

The Ocean Marine Insurance Company Limited

Solvency and Financial Condition Report

Year ended 31 December 2020

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The Ocean Marine Insurance Company Limited

Solvency and Financial Condition Report

2020

Summary

The purpose of the Solvency and Financial Condition Report (SFCR) is to provide information required by the Solvency II (SII) regulatory framework and in particular the capital position of The Ocean Marine Insurance Company Limited (the Company) at 31 December 2020.

The report sets out different aspects of the Company's business and performance, system of governance, risk profile, valuation methods used for solvency purposes and its capital management practices.

Business and Performance

The Company is a limited company registered in England and Wales and member of the Aviva plc group of companies. The principal activity of the Company during the year continued to be the settlement of its existing general insurance liabilities, with the Company having ceased to accept business in the London Market in 1995 and is currently not writing (nor projected to write) new business.

All business is wholly reinsured through reinsurance agreements entered into with National Indemnity Company (NICo) in 2000. The Company has an Adverse Reserve Deterioration (ARD) agreement with its parent company, Aviva Insurance Limited (AIL). This agreement provides an extra £1bn of reinsurance cover to protect against circumstances in which the reinsurance with NICo is exhausted or otherwise fails to satisfy claims. Together these arrangements provide substantial protection in excess of current gross liabilities.

The Company underwriting result net of reinsurance for the year ended 31 December 2020 is loss of £35 thousand (2019: loss of £31 thousand). The profit before tax for the year of £323 thousand (2019: £232 thousand), is driven by the unwind of discount of £574 thousand on the receivable due from NICo (2019: £549 thousand) together with non-underwriting investment gains and losses, offset by primarily a £215 thousand foreign exchange loss (2019: gains of £346 thousand).

On 8 April 2019 the directors declared interim dividends of £25,000 thousand on the Company's ordinary shares, all of which was settled in cash. There have been no significant business or other events during the year which have had a material effect on the Company.

The Company is impacted by COVID-19 through its general insurance products, although the impact is limited by the nature of the business historically underwritten by the Company. Furthermore, any residual impact is mitigated by the comprehensive reinsurance arrangements in place. The financial impact on the Company due to COVID-19 is therefore limited.

Section A of this report sets out further details about the Company's key operations and financial performance over the year.

System of Governance

The Board's responsibilities include ensuring that an appropriate System of Governance is in place throughout the Company. To discharge this responsibility, the Board has established frameworks for risk management and internal control using a 'three lines of defence' model. However, the Board sets the Company's risk appetite itself. A strong system of governance throughout the Company aids effective decision-making and supports the achievement of the Company's objectives for the benefit of customers, shareholders and regulators. Key features of the Company's System of Governance are as follows:

- The roles and responsibilities of the Board are well defined;
- The Company's Board has delegated responsibilities to management within the Aviva Group to assist in its oversight of risk management and the approach to internal controls;
- The Company has implemented four key control functions – Risk Management, Actuarial, Compliance and Internal Audit;
- The Company has in place a remuneration policy, skills requirements and procedures for assessing the fitness and propriety of senior management and key function holders;

- The Company's risk strategy, appetite and framework, its approach to its Own Risk and Solvency Assessment (ORSA), and its governance over the use of the standard formula are set out in its Risk Management Framework policy and its risk policies and business standards; and
- The Company's outsourcing strategy is supported by its Procurement and Outsourcing Business Standard.

There have been no other material changes in the Company's system of governance during the year. Given the nature of the Company's business, the impact of COVID-19 is limited and no significant changes to governance arrangements were considered necessary.

Section B of this report provides further details of the Company's System of Governance.

Risk Profile

The Company's business is about protecting its customers from risk. As an insurer, the Company accepts the risks inherent to its core business line of non-life insurance.

The Company receives premiums which are invested in order to maximise risk-adjusted returns, so that the Company can fulfil its promises to customers while providing a return to its shareholders. In doing so, the Company has a preference for retaining those risks which it believes it is capable of managing to generate a return.

The types of risk to which the Company is exposed have not changed significantly over the year and remain credit, liquidity and operational risks. The Company's exposure to underwriting and market risk continues to be immaterial.

For those risk types managed through the holding of capital, the Company measures and monitors its risk profile on the basis of the Solvency Capital Requirement (SCR). Some categories of risk are not measured and managed solely by holding capital, principally liquidity risk, which is measured through absolute liquidity coverage relative to pre-defined appetites and the quantum of certain liquid assets.

There is no significant impact from the COVID-19 pandemic. The Company's exposure to underwriting risk, being the management of claims and adequacy of reserves, is mitigated by its quota share arrangement with National Indemnity Company.

Section C of this report further describes the risks to which the Company is exposed and how it measures, monitors, manages and mitigates these risks, including any changes in the year to the Company's risk exposures and specific risk mitigation actions taken.

Valuation for Solvency Purposes

Assets, technical provisions and other liabilities are valued in the Company's SII Balance Sheet according to the SII regulations. The basis of the SII valuation principle is the amount for which they could be exchanged, transferred or settled by knowledgeable and willing third parties in an arm's length transaction. The value of Technical Provisions under SII is equal to the sum of a Best Estimate Liability and a Risk Margin.

At 31 December 2020, the Company's excess of assets over liabilities was £65,388 thousand (2019:£90,021 thousand) on a SII basis which is £(420) thousand (2019: £420,000 thousand) lower than the value under IFRS. This year on year decrease is driven by an interim dividend distribution of £25,000 thousand paid during the year.

Section D of this report provides further description of the bases, methods and main assumptions used in the valuation of assets, technical provisions and other liabilities for each material asset or liability class. In addition, it also provides an explanation of the material differences between the IFRS and SII bases of valuation. The impact of COVID-19 is not considered to be significant given the nature of the business historically underwritten by the Company.

Capital Management

The Company manages its Own Funds in conjunction with solvency capital requirements. In the calculation of the SCR, the Company has chosen to implement an IM to calculate solvency capital requirements for its business.

In managing capital, the Company seeks, on a consistent basis, to:

- Match the profile of its assets and liabilities, taking into account the risks inherent in the business;
- Maintain sufficient, but not excessive, financial strength to support new business growth, and satisfy the requirements of the Company's regulators and other stakeholders, giving the Company's customers assurance of its financial strength;
- Retain financial flexibility by maintaining strong liquidity; and
- Allocate capital rigorously to support value adding growth and repatriate excess capital where appropriate.

There have been no material changes to the objectives, policies or processes of the Company for managing its Own Funds during the year. The impact of COVID-19 on the Company's Own Funds is not considered to be significant given the nature of the business historically underwritten by the Company.

At 31 December 2020, the total eligible Own Funds to meet the SCR was £65,388 thousand (2019: £90,021 thousand) all of which was represented by unrestricted tier 1 capital. This decrease is driven by an interim dividend distribution of £25,000 thousand paid during the year.

The Company's SCR, at 31 December 2020, was £5,417 thousand (2019: £4,988 thousand). The overall surplus position was £59,971 thousand (2019: £85,033 thousand) which translates to a regulatory cover ratio of 1207% (2019: 1805%).

Section E of this report further describes the objectives, policies and procedures employed by the Company for managing its Own Funds. The section also covers information on structure and quality of Own Funds and calculation of SCR, including information about the Company's IM.

The Ocean Marine Insurance Company Limited

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2020

A. Business and Performance

In this Chapter

- A.1 Business and Performance
- A.2 Underwriting Performance
- A.3 Investment Performance
- A.4 Performance of Other Activities
- A.5 Any Other Information

A. Business and Performance

The 'Business and Performance' section of the report sets out the Company's business structure, key operations, and financial performance over the reporting period.

A.1 Business

The Company is a limited company, registered in England and Wales, and is a member of the Aviva plc group of companies (the Group).

Qualifying holdings

The Company's shares and the associated voting rights are wholly owned by AIL, being a qualifying holding in the Company.

Supervisor

The Company is authorised by the Prudential Regulatory Authority (PRA). The Company and the Group are regulated by the PRA and the Financial Conduct Authority (FCA) in the UK. The PRA is part of the Bank of England. Contact details for the PRA are as follows:

Address 20 Moorgate, London, EC2R 6DA
Telephone number +44 (0) 20 7601 4444

External auditor

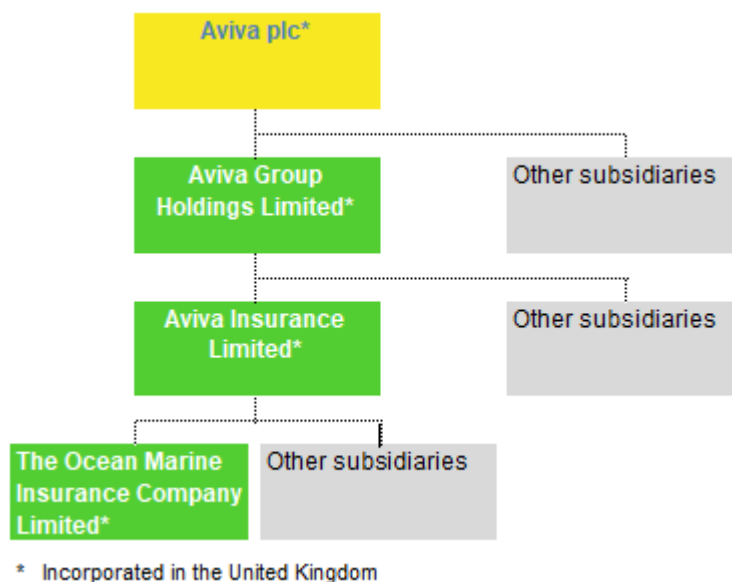
The PRA has issued the company waiver to exempt the SFCR from the external audit requirements in the PRA handbook. Consequently, all qualitative and quantitative disclosure in this document is unaudited.

Financial statements

The Company's financial statements are available from the Company Secretary, Aviva Company Secretarial Services Limited, St Helen's, Undershaft, London, EC3P 3DQ.

A.1.1 Organisation

The following chart shows, in simplified form, the Company's position within the structure of the Group as at 31 December 2020:



The Ocean Marine Insurance Company Limited is a wholly owned subsidiary of Aviva Insurance Limited, which is registered in Scotland. Aviva plc is the ultimate controlling parent entity registered in England.

A.1.2 Business operations and events occurring in the year

Business operations

The principal activity of the Company during the year continued to be the settlement of its existing general insurance liabilities, with the Company having ceased to accept business in the London Market in 1995 and is currently not writing (nor projected to write) new business. All business is wholly reinsured through reinsurance agreements entered into with NICO in 2000.

The Company has an ARD agreement with its parent company, AIL. This agreement provides an extra £1bn of reinsurance cover to protect against circumstances in which the reinsurance with NICO is exhausted or otherwise fails to satisfy claims. Together these arrangements provide substantial protection in excess of current gross liabilities.

On 11 March 2020, the World Health Organization declared the outbreak of a strain of novel coronavirus disease, COVID-19, a global pandemic. Governments in affected areas have imposed a number of measures designed to contain the outbreak, including business closures, travel restrictions, stay at home orders and cancellations of gatherings and events. The spread of COVID-19 has resulted in an economic downturn in jurisdictions in which the Company operates and had a significant impact on the global economy, causing volatile equity markets and falls in interest rates.

The Company is impacted by COVID-19 through its general insurance products, although the impact is limited by the nature of the business historically underwritten by the Company. Furthermore, any residual impact is mitigated by the comprehensive reinsurance arrangements in place. The financial impact on the Company due to COVID-19 is therefore limited.

The Company continues to maintain strong solvency levels and expects to continue to meet its capital requirements.

A.2 Underwriting Performance

The table below summarises the information presented in the premium, claims and expenses QRT S.05.01, see Appendix F.1.2.

| £000s | Marine, aviation and transport insurance | General liability insurance | Fire and other damage to property | Non-Prop Reinsurance | Total |
|---|--|-----------------------------|-----------------------------------|----------------------|--------|
| Year ended 31 December 2020 | | | | | |
| Premium written | | | | | |
| Gross written premium | — | 21 | — | — | 21 |
| Claims incurred | | | | | |
| Gross - Direct Business | 3,164 | 12,358 | 437 | — | 15,959 |
| Gross - Proportional reinsurance accepted | 1,026 | 2,415 | 354 | — | 3,795 |
| Gross - Non-proportional reinsurance accepted | — | — | — | 5,869 | 5,869 |
| Net | — | — | — | — | — |
| Expenses incurred | — | 62 | — | — | 62 |
| Year ended 31 December 2019 | | | | | |
| Premium written | | | | | |
| Gross written premium | — | (4) | — | — | (4) |
| Claims incurred | | | | | |
| Gross - Direct Business | 1,532 | 5,984 | 211 | — | 7,728 |
| Gross - Proportional reinsurance accepted | 497 | 1,169 | 171 | — | 1,838 |
| Gross - Non-proportional reinsurance accepted | — | — | — | 2,842 | 2,842 |
| Net | — | — | — | — | — |
| Expenses incurred | — | 61 | — | — | 61 |

The Company's profit before tax is £323 thousand (2019: profit £232 thousand). The Company's underwriting result for the year, net of reinsurance, is a loss of £35 thousand (2019: loss of £31 thousand). Items which comprise the Company's net investment income of £358 thousand (2019: £263 thousand income) and other costs of £35 thousand (2019: £31 thousand), are excluded from the underwriting result, and detailed in sections A.3 and A.4 respectively.

The Company's net claims incurred in the year are £nil (2019: £nil) due to the reinsurance arrangements. Gross claims incurred in the year of £25,623 thousand (2019: £12,408 thousand credit) relate to adverse movements on actuarial estimates of claims provisions and paid claims.

A.3 Investment Performance

A.3.1 Measurement of investment performance

Net investment income, as shown in the Company's financial statements, is used as the measure to report the Company's investment performance.

| Net investment income | 2020 | 2019 |
|-----------------------------------|-------|-------|
| £000s | | |
| Interest income/(expense) | 27 | 137 |
| Realised gains/(losses) | (215) | (346) |
| Other (incl. investment expenses) | 546 | 472 |
| | 358 | 263 |

Investment income is made up of foreign exchange losses of £(215) thousand (2019: £(346) thousand) offset by investment returns as a result of changes in economic assumptions of £546 thousand (2019: £472 thousand).

A.4 Performance of Other Activities

A.4.1 Other income and expense

As described in section A.2, performance of other activities comprises those items of other income and expense, other than net investment return, excluded from underwriting result.

Other costs of £35 thousand were incurred during the year (2019: £31 thousand), primarily driven by unrealised foreign exchange losses on USD interest bearing assets.

