# General Accident plc
Annual Report and Financial Statements 2008

AVIVA

Contents



# Directors and officers

## Directors

J D Ainley
M S Hodges
E G Jones
A J Moss
P G Scott
A Sahay

## Officer – Company Secretary

E G Jones
St Helen's
1 Undershaft
London
EC3P 3DQ

## Auditor

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

## Registered Office

Pitheavlis, Perth, Scotland PH2 0NH

## Company Number

Registered in Scotland No. 119505

## Other Information

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

# Directors' report

The directors present their annual report and financial statements for the Company for the year ended 31 December 2008.

## Directors

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

J D Ainley
M S Hodges
E G Jones
A J Moss
P G Scott
A Sahay

A J Moss and P G Scott 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.

## Business review and principal activities

The Company is a wholly-owned subsidiary of Aviva plc. During 2008, the income of the Company continued to consist of interest from loans to its parent company. The Company continues to have preference shares listed on the London Stock Exchange.

## Future outlook

It is anticipated that the Company's significant financial assets will continue to comprise amounts due from its parent. 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 risk and uncertainty is interest rate risk. The 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/decrease in interest rates would be an increase/decrease in net interest income/expense of £115 million *(2007: increase/decrease of £120 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. In the current year this was 6.67% *(2007: 6.38%)*.

(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 2008 *(2007: 100%)*.

## Going concern

The Company's business activities, together with the factors likely to affect its future development, performance and position including the Business review are set out in the this report. In addition the financial statements include notes on its capital structure (note 4 and 5) and management of its major risks including market, credit and liquidity risk (note 8).

The Company and its ultimate holding company Aviva plc have considerable financial resources together with a diversified business model, with a spread of businesses and geographical reach. As a consequence, the directors believe that the Company is well placed to manage its business risks successfully despite the current uncertain economic outlook. 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 accounts.

## Financial position and performance

The financial position of the Company at 31 December 2008 is shown in the balance sheet on page 08, with the results shown in the income statement on page 06 and the cash flow statement on page 09.

## Financial instruments

The business of the Company includes use of financial instruments. Details of the Company's risk management objectives and policies and exposures to risk relating to financial instruments are set out in note 8 to the financial statements.

## Dividends

An interim ordinary dividend for the year of £475 million was paid on 26 November 2008 *(2007: £439 million)*. The directors do not recommend a final ordinary dividend for the year *(2007: £71 million, settled in 2008)*. The total cost of dividends paid in 2008, including preference dividends, amounted to £567 million *(2007: £540 million)*.

# Directors' report continued

## 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 2008 Number | At 31 December 2008 Number |
|---|---|---|
| J D Ainley | 12,409 | 13,477 |
| E G Jones | 38,333 | 55,796 |
| A Sahay | 91 | 3,872 |

None of the directors who held office at 31 December 2008 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.

## Incentive plans

Details of Messrs Ainley, Jones and Sahay'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 in the following table.

## Share awards

| | At 1 January 2008 Number | Awards granted during year Number | Awards vested during year Number | Awards lapsed during year Number | At 31 December 2008 Number |
|---|---|---|---|---|---|
| **J D Ainley** | | | | | |
| Aviva Long-Term Incentive Plan 2005[1] | 114,279 | 68,873 | 22,390 | 22,391 | 138,371 |
| Aviva Deferred Bonus Plan[2] | 16,314 | – | 16,314 | – | – |
| Aviva Annual Bonus Plan 2005[3] | 50,248 | 34,701 | – | – | 84,949 |
| Savings related options[5] | – | 2,341 | – | – | 2,341 |
| One Aviva Twice the Value Plan[4] | – | 26,025 | – | – | 26,025 |
| **E G Jones** | | | | | |
| Aviva Long-Term Incentive Plan 2005[1] | 38,294 | 30,222 | 6,970 | 6,970 | 54,576 |
| Aviva Deferred Bonus Plan[2] | 19,740 | – | 19,740 | – | – |
| Aviva Annual Bonus Plan 2005[3] | 32,604 | 19,277 | – | – | 51,881 |
| Savings related options[5] | 1,593 | – | – | – | 1,593 |
| One Aviva Twice the Value Plan[4] | – | 9,638 | – | – | 9,638 |
| **A Sahay** | | | | | |
| Aviva Long-Term Incentive Plan 2005[1] | 41,612 | 52,631 | – | – | 94,243 |
| Aviva Annual Bonus Plan 2005[3] | – | 25,429 | – | – | 25,429 |
| Savings related options[5] | 1,705 | – | – | – | 1,705 |
| One Aviva Twice the Value Plan[4] | – | 19,071 | – | – | 19,071 |

