General Accident plc

Registered in Scotland No. SC119505

Annual Report and Financial Statements 2011

Contents

Directors and officers

Directors

P C Regan
M S Hodges (Resigned 2 June 2011)
K A Cooper (Appointed 3 June 2011)

Officer – Company Secretary

R K Tullo (Appointed 24 June 2011)
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. SC119505

Other Information

The Parent Company is Aviva plc.
General Accident plc (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 2011.

Directors

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

P C Regan

M S Hodges (Resigned 2 June 2011)

K A Cooper (Appointed 3 June 2011)

In accordance with the Company's articles of association, at the forthcoming Annual General Meeting, Mrs Cooper will retire by rotation and, being eligible, will offer herself for reappointment.

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Business review and principal activities

The Company is a wholly-owned subsidiary of Aviva plc. Its principal activity is the provision of loans to its parent company. During 2011, the income of the Company continued to consist of interest received on loans made to its parent company. The Company continues to have preference shares listed on the London Stock Exchange.

Financial position and performance

The financial position of the Company at 31 December 2011 is shown in the Statement of financial position on page 15, with the results shown in the Income statement on page 12, and the Statement of cash flows on page 16.

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 2.84% (*2010: 2.7%*).

(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 2011 (*2010: 100%*).

Directors' report continued

Future outlook

It is anticipated that the Company's significant financial assets will continue to comprise of amounts due from its parent company. 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 7 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 of £107 million (*2010: increase / decrease of £110 million*).

Going concern

As a consequence of the Company's considerable financial resources the directors believe that the Company is well placed to manage its business risks successfully despite the current uncertain macro 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 financial statements.

The Company is expected to continue to generate positive cash flows on its own account for the foreseeable future. The Company participates in the Aviva Group's centralised treasury arrangements and so shares banking arrangements with fellow subsidiaries.

The directors, having assessed the responses of the directors of a fellow group company, Aviva Insurance Limited, which maintains the centralised treasury arrangements, have no reason to believe that a material uncertainty exists that may cast doubt about the ability to continue with current banking arrangements.

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 7 to the financial statements.

Dividends

Interim ordinary dividends of £218 million on the Company's ordinary shares were declared and paid during 2011 *(2010: £210 million)*. The directors do not recommend a final dividend on the Company's ordinary shares for the year *(2010: £nil)*. The total cost of dividends paid during the year, including preference dividends, amounted to £239 million *(2010: £231 million)*.

Purchase of own shares

At the Annual General Meeting held on 20 June 2011, shareholders renewed the Company's authority to make market purchases of up to 140 million $8^7/_8$ % preference shares and up to 110 million $7^7/_8$ % preference shares. These authorities were not used during the year or up to the date of this report. At the 2012 Annual General Meeting, shareholders will be asked to renew these authorities for another year.

Directors' report continued

Employees

The Company has no employees.

Directors' liabilities

Aviva plc, the Company's ultimate parent, has granted an indemnity to the directors against liability in respect of proceedings brought by third parties, subject to the conditions set out in the Companies Act 1985, which continue to apply in relation to any provision made before 1 October 2007.

This indemnity was granted in 2004 and the provisions in the Company's articles of association constitute "qualifying third party indemnities" for the purposes of sections 309A to 309C of the Companies Act 1985. These qualifying third party indemnity provisions remain in force as at the date of approving the Directors' Report by virtue of paragraph 15, Schedule 3 of The Companies Act 2006 (Commencement No. 3, Consequential Amendments, Transitional Provisions and Savings) Order 2007.

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.

Auditor

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

UK Corporate Governance Code

The Company is a wholly-owned subsidiary of Aviva plc, a company listed on the London Stock Exchange. The UK Corporate Governance Code (which replaced the Combined Code on Corporate Governance in 2010) sets out standards of good practice 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 UK to disclose, in relation to Section A of the UK Corporate Governance Code, how they have applied its principles and whether they have complied with its provisions throughout the accounting year. Where the provisions have not been complied with companies must provide an explanation for this.

It is the Board's view that Aviva plc has been fully compliant throughout the accounting period with the provisions set down in Section A of the UK Corporate Governance Code. The Aviva plc Directors' Report sets out details of how the Aviva group has applied the principles and complied with the provisions of the UK Corporate Governance Code during 2011. Further information on the UK Corporate Governance Code can be found on the Financial Reporting Council's website, www.frc.org.uk.

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.

