General Accident plc

Registered in Scotland No. SC119505

Annual Report and Financial Statements 2012

Contents

Directors and Officers 3
Directors' Report 4
Independent Auditor's Report 8
Accounting Policies 10
Income Statement 13
Statement of Comprehensive Income 14
Statement of Changes in Equity 15
Statement of Financial Position 16
Statement of Cash Flows 17
Notes to the Financial Statements 18
1. Directors 18
2. Employees 18
3. Auditor's remuneration 18
4. Investment income 18
5. Tax 19
6. Dividends 19
7. Earnings per share 20
8. Receivables 20
9. Tax assets and liabilities 20
10. Ordinary share capital 21
11. Preference share capital 21
12. Retained earnings 22
13. Payables and other financial liabilities 22
14. Risk management 22
15. Related party transactions 23

Directors and officers

Directors

K A Cooper
P C Regan

Officer – Company Secretary

R K Tullo
St Helen's
1 Undershaft
London
EC3P 3DQ

Auditor

PricewaterhouseCoopers LLP
7 More London Riverside
London SE1 2RT

Registered Office

Pitheavlis
Perth
Scotland
PH2 0NH

Company Number

Registered in Scotland No. SC119505

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 2012. This directors' report also comprises the management report required under Disclosure and Transparency Rule 4.1.5R

Directors

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

K A Cooper
P C Regan

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

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 2012, 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.

Business review

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

Financial position and performance

The financial position of the Company as at 31 December 2012 is shown in the Statement of Financial Position on page 16, with the trading results shown in the Income Statement on page 13 and the Statement of Cash Flows on page 17.

Legal entity governance is managed by the Company's board of directors.

Future outlook

High level strategies are determined by the Board of Aviva plc and these are shown in the Group Report and Accounts and Preliminary Announcement for year ended 31 December 2012. The directors consider that the Company's principal activities will continue unchanged for the foreseeable future.

It is anticipated that the Company's significant financial assets will continue to comprise 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

A description of the principal risks and uncertainties facing the Company and the Company's risk management policies are set out in note 14 to the financial statements.

Risk factors beyond the Company's control that could cause actual results to differ materially from those estimated include 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 £105 million (*2011: increase / decrease of £107 million*).

Directors' report continued

Key performance indicators

The directors consider that the Company's key performance indicators (KPIs) that communicate the financial performance are as follows:

- Effective interest rate earned on loans
- Level of bad debt

A summary of the KPIs is set out below:

Measure	**2012**	2011
Effective interest rate earned on loans	**2.44%**	2.84%
Value of loans that perform without defaulting on interest due or loan repayments expressed as a percentage of all loans	**100.00%**	100.00%

Dividends

Interim ordinary dividends of £186 million on the Company's ordinary shares were declared and paid during 2012 *(2011: £218 million)*. The directors do not recommend a final dividend on the Company's ordinary shares for the year *(2011: £nil)*. The total cost of dividends paid during the year, including preference dividends, amounted to £207 million *(2011: £239 million)*.

Going concern

The Company's business activities, together with the factors likely to affect its future development, performance and position are set out above. The financial statements sections include notes on the management of its risks including market, credit and liquidity risk (note 14).

The directors believe that the Company is well placed to manage its business risks successfully. 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.

Events since the Statement of Financial Position date

There are no events since Statement of Financial Position date to report.

Purchase of own shares

At the Annual General Meeting held on 15 June 2012, 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 2013 Annual General Meeting, shareholders will be asked to renew these authorities for another year.

Financial instruments

The business of the Company includes the 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 14 to the financial statements.

Directors' report continued

Employees

The Company has no employees. All employees are employed by subsidiary undertakings of Aviva plc, Aviva Employment Services Limited and Aviva Investors Employment Services Limited. Disclosures relating to employees may be found in the annual report and financial statements of these companies respectively.

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 their 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 parent company, Aviva plc, PricewaterhouseCoopers LLP were appointed as auditor to the Company for the year ended 31 December 2012 in accordance with the provisions of the Companies Act 2006.

The directors recommend that PricewaterhouseCoopers LLP be re-appointed as the Company's auditor at the 2013 AGM.

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, 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.