In addition, unrealised foreign exchange gains, gross of reinsurance, of £7,247 thousand (2019: losses of £11,610 thousand) arose during the year on claims provisions held in USD. These foreign exchange losses are covered by the Company's reinsurance arrangements and therefore the impact, net of reinsurance, is £nil (2019: £nil).

A.5 Any Other Information

In Jul 2020 the directors declared interim dividends of £25,000 thousand on the Company's ordinary shares, all of which was settled in cash.

There is no other material information to report regarding the Company's Business and Performance.

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B. System of Governance

In this Chapter

- B.1 General Information on the System of Governance
- B.2 Fit and Proper Policy
- B.3 Risk Management System including the Own Risk and Solvency Assessment
- B.4 Internal Control System
- B.5 Internal Audit Function
- B.6 Actuarial Function
- B.7 Outsourcing
- B.8 Any Other Information

B. System of Governance

This section of the report sets out information regarding the 'System of Governance' in place within the Company.

Details of the structure of the undertaking's 'administrative, management or supervisory body' (defined as the Board) are provided. The roles, responsibilities and governance of key functions (defined as the Risk, Compliance, Internal Audit and Actuarial Functions) are also provided. Other components of the System of Governance are also outlined, including the risk management system and internal control system implemented across the business.

B.1 General Information on the System of Governance

B.1.1 Board structure

The Company's Board is responsible for promoting the long-term success of the Company and for setting its strategy. It sets the Company's risk appetite and satisfies itself that financial controls and risk management systems are robust. A strong system of governance throughout the Company aids effective decision-making and supports the achievement of the Company's objectives for the benefit of policyholders and the shareholder.

The duties of the Company's Board are set out in its terms of reference. The terms of reference lists both those items that are specifically reserved for decision by the Board and those matters that must be reported to the Board. The Company's Board is composed of senior management from within the Group.

The Company's Board has delegated responsibilities to management within the Group to assist in its oversight of risk management and the approach to internal controls.

The 'three lines of defence model', and roles and responsibilities of key functions

Roles and responsibilities for risk management in the Company are based around the three lines of defence model.

The first line

Management is responsible for the application of the Risk Management Framework, for implementing and monitoring the operation of the system of internal control and for providing assurance to the Board.

The second line

- The Risk Management Function is accountable for the quantitative and qualitative oversight and challenge of the identification, measurement, management, monitoring and reporting of principal risks and for developing the Risk Management Framework;
- The Actuarial Function is accountable for actuarial methodology, and reporting to the relevant governing body on the adequacy of reserves and capital requirements, as well as on underwriting and reinsurance arrangements; and
- The Compliance Function supports and advises the business on the identification, measurement and management of its regulatory and conduct risks and is accountable for monitoring and reporting on the Company's compliance risk profile.

The third line

The Internal Audit Function provides independent and objective assessment on the robustness of the Risk Management Framework and the appropriateness and effectiveness of internal control to the Board.

Sections B.3.2, B.4.2, B.5 and B.6 detail the roles, responsibilities, authority, resources, independence and reporting lines of the Risk Management, Compliance, Internal Audit and Actuarial Functions respectively, and how their independence is ensured.

B.1.2 Material changes in the system of governance

There have been no material changes in the system of governance during the year. Given the nature of the Company's business, the impact of COVID-19 is limited and no significant changes to governance arrangements were considered necessary.

B.1.3 Adequacy of the Company's system of governance

An assessment of the effectiveness of the Company's governance, internal control and risk management systems was conducted at the end of 2020, including a certification by the parent company Chief Executive Officer (CEO). Key operational risks and any control weaknesses or non-compliance with the Company's risk policies and business standards or local delegations of authority are highlighted as part of this process. The main focus during 2020 has been on enhancing the management of operational risk and controls and on improving related documentation, with significant progress made. The parent company Chief Risk Officer (CRO) provided his own opinion on the parent company CEO's certificate which confirms accuracy of the CEO's declaration and noted no additional qualifications or weaknesses.

B.1.4 Remuneration policy and practices

All Aviva staff acting on behalf of the Company are subject to the Group's remuneration policy designed to incentivise and reward employees for achieving business goals in a manner that is consistent with the Group's strategy, business plans, values and behaviours, sound and effective risk management and good governance.

The directors of the Company receive no remuneration from the Company.

B.1.4.1 Executive directors

The Group's remuneration policy provides market competitive remuneration. Remuneration of executive directors includes a basic salary, variable components, pension contributions and benefits including relocation and mobility. This incentivises executive directors to achieve both the annual business plan and through significant levels of deferral the longer-term strategic objectives of the businesses for which they are responsible. As well as rewarding the achievement of objectives, variable remuneration can be zero if performance thresholds are not met.

B.1.4.2 Other Employees

Remuneration arrangements for Aviva employees that are not executive directors take account of the seniority and nature of the role, and individual performance. The aim is to provide employees with remuneration packages that are clear and simple to understand, transparent, consistent and fair. Remuneration includes a basic salary, variable components and pension contributions.

The variable components are discretionary and fully flexible as opposed to a contractual entitlement, and there is a possibility of zero awards being made should the performance of the relevant businesses or individuals require this. Individual awards are based on a calibrated assessment of performance of individuals relative to peers.

The remuneration of employees in Risk, Compliance, Internal Audit and Actuarial Functions is determined independently of the financial results of the business areas they oversee. This reinforces the independence of these Functions.

Performance criteria for share awards

Shares in Aviva plc can be awarded to both executive directors and employees. These vest after three years, in some cases dependent on performance conditions.

Pension and early retirement schemes

There were no enhanced pension arrangements or early retirement schemes for members of the Board or key function holders in place during 2020.

B.1.5 Material transactions with the shareholder, persons with significant influence on the Company and members of the Board

The Company has an ARD agreement with its parent company, AIL. This agreement provides an extra £1bn (2019: £1bn) of reinsurance cover to protect against circumstances in which the Company's reinsurance with NICO is exhausted or otherwise fails to satisfy claims. The Company also has receivables of £36,127 thousand (2019: £61,224 thousand) from its parent company, which are not secured and are not subject to guarantees.

The key management of the Company are considered to be the statutory directors. Note 5 to the financial statements gives details of their remuneration.

B.2 Fit and Proper Policy**B.2.1 Requirements for the persons who run the Company or who are other key function holders**

The membership of the Board is designed to provide skills necessary to manage the Company's underlying business activities and key risks. Specific skills considered within Board appointments include knowledge and experience in respect of:

- Insurance and financial markets;
- Business strategy and business models;
- System of governance;
- Financial and actuarial analysis; and
- Regulatory framework and requirements.

The Company's requirements in respect of skills, knowledge and expertise for key function holders are set following engagement with both internal and external subject matter experts in each specialism. These requirements and qualifications are captured within individual role descriptions for each key function role.

B.2.2 Process assessing fitness and propriety

The Company has implemented processes to ensure that individuals employed within it, or acting on its behalf, are both fit and proper in line with the PRA and FCA Fit and Proper requirements for individuals subject to the Senior Managers and Certification Regime. This means that, as part of recruitment and employee screening, an individual's career history will be assessed and validated to establish whether an individual's skills and knowledge are appropriately matched to the role. It also means that checks are in place to ensure that an individual is honest, of good reputation, has integrity and is financially sound.

The governance over the fitness and propriety of individuals includes recruitment, performance management and training. However, to ensure that the Company protects itself against employing individuals who potentially could threaten its customers, properties, facilities or reputation, the majority of its fitness and propriety processes take place at recruitment and more specifically at pre-employment screening. A minimum set of basic screening requirements has been agreed and implemented. Additional enhanced screening requirements are applied for individuals who will run the Company or become key function holders.

B.3 Risk Management System including the Own Risk and Solvency Assessment

B.3.1 Risk Management Framework

The Risk Management Framework forms an integral part of management and Board processes and the decision-making framework across the Company. The key elements are:

- Risk appetite;
- Risk governance, including risk policies and business standards and roles and responsibilities; and
- The processes used to identify, measure, manage, monitor and report risks (IMMR), including the use of risk models and stress and scenario testing.

For the purposes of risk identification and measurement, risks are usually grouped by risk type: credit, market, liquidity, general insurance, and operational risk including conduct risk. Risks falling within these types may affect a number of metrics, including those relating to balance sheet strength, liquidity and profit. They may also affect the performance of products delivered to customers and service provided to customers and distributors, which can be categorised as risks to brand and reputation or as conduct risk.

To promote a consistent and rigorous approach to risk management the Company has adopted a number of risk policies and business standards which set out the risk strategy, appetite, framework and minimum requirements for its operations. Compliance with these policies and standards is confirmed annually.

The Company operates risk and control self-assessment processes using the Group's Operational Risk and Control Management methodology. A regular top-down key risk identification and assessment process is carried out by the Risk Function. This includes the consideration of emerging risks and is supported by deeper thematic reviews. The risk assessment processes are used to generate risk reports which are shared with the Board.

Risk models are an important tool in the measurement of risks and are used to support the monitoring and reporting of the risk profile and in the consideration of the risk management actions available. A range of stress (where one risk factor is assumed to vary) and scenario (where combinations of risk factors are assumed to vary) tests are undertaken to evaluate their impact on the business and the management actions available to respond to the conditions envisaged.

The Risk Function is accountable for quantitative and qualitative oversight and challenge of the IMMR process and for developing the Risk Management Framework. Internal Audit provides an independent assessment of the risk framework and internal control processes.

Board oversight of risk and risk management across the Company is maintained on a regular basis. The Board has overall responsibility for determining risk appetite, which is an expression of the risk the business is willing to take. Risk appetites are set relative to capital, liquidity and operational risk.

The Company's position against risk appetite is monitored and reported to the Board on a regular basis. Long-term sustainability depends upon the protection of franchise value and good customer relationships. As such, the Company has a risk preference that it will not accept risks that materially impair the reputation of the Company and requires that customers are always treated with integrity.

B.3.2 Risk Function

The Risk Function is responsible for the design and implementation of the Risk Management Framework. The Risk Function reports to the Company's Board on material risks, together with any other specific areas of risk requested by the Board, and assists the Board and management in the effective operation of the Risk Management Framework including, amongst other things, the provision of specialist analysis and quality reviews, an aggregated view of the risk profile, and an assessment of the key risks associated with the business's strategy, major projects, strategic investments and other key decisions.

The Risk Function has authority to review all areas of the Company and has full, free and unrestricted access to all activities, records, property and personnel necessary to complete its work. The Risk Function is led by the CRO, who is also the parent company Chief Actuary. The Board receives regular reports from the CRO covering material risks and concerns.

Prudential regulatory risk management activities performed by the Risk Function include:

- Setting the prudential regulatory risk policy framework;
- Providing advice, support, guidance and challenge on prudential regulatory risk;
- Monitoring prudential regulatory developments; and
- Managing prudential regulatory risk engagement.

B.3.3 Own Risk and Solvency Assessment (ORSA)

The Company considers that its ORSA comprises all the processes and tools that underpin the consideration of risk and capital implications in key decisions, including business planning. It provides a continuous and forward-looking assessment of the short-term and long-term risks that the Company faces, or may face, and ensures that its capital requirements are met at all times. In this context, the Board has confirmed the use of the regulatory capital requirement plus a risk appetite buffer as the Company's own measure of capital for the purposes of the ORSA.

The ORSA comprises a number of elements of the Risk Management Framework, which are embedded in the business through the requirements of the business standards around capital allocation, strategy, business planning and stress testing. These elements create an overview of the impact of risk on the business, which are taken into account by management in day-to-day decision-making. In particular, using economic capital in decision-making ensures risk and capital management are connected. The outcomes of the ORSA processes provide the Company's Board and management with insights on the key risks and current and future capital requirements.

The parent company CEO and his direct reports are responsible for the majority of the underlying ORSA processes set out above. The Risk Function is responsible for the design of the Risk Management Framework, including the ORSA, the ORSA Policy and annual ORSA reporting.

Review and approval

The outputs from the ORSA processes are reported to and reviewed by the Board regularly during the year. The Board sets the approach to the ORSA and oversees the ORSA processes. The results of the Company's ORSA processes are considered by the Board when reviewing the Company's strategy and plans.

The annual ORSA Report brings together and summarises a high-level description of the key components of ORSA, together with key developments and outcomes during the year. It provides a forward-looking assessment of the risk and solvency needs of the Company over a 3-year time horizon, reflecting the company's strategy and business plans. The ORSA processes and associated ORSA report play a key role in supporting decision making and strategy development at the Company's Board.

Outputs of the underlying ORSA processes are presented to the Board and its committees throughout the year. The subsequent ORSA report is produced and approved by the Board annually, or in the event that ORSA triggers are met (per its ORSA policy). For example, an out of cycle ORSA update may be triggered (at the discretion of the Board), in the event of:

- An actual or projected material impact on the Company's Own Funds or diversified SCR compared to Plan;
- The invocation of the Crisis Action Leadership Team (under the Financial Event Response Plan);
- More broadly any potentially material change to the Company's risk profile.

The annual report is submitted to the Board, and subject to their approval shared with the PRA. An out of cycle ORSA in response to COVID-19 has not been deemed necessary.

The Board has decided that the SII risk appetite should be expressed as a fixed capital buffer above the Solvency II SCR to ensure appropriate protection of policyholders noting the long-term risks to which the Company is exposed.

Economic capital (as a risk-based capital measure) is embedded in the Company's Risk Management Framework and is used as a key input to a wide range of business and strategic decisions. The framework, supported by risk policies and business standards, sets out the areas where economic capital management information must be used as part of decision making and risk management processes. This ensures that requirements to use economic capital are embedded within the relevant processes including, but not limited to, strategy and planning. Economic capital is calculated using the IM.

B.3.4 Governance of the IM

The CRO and parent company Chief Actuary is the owner of the IM. The CRO and Chief Actuary gives assurance to the Board that the IM is appropriate for use on an ongoing basis. He also confirms the IM adequately reflects the Company's risk profile, is accurate and works effectively.

The SII IM and Data Governance Business Standards are part of the overall Risk Management Framework. These combine to ensure that the Company operates within a controlled environment when developing IM methodologies and assumptions and when running processes and systems.

The Board is responsible for approving any material IM changes before submission to the PRA for approval.

There has been no material change to the governance of the IM during 2020.

Validation process

The Company's IM is validated by testing the individual calibrations and methodologies that are input into the model and the results that are output from the model. The validation tests applied comprise both mathematically defined tests and those based on qualitative judgement. Key tests include benchmarking, back-testing and sensitivity testing. The validation tests are run, documented and assessed against criteria which are designed to draw conclusions on the appropriateness of the IM.

The Internal Model Independent Validation (IMIV) Business Standard defines the scope of IMIV. The Enterprise Risk Director reviews the findings of the exercise and provides an opinion to the Board as to whether the IM is suitably accurate and fit for purpose, and determines whether it can be recommended for approval by the Board.