1. The *"Aviva Long-Term Incentive Plan 2005"* was approved by shareholders at Aviva plc's 2005 Annual General Meeting. The awards under this plan vest subject to the degree of Aviva plc's achievement of two equally weighted performance measures chosen to reflect shareholders' long-term interest in absolute Return on Capital Employed (ROCE) and relative Total Shareholder Return (TSR) performance.

2. 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. The last awards under this Plan, which were made in 2005, vested in 2008.

3. The *"Aviva Annual Bonus Plan 2005"* was approved by shareholders at Aviva plc's 2005 Annual General Meeting. This plan replaced the Aviva Deferred Bonus Plan described above.

4. The *"One Aviva Twice the Value Plan"* awards are granted as a match to the awards under the Aviva Annual Bonus Plan 2005. Awards will only vest if performance conditions are achieved.

5. The *"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 end of the relevant (three, five or seven year) savings contract.

# Directors' report continued

## 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 remains in place until 24 April 2011. This authority was not used in the year.

## Creditor payment policy and practice

The Company has no trade creditors.

## Directors' liabilities

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

## Disclosure of information to the Auditor

Each person who was a director of the Company on the date that this report was approved, confirms that so far as the director is aware, there is no relevant audit information, being information needed by the auditor in connection with preparing his report, of which the auditor is unaware. Each director has taken all the steps that he ought to have taken as a director in order to make himself aware of any relevant audit information and to establish that the auditor is aware of that information.

## Auditor

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.

## 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.

## 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, the Companies Act 2006 (where applicable) and 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 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 the assets of the Company and for the prevention and detection of fraud and other irregularities.

## Directors' responsibility statement pursuant to the Disclosure and Transparency Rule 4

The directors confirm that, to the best of each person's knowledge:

a) the Company financial statements in this report, which have been prepared in accordance with IFRS as adopted by the EU, International Financial Reporting Interpretations Committee's interpretations and those parts of the Companies Act 1985 applicable to companies reporting under IFRS, give a true and fair view of the assets, liabilities, financial position and results of the Company; and

b) the management report contained in this report includes a fair review of the development and performance of the business and the position of the Company, together with a description of the principal risks and uncertainties that they face.

By order of the Board

**Philip Scott**
Director

24 March 2009

# Independent auditor's report
## to the members of General Accident plc

We have audited the Company's financial statements for the year ended 31 December 2008 which comprise the 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 auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

### Respective responsibilities of directors and auditors

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 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 IFRSs as adopted by the European Union, of the state of the Company's affairs as at 31 December 2008 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

24 March 2009

# Accounting policies

General Accident plc (the "Company"), is a public limited company incorporated and domiciled in the United Kingdom ("UK").
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.

## (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) Investment income

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

## (D) Finance costs

Finance costs consist of interest payable for the year. Interest payable is recognised as it accrues under the effective interest method.

## (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 subsequently carried at amortised cost.

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.

## (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 2008

| | Note | 2008 £m | 2007 £m |
|---|---|---|---|
| **Income** | | | |
| Investment income | C & 9 | **784** | 787 |
| **Expenses** | | | |
| Finance costs | D & 9 | **–** | (20) |
| **Profit before tax** | | **784** | 767 |
| Tax expense | G & 3 | **(223)** | (230) |
| **Profit for the year** | | **561** | 537 |

The accounting policies (identified alphabetically) on page 05 and the notes (identified numerically) on pages 10 to 12 are an integral part of these financial statements. The auditor's report is on page 04.

