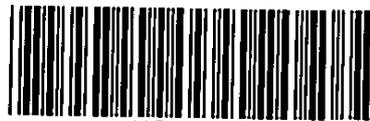


**THE WORLD AUXILIARY
INSURANCE CORPORATION LIMITED
ANNUAL REPORT AND FINANCIAL STATEMENTS
2010**

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The World Auxiliary Insurance Corporation Limited

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The World Auxiliary Insurance Corporation Limited

Directors and officer

Directors:

C J Abrahams
D J R McMillan
S Egan

Officer - Company Secretary:

R H Spicker
St Helen's
1 Undershaft
London
EC3P 3DQ

Auditor:

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

Registered office:

St Helen's
1 Undershaft
London
EC3P 3DQ

Company number:

Registered in England and Wales No 158900

Other information:

The World Auxiliary Insurance Corporation Limited ("the Company") is a member of the Association of British Insurers and the Financial Ombudsman Service, and is authorised and regulated by the Financial Services Authority ("FSA")

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

The World Auxiliary Insurance Corporation Limited

Registered in England and Wales. No. 158900

Directors' report

For the year ended 31 December 2010

The directors present their annual report and financial statements for the Company for the year ended 31 December 2010

Directors

The names of the current directors of the Company appear on page 1

Those in office since 1 January 2010 have been as follows

D J R McMillan was appointed as a director on 23 February 2010

J R Kitson and D K Watson resigned as directors on 31 March 2010

S Egan was appointed as a director on 1 April 2010

C J Abrahams was appointed as a director on 26 July 2010

Principal activity

The principal activity of the Company has not changed during the year. The Company used to transact the business of fire, accident and marine insurance within the London Market but no new business or renewals have been underwritten since 31 December 1974. All business is reinsured as the Company is party to a reinsurance agreement entered into with National Indemnity Company in 2000, which provides substantial protection in excess of current gross liabilities.

Business review

Basis of preparation

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 financial period and position both at the end of the financial period and 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.

Objectives and future developments

High level strategies are determined by Aviva plc and these are shown in its financial statements. The directors expect that the nature of the Company's principal activity of general insurance business run-off will continue unchanged into the foreseeable future.

Financial position and performance

The financial position of the Company at 31 December 2010 is shown in the statement of financial position on page 13, with the trading results shown in the income statement on page 12 and the statement of cash flows on page 15.

In the light of the principal activity detailed above, the directors do not consider it appropriate to detail key performance indicators.

As all the Company's insurance business has been wholly reinsured with National Indemnity Company, the only income is that derived from its cash deposits. Investment income is £58 thousand in 2010 compared to £190 thousand in 2009.

The World Auxiliary Insurance Corporation Limited

Directors' report (continued)

Business review (continued)

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 notes 15 and 17 to the financial statements

Major events

On 22 June 2010, the Company resolved to delete all the provisions of its Memorandum of Association, which by virtue of section 28 of the Companies Act 2006, are treated as provisions of the Company's Articles of Association ("Articles") and it resolved to adopt new Articles with effect from the same date. The Company has thereby abolished, as allowed by the Companies Act 2006, the requirement in its Articles whereby a maximum share capital was authorised.

Going concern

After making enquiries, the directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements.

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 17 to the financial statements.

Dividends

There was no interim dividend paid in 2010 (2009: £10,000 thousand). The directors do not recommend the payment of a final dividend (2009: £ nil).

Employees

All employees are employed by a fellow Group company, Aviva Employment Services Limited. Disclosures relating to employees may be found in the Annual Report and Accounts of Aviva plc.

Auditor

It is the intention of the directors to reappoint the auditor under the deemed appointment rules of section 487 of the Companies Act 2006.

Directors' liabilities

Aviva plc, the Company's ultimate parent company, 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 by virtue of the transitional provisions of the Companies Act 2006.

The World Auxiliary Insurance Corporation Limited

Directors' report (continued)

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.

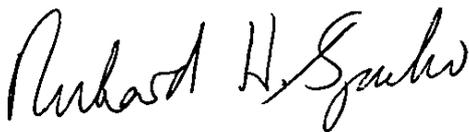
Statement of directors' responsibilities

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 the going concern basis, unless it is inappropriate to presume that the Company will continue in business,
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information,
- provide additional disclosures when compliance with the specific requirements in IFRS is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Company's financial position and financial performance, and
- state that the Company has complied with applicable IFRS, subject to any material departures disclosed and explained in the financial statements.

The directors are responsible for maintaining adequate accounting records which are intended to disclose with reasonable accuracy, at any time, 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.

By order of the Board



R H Spicker
Company Secretary

22 JUNE 2011

The World Auxiliary Insurance Corporation Limited

Independent auditor's report

To the members of The World Auxiliary Insurance Corporation Limited

We have audited the financial statements of The World Auxiliary Insurance Corporation Limited for the year ended 31 December 2010, which comprise the Accounting Policies, the Income Statement, the Statement of Financial Position, the Statement of Changes in Equity, the Statement of Cash Flows, and the related notes 1 to 19. 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' Responsibilities set out on page 4, 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 directors' report 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 2010 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.

The World Auxiliary Insurance Corporation Limited

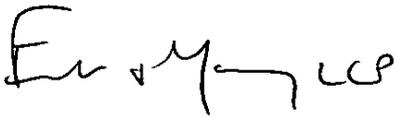
Independent auditor's report (continued)

To the members of The World Auxiliary Insurance Corporation Limited

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters 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 explanations we require for our audit



Clifford Houghton (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
London

23 June 2011

The World Auxiliary Insurance Corporation Limited

Accounting policies

The Company is a limited liability company incorporated and domiciled in Great Britain, and transacted business in the London Market until 1974. Since that date the business has been in run-off and in 2000 all business was reinsured with National Indemnity Company.

The principal accounting policies adopted in the preparation of these financial statements are set out below.

(A) Basis of presentation

The financial statements have been prepared in accordance with IFRS and International Accounting Standards ("IAS") as endorsed by the EU, applicable at 31 December 2010.

There are no recently issued pronouncements effective for the 2010 financial statements that materially impact the Company's financial reporting.