B.4 Internal Control System

B.4.1 System of Internal Control

The Company's principles for ensuring effective internal control are set out in the Risk Management Framework and, in particular, the Internal Control Business Standard. These include:

- An appropriate "tone from the top". This supports the effective management of exposures, adequate resourcing, effective communication, malpractice reporting, a business ethics code that is annually signed up to by employees, and a commitment to integrity, ethical behaviour and compliance;
- A clear organisational structure that supports the system of internal control and includes the effective operation of an adequately resourced three lines of defence model, appropriate and proportionate segregation of duties, a clear system of delegated authorities, clearly defined roles and responsibilities for staff, and the consideration of risk management and control responsibilities when setting objectives for, and reviewing the performance of, all staff;
- Implementation of risk policies and business standards, and consistent IMMRR of all risks;

- Effective controls for each of its core business processes which are regularly monitored and reported on; and
- A risk oversight process that provides adequate challenge to the completeness and openness of internal control and risk assessment.

B.4.2 Compliance Function

The primary purpose of the Compliance Function is to assess and manage exposure to regulatory risk. The Compliance Function is an integral part of the Risk Management Framework and constitutes a key part of the Company's corporate governance, including relationships with the FCA and the PRA, and other regulatory bodies. The function is a critical contributor to the safe and sound operation of the Company and underpins the achievement of its strategy and business goals. The key processes that comprise the Company's compliance activity are:

- Conduct regulatory risk management activities performed by the Compliance Function include:
 - Setting the conduct regulatory risk policy framework;
 - Providing advice, support, guidance and challenge on conduct risk;
 - Monitoring regulatory risk developments and
 - Managing conduct regulatory engagement.

The Chief Compliance & Conduct Officer has responsibility for conduct regulatory risk management. Those carrying out compliance activities have authority to review all areas of the Company and have full, free and unrestricted access to all activities, records, property and personnel necessary to complete their work, where appropriate.

The General Counsel is responsible for monitoring of legal developments.

B.5 Internal Audit Function

The Company's Internal Audit Function is led by the Internal Audit Director who reports directly to the Group Chief Audit Officer and to the Chairman of the parent company's Audit Committee.

The Internal Audit Function provides reports to the Company's Board on the robustness of the Company's Risk Management Framework and the appropriateness and effectiveness of the system of internal control. In doing this it considers the adequacy of the Company's system of internal control to manage its business risk and to safeguard its assets and resources. It also considers the effectiveness of any actions put in place by management to address any deficiencies that might exist in the system of internal control.

The Internal Audit Function investigates and reports on cases of suspected financial crime and employee fraud and malpractice, and undertakes designated advisory projects for management.

Independence and objectivity

The Internal Audit Function maintains its independence and objectivity by reporting directly to the Group Chief Audit Officer and the Chairman of the parent company's Audit Committee. The parent company's Audit Committee has a duty to recommend the appointment or dismissal of the Internal Audit Director to the parent company Board and to participate, jointly with the Group Chief Audit Officer or designee, in the determination of the objectives of the Internal Audit Director and the evaluation of his levels of achievement, including consultation with the CEO.

The Internal Audit Director proposes a budget which ensures that Internal Audit has sufficient skills and resources to discharge its responsibilities. Internal Audit is authorised to review all areas of the Company and has full, free, and unrestricted access to all activities, records, property, and personnel necessary to complete their work.

Internal Audit Function staff have no direct responsibility for any operational activities. There is a formal policy of rotating staff to ensure that independence is maintained. There is also a restriction on the audits that staff who have previously worked elsewhere in the Company can perform. The Internal Audit Function cannot perform any projects for management that will threaten its actual or perceived independence and objectivity.

An annual declaration of independence is signed by all members of the Internal Audit Function's staff.

B.6 Actuarial Function

The Actuarial Function is accountable for actuarial methodologies and calibrations, plus the resultant Best Estimate Liabilities and capital requirements. It also considers the appropriateness of the IM, supports the IM validation exercises and maintains the IM change log. The Actuarial Function produces an annual report to the Board providing all of the information necessary for the Company's Board to form their own opinion on the adequacy of Technical Provisions and on the Company's reinsurance arrangements.

The independence of the Actuarial Function is derived through its membership in the wider Risk Function. The Actuarial Function is led by the parent company Chief Actuary, who reports to the parent company CRO. All persons employed by the Actuarial Function in a defined actuarial role are subject to the Fit and Proper policy requirements to ensure they have the requisite skills and knowledge to complete their responsibilities. (Fit and Proper requirements are considered in section B.2.)

The Actuarial Function has the authority to review all areas of the Company and has full, free and unrestricted access to all activities, records, property and personnel necessary to complete its work.

B.7 Outsourcing Policy

The Procurement and Outsourcing Business Standard contains information on the Company's outsourcing policy, setting out the relevant responsibilities, objectives, process, and monitoring arrangements to be applied in cases of outsourcing, all of which shall be consistent

with the overall strategy. The Business Standard applies equally to any externally or internally (intra-group) outsourced activity. The objective of this Business Standard is to ensure that minimum control objectives and controls for supplier-related activities are followed by all elements of the business, to ensure that supply risk is managed effectively, customers are being treated fairly and continue to receive good outcomes, as well as mitigating potential financial, operational, contractual, and brand damage caused by inadequate management.

The Business Standard aligns with UK regulatory expectations, the FCA, the PRA, SII and where appropriate, regulatory guidance will be applied as a requirement. The Business Standard applies to all staff involved in supplier-related activities and provides direction to staff on their roles and responsibilities in effectively managing supplier activity. It provides clarity on the definition of outsourcing, including where activity is delegated to an intermediary, and whether an outsourced function or activity is assessed as critical or important. All staff have a responsibility to comply with this Business Standard if they are involved with supplier-related activity.

The objectives and controls in the Business Standard cover the following areas:

- Supply governance: business oversight of operational performance for sourcing and supply management activities;
- Sourcing: how a service provider of suitable quality is selected;
- Supplier contracting and approvals: financial, commercial and legal approval of contracts; and
- Supplier management and business continuity: risk-based approach to management of supply contracts including operational resilience.

Critical or important outsourcing will attract the highest level of rigour, including regulatory notification, performance and relationship reviews, regulatory compliance reviews, and risk and control assessments.

Critical and important outsourced functions and activities

The Company receives a wide range of services from within the Group. Claims handling activities are outsourced to companies outside the Group.

Jurisdiction of service providers

Services provided from within the Group are carried out in the UK. Claims handling is carried out in the UK and overseas, most notably in the United States.

B.8 Any Other Information

The Company has no other material information to disclose.

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C. Risk Profile

In this Chapter

- C.1 Underwriting Risk
- C.2 Market Risk
- C.3 Credit Risk
- C.4 Liquidity Risk
- C.5 Operational Risk
- C.6 Other Material Risks
- C.7 Any Other Information

C. Risk Profile

The 'Risk Profile' section of this report provides information on the key risks encountered by the Company as well as the corresponding processes for monitoring the risk exposures and the techniques in place for the mitigating these risks.

C.1 Underwriting Risk

C.1.1 Exposure

The Company continued settlement of its existing general insurance liabilities, with the Company having ceased to accept business in the London Market in 1995 and is currently not writing (nor projected to write) new business. The Company therefore considers underwriting risk within its general insurance activity to be the management of claims and the adequacy of reserves.

All business is reinsured as the Company is party to a reinsurance agreement entered into with NICO in 2000, which provides substantial protection in excess of current gross liabilities. In addition, the Company has an ARD agreement with its parent company, AIL. This agreement provides an extra £1bn of reinsurance cover to protect against circumstances in which the reinsurance with NICO is exhausted or otherwise fails to satisfy claims. Together these arrangements provide substantial protection in excess of current gross liabilities.

There were no material changes in net underwriting risk over the year.

The Company's overall exposure to underwriting risk is measured and assessed using the SCR. QRT S.25.03 (Appendix F.1.7) shows that the Company's undiversified SCR for net underwriting risk is immaterial (2019: immaterial). Underwriting risk is also measured and monitored in terms of best estimate liabilities.

There has been no material change to the measures used to assess underwriting risk during the reporting period.

C.1.2 Risk concentration

The Company's largest gross exposure is to UK and US asbestos and deafness claims. However, net concentrations to insurance risks are immaterial due to the reinsurance with NICO and the ARD agreement with AIL as captured within the Company's SCR.

C.1.3 Risk mitigation

The Company manages its exposure to general insurance risk through the application of control frameworks that include:

- Claims reserving that is undertaken by outsourced functions and reviewed by local actuaries, with periodic independent external reviews by consulting actuaries;
- Governance of outsourced functions writing products on behalf of the Company; and
- Documented claims management philosophies and procedures.

The primary technique used to mitigate underwriting risk is reinsurance, in particular the reinsurance and ARD agreements purchased with NICO and AIL, respectively. The management of insurance risk is overseen by specific senior management committees, namely the AIL Reserve and Projections Committee and the Latents Senior Leadership Team. The on-going effectiveness of these reinsurance arrangements is reviewed annually by the Company's Actuarial Function and the Board

C.1.4 Stress and scenario testing and sensitivity analysis

Descriptions of the methods used, assumptions made and outcomes of stress and scenario testing and sensitivity analysis are provided in section C.7.1.

C.1.5 Special purpose vehicles

The Company has not transferred underwriting risk to special purpose vehicles, as defined by the SII Directive.

C.1.6 Additional information on COVID-19

There is no significant impact from the pandemic. The Company's exposure to underwriting risk, being the management of claims and adequacy of reserves, is mitigated by its quota share arrangement with National Indemnity Company.

C.2 Market Risk

C.2.1 Exposure

The Company's exposure to market risk arises from the risk of adverse financial impact resulting directly or indirectly from fluctuations in interest rates and inflation. Market risk arises due to fluctuations in both the value of liabilities and the value of assets held.

Given the current high level of reinsurance headroom in place over the Company's liabilities, and that assets are predominately held in the form of cash, cash equivalents and receivables, the Company has immaterial exposure to market risk.

The Company has assets and claims liabilities in foreign currency, principally USD, and so has exposure to foreign exchange rates. However, there is no material net exposure to exchange rate fluctuations due to the reinsurance arrangements. Section A.4 describes the impact of exchange rate fluctuations during the year.

There has been no material change in the Company's overall market risk exposure during the period.

The Company's overall exposure to market risk is measured using the SCR. QRT S.25.01 (Appendix F.1.7) shows that the Company's undiversified SCR for market risk is immaterial (2019: immaterial).

There has been no material change to the measures used to assess market risk during the reporting period.

C.2.2 Risk concentration

Liabilities are fully reinsured. In addition to the reinsurance asset, the Company holds cash and cash equivalents and is not exposed to material concentration risk.

C.2.3 Risk mitigation

The Company manages market risk within its market risk framework, within local regulatory constraints and in line with established Group policy. The management of market risk is overseen by the Asset Liability Committee ("ALCO") and the Board.

The Company did not have any derivatives during the year or at year-end.

C.2.4 Stress and scenario testing and sensitivity analysis

Descriptions of the methods used, assumptions made and outcomes of stress and scenario testing and sensitivity analysis are provided in section C.7.1.

C.2.5 Additional information on COVID-19

There is no significant impact on the Company's exposure to market risk.

C.3 Credit Risk

C.3.1 Exposure

The Company's exposure to credit risk arises from the risk that it will incur a financial loss from the default or failure of third parties to meet their payment obligations to the Company, or variations in market values as a result of changes in expectations related to these risks. The Company is exposed to third party credit quality changes primarily through reinsurance.

The Company's approach to managing credit risk recognises that there is a risk of adverse financial impact resulting from fluctuations in credit quality of third parties including default, rating transition and credit spread movements. The Company's credit risks arise principally from exposures to reinsurance counterparties, cash and cash equivalents, and other receivables.

The Company's management of credit risk includes implementation of credit risk management processes as part of the wider risk framework (including limits frameworks), and reporting and monitoring of exposures against pre-established risk criteria. The management of credit risk is overseen by the Board.

Risk mitigation techniques are used where and when deemed appropriate. These are utilised where possible to remove residual unwanted risks, as well as to bring or keep exposure limits within appetite.

The principal basis used to measure the Company's exposure to credit risk is the SCR. QRT S.25.01 (Appendix F.1.7) shows that the Company's undiversified SCR for credit risk is £3,103 thousand (2019: £2,635 thousand).

There has been no material change in the Company's counterparty risk exposure over the reporting period.

The following metrics are also used when measuring and assessing its credit risk exposure and to support risk management actions and investment decisions:

- Maximum exposure: credit exposure of the Company's financial assets to counterparties;
- External credit rating: available Moody, Standard & Poor and Fitch ratings;

There has been no material change to the measures used to assess credit risk during the reporting period.

The overall credit quality of the Company's reinsurance assets is strong. At 31 December 2020, all external reinsurance assets were held with counterparties with external credit ratings of AA. Cash and cash equivalents are held with highly-rated banking institutions or liquidity funds. At 31 December 2020 the majority (73%) (2019: 83%) of its other receivables due are from other Group companies and no financial assets are impaired or overdue.

C.3.2 Risk concentration

The Company's main concentration of external credit risk arises from its exposure to NICO via the reinsurance arrangement. At 31 December 2020, Company's exposure to NICO was £366,099 thousand (2019: £362,892 thousand). There is an additional £1bn of ARD provided by the Company's immediate parent AIL (as described in section C1.1).

The Company's main exposure to counterparties within the Group is to its immediate parent, AIL, due to a receivable balance of £36,127 thousand (2019: £61,224 thousand).

C.3.3 Risk mitigation

As described in section C3.1, the Company has in place a credit control framework to manage credit risk.

In accordance with the requirements of the Group Financial Risk Mitigation Business Standard the Company assesses and documents the effectiveness of arrangements to mitigate credit risk are assessed and documented. On-going monitoring is carried out by reporting management information to the ALCO and Board, against pre-defined trigger points, to enable appropriate oversight and to prompt action if effectiveness deteriorates.

C.3.4 Stress and scenario testing and sensitivity analysis

Descriptions of the methods used, assumptions made and outcomes of stress and scenario testing and sensitivity analysis are provided in section C.7.1.

C.3.5 Additional information on COVID-19

The Company's exposure to credit risk arises primarily through its reinsurance arrangements. There has been no significant impact on the credit risk exposure to date.

C.4 Liquidity Risk**C.4.1 Exposure**

The Company's exposure to liquidity risk arises from the risk that its liabilities cannot be settled, in a timely and cost-effective manner, as they fall due because of insufficient liquid assets. Liquidity risk may arise from uncertainty of the value and timing of liabilities versus reinsurance recoveries, or the ability to realise assets to produce cash to meet obligations.