Directors' report continued

Statement of directors' responsibilities

The directors are responsible for preparing the annual report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the Company financial statements in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and verify they are applied consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable IFRS as adopted by the European Union have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006 and, as regards the Company financial statements, Article 4 of the IAS Regulation. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

Each of the directors listed on page 3 confirm that, to the best of their knowledge:

- the Company financial statements in this report, which have been prepared in accordance with IFRSs as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and profit of the Company; and
- the directors' 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 it faces.

By order of the Board

R K Tullo
Company Secretary
27 March 2013

Independent auditor's report

To the members of General Accident plc

We have audited the financial statements of General Accident plc for the year ended 31 December 2012, 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 15. 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.

Respective responsibilities of directors and auditors

As explained more fully in the statement of directors' responsibilities statement 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.

This report, including the opinions, has been prepared for and only for the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by prior consent in writing.

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 & Financial Statements 2012 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 2012 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:

Under the Companies Act 2006 we are required to report to you if, in our opinion:

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

Lee Clarke (Senior Statutory Auditor)
For and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditor
London
27 March 2013

Accounting policies

The Company is a public limited company incorporated and domiciled in the United Kingdom (UK). The principal accounting policies adopted in the preparation of these financial statements are set out below. These policies have been consistently applied to all years presented, unless otherwise stated.

(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 and approved by the directors in accordance with International Financial Reporting Standards (IFRSs) and endorsed by the European Union. In addition to fulfilling their legal obligation to comply with IFRSs as adopted by the EU, the Company has also complied with IFRSs applicable at 31 December 2012. The date of transition to IFRSs was 1 January 2004. The financial statements have been prepared under the historical cost convention, as modified by the revaluation of land and buildings, available-for-sale financial assets, and financial assets and financial liabilities (including derivative instruments) at fair value through profit and loss.

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 millions of pound sterling (£m).

New standards, interpretations and amendments to published standards that have been adopted by the Company.

The Company has adopted the following new amendments to standards which became effective for financial years beginning on or after 1 January 2012. Neither of these amendments has a material impact on these financial statements.
(i) Amendment to IFRS 7, Financial Instruments – Disclosures, relating to the transfer of financial assets.
(ii) Amendment to IAS 12, Income Taxes, relating to deferred tax.

Standards, interpretations and amendments to published standards that are not yet effective and have not been adopted early by the Company

The following new standards, amendments to existing standards and interpretations have been issued, are effective for accounting periods beginning on or after 1 July 2012 and have not been adopted by the Company:

Effective for annual periods beginning on or after 1 January 2013

(i) Amendment to IFRS 7, Financial Instruments – Disclosures
The amendment includes enhanced disclosures to enable users of the financial statements to evaluate the effect or potential effect of netting arrangements in the statement of financial position. The amendments will not have a significant impact for the Company. The amendment has yet to be endorsed by the EU.

(ii) IFRS 13, Fair Value Measurement
IFRS 13 replaces the guidance on fair value measurement in existing IFRS's with a single standard. The standard does not include requirements regarding which items should be measured at fair value but provides guidance on how to determine fair value. The standard also includes enhanced disclosures about fair value measurement. The adoption of IFRS 13 is not expected to have a significant impact on the Company's financial statements. The standard has not yet been endorsed by the EU.

(iii) Improvements to IFRSs 2009-2011
Improvements to IFRSS 2009-2011 details amendments to five IFRSs, including IAS 1, Presentation of Financial Statements, IAS 32, Financial Instruments – Presentation and IAS 34, Interim Financial Reporting. The amendments clarify existing guidance and do not give rise to a change in existing accounting practice. There are no implications for the Company. The amendments have yet to be endorsed by the EU.

Effective for annual periods beginning on or after 1 January 2014

Amendment to IAS 32, Financial Instruments – Presentation
The amendment to IAS 32 clarifies the requirements for offsetting financial assets and financial liabilities on the statement of financial position. The impact of the adoption of the amendment has yet to be fully assessed but is not expected to have significant implications for the Company financial statements. The amendment has not yet been endorsed by the EU.