IFRS 9 *Financial Instruments* is effective in future years and awaiting endorsement. The Company is currently reviewing the potential impact on the financial statements. Other external reporting developments continue to be proactively monitored.

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

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

(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. This is particularly so in the estimation of amounts for insurance liabilities, for which further details are given in policy F overleaf and in note 10 to these financial statements. Although these estimates are based on management's best knowledge of current facts, circumstances and, to some extent, future events and actions, actual results ultimately may differ from those estimates, possibly significantly.

(C) Foreign currency translation

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

The World Auxiliary Insurance Corporation Limited

Accounting policies (continued)

(D) Product classification

Insurance contracts are defined as those containing significant insurance risk if, and only if, an insured event could cause an insurer to make significant additional payments in any scenario, excluding scenarios that lack commercial substance, at the inception of the contract. Such contracts remain insurance contracts until all rights and obligations are extinguished or expire. Contracts can be reclassified as insurance contracts after inception if insurance risk becomes significant. Any contracts not considered to be insurance contracts under IFRS are classified as investment or service contracts.

Accounting for insurance contracts, as allowed by IFRS 4, is determined in accordance with the Statement of Recommended Practice issued by the Association of British Insurers, the most recent version of which was issued in December 2005 and amended in December 2006.

(E) Net investment income

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

A gain or loss on a financial investment is only realised on disposal or transfer, and is the difference between the proceeds received, net of transaction costs and its original cost or amortised cost as appropriate. Unrealised gains and losses, arising on financial investments which have not been derecognised as a result of disposal or transfer, represent the difference between the carrying value at the year end and the carrying value at the previous year end or purchase value during the year, less the reversal of previously recognised unrealised gains and losses in respect of disposals made during the year.

(F) Insurance contract liabilities

Claims

Insurance claims incurred include all losses occurring during the year, whether reported or not, loss adjustment expenses, a reduction for the value of salvage and other recoveries, and any adjustments to claims incurred in previous years.

Loss adjustment expenses include internal and external costs incurred in connection with the negotiation and settlement of claims. Internal costs include all direct expenses of the claims handling department and any part of the general administrative costs directly attributable to the loss adjustment function.

The World Auxiliary Insurance Corporation Limited

Accounting policies (continued)

(F) Insurance contract liabilities (continued)

Outstanding claims provisions

Insurance outstanding claims provisions are based on the estimated ultimate cost of all claims incurred but not settled at the statement of financial position date, whether reported or not, together with related loss adjustment expenses. Significant delays are experienced in the notification and settlement of certain types of general insurance claims, particularly in respect of liability business, including asbestos and environmental pollution exposures, the ultimate cost of which cannot be known with certainty at the statement of financial position date. Any estimate represents a determination within a range of possible outcomes. Further details of estimation techniques are given in note 10(c).

Provisions for latent claims are discounted, using rates based on the relevant swap curve, in the relevant currency at the reporting date, having regard to the expected settlement dates of the claims. The discount rate is set at the start of the accounting period with any change in rates between the start and end of the accounting period being reflected as an economic assumption change within claims. Unwind of discount is shown as a finance cost. The range of discount rates used is described in note 10(b).

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

All liabilities assumed by the Company are now met either by the original reinsurers or by a contract of reinsurance effective 1 July 2000 with National Indemnity Company, which provides substantial protection in excess of current gross liabilities.

(G) Reinsurance

The Company cedes reinsurance in the normal course of business, with retention limits varying by line of business. The cost of reinsurance is accounted for over the life of the underlying reinsured policies, using assumptions consistent with those used to account for these policies. Where insurance liabilities are discounted, any corresponding reinsurance assets are also discounted using consistent assumptions.

Reinsurance assets primarily include balances due from reinsurance companies for ceded insurance liabilities. Amounts recoverable from reinsurers are estimated in a manner consistent with the outstanding claims provisions or settled claims associated with the reinsured policies and in accordance with the relevant reinsurance contract.

If a reinsurance asset is impaired, the Company reduces the carrying amount accordingly and recognises that impairment loss in the income statement. A reinsurance asset is impaired if there is objective evidence, as a result of an event that occurred after initial recognition of the reinsurance asset, that the Company may not receive all amounts due to it under the terms of the contract, and the event has an impact that can be reliably measured on the amounts that the Company will receive from the reinsurer.

The World Auxiliary Insurance Corporation Limited

Accounting policies (continued)

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

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

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

A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expires. Financial assets and liabilities are offset and the net amount reported in the 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.

(I) Cash and cash equivalents

Cash and cash equivalents consist of cash at banks and in hand, deposits held at call with banks, treasury bills and other short-term highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in value. Such investments are those with less than three months' maturity from the date of acquisition, or which are redeemable on demand with only an insignificant change in their fair values.

(J) Financial guarantee contracts

Financial guarantees are recognised initially at their fair value. They are subsequently measured at the higher of the expected receivable or liability under the guarantee and the amount initially recognised less any accumulated amortisation. A liability is recognised for amounts payable under the guarantee if it is more likely than not that the guarantee will be called upon and a receivable is recognised if it is virtually certain.

(K) Contingent liabilities

Contingent liabilities are disclosed if there is a possible future obligation as a result of a past event, or if there is a present obligation as a result of a past event but either a payment is not probable yet still possible or the amount cannot be reliably estimated.

The World Auxiliary Insurance Corporation Limited

Accounting policies (continued)

(L) Income taxes

The current tax expense is based on the taxable profits for the year, after any adjustments in respect of prior years. Tax, including tax relief for losses if applicable, is allocated over profits before taxation and amounts charged or credited to reserves as appropriate.

Provision is made for deferred tax liabilities, or credit taken for deferred tax assets, using the liability method, on all material temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements. The rates enacted or substantively enacted at the statement of financial position date are used to determine the deferred tax.