Claims are not met directly by the Company but are the responsibility of NICO via an outsourced provider. Material liquidity risk to the Company would arise in the extreme event of NICO failing to meet claims liabilities as they fall due along with material timing mis-matches between reinsurance recoveries from ALL, under the ARD, and claims obligations.

The principal bases used to measure and assess the Company's exposure to liquidity risk are absolute liquidity coverage relative to pre-defined appetites and the quantum of certain liquid assets. These are calibrated to ensure sufficient liquidity to meet expected liquidity requirements following an extreme liquidity-specific stress event covering both short-term and long-term stress scenarios.

There has been no material change to the measures used to assess liquidity risk during the reporting period.

There were no material changes in the Company's exposure to liquidity risk throughout the year and the Company's liquidity profile was maintained within appetite.

C.4.2 Risk concentration

The credit limit framework described in section C.3.1 above also avoids concentrations of liquidity risk by preventing investment in a restricted number of issuers, asset classes and sectors. The Company's has set its liquidity risk appetite to ensure it has sufficient liquid funds to meet its expected obligations as they fall due. The credit quality of reinsurers is also monitored closely to avert liquidity risks.

C.4.3 Risk mitigation

The Company manages its liquidity risk by:

- Monitoring of projected short-term cash flow needs;
- Setting liquidity risk appetites which require that sufficient liquid resources be maintained to cover net outflows in a stress scenario;
- Defining trigger levels that enable action to be taken before those levels are breached; and
- The Company's immediate parent, AIL, maintaining a Capital and Liquidity Management Action Plan (CLMAP) which details management actions to address capital and/or liquidity requirements in a significant stress scenario.

The Company monitors the effectiveness of liquidity risk mitigation techniques as follows:

- The internal controls that enable effective liquidity risk management are subject to assurance testing as part of wider testing undertaken within AIL to ensure they operate effectively; and
- Liquidity positions are regularly reported to and monitored by the ALCO and Board against pre-defined trigger points to enable appropriate oversight and actions to take place if effectiveness deteriorates.

C.4.4 Expected Profit Included in Future Premium (EPIFP)

The amount of EPIFP, calculated in accordance with Article 1 of the SII regulations and included within the valuation of the Company's Technical Provisions as at 31 December 2020 is £nil thousand (2019: £nil thousand).

C.4.5 Stress and scenario testing and sensitivity analysis

Descriptions of the methods used, assumptions made and outcomes of stress and scenario testing and sensitivity analysis are provided in section C.7.1.

C.4.6 Additional information on COVID-19

There is no significant impact on the Company's exposure to liquidity risk.

C.5. Operational Risk**C.5.1 Exposure**

The Company's exposure to operational risk arises from the risk of direct or indirect loss, caused by inadequate or failed internal processes, people and systems, or external events including changes in the regulatory environment. The Company has a limited appetite for operational risk and aims to reduce these risks as far as commercially sensible.

Conduct risk, an element of operational risk, is where the Company does not achieve positive or fair customer outcomes. Management of conduct risk continues to be a key priority for the Company across the whole lifecycle of its products, and throughout the end to end journey of its customers, with robust governance and metrics embedded across the organisation.

The Company is exposed to outsourcing risk in regard to activities which could be undertaken by the Company itself but are contracted to third parties. The Company cannot outsource its statutory and regulatory obligations.

The Company also seeks to manage its exposure to reputational risk, which is the risk of loss to the Company's franchise value from damage caused to the Company's brands or reputation. Examples of factors, regardless of whether authenticated or not, which could damage the Company's brands or reputation include litigation, employee misconduct, operational failures, the outcome of regulatory investigations, media speculation and negative publicity, disclosure of confidential client information or inadequate services.

The wider environment has increasing inherent exposure to risks such as data theft, conduct breaches and customer service interruption arising from IT systems failure and consequently inherent risk to the company has increased accordingly, including via outsourced operations. The Company has an Operational Risk and Control Management Framework, which integrates the results of the risk identification and assurance activities carried out across the Company's three lines of defence.

Operational risks are initially identified through the Common Operational Risk Register (CORR) and assessed against implemented controls. Residual risk, outside tolerance, is given prioritised management action to reduce it within tolerance. Operational risk is quantitatively assessed on the basis of financial loss and misstatement. Potential reputational and conduct impacts are qualitatively assessed. There has been no material change to the measures used to assess operational risk during the reporting period.

The Company holds economic capital, based on the SII SCR, against residual operational risk, to the extent that it cannot be eliminated by management action. QRT S.25.03 (Appendix F.1.7) shows that the Company's undiversified SCR for operational risk is £1,462 thousand (2019: £1,530 thousand). The Company also produces specific conduct risk management information used to measure and analyse its exposure to conduct risk.

There have been no material changes, during the year, to the Company's exposure to operational risk.

C.5.2 Risk concentration

The Company has outsourced the handling of claims to a third party.

C.5.3 Risk mitigation

Operational risks are considered by the Company to be preventable and are managed through business controls (subject to the risk of control failure). The Company's operational risk strategy is to improve its business processes to:

- Reduce operational risk and associated losses, thereby improving cost to income ratio and variability in financial performance;
- Improve customer outcomes and employee satisfaction; and
- Sustain customer confidence and a positive regulatory reputation.

The Group's business standards (which apply to the Company) set out the minimum control objectives and controls that each business area is required to operate. Operational risk tolerances are quantitative boundaries that constrain specific risk-taking activities at an operational level.

The Company records and analyses operational risk events to understand the root cause and ensure remedial action is taken, lessons are learnt and, if the event impacts customers, they are treated fairly. This includes risk events that do not give rise to a financial loss, such as near misses or fortuitous gains. This assessment enables the Company to highlight areas for improvement, implement corrective actions to avoid recurrence, and improve its understanding of operational risk.

The Company has outsourced business critical activities to a third party and has implemented appropriate oversight mechanisms and has exit and termination arrangements and business continuity and disaster recovery plans in the event of supplier failure. These plans are reviewed at least annually.

The Company's three lines of defence all monitor the effectiveness of the controls that are in place against operational risk. Further details of the three lines of defence are included in section B.1.1, including the specific roles and responsibilities of each line. Operational risk is overseen by the Board.

C.5.4 Stress and scenario testing and sensitivity analysis

Descriptions of the methods used, assumptions made and outcomes of stress and scenario testing and sensitivity analysis are provided in section C.7.1.

C.5.5 Additional information on COVID-19

COVID-19 is resulting in increased level of inherent operational risk through enforced remote working, staff absences for sickness and childcare, market volatility and through the Company's significant outsourcing arrangements. Processes and controls are being adjusted to ensure operational risks remain at an acceptable level.

C.6 Other Material Risks

The Company has no material information to disclose regarding other material risks.

C.7 Any Other Information

C.7.1 Stress and scenario testing and sensitivity analysis

Stress and Scenario Testing (SST) is a fundamental element of the Company's Risk Management Framework which is embedded within the Company's decision-making, strategy and planning activities. SST provides insight into key risk exposures and dependencies of the Company; considering resilience of potential changes to these exposures and dependencies; and anticipating a range of possible outcomes. The evaluation of the potential impacts on the Company's capital and liquidity positions enables the Company to identify and prepare for appropriate ways to mitigate and manage the realisation of such impacts.

C.7.1.1 Stress and scenario testing

The SST completed for the Company, has considered potential impacts from the most significant risks to the Company of counterparty credit risk (arising from both the NICO and ARD arrangements). The outcome of this SST demonstrates that the Company is resilient to a range of potential extreme adverse events.

The Company is also inherently considered within the SST that is completed by its immediate parent company, ALL.

A range of assumptions are made in the development of SST and the measurement of resilience to such events. These assumptions are defined by suitable experts and, where applicable, by the Regulators.

C.7.1.2 Sensitivity analysis

The SCR is the primary basis used by the Company to measure and assess its risks. The sensitivity analysis performed by the Company includes consideration of the sensitivity of its SII cover ratio, determined according to SII Regulations, to a range of economic assumptions.

For the Company, this includes consideration of impacts from changes in reinsurer ratings. The results of these analyses demonstrate that, after consideration of any management actions that may be required, in extreme scenarios, the Company retains a SII surplus.

C.7.2 Prudent Person Principle

The Company ensures that its assets are invested in accordance with the Prudent Person Principle as set out in Article 132 (Directive 2009/138/EC) and the PRA Supervisory Statement (SS1/20) through the collective application of its risk policies and business standards. These ensure that the Company invests in assets whose risks it can properly identify, measure, monitor, manage, control and report, and appropriately take into account in the assessment of its overall solvency needs having regard to the term and nature of its liabilities. The Company's Asset Liability Management Business Standard and certain provisions of the Investment Management Business Standard contain mandatory requirements to ensure that the Company develops its own set of key risk indicators and takes into account the risks associated with its investments without relying only on the risk being adequately captured by the capital requirements.

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D. Valuation for Solvency Purposes

In this Chapter

- D.1 Assets
- D.2 Technical Provisions
- D.3 Other Liabilities
- D.4 Alternative Methods of Valuation
- D.5 Any Other Information

D. Valuation for Solvency Purposes

The 'Valuation for Solvency Purposes' section of the report provides a description of the bases, methods and main assumptions used in the valuation of assets, technical provisions and other liabilities for each material asset and liability class.

The Company's IFRS balance sheet is presented in column (b) of the following table, in accordance with the classification of assets and liabilities used in its financial statements. The captions used in the table are from the balance sheet QRT S.02.01, rather than the financial statements. The references given in column (a) are to relevant accounting policies and notes provided in the financial statements.

The Company's IFRS balance sheet has been reclassified to the prescribed format of the SII balance sheet QRT. The reclassification is shown in column (c) and relates to the reclassification of cash equivalents, under IFRS, to collective investment undertakings in the SII balance sheet.

The Company's assets and liabilities, as valued under IFRS and reclassified in line with SII Regulations, are shown in column (d). The Company's SII balance sheet is summarised in column (e) and detailed in the balance sheet QRT S.02.01 included in Appendix F.1.1. Differences between the valuation of the Company's assets and liabilities under SII and IFRS are presented in column (f).

Where the valuation of assets and liabilities is the same under IFRS and SII, a description of the bases, methods and main assumptions can be found in the accounting policies and notes of the Company's financial statements. If the valuation is materially different, a description of the bases, methods and main assumptions used under SII is given in Sections D.1, D.2.1 and D.3 below.

Assets and other liabilities have been valued, according to the requirements of the SII Regulations, at the amount for which they could be exchanged between knowledgeable willing parties in an arm's length transaction. The value of other liabilities is not adjusted to take account of the impact of changes in own credit standing of the Company.

Balance Sheet – IFRS and SII

| | Note in financial statements | IFRS balance sheet classified according to financial statements | Reclassification of IFRS balances to SII balance sheet categories | Reclassified IFRS balance sheet | SII balance sheet | Valuation differences between SII and IFRS |
|---|------------------------------|---|---|---------------------------------|-------------------|--|
| | (a) | (b) | (c) | (d) =(b)+(c) | (e) | (f) =(e)-(d) |
| As at 31 December 2020 £000s | | | | | | |
| Financial investments | | | | | | |
| Collective investment undertakings | | — | 9,400 | 9,400 | 9,400 | — |
| Reinsurance recoverables | H & 13 | 352,981 | — | 352,981 | 348,370 | (4,611) |
| Receivables | | | | | | |
| Reinsurance | J & 9 | 13,118 | — | 13,118 | 13,118 | — |
| Trade, not insurance | J & 9 | 35,700 | 400 | 36,100 | 36,100 | — |
| Cash and cash equivalents | L & 18 | 17,743 | (9,400) | 8,343 | 8,343 | — |
| Assets | | 419,542 | 399 | 419,941 | 415,330 | (4,611) |
| Technical provisions | G & 12 | (352,981) | — | (352,981) | (348,790) | 4,190 |
| Deferred tax liabilities | | — | — | — | — | — |
| Payables and other financial liabilities | | | | | | |
| Payables (trade, not insurance) | K & 15 | (753) | (399) | (1,152) | (1,152) | — |
| Liabilities | | (353,734) | (399) | (354,134) | (349,942) | 4,191 |
| Excess of assets over liabilities | | 65,808 | — | 65,808 | 65,388 | (420) |

D.1 Assets

Assets have been valued according to the requirements of the SII Directive and related guidance; the basis of the SII valuation principle is the amount for which they could be exchanged between knowledgeable willing parties in an arm's length transaction. A description of the basis of valuation under SII along with valuation differences between the SII bases and the IFRS financial statements, by asset class, is provided below; if the valuation method has been described in the financial statements it has not been included in this section.

D.1.1 Collective investment undertakings

The Company's collective investment undertakings are all invested in highly liquid investments that are readily convertible into cash and valued on the basis of the liquid investments they hold. The Company's collective investment undertakings are subject to an insignificant risk of change in value. In the IFRS financial statements collective investment undertakings are valued at fair value. This is consistent with SII.

D.1.2 Reinsurance recoverables

Reinsurance recoverables are calculated as the probability-weighted average of discounted future cash flows relating to reinsurance contracts, adjusted for the expected losses due to counterparty default. Although established separately, reinsurance recoverables are valued on the same basis and using the same methodology and assumptions used to derive Technical Provisions - Best Estimate Liabilities, as described in Section D.2, subject to the following:

- Internal expenses are only allowed if they are recoverable under the reinsurance agreement;
- Where the timing of recoveries diverges from that for payments a separate projection is used;
- Allowance for risk of default depends on the credit rating and exposure to the reinsurance counterparty; and
- Reinsurance assets take into account reinsurance commissions.

The Company's reinsurance recoverables relate to the reinsurance of its general insurance claims with NICO.

The material differences between the SII and IFRS valuation bases for reinsurance recoveries are as follows:

- Only reinsurance cash flows relating to latent claims reserves are discounted under IFRS whereas all reinsurance cash flows are discounted under SII; and
- The rate used to discount cash flows of latent claims is lower under SII than the equivalent rate used under IFRS.

The Company does not have any Special Purpose Vehicles.

D.1.3 Changes made to recognition and valuation bases and estimations during the reporting period

There were no changes made to the bases used to recognise and value assets, or to their estimations during the reporting period.

D.2 Technical Provisions

This section provides a definition of SII Technical Provisions, the methodology and main assumptions used in the valuation of the SII Technical Provisions, the total value of SII Technical Provisions split by material lines of business, a comparison of the valuation of SII Technical Provisions with IFRS Technical Provisions and a description of the level of uncertainty in Technical Provisions.