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 2006 and International Financial Reporting Standards ("IFRS") as adopted by the European Union ("EU"), and which present fairly the financial position, financial performance and cash flows of the Company at the end of the accounting period. A fair presentation of the financial statements in accordance with IFRS requires the directors to:

- select suitable accounting policies and verify they are applied consistently in preparing the financial statements on 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 adequate accounting records which are intended to disclose with reasonable accuracy, the financial position of the Company at that time. They are also ultimately responsible for the systems of internal control maintained for safeguarding the assets of the Company and for the prevention and detection of fraud and other irregularities.

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 2006 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 directors' 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 on 30 March 2012

R K Tullo
Company Secretary
General Accident plc
No SC119505

Independent auditor's report

We have audited the financial statements of General Accident plc for the year ended 31 December 2011 which comprise the Accounting policies, the Income statement, the Statement of comprehensive income, the Statement of changes in equity, the Statement of financial position, the Statement of cash flows and the related notes 1 to 9. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

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

Respective responsibilities of directors and auditors

As explained more fully in the Statement of Directors' Responsibility (set out on page 7), the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements.

In addition, we read all the financial and non-financial information in the Annual Report and Financial Statements to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion, the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2011 and of its profit for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

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

Independent auditor's report continued

Matters on which we are required to report by exception

We have nothing to report in respect of the following where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanation we require for our audit.

James W Dean (Senior Statutory Auditor)
For and on behalf of Ernst & Young LLP (Statutory Auditor)
London
30 March 2012

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 Company is exempt from preparing group financial statements by virtue of section 400 of the Companies Act 2006, as it is a subsidiary of an EEA parent and is included in consolidated financial statements for the Aviva Group at the same date. These financial statements therefore present information about the Company as an individual entity.

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, applicable at 31 December 2011. The date of transition to IFRS was 1 January 2004.

Items included in the financial statements of each of the Company's branches are measured in the currency of the primary economic environment in which that entity operates (functional currency). The Company's financial statements are stated in sterling, which is the Company's functional and presentation currency. Unless otherwise noted, the amounts shown in these financial statements are in million of pound sterling (£m).

(B) Use of estimates

The preparation of financial statements requires the Company to make estimates and assumptions that affect items reported in the statement of financial position and income statement and the disclosure of contingent assets and liabilities at the date of the financial statements. 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) 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 their unpaid principal balances and adjusted for amortisation of premium or discount, non-refundable loan fees and related direct costs. These amounts are deferred and amortised over the life of the loan as an adjustment to loan yield using the effective interest rate method.

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.

(E) Cash and cash equivalents

Cash and cash equivalents consist of cash at bank and in hand.

Accounting policies continued

(F) 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.

(G) 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

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. 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 2011

	Note	2011 £m	2010 £m
Income			
Investment income	C & 9	**323**	318
Profit before tax		**323**	318
Tax expense	F & 3	**(86)**	(89)
Profit for the year		**237**	229

The accounting policies (identified alphabetically) on pages 10 & 11 and the notes (identified numerically) on pages 17 to 21 are an integral part of these financial statements. The auditor's report is on page 8.

Statement of comprehensive income
For the year ended 31 December 2011

	2011 £m	2010 £m
Profit for the year	**237**	229
Total comprehensive income for the year	**237**	229

The accounting policies (identified alphabetically) on pages 10 & 11 and the notes (identified numerically) on pages 17 to 21 are an integral part of these financial statements. The auditor's report is on page 8.

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

	Ordinary share capital £m	Preference share capital £m	Share premium £m	Retained earnings £m	Total £m
Balance at 1 January 2010	**4,781**	**250**	**8,859**	**23**	**13,913**
Profit for the year	-	-	-	229	229
Dividends (note 6)	-	-	-	(231)	(231)
Balance at 31 December 2010	**4,781**	**250**	**8,859**	**21**	**13,911**
Profit for the year	-	-	-	**237**	**237**
Dividends (note 6)	-	-	-	**(239)**	**(239)**
Balance at 31 December 2011	**4,781**	**250**	**8,859**	**19**	**13,909**

The accounting policies (identified alphabetically) on pages 10 & 11 and the notes (identified numerically) on pages 17 to 21 are an integral part of these financial statements. The auditor's report is on page 8.