# Statement of recognised income and expense
For the year ended 31 December 2008

| | 2008 £m | 2007 £m |
|---|---|---|
| Profit for the year | **561** | 537 |
| Total recognised income and expense for the year | **561** | 537 |

# Reconciliation of movements in shareholders' equity
For the year ended 31 December 2008

| | 2008 £m | 2007 £m |
|---|---|---|
| **Balance as at 1 January** | **13,985** | 13,988 |
| Total recognised income and expense for the year | **561** | 537 |
| Dividends (note 7) | **(567)** | (540) |
| **Balance as at 31 December** | **13,979** | 13,985 |

The accounting policies (identified alphabetically) on page 05 and the notes (identified numerically) on pages 10 to 12 are an integral part of these financial statements. The auditor's report is on page 04.

# Balance sheet
At 31 December 2008

| | Note | 2008 £m | 2007 £m |
|---|---|---|---|
| **Assets** | | | |
| **Non-current assets** | | | |
| Amounts owed by parent company | 9 | **11,501** | 12,047 |
| | | **11,501** | 12,047 |
| **Current assets** | | | |
| Amounts owed by parent company | 9 | **2,930** | 2,417 |
| Cash and cash equivalents | F | **1** | 16 |
| **Total assets** | | **14,432** | 14,480 |
| **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 | **89** | 95 |
| **Total equity** | | **13,979** | 13,985 |
| **Liabilities** | | | |
| **Current liabilities** | | | |
| Amounts owed to fellow Group companies | 9 | **230** | 259 |
| Corporation tax payable | | **223** | 230 |
| Other creditors | | **–** | 6 |
| **Total liabilities** | | **453** | 495 |
| **Total equity and liabilities** | | **14,432** | 14,480 |

Approved by the Board on 24 March 2009

**Philip Scott**
Director

The accounting policies (identified alphabetically) on page 05 and the notes (identified numerically) on pages 10 to 12 are an integral part of these financial statements. The auditor's report is on page 04.

# Cash flow statement

For the year ended 31 December 2008

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 passed through the Company's own bank account.

| | **2008 £m** | 2007 £m |
|---|---|---|
| **Cash flows from financing activities** | | |
| Funding provided (to)/by fellow Group companies | **(15)** | 3 |
| *Net cash (used in)/from financing activities* | **(15)** | 3 |
| **Net decrease in cash and cash equivalents** | **(15)** | 3 |
| Cash and cash equivalents at 1 January | **16** | 13 |
| **Cash and cash equivalents at 31 December** | **1** | 16 |

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

| | **2008 £m** | 2007 £m |
|---|---|---|
| Cash and cash equivalents | **1** | 16 |
| | **1** | 16 |

The accounting policies (identified alphabetically) on page 05 and the notes (identified numerically) on pages 10 to 12 are an integral part of these financial statements. The auditor's report is on page 04.

# Notes to the financial statements

For the year ended 31 December 2008

## 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. Auditor’s remuneration

Fees for the audit of the Company were £10,000 for 2008 *(2007: £10,000)* which were borne by Aviva plc in both years.

## 3. Tax

**(a) Tax expensed to income statement:**

| | **2008 £m** | 2007 £m |
|---|---|---|
| **Current tax** | | |
| For this year | **(223)** | (230) |
| Total current tax | **(223)** | (230) |

**(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:

| | **2008 £m** | 2007 £m |
|---|---|---|
| Profit before tax | **784** | 767 |
| Tax calculated at standard UK corporation tax rate of 28.5% *(2007: 30%)* | **(223)** | (230) |
| Total tax expensed to income statement | **(223)** | (230) |

## 4. Ordinary share capital

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

| | **2008 £m** | 2007 £m |
|---|---|---|
| The authorised share capital of the Company at 31 December was:<br>19,920,572,490 *(2007: 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:<br>19,125,600,632 *(2007: 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:

| | **2008 £m** | 2007 £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 irredeemable 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 cumulative irredeemable preference shares rank, as to payment of a dividend and capital, ahead of the Company’s ordinary share capital. The issued 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. The Company does not have a contractual obligation to deliver cash or other financial assets to the preference shareholders, and therefore the directors may make dividend payments at their discretion.