D.2.1 Valuation of Technical Provisions

Technical provisions which comprise Best Estimate Liabilities and a Risk Margin analysed by SII Line of Business are summarised in the table below. The best estimate liabilities are gross of reinsurance. They are also detailed in the QRT S.17.01 (Non-life Technical Provisions), see Appendix F.1.3.

| As at 31 December 2020 €000s | Best Estimate Liabilities | Risk Margin | Technical Provisions |
|---------------------------------------|---------------------------|-------------|----------------------|
| Line of Business | | | |
| Marine, aviation and transport | 9,348 | 11 | 9,359 |
| General liability insurance | 259,076 | 310 | 259,386 |
| Accepted non-proportional reinsurance | 79,946 | 100 | 80,045 |
| Total | 348,370 | 420 | 348,790 |

The impact of COVID-19 on the Company's Best Estimate Liabilities is not considered to be significant given the nature of the business historically underwritten by the Company.

D.2.1.1 Best Estimate Liabilities

The following general principles apply to the valuation of Best Estimate Liabilities for non-life and health (similar to non-life) business:

- A Best Estimate is one that represents the expected outcome from the range of possible outcomes for the future and is reasonable and realistic taking account of all the uncertainties involved.
- A consistent approach has been applied across all non-life and health (similar to non-life) business.
- The calculation of Technical Provisions is performed on a going concern basis.

The Company's Best Estimate Liabilities are valued based on the present value of future cash flows discounted using relevant risk-free interest rates adjusted for the European Insurance and Occupational Pensions Authority ("EIOPA") prescribed credit risk adjustment and Volatility Adjustment at the valuation date.

As the Company has been managing its existing general insurance claims liabilities and is currently not writing (nor projected to write) new business, its Best Estimate Liabilities comprise only a claims provision. The claims provision includes cash flows relating to events that occurred before the valuation date, whether reported or not. The cash flows include net claims costs and expenses.

When modelling these cash flows the inflows are considered separately from the outflows. Claims costs take into account recoveries from salvage and subrogation.

Claims costs

The ultimate cost of outstanding claims is estimated using a range of standard actuarial claims projection techniques. The main assumption underlying these techniques is that the Company's past claims experience can be used as a basis to project future claims. Therefore, these methods extrapolate the development of paid and incurred losses, average costs per claim and claim numbers based on the observed development of earlier years. The estimation of ultimate claims costs is done at the level of homogeneous risk groups. These groups are mapped to SII lines of business.

Certain lines of business are also further analysed by claim type or type of coverage. For example latent claims require specialist actuarial techniques appropriate for the nature of the underlying liabilities. Given the long delay between writing the insurance policy and the claim arising, the techniques used for latent claims typically group claims data by the year claims are reported and project the future number and average cost of claims for homogeneous latent claim types based on a combination of own Company experience and industry-wide data. The Company participates on cross-industry working groups to help inform some of the projection assumptions for latent claims.

Qualitative judgement is used to reflect changes in external 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 claims handling procedures.

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. Claims related to asbestos production and handling account for a large proportion of the Company's latent claims. The key assumptions underlying the estimation of these claims include claim numbers, the base average cost per claim, future inflation in the average cost of claims and legal fees.

In part these costs are estimated with consideration of market information published by the Institute and Faculty of Actuaries 'Asbestos Working Party', on which a preliminary update was provided in January 2021. However, on the basis of current information, and having regard to the level of provisions made for general insurance claims and substantial reinsurance cover now in place, management consider that any changes in costs arising are not likely to have a material impact on the financial position of the Company.

Expenses

Given the nature of the Company's reinsurance arrangements, there are no expense components within Best Estimate Liabilities.

Events Not in Data (ENID)

ENID are events not deemed to be captured by the data which need to be separately allowed for within the best estimate calculations to take appropriate account of uncertainty. Two types of ENID are considered: "known unknowns", which are possible future scenarios that can be anticipated and "unknown unknowns", which are future scenarios that are completely unexpected. No allowance is made for "unknown unknowns" as by definition, they cannot be known or quantified.

Allowances for "known unknowns" are made using scenario analysis to cover any foreseeable event with a potentially material impact. A core list of events is specified which are considered as the starting point for the analysis. ENID are considered both at SII lines of business level, and at portfolio level with allocations to SII lines of business, depending on the scenario being considered. Given that the Company has been managing its existing general insurance claims liabilities through to run-off for a number of years and is currently not writing (nor projected to write) new business, the main ENID considered for the Company is in relation to a legislative change which impacts outstanding gross of reinsurance claims liabilities.

Discounting

All cash flows are discounted using the appropriate SII yield curve in the relevant currency. The yield curve is based on the risk free rate at the valuation date and is adjusted for the EIOPA prescribed credit risk adjustment and Volatility Adjustment. Payments are assumed to occur either mid-month or mid-year. Cash flows are modelled in monthly time intervals for the first 10 years and annually thereafter.

Future management actions

There are no future management actions assumed in the calculation of the Company's gross of reinsurance Best Estimate Liabilities as at 31 December 2020.

D.2.1.2 Risk Margin

The Risk Margin is an estimate of the amount, in addition to the Best Estimate Liability, that a third party would expect to receive in order to assume ownership of the Company's insurance obligations. The Risk Margin calculation takes material underwriting, non hedgeable market (except interest rate), credit and operational risk into account. Once calculated it is allocated to each SII line of business, although on materiality grounds some SII lines of business are allocated no Risk Margin.

The Company's Risk Margin is £420 thousand (2019; £420 thousand) as at 31 December 2020.

D.2.1.3 Simplifications Best Estimate Liabilities

In some areas of the calculation of the SII Best Estimate Liabilities, simplified methods have been used. The simplifications used have been assessed and have no material impact on the value of SII Best Estimate Liabilities. Where simplified methods are used, these are documented and justified in the Company's reserving reports and documentation. The main simplifications within the calculation of SII Best Estimate Liabilities are:

- The majority of the Company Best Estimate Liabilities are in GBP and USD. As part of the calculation of Technical Provisions, the Company segments liabilities in these currencies. On materiality grounds, exposure to currencies outside of GBP and USD are not separately segmented and are instead converted to GBP or USD at prevailing exchange rates.
- The Company's Best Estimate Liabilities include a provision in relation to ENIDs. For the purposes of discounting cashflows, it is assumed that ENIDs have the same cashflow profile as other claims.
- Cashflows are modelled in monthly time intervals for the first 10 years and annually thereafter. For the purposes of discounting, all payments are assumed to occur mid-month or mid-year as dictated by the time intervals used.
- When calculating provisions for potential reinsurer default, reinsurance assets are grouped by reinsurer counterparty credit rating and within each credit rating the same probabilities of default are assumed.

D.2.1.4 Material changes in the relevant assumptions compared to the previous reporting period

There were no material changes in the relevant assumptions made in the calculation of Technical Provisions compared to the previous reporting period.

D.2.2 Level of uncertainty

The actual cost of settling insurance obligations may differ from the Best Estimate Liabilities because experience may be worse than assumed or future claims inflation may differ from that expected. There are a number of potential developments that would have a material adverse impact on the Best Estimate Liabilities value including:

- New types of latent claims;
- Unanticipated legislative changes; and
- Unanticipated inflation.

In conducting its insurance business, the Company receives general insurance liability claims, and becomes involved in actual or threatened related litigation arising therefrom, including claims in respect of pollution and other environmental hazards. Amongst these are claims in respect of asbestos production and handling. Given the significant delays that are experienced in the notification of these claims, the potential number of incidents which they cover and the uncertainties associated with establishing liability, the ultimate cost is subject to uncertainty. Gross of reinsurance the level of uncertainty within the Technical Provisions for latent claims is high. The Company has extensive reinsurance in place against these claims so net of reinsurance the level of uncertainty is insignificant.

The uncertainty and impact of further potential lockdowns and evolving strains of the COVID-19 virus may introduce some variability around the frequency and severity of claims for multiple lines of business.

D.2.3 Material differences between the SII and IFRS valuation bases

The following table summarises gross of reinsurance SII Technical Provisions by material line of business and compares these to IFRS reclassified Technical Provisions.

| Technical Provisions as at 31 December 2020 £000s | Best Estimate Liabilities | Risk Margin (unaudited) | Technical Provisions | IFRS reclassified Technical Provisions | Difference between SII and IFRS reclassified Technical Provisions |
|---|---------------------------|-------------------------|----------------------|--|---|
| Non-life insurance obligations | 348,370 | 420 | 348,790 | 352,981 | 4,191 |
| – Marine, aviation and transport | 9,348 | 11 | 9,359 | 9,471 | 112 |
| – General liability insurance | 259,076 | 310 | 259,386 | 262,503 | 3,117 |
| – Accepted non-proportional reinsurance | 79,946 | 100 | 80,045 | 81,007 | 962 |
| Total | 348,370 | 420 | 348,790 | 352,981 | 4,191 |

The material differences between the SII and IFRS valuation bases are:

- Only latent claims reserves (which are within the general liability insurance and accepted non proportional reinsurance lines of business) are discounted under IFRS whereas all cash flows are discounted under SII; and
- The rate used to discount latent claims within the IFRS provision is slightly lower than that used to discount SII Technical Provisions.

Both of the differences lead to SII Technical Provisions being lower than the equivalent IFRS provisions. The differences impact all lines of business, but have the greatest impact on those classes of business with the longer duration liabilities (i.e. the general liability insurance and accepted non proportional reinsurance lines of business).

D.2.4 Volatility Adjustment

The Volatility Adjustment removes temporary distortions in spreads caused by illiquidity in the market or extreme widening of credit spreads, in particular in relation to government bonds. The PRA has approved the Company's application to apply a Volatility Adjustment (PRA Reference number: 2191475). The impact of the Volatility Adjustment on Technical Provisions, Basic Own Funds, Eligible Own Funds to meet the SCR, the SCR, Eligible Own Funds to meet the Minimum Capital Requirement (MCR) and the MCR is detailed in the Long Term Guarantees and Transitional measures QRT S.22.01 (see Appendix F.1.5). The impact of removing the Volatility Adjustment from gross Technical Provisions would be to increase their value by £5,539 thousand (2019: £6,383 thousand).

D.2.5 Other reliefs

No transitional provisions have been applied in the calculation of SII Technical Provisions.

D.3 Other Liabilities

The Company does not have any material classes of liability, excluding Technical Provisions as at 31 December 2020 (2019: £nil). The Company's financial statements provide information about contingent liabilities and other risk factors in note 16. The Company has no additional material contingent liabilities to recognise under SII.

D.4 Alternative Methods of Valuation

The Company has not used any alternative methods of valuation.

D.5 Any Other Information

On 19 January 2021, the Institute and Faculty of Actuaries provided a preliminary update on the value of reserves relating to UK asbestos related claims, with a full report due to be issued during 2021. No change has been made to the value of insurance liabilities following the publication of this information – see note 12 Insurance Liabilities for further detail.

The Company has no other material information to disclose.

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E. Capital Management

In this Chapter

- E.1 Own Funds
- E.2 Solvency Capital Requirement and Minimum Capital Requirement
- E.3 Use of the duration-based equity risk sub-module in the calculation of the Solvency Capital Requirement
- E.4 Differences between the Standard Formula and any Internal Model used
- E.5 Non-Compliance with the Minimum Capital Requirement and Non-Compliance with the Solvency Capital Requirement
- E.6 Any Other Information

E. Capital Management

The 'Capital Management' section of the report describes the objectives, policies and procedures employed by the Company for managing its Own Funds. The section also covers information on structure and quality of Own Funds and calculation of SCR including information about the Company's IM.

E.1 Own Funds

E.1.1 Management of Own Funds

The Company's policy on capital and risk management is set out in its Risk Management Framework. The Company's capital and risk management objectives are closely interlinked and recognise the critical importance of protecting policyholder and other stakeholder interests. The Company's primary objective of managing capital efficiently is to optimise the balance between return and risk, whilst maintaining economic and regulatory capital surplus in accordance with approved risk appetites.

The Company manages its capital in accordance with its risk appetites, to satisfy the requirements of regulators and other stakeholders. This gives policyholders and the shareholder assurance of the Company's financial strength. The Company also aims to retain financial flexibility by maintaining sufficient liquidity.

Own Funds are monitored via forecasts over a three year planning horizon. A number of stress and scenario tests are used to enable the Company to understand the volatility of its earnings and capital requirement, and therefore manage its capital more efficiently.

The Company's capital and risk management objectives are closely interlinked and support earnings growth and dividend policy, whilst also recognising the critical importance of protecting policyholder and other stakeholder interests. The Company's primary objective of managing capital efficiently is to optimise the balance between return and risk, whilst maintaining economic and regulatory capital surplus in accordance with approved risk appetites.

There have been no material changes in the objectives, policies or processes employed for managing Own Funds during the year.

E.1.2 Eligible Own Funds

An analysis of the Company's Own Funds by tier is presented in the Own Funds QRT S.23.01.01, (see Appendix F.1.6), and summarised below.

| Own Funds £000s As at 31 December | Total | Tier 1 (unrestricted) | Total | Tier 1 (unrestricted) |
|---|---------------|--------------------------|---------------|--------------------------|
| | 2020 | 2020 | 2019 | 2019 |
| Ordinary share capital | 1,000 | 1,000 | 1,000 | 1,000 |
| Reconciliation reserve | 64,388 | 64,388 | 89,021 | 89,021 |
| Total Basic Own Funds | 65,388 | 65,388 | 90,021 | 90,021 |

The impact of COVID-19 on the Company's Own Funds is not considered to be significant given the nature of the business historically underwritten by the Company.

Tiering analysis

The Company's ordinary share capital and reconciliation reserve are available to absorb losses and have the Tier 1 features of permanence and subordination. As the Company's Articles of Association do not contain any restriction on the right of the Company to cancel dividends or other distributions at any time before they are paid, the Company's ordinary share capital is classified as unrestricted Tier 1.

Tier 1 Own Funds of decreased by £24,633 thousand during the year. This decrease is driven by dividend distribution of £25,000 thousand during the year.

Reconciliation reserve

The Company's capital comprises ordinary share capital and retained earnings. However, retained earnings are not separately disclosed in Own Funds. They are notionally included in the reconciliation reserve, which reconciles the total excess of assets over liabilities with identifiable capital instruments included in Own Funds.