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

(M) Share capital and dividends

Equity instruments

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

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

Dividends

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

The World Auxiliary Insurance Corporation Limited

Income statement

For the year ended 31 December 2010

	Note	<u>2010</u> £000	<u>2009</u> £000
Income			
Net investment income	1	58	190
Expenses	2		
Claims paid, net of reinsurance		-	-
Change in claims provisions, net of reinsurance		-	-
Profit before tax		<u>58</u>	<u>190</u>
Tax (expense)/credit	6	(16)	9
Profit for the year		<u><u>42</u></u>	<u><u>199</u></u>

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

The accounting policies on pages 7 to 11 and the notes on pages 16 to 33 form an integral part of these financial statements

The World Auxiliary Insurance Corporation Limited

Statement of financial position As at 31 December 2010

	Note	<u>2010</u> £000	<u>2009</u> £000
ASSETS			
Reinsurance assets	8	40,055	40,032
Receivables	9	1,651	3,442
Prepayments and accrued income		10	5
Cash and cash equivalents	16 (b)	9,474	9,418
Total assets		<u>51,190</u>	<u>52,897</u>
LIABILITIES			
Insurance liabilities	10	40,055	40,032
Current tax liability	11	16	53
Payables and other financial liabilities	12	302	2,037
Total liabilities		<u>40,373</u>	<u>42,122</u>
Net assets		<u>10,817</u>	<u>10,775</u>
EQUITY			
Ordinary share capital	13	5,600	5,600
Retained earnings		5,217	5,175
Total equity		<u>10,817</u>	<u>10,775</u>

The accounting policies on pages 7 to 11 and the notes on pages 16 to 33 form an integral part of these financial statements

Approved by the Board on 22 JUNE 2011



C J Abrahams
Director

The World Auxiliary Insurance Corporation Limited

Statement of changes in equity For the year ended 31 December 2010

	Note	Ordinary share capital	Retained earnings	Total equity
		£000	£000	£000
Balance at 1 January 2009		<u>5,600</u>	<u>14,976</u>	<u>20,576</u>
Total comprehensive income for the year		-	199	199
Dividends	7	-	(10,000)	(10,000)
Total movements in the year		-	(9,801)	(9,801)
Balance at 31 December 2009		<u>5,600</u>	<u>5,175</u>	<u>10,775</u>
Total comprehensive income for the year		-	42	42
Total movements in the year		-	42	42
Balance at 31 December 2010		<u>5,600</u>	<u>5,217</u>	<u>10,817</u>

The accounting policies on pages 7 to 11 and the notes on pages 16 to 33 form an integral part of these financial statements

The World Auxiliary Insurance Corporation Limited

Statement of cash flows For the year ended 31 December 2010

	Note	<u>2010</u> £000	<u>2009</u> £000
Cash flows from operating activities			
Net cash inflow from operating activities	16(a)	56	227
<i>Net cash from operating activities</i>		<u>56</u>	<u>227</u>
Cash flows from financing activities			
Dividends paid		-	(10,000)
<i>Net cash used in financing activities</i>		<u>-</u>	<u>(10,000)</u>
Net increase/(decrease) in cash and cash equivalents		56	(9,773)
Cash and cash equivalents at 1 January		9,418	19,191
Cash and cash equivalents at 31 December	16(b)	<u>9,474</u>	<u>9,418</u>

The accounting policies on pages 7 to 11 and the notes on pages 16 to 33 form an integral part of these financial statements

The World Auxiliary Insurance Corporation Limited

Notes to the financial statements

1. Details of income

	<u>2010</u> £000	<u>2009</u> £000
Net investment income		
Interest and similar income	61	210
Net realised losses on certificates of deposit	-	(24)
Other investment (expenses)/ income	(3)	4
Total income	<u>58</u>	<u>190</u>

2. Details of expenses

	<u>2010</u> £000	<u>2009</u> £000
Claims paid, net of reinsurance		
Claims paid to policyholders	2,904	2,965
Less Claims recoveries from reinsurers	(2,904)	(2,965)
	<u>-</u>	<u>-</u>
Change in claims provisions, net of reinsurance		
Change in gross claims provisions	1,563	(15,057)
Change in reinsurance asset for claims provisions	(1,563)	15,057
	<u>-</u>	<u>-</u>

3. Employee information

All employees are employed by a fellow Group company, Aviva Employment Services Limited. Disclosures relating to employees may be found in the Annual Report and Accounts of Aviva plc.

4. Directors

All directors of the Company are remunerated as employees by Aviva Employment Services Limited. This remuneration is recharged to all operating divisions of the Aviva Group under management service agreements. However, no cost is borne by the Company for the services of the directors in their capacity as directors.

The World Auxiliary Insurance Corporation Limited

Notes to the financial statements (continued)

5. Auditor's remuneration

The total remuneration payable by the Company, excluding VAT, to its auditor, Ernst & Young LLP, in respect of the audit of these financial statements, is shown below. The Company is exempt from disclosing other fees payable to its auditor in respect of other work, by virtue of regulation 5(1)(b) of The Companies (Disclosure of Auditor Remuneration and Liability Limitation Agreements) Regulations 2008, as it is disclosed within the Annual Report and Accounts of Aviva plc, the Company's ultimate controlling entity (note 19(c)).

	<u>2010</u> £000	<u>2009</u> £000
Audit services		
Statutory audit of the Company's financial statements	3	3

Audit fees are paid by Aviva Central Services UK Limited, a fellow Group company, and recharged as appropriate to the Company and fellow Aviva group companies.

6. Tax

(a) Tax charged / (credited) to the income statement

	<u>2010</u> £000	<u>2009</u> £000
The total tax charge/ (credit) comprises		
Current tax:		
For this year	16	53
Adjustment in respect of prior years	-	(62)
Total current tax	<u>16</u>	<u>(9)</u>
Total tax charged/ (credited) to income statement	<u>16</u>	<u>(9)</u>

(b) Tax reconciliation

The tax on the Company's profit before tax differs from the theoretical amount that would arise using the tax rate in the United Kingdom ("UK") as follows:

	<u>2010</u> £000	<u>2009</u> £000
Profit before tax	58	190
Tax calculated at standard UK corporation tax rate of 28% (2009: 28%)	16	53
Adjustment to tax charge in respect of prior years	-	(62)
Tax charged/(credited) for the period (note 6(a))	<u>16</u>	<u>(9)</u>

Legislation already enacted at the statement of financial position date means that with effect from 1 April 2011 the corporate tax rate was expected to reduce to 27% (from 28%). In the Budget of 23 March 2011 the Chancellor announced that instead of reducing to 27% from 1 April 2011, the corporation tax rate would in fact reduce to 26%, although this further reduction was not substantively enacted at 31 December 2010. Subsequent reductions of 1% each year thereafter until it reaches 23% from 1 April 2014 were also confirmed, and are to be dealt with by future legislation. This company does not have any recognised deferred tax balances.