Accounting policies continued

(A) Basis of presentation continued

Effective for annual periods beginning on or after 1 January 2015

IFRS 9, Financial Instruments
IFRS 9 will replace IAS 39, Financial Instruments – Recognition and Measurement. Under IFRS 9, all recognised financial assets that are currently within the scope of IAS 39 will be measured at either amortised cost or fair value. The basis of classification will depend on the business model and the contractual cash flow characteristics of the financial asset. All equity instruments will be at fair value. A debt instrument is measured at amortised cost only if it is held to collect the contractual cash flows and the cash flows represent principal and interest, otherwise it is measured at fair value through profit and loss (FVTPL). Financial liabilities designated as at FVTPL, change in the fair value attributable to changes in the liability's credit risk are recognised in other comprehensive income unless it gives rise to an accounting mismatch in profit or loss.

We have not yet completed our assessment of the impact of the adoption of IFRS 9 on the Company.

(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.

(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.

Accounting policies continued

(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:

- 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
- 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.

(H) 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.

(I) Derecognition and offset of financial assets and financial liabilities

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised where:

- The rights to receive cash flows from the asset have expired;
- The Company retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a "pass-through" arrangement; or
- The Company has transferred its rights to receive cash flows from the asset and either transferred substantially all the risks and rewards of the asset, or has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

Financial assets and liabilities are offset and the net amount reported in the Statement of Financial Position when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

Income Statement
For the year ended 31 December 2012

	Note	2012 £m	2011 £m
Income			
Investment income	C & 4	**282**	323
Profit for the year before tax		**282**	323
Tax charge	F & 5	**(69)**	(86)
Profit for the year after tax		**213**	237
Basic earnings per share			
From profit for the year	7	**0.01**	0.01

The accounting policies (identified alphabetically) on pages 10 to 12 and notes (identified numerically) on pages 18 to 24 are an integral part of these financial statements.

Statement of Comprehensive Income
For the year ended 31 December 2012

	2012 £m	2011 £m
Profit for the year	**213**	237
Total comprehensive income for the year	**213**	237

The accounting policies (identified alphabetically) on pages 10 to 12 and notes (identified numerically) on pages 18 to 24 are an integral part of these financial statements.

Statement of Changes in Equity
For the year ended 31 December 2012

	Note	Ordinary share capital £m	Preference share capital £m	Share premium £m	Retained earnings £m	Total equity £m
Balance at 1 January 2011		4,781	250	8,859	21	13,911
Profit for the year		-	-	-	237	237
Dividends paid	H & 6	-	-	-	(239)	(239)
Balance at 31 December 2011		**4,781**	**250**	**8,859**	**19**	**13,909**
Profit for the year		-	-	-	**213**	**213**
Dividends paid	H & 6	-	-	-	**(207)**	**(207)**
Balance at 31 December 2012		**4,781**	**250**	**8,859**	**25**	**13,915**

The accounting policies (identified alphabetically) on pages 10 to 12 and notes (identified numerically) on pages 18 to 24 are an integral part of these financial statements.

Statement of Financial Position
As at 31 December 2012

	Note	**2012**	2011
		£m	£m
Assets			
Receivables	8	**14,070**	14,084
Total assets		**14,070**	14,084
Equity			
Capital			
Ordinary share capital	G & 10	**4,781**	4,781
Preference share capital	11	**250**	250
Share premium		**8,859**	8,859
Retained earnings	12	**25**	19
Total equity		**13,915**	13,909
Liabilities			
Current tax liabilities	F & 9	**69**	86
Payables and other financial liabilities	I & 13	**86**	89
Total liabilities		**155**	175
Total equity and liabilities		**14,070**	14,084

The financial statements on pages 13 to 17 were approved by the Board of Directors on 27 March 2013 and signed on its behalf by

Patrick Regan
Director

The accounting policies (identified alphabetically) on pages 10 to 12 and notes (identified numerically) on pages 18 to 24 are an integral part of these financial statements.

Statement of Cash Flows
For the year ended 31 December 2012

No statement of cash flows is presented as all balances would be nil (*2011: nil*). All the Company's cash requirements are met by fellow Group companies (refer to note 15(a) for further disclosure of transactions on the Company's behalf by its related parties).

The accounting policies (identified alphabetically) on pages 10 to 12 and notes (identified numerically) on pages 18 to 24 are an integral part of these financial statements.

