 1 year £m	1-5 years £m	5-10 years £m	Total £m
2006	**£/$**	**38**	**80**	**445**	**563**
2005	£/$	120	–	445	565

Loans – Contractual Undisclosed Interest Payments	Denominated currency	Within 1 year £m	1-5 years £m	5-10 years £m	Total £m
2006	**£/$**	**30**	**111**	**111**	**252**
2005	£/$	30	111	139	280

The Company's maximum exposure to credit risk is equal to the carrying value of assets in the balance sheet.

The fair values of loans to and receivables from the parent company are equal to their carrying value.

Notes to the Financial Statements

9 – Related party transactions (continued)

Services provided to related parties (including dividend income)

	2006		2005	
	Income earned in year £m	Receivable at year end £m	Income earned in year £m	Receivable at year end £m
Parent company	**891**	**13,490**	33	21,291
Fellow Group companies	**–**	**1,320**	8,137	4,341
	891	**14,810**	8,170	25,632

Services provided by related parties (including dividends declared)

	2006		2005	
	Expense incurred in year £m	Payable at year end £m	Expense incurred in year £m	Payable at year end £m
Parent company	**6,930**	**566**	1,750	5,230
Fellow Group companies	**4**	**2**	5	101
	6,934	**568**	1,755	5,331

The services provided to related parties in the year 2006 related to interest income of £891 million *(2005: £33million)* from Aviva plc. The dividend income for 2005 was from Norwich Union Ltd (formerly Norwich Union plc) of £8,137 million. The services provided by related parties in the year related to fellow Group company interest of £34 million *(2005: £47 million)* and dividends paid of £6,900 million *(2005: £1,708 million)*.

£12,159 million, out of the £13,490 million receivable from the parent has been secured by a legal charge against the ordinary share capital of both Norwich Union Limited and Aviva Group Holdings Limited (formerly known as Norwich Union Holdings Limited).

Compensation of key management

The Company bears no costs in relation to key management personnel, and all such costs are borne by Aviva plc.

10 – Parent company's details

The immediate and ultimate parent company 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.

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