The World Auxiliary Insurance Corporation Limited

Notes to the financial statements (continued)

7. Dividends

	<u>2010</u>	<u>2009</u>
	£000	£000
Ordinary dividends declared and charged to equity in the year		
Interim 2009 - 178 57p per share, paid in September 2009	-	10,000

8. Reinsurance assets

(a) Carrying amounts

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

	<u>2010</u>			<u>2009</u>		
	<u>Gross insurance provisions</u>	<u>Reinsurance assets</u>	<u>Net</u>	<u>Gross insurance provisions</u>	<u>Reinsuranc e assets</u>	<u>Net</u>
	£000	£000	£000	£000	£000	£000
Outstanding claims provisions	20,081	20,081	-	21,222	21,222	-
Provisions for claims incurred but not reported	19,974	19,974	-	18,810	18,810	-
Total	<u>40,055</u>	<u>40,055</u>	<u>-</u>	<u>40,032</u>	<u>40,032</u>	<u>-</u>

Of the above total, £37,784 thousand (2009 £37,480 thousand) of the reinsurance assets is expected to be recovered in more than one year after the statement of financial position date

The reinsurers' share of outstanding claims provisions and provisions for claims incurred but not reported is reduced by £16,400 thousand (2009 £18,400 thousand) as a result of discounting of latent claims

(b) Assumptions

The assumptions, including discount rates, used for reinsurance contracts follow those used for insurance contracts shown in note 10(b) and 10(c)

Reinsurance assets are shown net of any provisions for their recoverability

The World Auxiliary Insurance Corporation Limited

Notes to the financial statements (continued)

8. Reinsurance assets (continued)

(c) Movements

Reinsurers' share of claims provisions

	<u>2010</u>	<u>2009</u>
	<u>£000</u>	<u>£000</u>
Carrying amount at 1 January	40,032	68,129
Impact of changes in discount rate assumptions	(4,300)	(700)
Reinsurers' share of claims losses and expenses incurred in prior years	4,467	(12,092)
Reinsurers' share of incurred claims losses and expenses	167	(12,792)
Less		
Reinsurance recoveries received on claims incurred in prior years	(2,904)	(2,965)
Unwind of discount	600	2,000
Change in reinsurance asset	<u>(2,137)</u>	<u>(13,757)</u>
Foreign exchange rate movements	2,160	(14,340)
Carrying amount at 31 December	<u>40,055</u>	<u>40,032</u>

Reinsurance assets held in US Dollars have been revalued at the year end rate as described in note 10(d)

9. Receivables

	<u>2010</u>	<u>2009</u>
	<u>£000</u>	<u>£000</u>
Amounts due from reinsurers	-	2,886
Amounts due from related parties (note 19(a)(i))	1,649	555
Other receivables	2	1
Total	<u>1,651</u>	<u>3,442</u>
Expected to be recovered in less than one year	-	2,886
Expected to be recovered in more than one year	<u>1,651</u>	<u>556</u>

All receivables are carried at amortised cost, which approximates fair value

The World Auxiliary Insurance Corporation Limited

Notes to the financial statements (continued)

10. Insurance liabilities

(a) Carrying amount

Gross insurance liabilities at 31 December comprise

	<u>2010</u>	<u>2009</u>
	£000	£000
Provisions for outstanding claims	20,081	21,222
Provisions for claims incurred but not reported	19,974	18,810
Total	<u>40,055</u>	<u>40,032</u>

(b) Provisions for outstanding claims

Delays occur in the notification and settlement of claims and a substantial measure of experience and judgement is involved in assessing outstanding liabilities, the ultimate cost of which cannot be known with certainty at the statement of financial position date. The reserves are based on information currently available. However, it is inherent in the nature of the business written that the ultimate liabilities may vary as a result of subsequent developments.

Provisions for outstanding claims are established to cover the outstanding expected ultimate liability for losses and loss adjustment expenses ("LAE") in respect of all claims that have already occurred. The provisions established cover reported claims and associated LAE, as well as claims incurred but not yet reported and associated LAE.

Outstanding claims provisions are based on undiscounted estimates of future claims payments, except for the following classes of business for which discounted provisions are held:

	<u>Discount rate</u>		<u>Mean term of liabilities</u>	
	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>
Latent claims	4.43% to 0.44%	4.58% to 1.02%	11 years	10 years

The gross outstanding claims provisions before discounting are £56,455 thousand (2009: £58,432 thousand). The period of time which will elapse before the liabilities are settled has been estimated by modelling the settlement patterns of the underlying claims.

Loss reserves are only established for losses that have already occurred.

The World Auxiliary Insurance Corporation Limited

Notes to the financial statements (continued)

10. Insurance liabilities (continued)

(c) Assumptions

Outstanding claims provisions are estimated based on known facts at the date of estimation. Case estimates are generally set by skilled claims technicians applying their experience and knowledge to the circumstances of individual claims, taking into account all available information and correspondence regarding the circumstances of the claim, such as medical reports, investigations and inspections. Claims technicians set case estimates according to documented claims department policies and specialise in setting estimates for certain lines of business or types of claim. Claims above certain limits are referred to senior claims handlers for authorisation.

No adjustments are made to the claims technicians' case estimates included in booked claims provisions, except for rare occasions when the estimated ultimate cost of a large or unusual claim may be adjusted, subject to internal reserve committee approval, to allow for uncertainty regarding, for example, the outcome of a court case. The ultimate cost of outstanding claims is then estimated by using a range of standard actuarial claims projection techniques, such as the Chain Ladder and Bornhuetter-Ferguson methods. The main assumption underlying these techniques is that the Company's past claims development experience can be used to project future claims development and hence ultimate claims costs. As such, these methods extrapolate the development of paid and incurred losses, average costs per claim and claims numbers based on the observed development of earlier years and expected loss ratios.