Notes to the financial statements

1. Directors

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

2. Employees

The Company has no employees. Aviva Employment Services Limited and Aviva Investors Employment Services Limited, fellow Group companies, are the employing companies for staff of the Aviva plc Group in the UK. Disclosures relating to employees may be found in the annual report and financial statements of these companies respectively.

3. Auditor's remuneration

The total remuneration payable by the Company, excluding VAT, to its principal auditors, PricewaterhouseCoopers LLP (*2011: Ernst & Young LLP*), in respect of the audit of these financial statements is shown below. These have been borne by Aviva plc.

	2012	2011
	£'000	£'000
Audit Services:		
Statutory audit of the Company's financial statements	**9**	10

There were no non-audit fees paid to the Company's auditors in the period (*2011: nil*).

4. Investment income

	Note	**2012**	2011
		£m	£m
Interest income			
From loans due from parent company	15(a)(ii)	**282**	323
Total investment income		**282**	323

Notes to the financial statements continued

5. Tax

(a) Tax charged to the income statement

(i) The total tax charge comprises:

	2012 £m	2011 £m
Current tax		
For the year	**(69)**	(86)
Total current tax	**(69)**	(86)
Total tax charged to income statement	**(69)**	(86)

(ii) There were no unrecognised tax losses and temporary differences of previous years used to reduce current tax expense in either 2012 or 2011.

(b) Tax credited / (charged) to other comprehensive income

There was no tax credited or charged to other comprehensive income in either 2012 or 2011.

(c) Tax reconciliation

The tax on the Company's profit before tax differs from the theoretical amount that would arise using the tax rate of the United Kingdom as follows:

	Note	2012 £m	2011 £m
Profit for the year before tax		**282**	323
Tax calculated at standard UK corporation tax rate of 24.5% *(2011: 26.5%)*		**(69)**	(86)
Tax charge for the period	5(a)	**(69)**	(86)

The UK corporation tax rate reduced to 24% from 1 April 2012. A subsequent reduction in the UK corporation tax rate to 23% was substantively enacted on 3 July 2012 and will apply from 1 April 2013.

As announced in the 2012 Autumn Statement, the rate is expected to reduce further to 21% from 1 April 2014.

6. Dividends

	2012 £m	2011 £m
Ordinary dividends declared and charged to equity in the year		
Interim dividend 2011 - 1.1398 pence per share, paid on 15 December 2011	**-**	218
Interim dividend 2012 - 0.9725 pence per share, paid on 10 December 2012	**186**	-
	186	218
Preference dividends declared and charged to equity in the year	**21**	21
Total dividends for the year	**207**	239

Notes to the financial statements continued

7. Earnings per share

Basic

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the year.

	2012	2011
Profit attributable to equity holders of the Company (£m)	**213**	237
Weighted average number of ordinary shares in issue (thousands)	**19,125,601**	19,125,601

Diluted

Diluted earnings per share has not been disclosed. There are no share options to dilute the basic earnings per share value.

8. Receivables

	Note	**2012**	2011
		£m	£m
Amounts due from parent company	15(a)(ii)	**3,524**	3,352
Loans due from parent company	15(a)(i)	**10,546**	10,732
Total at 31 December		**14,070**	14,084
Expected to be recovered in less than one year		**3,524**	3,759
Expected to be recovered in greater than one year		**10,546**	10,325
		14,070	14,084

9. Tax assets and liabilities

(a) Tax liability

	2012	2011
	£m	£m
Tax liability		
Expected to be payable in more than one year	**69**	86
Tax liability recognised in statement of financial position	**69**	86

Liabilities for prior years' tax to be settled by group relief of £86 million (*2011: £89million*) are included within payables and other financial liabilities (note 13) and within the related party transactions (note 15(a)(ii)) which are payable in less than one year.

Notes to the financial statements continued

10. Ordinary share capital

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

	2012	2011
	£m	£m
Allotted, called up and fully paid		
19,125,600,632 (*2011: 19,125,600,632*) ordinary shares of 25 pence each	**4,781**	4,781

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.

11. Preference share capital

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

	2012	2011
	£m	£m
Allotted, called up and fully paid		
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

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

12. Retained earnings

	Note	2012 £m	2011 £m
At 1 January		**19**	21
Profit for the year		**213**	237
Dividends	6	**(207)**	(239)
At 31 December		**25**	**19**

Retained earnings of £25 million (*2011: £19 million*) is freely distributable for dividend purposes with no constraints.