The table below sets out the constituent parts of the reconciliation reserve:

| As at 31 December | £000s | £000s |
|---------------------------------------|---------------|---------------|
| | 2020 | 2019 |
| SII excess of assets over liabilities | 65,388 | 90,021 |
| Ordinary share capital | (1,000) | (1,000) |
| Reconciliation reserve | 64,388 | 89,021 |

Eligibility of tiered capital

The eligibility of tiered capital, to cover the SCR and MCR depends upon the tiering shown above and a number of quantitative limits. The Company's Own Funds satisfy all limits and therefore the eligibility of the Company's capital to cover the SCR and MCR is unrestricted, as shown in the table below.

| As at 31 December | £000s 2020 | £000s 2019 |
|--|---------------|---------------|
| Total eligible Own Funds to meet the SCR | 65,388 | 90,021 |
| Total eligible Own Funds to meet the MCR | 65,388 | 90,021 |

The ratio of eligible Own Funds to the SCR and the MCR is detailed below.

| As at 31 December | 2020 | 2019 |
|--|---------------|--------|
| Ratio of eligible Own Funds to the SCR | 1207 % | 1805 % |
| Ratio of eligible Own Funds to the MCR | 1959 % | 2825 % |

E.1.3 Material differences between equity on an IFRS basis and Own Funds

The Company's Own Funds are equal to its excess of assets over liabilities on a SII basis. The excess of £65,388 thousand is £420 thousand less than the Company's total equity on an IFRS basis. The following table details the material differences between the excess of assets over liabilities on a SII basis and total equity on an IFRS basis.

| As at 31 December 2020 | £000s | £000s | See Section |
|---|---------|---------------|-------------|
| Total equity on an IFRS basis | | 65,808 | |
| Elimination of deferred acquisition costs | (4,611) | | D.1.2 |
| Valuation adjustments to Technical Provisions | 4,191 | | D.2.3 |
| | | (420) | |
| Excess of assets over liabilities on a SII basis | | 65,388 | |

E.1.4 Transitional arrangements and restrictions

The Company's Own Funds are unrestricted and fully transferable.

E.2 Solvency Capital Requirement (SCR) and Minimum Capital Requirement (MCR)

E.2.1 The amount of the SCR and MCR

The Company's SCR as at 31 December 2020 was £5,417 thousand (2019: £4,988 thousand). This is shown in the SCR QRT, S.25.03, see Appendix F.1.7. The Company's MCR as at 31 December 2020 was £3,338 thousand (2019: £3,187 thousand). This is shown on the MCR QRT, S.28.01, see Appendix F.1.8. The final amount of the SCR is still subject to supervisory assessment and does not include any regulator-imposed capital add-ons.

E.2.2 The composition of the SCR

The Company determines its SCR using an IM. Material risk categories are shown below. Further detail is shown in the SCR QRT S.25.03.

| Diversified SCR by material risk category (per the SCR QRT) | £000s | £000s |
|---|--------------|-------|
| As at 31 December | 2020 | 2019 |
| Counterparty risk | 3,103 | 2,635 |
| Operational risk | 1,462 | 1,530 |
| Diversification between risk categories | 852 | 823 |
| Total SCR | 5,417 | 4,988 |

Each risk component includes the impact of diversification within that component. The SCR includes the impact of diversification between the risk categories. At 31 December 2020, there is negative diversification benefit between counterparty and operational risks. The impact of COVID-19 is not considered to be significant.

E.2.3 Simplifications, undertaking specific parameters and matching adjustment (unaudited)

The Company has not used any simplified calculations, undertaking specific parameters or a matching adjustment in the calculation of its SCR.

E.2.4 MCR calculation

The Company's MCR is calculated by applying prescribed factors to its written premium and its net Best Estimate Liabilities. The MCR is subject to two further constraints; it must lie in the range of 25% to 45% of the Company's SCR and it cannot be less than an absolute minimum of €3.7m, converted at the exchange rate applicable at the end of October preceding the year end. The Company's MCR is the absolute minimum which is £3,338 thousand following translation into GBP (2019: £3,187 thousand).

E.3 Use of the duration-based equity risk sub-module in the calculation of the Solvency Capital Requirement

The Company does not use this option.

E.4 Differences between the Standard Formula and any Internal Model used

E.4.1 Key uses of the IM

The IM provides input to a number of key business processes and activities. Therefore, the outputs from the IM are used in day-to-day risk management and business decisions across the Company. “Use” does not imply that the IM is used to directly run the business, but rather that the outputs of the IM and the IM itself are used to support decision-making, whilst acknowledging its limitations and balancing against other elements of the Risk Management Framework.

The primary purpose of the Company’s IM is to calculate the capital metrics, principally the SCR (unaudited), required for regulatory reporting under SII. The outputs of the Company’s IM are also used in risk-based performance reporting and risk and financial strength reporting to senior management, the Board, the shareholder and rating agencies.

The granular metrics produced by the IM are used in setting the Company’s strategy and support a series of other activities including:

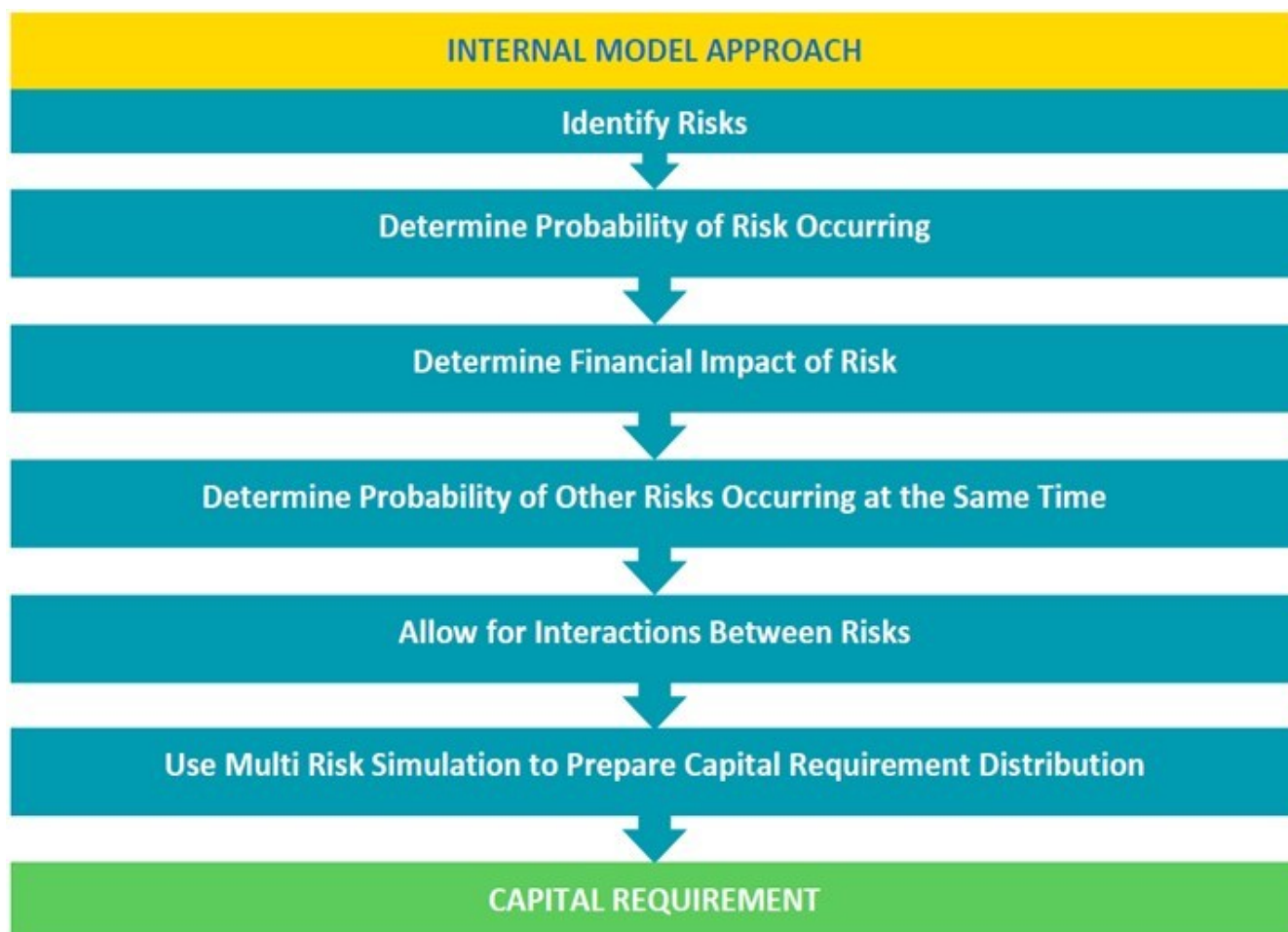
- Business planning, capital allocation, and setting risk appetites;
- Reviewing the effectiveness of the reinsurance contracts in place to mitigate undesirable risk exposures, through modelling potential adverse scenarios; and
- Measuring the impact of market changes on assets and liabilities to drive investment strategy.

E.4.2 Scope of the IM

The Company uses an IM to calculate its SCR covering all of the Company’s business units and risk categories.

E.4.3 Method used in the IM for calculating the probability distribution forecast

The purpose of the IM is to identify the risks to which the Company is exposed, model these risks using suitably calibrated inputs and aggregate them to compute the SCR (unaudited). An overview of the Company’s approach is shown below.



The Company’s IM allows flexibility in determining which statistical distributions to use to represent risk factors. This flexibility is important as it ensures that the behaviour of the most important risks to the Company is modelled appropriately.

For the market risk factors standard statistical distributions are used which are fitted via the standard risk factor calibration process. However, for other risk types, such as non-life underwriting and operational risk, distributions are derived from further modelling processes.

This approach is appropriate given both the materiality of these risk types and the desire to ensure the risk's behaviour is adequately captured.

The Company uses a wide range of testing and review processes to ensure that the calibrations are appropriate and the IM outputs are reasonable. These range from bottom-up reviews of the material assumptions used in the modelling process and the testing of the calibrations and loss functions, to top-down stress and scenario testing.

Risk measure and time period used in the IM

The IM produces an aggregate distribution of the change in basic Own Funds over a one year time horizon from which the SCR can be directly derived, in line with Article 101 of the SII Directive. The SCR is the 99.5th percentile.

E.4.4 Material differences between the SF and IM methodologies and assumptions

The key difference between SF and the IM is that the IM has been tailored to the Company's risk profile. The IM calibrates a distribution of losses for each risk and uses these, together with a set of correlations between these risks, to derive a joint distribution of losses for the Company. The SCR (unaudited) is derived from this and ensures the Company holds sufficient capital to withstand a 1 in 200 event over one year. Calibrating risks for the IM therefore requires detailed data analysis and use of statistical models. SF simply uses prescribed formulae to calculate the capital required for each risk exposure.

Material differences between the SF and IM methodologies and assumptions by risk type are:

Market risk

- In the Company's IM interest rates are modelled in more detail to ensure changes in the slope and shape of the yield curve are captured. SF only considers the change in the level of interest rates.

Non-life underwriting risk

- Risks relating to latent claims, which are not explicitly included under SF, are included in the Company's IM.
- The Company's IM employs a finer level of granularity for material lines of business which allows for more distinction between material product types and in particular between commercial and personal lines which are grouped in SF.
- The Company's IM captures risks where the probability of extreme values is higher than normal, SF does not consider these elements.
- Inflation risk is explicitly included in the Company's IM, whereas there is no inflation risk in SF beyond that implicitly captured in the calibrations of the premium and reserve risks.

Operational risk

- The Company's IM assesses operational risk using a scenario based approach. SF uses a simple formulaic approach.

Counterparty risk

- SF considers all counterparty default risk under one module. The Company's IM takes into account both the type of the counterparty and the nature of the exposure; and
- The Company's IM considers default risk in more detail, taking into account spread risks and diversification between various credit exposures. SF does not consider these elements.

Aggregation, diversification and tax

- The Company's IM allows it to determine diversification at a more granular level and capture important features such as its geographical diversification;
- The Company's IM uses explicit correlation matrices to combine sub-module losses within each risk module, and then to combine the calculated losses of the different risk modules. The SF uses a simpler hierarchical correlations approach; and
- The Company's IM assesses loss functions net of tax. The SF calculation requires tax relief to be deducted from the gross SCR.

E.4.5 Data used in the IM

The data used in the Company's IM includes:

- Accounting data, computed on an IFRS basis, which is used in the valuation of assets and liabilities;
- Policy data from both policies in force and past policies that includes premium data, historic data on claims and exposure data covering potential catastrophic events such as on geographical concentrations;
- Operational risk data obtained from an external database covering industry operational risk losses, which is obtained from the Operational Risk Insurance Consortium;
- Financial market data, including asset data externally obtained such as from FTSE 100 index;
- Asset data including the market value of assets, most often derived from the accounting data; and
- Other data including numerical, census or classification information, but excluding qualitative information.

As part of the Company's data governance process the appropriateness of the data is considered before it is used in the IM. Data accuracy, appropriateness and completeness are monitored on an ongoing basis by the Company's Data Governance Council. The data used in the IM in 2019 was formally approved by the Company's Chief Actuary, supported by the Data Governance Council.

E.5 Non-Compliance with the Minimum Capital Requirement and Non-Compliance with the Solvency Capital Requirement

The Company has complied continuously with both the MCR and the SCR throughout the reporting period.

E.6 Any Other Information

The Company has no other material information to disclose.

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F. Appendices

In this Section

- F.0 Cautionary Statement
- F.1 Public Disclosure Quantitative Reporting Templates
 - F.1.1 S.02.01 Balance Sheet
 - F.1.2.1 S.05.01 Premium claims and expenses (by line of business) [life]
 - F.1.2.2 S.05.01 Premium claims and expenses (by line of business) [non-life]
 - F.1.3.1 S.12.01 Technical Provisions [life]
 - F.1.3.2 S.17.01 Technical Provisions [non-life]
 - F.1.4 S.19.01 Insurance claims [non-life]
 - F.1.5 S.22.01 Impact of transitional measures
 - F.1.6 S.23.01 Own Funds
 - F.1.7 S.25.02 Solvency Capital Requirement
 - F.1.8 S.28.01 Minimum Capital Requirement
- F.2 Glossary of Abbreviations and Definitions
- F.3 Directors' Statement
- F.4 Auditors' Report

F.0 Cautionary Statement

This announcement contains, and we may make other verbal or written 'forward-looking statements' with respect to certain of the Company's plans and current goals and expectations relating to future financial condition, performance, results, strategic initiatives and objectives. Statements containing the words 'believes', 'intends', 'expects', 'projects', 'plans', 'will', 'seeks', 'aims', 'may', 'could', 'outlook', 'likely', 'target', 'goal', 'guidance', 'trends', 'future', 'estimates', 'potential' and 'anticipates', and words of similar meaning, are forward-looking. By their nature, all forward-looking statements involve risk and uncertainty. Accordingly, there are or will be important factors that could cause actual results to differ materially from those indicated in these statements.