Historical claims development is mainly analysed by accident period, although underwriting or notification period is also used where this is considered appropriate. Claims development is separately analysed for each line of business. Certain lines of business are also further analysed by claims type or type of coverage. In addition, large claims are usually separately assessed, either by being reserved at the face value of loss adjuster estimates, or separately projected in order to reflect their future development.

In most cases no explicit assumptions are made regarding future rates of claims inflation or loss ratios. Instead, the assumptions used are those implicit in the historic claims development data on which the projections are based. Additional qualitative judgement is used to assess the extent to which past trends may not apply in the future, for example, to reflect one-off occurrences, changes in external or market factors such as public attitudes to claiming, economic conditions, levels of claims inflation, judicial decisions and legislation, as well as internal factors such as portfolio mix, policy conditions and loss adjustment procedures, in order to arrive at the estimated ultimate cost of claims, that represent the most likely outcome, from the range of possible outcomes, taking account of all the uncertainties involved. The range of possible outcomes does not, however, result in the quantification of a reserve range.

The level of uncertainty associated with latent claims is considerable due to the relatively small number of claims and the long-tail nature of the liabilities. Mesothelioma claims account for a large proportion of the Company's latent claims. The key assumptions underlying the estimation of these claims include claims numbers, the base average cost per claim, future inflation in the average cost of claims, legal fees and the life expectancy of potential sufferers. However, in 2000 all the Company's business was reinsured as the Company is party to a reinsurance agreement entered into with the National Indemnity Company.

The World Auxiliary Insurance Corporation Limited

Notes to the financial statements (continued)

10. Insurance liabilities (continued)

(d) Movements

The following changes have occurred in the claims provisions during the year

	<u>2010</u>	<u>2009</u>
	£000	£000
Carrying amount at 1 January	40,032	68,129
Impact of changes in discount rate assumptions	(4,300)	(700)
Claims losses and expenses incurred in prior years	4,467	(12,092)
Incurred claims losses and expenses	167	(12,792)
Less		
Payments made on claims incurred in prior years	(2,904)	(2,965)
Unwind of discount	600	2,000
Changes in gross claims	(2,137)	(13,757)
Foreign exchange rate movements	2,160	(14,340)
Carrying amount at 31 December	<u>40,055</u>	<u>40,032</u>

Discount rate

The discount rate that has been applied to latent claims reserves is based on the relevant swap rate, in the relevant currency, having regard to the expected settlement dates of the claims. The range of discount rates used depends on the duration of the claims and is given in the table in section (b) above. The duration of the claims spans over 20 years, with the average duration 11 years (2009 10 years). Any change in discount rates between the start and the end of the accounting period is reflected as an economic assumption change.

Exchange rates

Assets and liabilities denominated in US Dollars have been translated at the year end rate of £1 = US\$ 1.57 (2009 £1 = US\$ 1.61)

Effect of changes in estimates in the year

During the year, gross claims provisions of £4,467 thousand (£nil net of reinsurance) were charged to the income statement (2009 release of £12,092 thousand, £nil net of reinsurance). This movement is mainly due to the release of provisions for claims in the United States.

The World Auxiliary Insurance Corporation Limited

Notes to the financial statements (continued)

10. Insurance liabilities (continued)

(e) Loss development tables

The Company ceased to write business in the London Market in 1974. In 2000, all business was wholly reinsured with the National Indemnity Company. All claims therefore fall into the category of 2000 and prior years.

	<u>Gross</u> <u>2000 and</u> <u>prior years</u> <u>£000</u>	<u>Net of</u> <u>reinsurance</u> <u>2000 and</u> <u>prior years</u> <u>£000</u>
Outstanding claims provisions (undiscounted)	56,455	-
Effect of discounting	(16,400)	-
Present value recognised in the statement of financial position	<u>40,055</u>	<u>-</u>

The table above includes information on asbestos and environmental pollution claims provisions. The total gross discounted claims provisions in respect of this business are £34,696 thousand at 31 December 2010 (2009 £36,716 thousand). The net claims provisions in this respect are £nil (2009 £nil).

11. Tax assets and liabilities

Current tax

	<u>2010</u> <u>£000</u>	<u>2009</u> <u>£000</u>
Tax liability expected to be payable in more than one year	<u>16</u>	<u>53</u>

Liabilities for prior years' tax settled by group relief of £53 thousand (2009 £250 thousand) are included within payables and other financial liabilities (note 12) and within the related party transactions (note 19) and are payable in more than one year.

12. Payables and other financial liabilities

	<u>2010</u> <u>£000</u>	<u>2009</u> <u>£000</u>
Amounts due to related parties (note 19(a)(ii))	<u>302</u>	<u>2,037</u>
Expected to be settled in more than one year	<u>302</u>	<u>2,037</u>

All payables and other financial liabilities are carried at amortised cost, which approximates to fair value.

The World Auxiliary Insurance Corporation Limited

Notes to the financial statements (continued)

13. Ordinary share capital

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

	<u>2010</u>	<u>2009</u>
	£000	£000
Allotted, called up and fully paid		
5,600,000 (2009 5,600,000) Ordinary shares of £1 each	5,600	5,600

The Companies Act 2006 abolished the requirement for a company to have an authorised share capital and the articles of association adopted by the Company on 22 June 2010 reflect this. Directors may exercise any power of the Company to allot shares or grant rights to subscribe for or to convert any security into such shares and are authorised to do so under the Company's articles of association. 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.

14. Financial guarantees and options

With the approval of the FSA, Aviva International Insurance Limited, a Group company, and certain of its UK insurance subsidiaries transacting general insurance business, of which the Company is one, have mutually agreed to discharge all liabilities attaching to their respective policies. The guarantee enables a company, if it is unable to pay a policyholder claim, to seek financial support from one or more of the guarantors. The guarantors are not obliged to make the payment if in so doing they would breach their own solvency requirement. If any payments are made under the guarantee, the guarantors are also entitled to seek repayment from the company benefiting from the guarantee. The guarantee cannot be relied upon by any other person, including without limitation the holder of any contracts of insurance issued by a party to the guarantee. There is no maximum amount the Company would have to pay under the guarantee but, in the opinion of the directors, the fair value of the guarantee above is not material and no material loss would arise therefrom.