Statement of financial position
For the year ended 31 December 2011

	Note	2011 £m	2010 £m
Assets			
Non-current assets			
Amounts owed by parent company	9	**10,732**	10,950
		10,732	10,950
Current assets			
Amounts owed by parent company		**3,352**	3,165
Total assets		**14,084**	14,115
Equity			
Capital and reserves			
Ordinary share capital	G & 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		**19**	21
Total equity		**13,909**	13,911
Liabilities			
Current liabilities			
Amounts owed to fellow Group companies	9	**89**	115
Corporation tax payable		**86**	89
Total liabilities		**175**	204
Total equity and liabilities		**14,084**	14,115

Approved by the Board on 30 March 2012

P C Regan

Director

The accounting policies (identified alphabetically) on pages 10 & 11 and the notes (identified numerically) on pages 17 to 21 are an integral part of these financial statements. The auditor's report is on page 8.

Statement of cash flows
For the year ended 31 December 2011

No statement of cash flows is presented as all balances would be nil (2010: nil). All the Company's cash requirements are met by fellow Group companies.

The accounting policies (identified alphabetically) on pages 10 & 11 and the notes (identified numerically) on pages 17 to 21 are an integral part of these financial statements. The auditor's report is on page 8.

Notes to the financial statements

1. Directors and employees

The Directors of the Company do not receive any remuneration in respect of qualifying services provided to the Company.

In respect of services provided to the Aviva group, all directors are remunerated by Aviva Employment Services Limited, a fellow subsidiary of the ultimate holding company, Aviva plc.

The Company has no employees.

2. Auditor's remuneration

Fees for the audit of the Company were £10,000 for 2011 (*2010: £10,000*) which have been borne by Aviva plc.

3. Tax

(a) Tax charged to income statement:

	2011 £m	2010 £m
Current tax		
For the year	**(86)**	(89)
Total tax charged to income statement	**(86)**	(89)

(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:

	2011 £m	2010 £m
Profit before tax	**323**	318
Tax calculated at standard UK corporation tax rate of 26.5% (*2010: 28%*)	**(86)**	(89)
Total tax charged to income statement	**(86)**	(89)

A reduction in the UK corporation tax rate from 28% to 26% was substantively enacted in March 2011 and is effective from 1 April 2011. A further reduction from 26% to 25% was substantively enacted in July 2011 and will be effective from 1 April 2012. In addition, a further 1% reduction in the UK corporation tax rate to 24%, effective from 1 April 2012, was announced in the 2012 Budget on 21st March 2012. On the same day it was announced that the UK corporation tax rate would reduce to 23% from 1 April 2013 and to 22% from 1 April 2014.

There is no impact to the Company's net assets from the reduction in the rate as the Company does not have any recognised or unrecognised deferred tax balances.

Notes to the financial statements continued

4. Ordinary share capital

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

	2011 £m	2010 £m
The allotted, called up and fully paid ordinary share capital of the Company at 31 December 2011 was:		
19,125,600,632 *(2010: 19,125,600,632)* ordinary shares of 25 pence each	**4,781**	4,781

The Companies Act 2006 abolished the requirement for a company to have an authorised share capital with effect from 1 October 2009. From that date until adoption by the Company of new articles of association on 24 January 2011, the Company was nonetheless restricted to issuing no more than the same number of shares that had previously constituted its authorised share capital. This limit was £4,980 million, comprising 19,920,572,490 ordinary shares of 25 pence each. Subsequent to 24 January 2011, whilst there is no longer any limitation on the number of shares that the Company may issue, the directors will still be limited as to the number of shares they can allot because authority to allot continues to be required under the Act. 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

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

	2011 £m	2010 £m
The allotted, called up and fully paid preference share capital of the Company at 31 December 2011 was:		
140,000,000 8 ⅞ % cumulative irredeemable of £1 each	**140**	140
110,000,000 7 ⅞ % cumulative irredeemable of £1 each	**110**	110
	250	250

The Companies Act 2006 abolished the requirement for a company to have an authorised share capital with effect from 1 October 2009. From that date until adoption by the Company of new articles of association on 24 January 2011, the Company was nonetheless restricted to issuing no more than the same number of shares that had previously constituted its authorised share capital. This limit was £300 million, comprising 300,000,000 cumulative irredeemable preference shares of £1 each. Subsequent to 24 January 2011, whilst there is no longer any limitation on the number of shares that the Company may issue, the directors will still be limited as to the number of shares they can allot because authority to allot continues to be required under the Act.

The Company's irredeemable preference shares are listed on the London Stock Exchange under a Standard Listing. They are irredeemable but, subject to the provisions of the Companies Act 2006, the Company may at any time purchase any preference shares at either par or on the prevailing market price 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.