## 6. Retained earnings

| | 2008 £m | 2007 £m |
|---|---|---|
| **Balance at 1 January** | **95** | 98 |
| Arising in the year: | | |
| Profit for the year | **561** | 537 |
| Dividends and appropriations (note 7) | **(567)** | (540) |
| **Balance at 31 December** | **89** | 95 |

## 7. Dividends

| | 2008 £m | 2007 £m |
|---|---|---|
| Ordinary dividends declared and charged to equity in the year | | |
| Final 2006 – declared and settled on 28 March 2007 | **–** | 80 |
| Interim 2007 – declared and settled on 3 December 2007 | **–** | 439 |
| Final 2007 – declared and settled on 14 May 2008 | **71** | – |
| Interim 2008 – declared and settled on 26 November 2008 | **475** | – |
| | **546** | 519 |
| Preference dividends declared in the year | **21** | 21 |
| Total dividends | **567** | 540 |

## 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 an adverse impact due to changes in interest rates, foreign currency exchange rates and equity prices.

At the balance sheet date the Company did not have any exposure to currency risk.

Cash flow interest rate risk arises from the inter-company loans receivable (see note 9). The effect of a 100 basis point increase/decrease in interest rates would be an increase/decrease in net interest income of £115 million *(2007: increase/decrease of £120 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 credit worthiness of such counterparties.

The Company's significant financial assets comprise amounts due from its parent, Aviva plc, 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 credit worthiness 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's executive management team. The Company's 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 reputation criteria.

## Notes to the financial statements continued

## 8. Risk management policies (continued)

**Management of financial and non-financial risks (continued)**

***Capital management***
The Company's overall capital risk appetite is set and managed with reference to the requirements of the Company's stakeholders. In managing capital we seek to maintain sufficient, but not excessive, financial strength to support the payment of preference dividends and the other requirements of stakeholders. The sources of capital used by the Company are equity shareholders' funds and preference shares. At 31 December 2008, the Company had £13,979 million *(2007: £13,985 million)* of total capital employed.

## 9. Related party transactions

Apart from inter-company dividends receivable and payable, the only related party transactions are loans to and from Aviva Group companies 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 at the balance sheet date and interest payable on those loans 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 |
| **2008** | **£** | **–** | **11,501** | **–** | **11,501** |
| 2007 | £ | 12,047 | – | – | 12,047 |

The related party loans of £11,501 million, with the parent company, were due to mature within 1 year. However, the Company agreed to extend the period of the loans prior to maturity. Due to commitments made by the Company in the previous year, these loans are reported in the balance sheet as non current assets.

The rate of interest on the loan is floating but is fixed for each calendar quarter at a rate of 200 basis points above the London inter-bank offered rate per annum. 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 not materially different from their carrying value.

## Services provided to related parties

| | **2008** | | 2007 | |
|---|---|---|---|---|
| | **Income earned in year £m** | **Receivable at year end £m** | Income earned in year £m | Receivable at year end £m |
| Parent company | **784** | **14,431** | 787 | 14,464 |
| | **784** | **14,431** | 787 | 14,464 |

**Services provided by related parties (including dividends declared)**

| | **2008** | | 2007 | |
|---|---|---|---|---|
| | **Expense incurred in year £m** | **Payable at year end £m** | Expense incurred in year £m | Payable at year end £m |
| Parent company | **546** | **–** | 524 | – |
| Fellow Group companies | **–** | **230** | 15 | 259 |
| | **546** | **230** | 539 | 259 |

The services provided to related parties in the year 2008 related to interest income of £784 million *(2007: £787 million)* from Aviva plc. The services provided by related parties in the year related to fellow Group company interest of £ nil million *(2007: £20 million)* and dividends paid of £546 million *(2007: £519 million)*.

£11,501 million, out of £14,431 million receivable from the parent has been secured by a legal charge against the ordinary share capital of Aviva Group 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.

Designed and produced by **Radley Yeldar** www.ry.com

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