15. Contingent liabilities and other risk factors

Uncertainty over claims provisions

Note 10(c) gives details of the estimation techniques used in determining the outstanding claims provisions which are designed to allow for prudence. These are estimated to give a result within the normal range of outcomes. To the extent that the ultimate cost falls outside this range, for example where future claims inflation differs from that expected, there is uncertainty in respect of this liability.

Levy schemes

The Company pays contributions into levy schemes in the UK in which it operates. Given the economic environment, there is a heightened risk that the levy contributions will need to be increased to protect policyholders if an insurance company falls into financial difficulties. The directors continue to monitor the situation but are not aware of any need to make provisions at the statement of financial position date.

The World Auxiliary Insurance Corporation Limited

Notes to the financial statements (continued)

16. Statement of cash flows

(a) The reconciliation of profit before tax to the net cash inflow from operating activities is:

	<u>2010</u>	<u>2009</u>
	<u>£000</u>	<u>£000</u>
Profit before tax	58	190
Changes in working capital		
(Increase) / decrease in reinsurance assets	(23)	28,097
(Increase) / decrease in receivables	1,791	51
(Increase) / decrease in prepayments and accrued income	(5)	(5)
Increase / (decrease) in insurance liabilities	23	(28,097)
Increase / (decrease) in payables and other financial liabilities	(1,788)	(9)
Net cash inflow from operating activities	<u>56</u>	<u>227</u>

"Increase/(decrease) in payables and other financial liabilities" is stated after eliminating £53 thousand (2009 £250 thousand) of corporation tax liability settled, or to be settled, by group relief

(b) Cash and cash equivalents in the statement of cash flows at 31 December comprise

	<u>2010</u>	<u>2009</u>
	<u>£000</u>	<u>£000</u>
Cash at bank and in hand	74	17
Cash equivalents	9,400	9,401
	<u>9,474</u>	<u>9,418</u>

The World Auxiliary Insurance Corporation Limited

Notes to the financial statements (continued)

17. Risk management

The ultimate parent company, Aviva plc, and its subsidiaries, joint ventures and associates, (collectively known as "the Group"), operate a risk management framework ("RMF"), which is the collection of processes and tools that have been put in place to ensure that the risks to which it is exposed are identified, measured, managed, monitored and reported on a continuous basis. The RMF is designed to facilitate a common approach to, and language regarding, the management of risk across the Group. The key instruments of the RMF include the risk management policies, risk reports, risk models, the governance and oversight infrastructure and the risk appetite framework. The RMF has been adopted in the UK ("the UK Region") including the businesses collectively referred to as "UKGI" (including this Company and the UK general insurance business carried out within Aviva Insurance Limited and Aviva International Insurance Limited).

Risks are usually grouped by risk type: market, credit, general insurance, liquidity and operational risk. Risk falling within these types may affect a number of key metrics including those relating to statement of financial position strength, liquidity and profit. They may also affect the performance of the products that the Company delivers to customers and the service to customers and distributors, which can be categorised as risks to brand and reputation.

The Group has a set of formal risk policies that facilitate a consistent approach to the management of all the Company's risks across all businesses and locations in which the Company operates. These risk policies define the Company's appetite for different, granular risk types and set out risk management and control standards for the Group's worldwide operations.

Risk models are an important tool in the Company's measurement of risk and are used to support the monitoring and reporting of the risk profile and in the evaluation of alternative risk management actions. The Company carries out a range of stress (where one risk factor, such as equity returns, is assumed to vary) and scenario (where combinations of risk factors are assumed to vary) tests to evaluate their impact on the business and the management actions available to respond to the conditions envisaged. Monthly assessments are made of the economic capital available within the business and the economic capital required to cover the current risk profile of the business and these assessments are included in the regular reporting to the risk committees.

UKGI sets limits to manage material risks to ensure the risks stay within risk appetite (the amount of risk UKGI is willing to accept). UKGI assesses the size and scale of a risk by considering how likely it is that the risk will materialise and the potential impact the risk could have on its business and its stakeholders. Where risks are outside of appetite, actions are agreed to mitigate the exposure. Impact assessments are considered against financial, operational and reputational criteria and take into account underlying factors such as economic conditions, for example, UK economic growth and inflation.

The UK Region has an established governance framework, which has the following key elements:

- defined terms of reference for the legal entity Boards and the associated executive management and other committees across the UK Region including the UK Region Board, UK Region Risk Committee and UK Region Audit Committee,
- a clear organisational structure with documented delegated authorities and responsibilities from the legal entity Boards to executive management committees and senior management, and
- adoption of the Group policy framework that defines risk appetite measures and sets out risk management and control standards for the Group's worldwide operations. The policies also set out the roles and responsibilities of businesses, regions, policy owners and risk oversight committees.

The World Auxiliary Insurance Corporation Limited

Notes to the financial statements (continued)

17. Risk management (continued)

The UK Region operates a three lines of defence risk management model that encourages close working relationships between line management and the risk function whilst facilitating independent assurance by internal audit. Primary responsibility for risk identification and management lies with business management (the first line of defence). Support for and challenge on the completeness and accuracy of risk assessment, risk reporting and adequacy of mitigation plans are performed by specialist risk functions (the second line of defence). Independent and objective assurance on the robustness of the risk management framework and the appropriateness and effectiveness of internal control is provided by group audit (the third line of defence).

UKGI has developed economic capital models that support the measurement, comparison and further understanding of its risks. The results of the modelling are incorporated into key strategic planning and decision-making processes. These models show the relative impact to economic capital from the risks faced. In turn this supports the assessment of appropriate and effective mitigating strategies where risks are outside of appetite.

The FSA also requires UKGI to assess its economic capital requirements to ensure that it adequately reflects the risks facing the business.