Notes to the financial statements continued

6. Dividends

This note analyses the total dividends we have paid during the year

	2011	2010
	£m	£m
Ordinary dividends declared and charged to equity in the year		
Interim 2010 - 0.0110 pence per share, paid on 14 December 2010	**-**	210
Interim 2011 - 0.0114 pence per share, paid on 15 December 2011	**218**	-
	218	210
Preference dividends charged to equity in the year	**21**	21
Total dividends	**239**	231

7. Risk management

The Company's approach to risk and capital management

Risk management framework

The Company's risk management framework is aligned with that of the Aviva plc Group and forms an integral part of the management and Board processes and decision-making framework.

The Company's risk management approach is aimed at actively identifying, measuring, managing, monitoring and reporting significant existing and emerging risks on a continuous basis. Risks are measured considering the significance of the risk to the business and its internal and external stakeholders.

To promote a consistent and rigorous approach to risk management, the Aviva plc Group has set out formal risk management policies that detail risk management and control standards for the Group's worldwide operations, including the Company.

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 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 fair value or future cash flows from fluctuations in interest rates, foreign currency exchange rates, equity prices and property values. At the statement of financial position date, the Company did not have any material exposure to currency exchange rates, equity prices or property values.

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 £107 million (*2010: increase / decrease of £110 million*). The fair value or net asset value of the Company's financial resources is not materially affected by fluctuations in interest rates.

Notes to the financial statements continued

7. Risk management continued

Credit risk

Credit risk is the risk of loss as a result of the default or failure of third parties to meet their payment obligations, or variations in market values as a result of changes in expectation related to these risks.

The Company's financial assets primarily comprise amounts due from its parent, Aviva plc, and as such the credit risk arising from their counterparty failing to meet all or part of their obligations is considered remote. In addition, a significant portion of the intercompany receivable is secured by a legal charge against the ordinary share capital of Aviva Group Holdings Limited. 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 counterparties.

Liquidity risk

Liquidity risk is the risk that the Company is not able to make payments as they become due because there are insufficient assets in cash form.

Within its financial resources, the Company does not hold any assets in a cash form and is therefore reliant upon another Group company, Aviva Insurance Limited, for cash settlement of its dividend obligations to the holders of its preference shares, the cost of which is passed to the Company through an intercompany charge.

Operational risk

Operational risk arises as a result of direct or indirect loss resulting from inadequate or failed internal processes or, from people and systems, or from external events, including changes in the legislative or regulatory environment. The Company's Board is responsible for satisfying itself that material operational 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.

Given its limited activities, the key operational risks to the Company are inadequate governance and lack of sufficiently robust financial controls. The risks are mitigated by the Board's adoption and implementation of the Group's risk management policies and framework and compliance with the Group's financial reporting and controls framework.

Capital management

The Company's capital risk determined 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 requirements of other stakeholders. The sources of capital used by the Company are equity shareholders' funds and preference shares. At 31 December 2011, the Company had £13,909 million (*2010: £13,911 million*) of total capital employed.

8. Immediate and ultimate parent company

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 and also available under "Reports" on Aviva Plc's website at www.aviva.com.

Notes to the financial statements continued

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 maturity analysis of the related party loans at the statement of financial position date is as follows:

Receivables		Loans – Contractual repricing or maturity dates			
	Denominated Currency	Within 1 year	1-5 years	5-10 years	Total
		£m	£m	£m	£m
2011	**£**	**407**	**10,325**	**-**	**10,732**
2010	£	-	10,950	-	10,950

The rate of interest on the loans is floating but is fixed for each calendar quarter at a rate of 200 and 150 basis points above the London inter-bank offered rate per quarter, for each of the £407 million and £10,325 million loans respectively. The Company's maximum exposure to credit risk is equal to the carrying value of assets in the statement of financial position. The fair values of loans to, and receivables from, the parent company are equal to their carrying value.

Services provided to related parties

	2011		2010	
	Income earned in the year £m	**Receivable at year end £m**	Income earned in the year £m	Receivable at year end £m
Parent company	**323**	**14,084**	318	14,115
	323	**14,084**	318	14,115

The services provided to related parties in 2011 related to interest income of £323 million (*2010: £318 million*) from Aviva plc.

Of the total £14,084 million *(2010:£14,115 million)* owed by Aviva plc, £10,732 million *(2010:£10,950 million)* has been secured by a legal charge against the ordinary share capital of Aviva Group Holdings Limited.

Services provided by related parties

	2011	2010
	Payable at year end £m	Payable at year end £m
Fellow Group Companies	**89**	115
	89	115

The only other transactions affecting the Company's equity related to ordinary dividends paid to the parent company of £218 million (*2010: £210 million*).

Compensation of key management

Key management personnel of the Company do not receive any compensation in respect of qualifying services provided to the Company.