The Company believes factors that could cause actual results to differ materially from those indicated in forward-looking statements in the announcement include, but are not limited to: the impact of ongoing difficult conditions in the global financial markets and the economy generally; the impact of simplifying our operating structure and activities; the impact of various local and international political, regulatory and economic conditions; market developments and government actions (including those arising from the evolving relationship between the UK and the EU); the effect of credit spread volatility on the net unrealised value of the investment portfolio; the effect of losses due to defaults by counterparties, including potential sovereign debt defaults or restructurings; changes in interest rates that may reduce the value of our portfolio; the impact of changes in short or long-term inflation; fluctuations in currency exchange rates; the effect of market fluctuations on the value of the assets backing reserves; the amount of allowances and impairments taken on our investments; the effect of adverse capital and credit market conditions on our ability to meet liquidity needs and our access to capital; changes in, or restrictions on, our ability to initiate capital management initiatives; changes in or inaccuracy of assumptions in pricing and reserving for insurance business (particularly with regard to policy renewal rates), a cyclical downturn of the insurance industry; the impact of natural and man-made catastrophic events (including the impact of COVID-19) on our business activities and results of operations; the transitional and physical risks associated with climate change; our reliance on information and technology and third-party service providers for our operations and systems; the inability of reinsurers to meet obligations or unavailability of reinsurance coverage; increased competition in the UK; the impact of actual experience differing from estimates used in valuing and amortising deferred acquisition costs ('DAC'); changes in valuation methodologies, estimates and assumptions used in the valuation of investment securities; the effect of legal proceedings and regulatory investigations; the impact of operational risks, including inadequate or failed internal and external processes, systems and human error or from external events (including cyber attack); risks associated with arrangements with third parties; the failure to attract or retain the necessary key personnel; the effect of simplifying our operating structure and activities; the effect of a decline in any of our ratings by rating agencies on our standing among customers; changes to our brand and reputation; changes in government regulations or tax laws in jurisdictions where we conduct business; the inability to protect our intellectual property; the policies, decisions and actions of government or regulatory authorities in the UK, the European Union, the US or elsewhere, including the implementation of key legislation and regulation. For a more detailed description of these risks, uncertainties and other factors, please see the Aviva plc Annual report and accounts.

The Company undertakes no obligation to update the forward-looking statements in this announcement or any other forward-looking statements it may make. Forward-looking statements in this report are current only as of the date on which such statements are made.

This Solvency and Financial Condition Report has been published for information only, it is based on our understanding as at 29 March 2021 and does not provide financial or legal advice. Other than as set out in section F.3 (Directors Statement), the Company, its directors, employees, agents or advisers do not accept or assume responsibility to any person to whom this document is shown or into whose hands it may come, and any such responsibility or liability is expressly disclaimed.

Appendix F.1.1
S.02.01.02
Balance Sheet
Amounts in 000s

| | | Solvency II Value |
|---|-------|-------------------|
| | | C0010 |
| Assets | | |
| Intangible assets | R0030 | |
| Deferred tax assets | R0040 | |
| Pension benefit surplus | R0050 | |
| Property, plant & equipment held for own use | R0060 | |
| Investments (other than assets held for index-linked and unit-linked contracts) | R0070 | 9,400 |
| Property (other than for own use) | R0080 | |
| Holdings in related undertakings, including participations | R0090 | |
| Equities | R0100 | |
| - Equities - Listed | R0110 | |
| - Equities - Unlisted | R0120 | |
| Bonds | R0130 | |
| - Government Bonds | R0140 | |
| - Corporate Bonds | R0150 | |
| - Structured Notes | R0160 | |
| - Collateralised securities | R0170 | |
| Collective Investments Undertakings | R0180 | 9,400 |
| Derivatives | R0190 | |
| Deposits other than cash equivalents | R0200 | |
| Other investments | R0210 | |
| Assets held for index-linked and unit-linked contracts | R0220 | |
| Loans & mortgages | R0230 | |
| - Loans on policies | R0240 | |
| - Loans & mortgages to individuals | R0250 | |
| - Other loans & mortgages | R0260 | |
| Reinsurance recoverables from: | R0270 | 348,370 |
| - Reinsurance recoverables - Non-life and health similar to non-life | R0280 | 348,370 |
| - Reinsurance recoverables - Non-life excluding health | R0290 | |
| - Reinsurance recoverables - Health similar to non-life | R0300 | |
| - Reinsurance recoverables - Life and health similar to life, excluding health and index-linked and unit-linked | R0310 | |
| - Reinsurance recoverables - Health similar to life | R0320 | |
| - Reinsurance recoverables - Life excluding health and index-linked and unit-linked | R0330 | |
| - Reinsurance recoverables - Life index-linked and unit-linked | R0340 | |
| Deposits to cedants | R0350 | |
| Insurance & intermediaries receivables | R0360 | |
| Reinsurance receivables | R0370 | 13,118 |
| Receivables (trade, not insurance) | R0380 | 36,100 |
| Own Shares (held directly) | R0390 | |
| Amounts due in respect of own fund items or initial fund called up but not yet paid in | R0400 | |
| Cash and cash equivalents | R0410 | 8,343 |
| Any other assets, not elsewhere shown | R0420 | |
| Total assets | R0500 | 415,331 |
| Liabilities | | |
| Technical provisions - Non-life | R0510 | 348,790 |
| - Technical provisions - Non-life (excluding health) | R0520 | 348,790 |
| - TP calculated as a whole - Non-life (excluding health) | R0530 | |
| - Best Estimate - Non-life (excluding health) | R0540 | 348,370 |
| - Risk margin - Non-life (excluding health) | R0550 | 420 |
| - Technical provisions - Health (similar to non-life) | R0560 | |
| - TP calculated as a whole - Health (similar to non-life) | R0570 | |
| - Best Estimate - Health (similar to non-life) | R0580 | |
| - Risk margin - Health (similar to non-life) | R0590 | |
| Technical provisions - Life (excluding index-linked and unit-linked) | R0600 | |
| - Technical provisions - Health (similar to life) | R0610 | |
| - TP calculated as a whole - Health (similar to life) | R0620 | |
| - Best Estimate - Health (similar to life) | R0630 | |
| - Risk margin - Health (similar to life) | R0640 | |
| - Technical provisions - Life (excluding health and index-linked and unit-linked) | R0650 | |
| - TP calculated as a whole - Life (excl health, index-linked and unit-linked) | R0660 | |
| - Best Estimate - Life (excl health, index-linked and unit-linked) | R0670 | |
| - Risk margin - Life (excl health, index-linked and unit-linked) | R0680 | |
| Technical provisions - Index-linked and unit-linked | R0690 | |
| - TP calculated as a whole - Index-linked and unit-linked | R0700 | |
| - Best Estimate - Index-linked and unit-linked | R0710 | |
| - Risk margin - Index-linked and unit-linked | R0720 | |
| Contingent liabilities | R0740 | |
| Provisions other than technical provisions | R0750 | |
| Pension benefit obligations | R0760 | |
| Deposits from reinsurers | R0770 | |
| Deferred tax liabilities | R0780 | |
| Derivatives | R0790 | |
| Debts owed to credit institutions | R0800 | 1 |

| | | |
|--|-------|---------|
| Financial liabilities other than debts owed to credit institutions | R0810 | |
| Insurance & intermediaries payables | R0820 | |
| Reinsurance payables | R0830 | |
| Payables (trade, not insurance) | R0840 | 400 |
| Subordinated liabilities | R0850 | |
| - Subordinated liabilities not in BOF | R0860 | |
| - Subordinated liabilities in BOF | R0870 | |
| Any other liabilities, not elsewhere shown | R0880 | 752 |
| Total liabilities | R0900 | 349,943 |
| Excess of assets over liabilities | R1000 | 65,388 |

Appendix F.1.2.1**S.05.01.02****Premiums, claims and expenses by line of business**

Amounts in 000s

| | | Line of Business for: life insurance obligations | | | | | Life reinsurance obligations | | Total | |
|--|-------|--|-------------------------------------|---------------------------------------|----------------------|---|--|--------------------|-------|------------------|
| | | Health [accepted non-proportional reinsurance] | Insurance with profit participation | Unit-linked or index-linked insurance | Other life insurance | Annuities stemming from non-life insurance contracts and relating to health insurance obligations | Annuities stemming from non-life insurance contracts and relating to insurance obligations other than health insurance | Health reinsurance | | Life reinsurance |
| | | C0210 | C0220 | C0230 | C0240 | C0250 | C0260 | C0270 | C0280 | C0300 |
| Premiums written | | | | | | | | | | |
| Gross - Direct Business | R1410 | | | | | | | | | |
| Reinsurers' share | R1420 | | | | | | | | | |
| Net | R1500 | | | | | | | | | |
| Premiums earned | | | | | | | | | | |
| Gross - Direct Business | R1510 | | | | | | | | | |
| Reinsurers' share | R1520 | | | | | | | | | |
| Net | R1600 | | | | | | | | | |
| Claims incurred | | | | | | | | | | |
| Gross - Direct Business | R1610 | | | | | | | | | |
| Reinsurers' share | R1620 | | | | | | | | | |
| Net | R1700 | | | | | | | | | |
| Changes in other technical provisions | | | | | | | | | | |
| Gross - Direct Business | R1710 | | | | | | | | | |
| Reinsurers' share | R1720 | | | | | | | | | |
| Net | R1800 | | | | | | | | | |
| Expenses incurred | R1900 | | | | | | | | | |
| Other expenses | R2500 | | | | | | | | | |
| Total expenses | R2600 | | | | | | | | | |

Appendix F.1.2.2

S.05.01.02

Premiums, claims and expenses by line of business

Amounts in 000s

| | | Line of Business for: non-life insurance and reinsurance obligations (direct business and accepted proportional reinsurance) | | | | | | | | | | | |
|--|-------|--|---|--|---|---|---|---|---|--|--|---------------------------------|--|
| | | Medical expense insurance [direct business] | Income protection insurance [direct business] | Workers' compensation insurance [direct business] | Motor vehicle liability insurance [direct business] | Other motor insurance [direct business] | Marine, aviation and transport insurance [direct business] | Fire and other damage to property insurance [direct business] | General liability insurance [direct business] | Credit and suretyship insurance [direct business] | Legal expenses insurance [direct business] | Assistance [direct business] | Miscellaneous financial loss [direct business] |
| | | C0010 | C0020 | C0030 | C0040 | C0050 | C0060 | C0070 | C0080 | C0090 | C0100 | C0110 | C0120 |
| Premiums written | | | | | | | | | | | | | |
| Gross - Direct Business | R0110 | | | | | | | | 21 | | | | |
| Gross - Proportional reinsurance accepted | R0120 | | | | | | | | | | | | |
| Gross - Non-proportional reinsurance accepted | R0130 | | | | | | | | | | | | |
| Reinsurers' share | R0140 | | | | | | | | 21 | | | | |
| Net | R0200 | | | | | | | | | | | | |
| Premiums earned | | | | | | | | | | | | | |
| Gross - Direct Business | R0210 | | | | | | | | 21 | | | | |
| Gross - Proportional reinsurance accepted | R0220 | | | | | | | | | | | | |
| Gross - Non-proportional reinsurance accepted | R0230 | | | | | | | | | | | | |
| Reinsurers' share | R0240 | | | | | | | | 21 | | | | |
| Net | R0300 | | | | | | | | | | | | |
| Claims incurred | | | | | | | | | | | | | |
| Gross - Direct Business | R0310 | | | | | | 3,164 | 437 | 12,358 | | | | |
| Gross - Proportional reinsurance accepted | R0320 | | | | | | 1,026 | 354 | 2,415 | | | | |
| Gross - Non-proportional reinsurance accepted | R0330 | | | | | | | | | | | | |
| Reinsurers' share | R0340 | | | | | | 4,190 | 791 | 14,773 | | | | |
| Net | R0400 | | | | | | | — | — | | | | |
| Changes in other technical provisions | | | | | | | | | | | | | |
| Gross - Direct Business | R0410 | | | | | | | | | | | | |
| Gross - Proportional reinsurance accepted | R0420 | | | | | | | | | | | | |
| Gross - Non-proportional reinsurance accepted | R0430 | | | | | | | | | | | | |
| Reinsurers' share | R0440 | | | | | | | | | | | | |
| Net | R0500 | | | | | | | | | | | | |
| Expenses incurred | R0550 | | | | | | | | 62 | | | | |
| Other expenses | R1200 | | | | | | | | | | | | |
| Total expenses | R1300 | | | | | | | | | | | | |

| | | Line of Business for: accepted non proportional reinsurance | | | | Total |
|---|-------|---|---------------------------------------|---|---------------------------------------|--------|
| | | Non-proportional health reinsurance | Non-proportional casualty reinsurance | Non-proportional marine, aviation and transport reinsurance | Non-proportional property reinsurance | |
| | | C0130 | C0140 | C0150 | C0160 | C0200 |
| Premiums written | | | | | | |
| Gross - Direct Business | R0110 | | | | | 21 |
| Gross - Proportional reinsurance accepted | R0120 | | | | | |
| Gross - Non-proportional reinsurance accepted | R0130 | | | | | |
| Reinsurers' share | R0140 | | | | | 21 |
| Net | R0200 | | | | | |
| Premiums earned | | | | | | |
| Gross - Direct Business | R0210 | | | | | 21 |
| Gross - Proportional reinsurance accepted | R0220 | | | | | |
| Gross - Non-proportional reinsurance accepted | R0230 | | | | | |
| Reinsurers' share | R0240 | | | | | 21 |
| Net | R0300 | | | | | |
| Claims incurred | | | | | | |
| Gross - Direct Business | R0310 | | | | | 15,958 |
| Gross - Proportional reinsurance accepted | R0320 | | | | | 3,795 |
| Gross - Non-proportional reinsurance accepted | R0330 | | 2,329 | 3,239 | 301 | 5,869 |
| Reinsurers' share | R0340 | | 2,329 | 3,239 | 301 | 25,623 |
| Net | R0400 | | | | | — |
| Changes in other technical provisions | | | | | | |
| Gross - Direct Business | R0410 | | | | | |
| Gross - Proportional reinsurance accepted | R0420 | | | | | |
| Gross - Non-proportional reinsurance accepted | R0430 | | | | | |
| Reinsurers' share | R0440 | | | | | |
| Net | R0500 | | | | | |
| Expenses incurred | R0550 | | | | | 62 |
| Other expenses | R1200 | | | | | |
| Total expenses | R1300 | | | | | 62 |

Appendix F.1.3.1

S.12.01.02

Life and Health SLT Technical Provisions

Amounts in 000s

Technical provisions calculated as a whole

Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default associated to TP as a whole