(a) Financial risk management

(i) Market risk

Market risk is the risk of adverse financial impact due to changes in fair values or future cash flows of financial instruments due to fluctuations in interest rates, equity prices, property prices, and foreign currency exchange rates. Market risk arises due to credit spread widening and fluctuations in both the value of liabilities and the value of investments held.

UKGI manages market risk locally within its market risk framework, within local regulatory constraints and in line with established Group policy, including minimum principles for matching liabilities with appropriate assets.

The Company has assets and claims liabilities in foreign currency, principally United States dollars, and so has exposure to foreign exchange rates. However, there is no material net exposure to exchange rate fluctuations due to the reinsurance that has been put in place.

The management of market risk is overseen by the UKGI Asset and Liability Committee.

(ii) 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.

UKGI's management of credit risk is carried out in accordance with Group credit risk processes, which include setting exposure limits and monitoring exposures in accordance with ratings set by credit ratings agencies such as Standard & Poor's. Exposure levels are reported to, and reviewed by, the UKGI Asset and Liability Committee.

Financial assets are graded according to current credit ratings issued. AAA is the highest possible rating. Investment grade financial assets are classified within the range of AAA to BBB ratings. Financial assets which fall outside this range are classified as speculative grade. Credit limits for each counterparty are set based on default probabilities that are in turn based on the rating of the counterparty and the type of exposure.

The World Auxiliary Insurance Corporation Limited

Notes to the financial statements (continued)

17. Risk management (continued)

(a) Financial risk management (continued)

(ii) Credit risk (continued)

The following table provides information regarding the aggregated credit risk exposure of the Company "Non-rated" assets captures assets not rated by external ratings agencies

31 December 2010	Credit rating						Carrying value in the statement of financial position £000
	AAA £000	AA £000	A £000	BBB £000	Speculative grade £000	Non-rated £000	
Reinsurance assets	-	40,055	-	-	-	-	40,055
Cash and cash equivalents	-	-	9,474	-	-	-	9,474

31 December 2009	Credit rating						Carrying value in the statement of financial position £000
	AAA £000	AA £000	A £000	BBB £000	Speculative grade £000	Non-rated £000	
Reinsurance assets	-	40,032	-	-	-	-	40,032
Amounts due from reinsurers	-	2,886	-	-	-	-	2,886
Cash and cash equivalents	-	-	9,418	-	-	-	9,418

Of the Company's receivables of £1,651 thousand (2009 £3,442 thousand), £1,649 thousand (2009 £555 thousand) is due from other Group companies and details are set out in note 19

At 31 December 2010 and 31 December 2009, no financial assets were impaired or overdue

The Company has a significant exposure to National Indemnity Company amounting to £40,055 thousand (2009 £40,032 thousand) in respect of a reinsurance arrangement

The management of credit risk is overseen by the UKGI Asset and Liability Committee

(iii) General insurance risk

The Company is in run-off and considers insurance risk within its general insurance activity to be the management of claims and the adequacy of reserving

UKGI has developed mechanisms that identify, quantify and manage accumulated exposures to contain them within the limits of the appetite of UKGI UKGI has in place various methodologies to manage effectively exposures arising from specific perils

The adequacy of UKGI's general insurance claims provisions is overseen by the UKGI Reserve Committee Actuarial claims reserving is conducted by UKGI's actuaries in compliance with the Group General Insurance Reserving Policy There are periodic external reviews by consultant actuaries

The World Auxiliary Insurance Corporation Limited

Notes to the financial statements (continued)

17. Risk management (continued)

(a) Financial risk management (continued)

(iii) General insurance risk (continued)

Risk-based capital models are being used to support the quantification of risk under the Individual Capital Assessment ("ICA") framework. UKGI undertakes a quarterly review of insurance risks, the output from which is a key input into the ICA and risk-based capital assessments.

All business is reinsured as the Company is party to a reinsurance agreement entered into with National Indemnity Company in 2000, which provides substantial protection in excess of current gross liabilities.

The management of general insurance risk is overseen by specific UKGI senior management committees, namely the Underwriting and Pricing Groups, the Reserve Committee and the Projections Committee.

(iv) Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities.

UKGI has set its investment strategy to ensure it has sufficient liquid funds to meet its expected obligations as they fall due. In extreme circumstances, the Company would approach the Group for additional short-term borrowing whilst the Company liquidated other assets. The Group maintains significant committed borrowing facilities from a range of highly rated banks to mitigate this risk further.

The following table provides an analysis, by maturity date of the principal, of the carrying value of financial assets which are available to fund the repayment of liabilities as they crystallise.

	Within 1 year	1 to 5 years	5 to 15 years	Over 15 years	No fixed terms	Total
31 December 2010	£000	£000	£000	£000	£000	£000
Reinsurance assets	2,271	7,980	15,045	14,759	-	40,055
Receivables	-	2	-	-	1,649	1,651
Cash and cash equivalents	9,474	-	-	-	-	9,474
	<u>11,745</u>	<u>7,982</u>	<u>15,045</u>	<u>14,759</u>	<u>1,649</u>	<u>51,180</u>
31 December 2009	£000	£000	£000	£000	£000	£000
Reinsurance assets	2,552	10,565	15,397	11,518	-	40,032
Receivables	2,886	1	-	-	555	3,442
Cash and cash equivalents	9,418	-	-	-	-	9,418
	<u>14,856</u>	<u>10,566</u>	<u>15,397</u>	<u>11,518</u>	<u>555</u>	<u>52,892</u>

The assets above are analysed in accordance with the earliest possible redemption date of the instrument at the initiation of the Company.