13. Payables and other financial liabilities

	Note	2012 £m	2011 £m
Amounts due to fellow group companies	15(a)(ii)	**86**	89
Total at 31 December		**86**	89

All payables and other financial liabilities are carried at cost, which approximates to fair value. The total is expected to be paid within one year after the Statement of Financial Position date.

14. Risk management

(a) 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. 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 and business standards which set out the risk strategy, appetite, framework and minimum requirements 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.

(b) Management of financial and non-financial risks

(i) Market risk

Market risk is the risk of an adverse financial impact resulting 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 8). The effect of a 100 basis point increase / decrease in interest rates would be an increase / decrease in interest income (before tax) of £105 million (*2011: increase / decrease of £107 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

14. Risk management continued

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

(ii) Credit risk

Credit risk is the risk of financial 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 the 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.

(iii) 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, however cash settlements of its dividend obligations to the holders of its preference shares are discretionary and subject to director resolution. Furthermore, the cost of these dividends is passed to the Company through an intercompany charge. Tax charges are also settled through an intercompany charge.

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

(iv) Operational risk

Operational risk is the risk of a direct or indirect loss arising from inadequate or failed internal processes, people and systems, or external events, including changes in the regulatory environment.

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 Company's implementation of the Group's risk management policies and framework and compliance with the Group's financial reporting and controls framework.

(c) 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 2012 the Company had £13,915 million (*2011: £13,909 million*) of total capital employed.

15. Related party transactions

(a) The Company had the following related party transactions

The Company receives interest income from, and pays dividends to its parent company in the normal course of business. These activities are reflected in the tables below.

(i) Loans due from parent company

In 2005, the Company provided a facility to Aviva plc, its parent company, of £21,628 million. This loan accrues interest at 150 base points above 3 month LIBOR, with settlement to be received in cash at maturity in February 2015. The maturity date of the loan was amended from February 2012 to February 2015 during the year. As at the Statement of Financial Position date, the loan balance outstanding was £407 million *(2011: £407 million*). This facility has been secured by a legal charge against the ordinary share capital of Aviva Group Holdings Limited.

Notes to the financial statements continued

15. Related party transactions continued

(a) The Company had the following related party transactions continued

(i) Loans due from parent company continued

In 2008, the Company provided a facility to Aviva plc, its parent company, of £12,371 million. This loan accrues interest at 180 base points above 3 month LIBOR, with settlement to be received in cash at maturity in December 2014. As at the Statement of Financial Position date, the loan balance outstanding was £10,139 million *(2011: £10,325 million*). This facility has been secured by a legal charge against the ordinary share capital of Aviva Group Holdings Limited.

The maturity analysis of the related party loans is as follows:

	2012	2011
	£m	£m
Within 1 year	**-**	407
1-5 years	**10,546**	10,325
	10,546	10,732
Effective interest rate	**2.44%**	2.84%

(ii) Other transactions

Services provided to related parties

	2012		2011	
	Income earned in the year	**Receivable at year end**	Income earned in the year	Receivable at year end
	£m	**£m**	£m	£m
Immediate parent	**282**	**3,524**	323	3,352
	282	**3,524**	323	3,352

The services provided to related parties in 2012 related to interest income of £282 million (*2011: £323 million*) from Aviva plc.

Preference dividends of £21 million (*2011: £21 million*) were paid on behalf of the Company by Aviva plc.

Services provided by related parties

	2012	2011
	Payable at year end	Payable at year end
	£m	£m
Other Aviva group companies	**86**	89
	86	89

The services provided by related parties related to liabilities for prior years' tax settled by group relief.

The only other related party transactions affecting the Company's equity related to ordinary dividends to Aviva plc of £186 million (*2011: £218 million*).

(b) Compensation of key management

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

(c) Parent entity

The Company's parent entity is Aviva plc whose Annual Report and Financial Statements are available on application to the Group Company Secretary, Aviva plc, St Helen's, 1 Undershaft, London EC3P 3DQ, and on the Aviva plc website at www.aviva.com.