The World Auxiliary Insurance Corporation Limited

Notes to the financial statements (continued)

17. Risk management (continued)

(a) Financial risk management (continued)

(iv) Liquidity risk (continued)

The following table shows the Company's financial liabilities analysed by duration

	Within 1 year	1 to 5 years	5 to 15 years	Over 15 years	No fixed terms	Total
31 December 2010	£000	£000	£000	£000	£000	£000
Insurance liabilities	2,271	7,980	15,045	14,759	-	40,055
Payables and other financial liabilities	-	-	-	-	302	302
	<u>2,271</u>	<u>7,980</u>	<u>15,045</u>	<u>14,759</u>	<u>302</u>	<u>40,357</u>
	Within 1 year	1 to 5 years	5 to 15 years	Over 15 years	No fixed terms	Total
31 December 2009	£000	£000	£000	£000	£000	£000
Insurance liabilities	2,552	10,565	15,397	11,518	-	40,032
Payables and other financial liabilities	-	-	-	-	2,037	2,037
	<u>2,552</u>	<u>10,565</u>	<u>15,397</u>	<u>11,518</u>	<u>2,037</u>	<u>42,069</u>

For insurance contracts, the analysis of liabilities above is based on the estimated timing of future cash flows

The management of liquidity risk is overseen by the UKGI Asset and Liability Committee

(b) Strategic risks

UKGI is exposed to a number of strategic risks. UKGI's strategy needs to support its vision, purpose and objectives and be responsive to both the external and internal environment, for example, changes in the competitive landscape arising from economic conditions, customer demands and competitor activity, regulatory changes, merger and acquisition opportunities and emerging trends (such as climate change and pandemic event)

Strategic risk is explicitly considered throughout UKGI's strategic review and planning process. Developments are assessed during the quarterly performance management process where all aspects of the risk profile are considered

UKGI actively engages with external bodies to share the benefit of its expertise in supporting responses to emerging risks, as well as challenging developments that could be damaging to the business and the industry as a whole

(c) Operational risk management

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. Operational risks include taxation, reputation and regulatory risks, such as compliance. Only financial instrument risk requires quantification under IFRS and consequently no quantification of this risk is provided

Operational risk is managed in accordance with control standards set out in Group policy framework

The management of operational risk is overseen by the UKGI Operational Risk Committee

The World Auxiliary Insurance Corporation Limited

Notes to the financial statements (continued)

17. Risk management (continued)

(d) Risk and capital management

UKGI uses a number of risk management tools to understand the volatility of its capital requirements, and to manage its capital more efficiently. Primarily, risk-based capital models and scenario tests are used. Sensitivities to economic and operating experience are regularly produced on all of UKGI's financial performance measurements to inform UKGI's decision-making and planning processes, and as part of the framework for identifying and quantifying the risks to which UKGI is exposed.

General insurance claims liabilities are estimated by using standard actuarial claims projection techniques. These methods extrapolate the claims development for each accident year based on the observed development of earlier years. In most cases, no explicit assumptions are made as projections are based on assumptions implicit in the historic claims development on which the projections are based. As such, the sensitivity of general insurance claims liabilities is primarily based on the financial impact of changes to the reported loss ratio.

The Company's activities are the run-off of general insurance business, which is fully reinsured and the Company has no material interest rate risk. As such, no sensitivity analysis is presented.

18. Capital structure

The Company maintains an efficient capital structure from equity shareholder's funds, consistent with the Company's overall risk profile and the regulatory and market requirements of the business. This note describes the way the Company manages capital and shows where this is employed.

(a) General

IFRS underpins the Company's capital structure and accordingly, the capital structure is analysed on this basis. UKGI uses risk management tools to assess its internal economic capital requirements.

The Company as a regulated company is required to hold sufficient capital to meet acceptable solvency levels based on applicable FSA regulations. The Company's ability to transfer retained earnings to its parent company is therefore restricted to the extent that these earnings form part of UK regulatory capital.

(b) Capital management

In managing its capital, the Company seeks to

- (i) match the expected cash flows from its assets with the expected cash outflows from the Company's insurance liabilities as they fall due,
- (ii) maintain financial strength to satisfy the requirements of its policyholders and regulators,
- (iii) retain financial flexibility by maintaining strong liquidity, and
- (iv) allocate capital efficiently and repatriate excess capital where appropriate.

The Company considers not only the traditional sources of capital funding but the alternative sources of capital including reinsurance, as appropriate, when assessing its deployment and usage of capital.

The World Auxiliary Insurance Corporation Limited

Notes to the financial statements (continued)

18. Capital structure (continued)

(c) Different measures of capital

The Company measures its capital on a number of different bases. These include measures which comply with the regulatory regime within which the Company operates and those which the directors consider appropriate for the management of the business. The measures which the Company uses are:

(i) Accounting basis

The Company is required to report its results on an IFRS basis.

(ii) Regulatory bases

Relevant capital and solvency regulations are used to measure and report the Company's financial strength. These measures are based on the FSA's current regulatory requirements under Solvency I and the ICA regime. The regulatory capital tests verify that the Company retains an excess of solvency capital above the required minimum level calculated using a series of prudent assumptions about the type of business that is underwritten.

The Company fully complied with these regulatory requirements during the year.

(iii) Economic bases

Notwithstanding the required levels of capital laid out by the FSA, UKGI also measures its capital using various risk-based management tools that take into account a more realistic set of financial and non-financial assumptions. Note 17, Risk management, gives further details.

(d) Capital structure

	<u>IFRS net assets</u> <u>2010</u> <u>£000</u>	<u>IFRS net assets</u> <u>2009</u> <u>£000</u>
General insurance	10,817	10,775
Total capital employed	<u>10,817</u>	<u>10,775</u>
Financed by		
Equity shareholder's funds	<u>10,817</u>	<u>10,775</u>

The World Auxiliary Insurance Corporation Limited

Notes to the financial statements (continued)

19. Related party transactions

(a) The Company had the following related party transactions in 2010 and 2009

(i) Services provided to related parties

	2010		2009	
	Income earned in year	Receivable at year end	Income earned in year	Receivable at year end
	£000	£000	£000	£000
Other Group companies	-	1,649	-	555

The related parties' receivables are not secured and no guarantees have been received in respect thereof. The receivables will be settled in accordance with normal credit terms.

(ii) Services provided by related parties

	2010		2009	
	Expense incurred in year	Payable at year end	Expense incurred in year	Payable at year end
	£000	£000	£000	£000
Parent	-	249	-	1,787
Other Group companies	-	53	-	250
	-	302	-	2,037

Transactions with Group companies for settlement of corporation tax liabilities by group relief are described in note 11.

(iii) Key management compensation

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

(b) Immediate parent company

The Company's immediate parent company is Aviva Insurance UK Limited, registered in England and Wales.

(c) Ultimate controlling entity

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