Technical provisions calculated as a sum of BE and RM

Best Estimate

Gross Best Estimate

Total Recoverables from reinsurance and SPV after the adjustment for expected losses due to counterparty default

Best estimate minus recoverables from reinsurance and SPV - Total

Risk Margin

Amount of the transitional on Technical Provisions

Technical Provisions calculated as a whole

Best estimate

Risk margin

Technical provisions - Total

| | Insurance with profit participation | Unit-linked or index-linked insurance | | Other life insurance | | Annuities stemming from non-life insurance contracts and relating to insurance obligations other | Accepted reinsurance | Total (Life other than health insurance, incl. Unit-Linked) | | |
|-------|-------------------------------------|--|--------------------------------------|--|--------------------------------------|--|----------------------|---|-------|-------|
| | | Contracts without options and guarantees | Contracts with options or guarantees | Contracts without options and guarantees | Contracts with options or guarantees | | | | | |
| | C0020 | C0030 | C0040 | C0050 | C0060 | C0070 | C0080 | C0090 | C0100 | C0150 |
| R0010 | | | | | | | | | | |
| R0020 | | | | | | | | | | |
| R0030 | | | | | | | | | | |
| R0080 | | | | | | | | | | |
| R0090 | | | | | | | | | | |
| R0100 | | | | | | | | | | |
| R0110 | | | | | | | | | | |
| R0120 | | | | | | | | | | |
| R0130 | | | | | | | | | | |
| R0200 | | | | | | | | | | |

Technical provisions calculated as a whole

Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default associated to TP as a whole

Technical provisions calculated as a sum of BE and RM**Best Estimate****Gross Best Estimate**

Total Recoverables from reinsurance and SPV after the adjustment for expected losses due to counterparty default

Best estimate minus recoverables from reinsurance and SPV - Total

Risk Margin**Amount of the transitional on Technical Provisions**

Technical Provisions calculated as a whole

Best estimate

Risk margin

Technical provisions - Total

| | Health [accepted non-proportional reinsurance] | | Annuities stemming from non-life insurance contracts and relating to health insurance obli | Health reinsurance | Total (Health similar to life insurance) | |
|-------|--|--------------------------------------|--|--------------------|--|-------|
| | Contracts without options and guarantees | Contracts with options or guarantees | | | | |
| | C0160 | C0170 | C0180 | C0190 | C0200 | C0210 |
| R0010 | | | | | | |
| R0020 | | | | | | |
| R0030 | | | | | | |
| R0080 | | | | | | |
| R0090 | | | | | | |
| R0100 | | | | | | |
| R0110 | | | | | | |
| R0120 | | | | | | |
| R0130 | | | | | | |
| R0200 | | | | | | |

Appendix F.1.3.2**S.17.01.02****Non-Life Technical Provisions**

Amounts in 000s

| Direct business and accepted proportional reinsurance | | | | | | | | | | | |
|---|---|---|---|---|--|---|---|---|--|------------------------------|--|
| Medical expense insurance [direct business] | Income protection insurance [direct business] | Workers' compensation insurance [direct business] | Motor vehicle liability insurance [direct business] | Other motor insurance [direct business] | Marine, aviation and transport insurance [direct business] | Fire and other damage to property insurance [direct business] | General liability insurance [direct business] | Credit and suretyship insurance [direct business] | Legal expenses insurance [direct business] | Assistance [direct business] | Miscellaneous financial loss [direct business] |
| C0020 | C0030 | C0040 | C0050 | C0060 | C0070 | C0080 | C0090 | C0100 | C0110 | C0120 | C0130 |
| Technical provisions calculated as a whole | | | | | | | | | | | |
| Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default associated to TP as a whole | | | | | | | | | | | |
| R0010 | | | | | | | | | | | |
| R0050 | | | | | | | | | | | |
| Technical provisions calculated as a sum of BE and RM | | | | | | | | | | | |
| Best estimate | | | | | | | | | | | |
| Premium provisions | | | | | | | | | | | |
| Gross | | | | | | | | | | | |
| Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default | | | | | | | | | | | |
| R0060 | | | | | | | | | | | |
| R0140 | | | | | | | | | | | |
| R0150 | | | | | | | | | | | |
| Net Best Estimate of Premium Provisions | | | | | | | | | | | |
| Claims provisions | | | | | | | | | | | |
| Gross | | | | | | | | | | | |
| Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default | | | | | | | | | | | |
| R0160 | | | | | | 9,348 | 259,076 | | | | |
| R0240 | | | | | | 9,348 | 259,076 | | | | |
| R0250 | | | | | | | | | | | |
| R0260 | | | | | | 9,348 | — | 259,076 | | | |
| R0270 | | | | | | | | | | | |
| R0280 | | | | | | 11 | — | 310 | | | |
| Net Best Estimate of Claims Provisions | | | | | | | | | | | |
| Total Best estimate - Gross | | | | | | | | | | | |
| Total Best estimate - Net | | | | | | | | | | | |
| Risk margin | | | | | | | | | | | |
| Amount of the transitional on Technical Provisions | | | | | | | | | | | |
| Technical Provisions calculated as a whole | | | | | | | | | | | |
| R0290 | | | | | | | | | | | |
| Best estimate | | | | | | | | | | | |
| R0300 | | | | | | | | | | | |
| Risk margin | | | | | | | | | | | |
| R0310 | | | | | | | | | | | |
| Technical provisions - Total | | | | | | | | | | | |
| Technical provisions - Total | | | | | | | | | | | |
| R0320 | | | | | | 9,359 | 259,386 | | | | |
| Recoverable from reinsurance contract/SPV and Finite Re after the adjustment for expected losses due to counterparty default - Total | | | | | | | | | | | |
| R0330 | | | | | | 9,348 | 259,076 | | | | |
| Technical provisions minus recoverables from reinsurance/SPV and Finite Re - Total | | | | | | | | | | | |
| R0340 | | | | | | 11 | 310 | | | | |

| | | Accepted non-proportional reinsurance | | | | |
|---|-------|--|--|---|--|---------------------------|
| | | Health [accepted non-proportional reinsurance] | Casualty [accepted non-proportional reinsurance] | Marine, aviation, transport [accepted non-proportional reinsurance] | Property [accepted non-proportional reinsurance] | Total Non-Life obligation |
| | | C0140 | C0150 | C0160 | C0170 | C0180 |
| Technical provisions calculated as a whole | R0010 | | | | | |
| Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default associated to TP as a whole | R0050 | | | | | |
| Technical provisions calculated as a sum of BE and RM | | | | | | |
| Best estimate | | | | | | |
| Premium provisions | | | | | | |
| Gross | R0060 | | | | | |
| Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default | R0140 | | | | | |
| Net Best Estimate of Premium Provisions | R0150 | | | | | |
| Claims provisions | | | | | | |
| Gross | R0160 | | 79,226 | 719 | | 348,370 |
| Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default | R0240 | | 79,226 | 719 | | 348,370 |
| Net Best Estimate of Claims Provisions | R0250 | | | | | |
| Total Best estimate - Gross | R0260 | | 79,226 | 719 | | 348,370 |
| Total Best estimate - Net | R0270 | | | | | |
| Risk margin | R0280 | | 1 | 99 | | 420 |
| Amount of the transitional on Technical Provisions | | | | | | |
| Technical Provisions calculated as a whole | R0290 | | | | | |
| Best estimate | R0300 | | | | | |
| Risk margin | R0310 | | | | | |
| Technical provisions - Total | | | | | | |
| Technical provisions - Total | R0320 | | 79,227 | 818 | | 348,790 |
| Recoverable from reinsurance contract/SPV and Finite Re after the adjustment for expected losses due to counterparty default - Total | R0330 | | 79,226 | 719 | | 348,370 |
| Technical provisions minus recoverables from reinsurance/SPV and Finite Re - Total | R0340 | | 1 | 99 | | 420 |

Appendix F.1.4

S.19.01.21

Non-Life Insurance Claims Information

Amounts in 000s

Total Non-Life Business

Accident year / Underwriting year
Gross Claims Paid (non-cumulative)
(absolute amount)

| | |
|-------|----|
| Z0020 | AY |
|-------|----|

| | Development Year | | | | | | | | | | | In Current year C0170 | Sum of years (cumulative) C0180 |
|-------|------------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|--------------------------|---------------------------------------|
| | 0 | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10&+ | | |
| | C0010 | C0020 | C0030 | C0040 | C0050 | C0060 | C0070 | C0080 | C0090 | C0100 | C0110 | | |
| Prior | | | | | | | | | | | | 15,743 | 15,743 |
| R0160 | | | | | | | | | | | | | |
| R0170 | | | | | | | | | | | | | |
| R0180 | | | | | | | | | | | | | |
| R0190 | | | | | | | | | | | | | |
| R0200 | | | | | | | | | | | | | |
| R0210 | | | | | | | | | | | | | |
| R0220 | | | | | | | | | | | | | |
| R0230 | | | | | | | | | | | | | |
| R0240 | | | | | | | | | | | | | |
| R0250 | | | | | | | | | | | | | |

Gross undiscounted Best Estimate Claims Provisions
(absolute amount)

| | Development Year | | | | | | | | | | | Year end (discounted data) C0360 | |
|-------|------------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|--|---------|
| | 0 | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10&+ | | |
| | C0200 | C0210 | C0220 | C0230 | C0240 | C0250 | C0260 | C0270 | C0280 | C0290 | C0300 | | |
| Prior | | | | | | | | | | | | 348,370 | 348,370 |
| R0160 | | | | | | | | | | | | | |
| R0170 | | | | | | | | | | | | | |
| R0180 | | | | | | | | | | | | | |
| R0190 | | | | | | | | | | | | | |
| R0200 | | | | | | | | | | | | | |
| R0210 | | | | | | | | | | | | | |
| R0220 | | | | | | | | | | | | | |
| R0230 | | | | | | | | | | | | | |
| R0240 | | | | | | | | | | | | | |
| R0250 | | | | | | | | | | | | | |

Appendix F.1.5**S.22.01.21****Impact of long term guarantees and transitional measures**

Amounts in 000s

Technical Provisions

Basic Own Funds

Eligible own funds to meet Solvency Capital Requirement

Solvency Capital Requirement

Eligible own funds to meet Minimum Capital Requirement

Minimum Capital Requirement

| | Amount with LG measures and transitionals | Impact of transitional on technical provisions | Impact of transitional on interest rate | Impact of volatility adjustment set to zero | Impact of matching adjustment set to zero |
|--------|---|---|---|---|--|
| | C0010 | C0030 | C0050 | C0070 | C0090 |
| R0010 | 348,790 | | | 5,539 | |
| R0020 | 65,388 | | | | |
| R0050 | 65,388 | | | | |
| R0090 | 5,147 | | | (272) | |
| R01 00 | 65,388 | | | | |
| R0110 | 3,338 | | | | |

Appendix F.1.6**S.23.01.01****Own Funds**

Amounts in 000s

| | Total | Tier 1 | Tier 1 | Tier 2 | Tier 3 |
|---|-------|---------|--------|--------|--------|
| | C0010 | C0020 | C0030 | C0040 | C0050 |
| Basic own funds before deduction for participations in other financial sector as foreseen in article 68 of Delegated Regulation 2015/35 | | | | | |
| Ordinary share capital (gross of own shares) | R0010 | 1,000 | 1,000 | | |
| Share premium account related to ordinary share capital | R0030 | | | | |
| Initial funds, members' contributions or the equivalent basic own fund item for mutual and mutual-type undertakings | R0040 | | | | |
| Subordinated mutual member accounts | R0050 | | | | |
| Surplus funds | R0070 | | | | |
| Preference shares | R0090 | | | | |
| Share premium account related to preference shares | R0110 | | | | |
| Reconciliation reserve | R0130 | 64,388 | 64,388 | | |
| Subordinated liabilities | R0140 | | | | |
| An amount equal to the value of net deferred tax assets | R0160 | | | | |
| Other own fund items approved by the supervisory authority as basic own funds not specified above | R0180 | | | | |
| Own funds from the financial statements that should not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds | | | | | |
| Own funds from the financial statements that should not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds | R0220 | | | | |
| Deductions | | | | | |
| Deductions for participations in financial and credit institutions | R0230 | | | | |
| Total basic own funds after deductions | R0290 | 65,388 | 65,388 | | |
| Ancillary own funds | | | | | |
| Unpaid and uncalled ordinary share capital callable on demand | R0300 | | | | |
| Unpaid and uncalled initial funds, members' contributions or the equivalent basic own fund item for mutual and mutual-type undertakings, callable on demand | R0310 | | | | |
| Unpaid and uncalled preference shares callable on demand | R0320 | | | | |
| A legally binding commitment to subscribe and pay for subordinated liabilities on demand | R0330 | | | | |
| Letters of credit and guarantees under Article 96(2) of the Directive 2009/138/EC | R0340 | | | | |
| Letters of credit and guarantees other than under Article 96(2) of the Directive 2009/138/EC | R0350 | | | | |
| Supplementary members calls under first subparagraph of Article 96(3) of the Directive 2009/138/EC | R0360 | | | | |
| Supplementary members calls other than under first subparagraph of Article 96(3) of the Directive 2009/138/EC | R0370 | | | | |
| Other ancillary own funds | R0390 | | | | |
| Total ancillary own funds - Solo | R0400 | | | | |
| Available and eligible own funds | | | | | |
| Total available own funds to meet the SCR | R0500 | 65,388 | 65,388 | | |
| Total available own funds to meet the MCR | R0510 | 65,388 | 65,388 | | |
| Total eligible own funds to meet the SCR | R0540 | 65,388 | 65,388 | | |
| Total eligible own funds to meet the MCR | R0550 | 65,388 | 65,388 | | |
| SCR | R0580 | 5,147 | | | |
| MCR | R0600 | 3,338 | | | |
| Ratio of eligible own funds to SCR | R0620 | 12.7072 | | | |
| Ratio of eligible own funds to MCR | R0640 | 19.5909 | | | |
| | C0060 | | | | |
| Reconciliation Reserve | | | | | |
| Excess of assets over liabilities | R0700 | 65,388 | | | |
| Own shares (held directly and indirectly) | R0710 | | | | |
| Foreseeable dividends, distributions and charges | R0720 | | | | |
| Other basic own fund items | R0730 | 1,000 | | | |
| Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced funds | R0740 | | | | |
| Reconciliation reserve | R0760 | 64,388 | | | |
| Expected profits | | | | | |
| Expected profits included in future premiums (EPIFP) - Life business | R0770 | | | | |
| Expected profits included in future premiums (EPIFP) - Non-life business | R0780 | | | | |
| Total expected profits included in future premiums (EPIFP) | R0790 | | | | |

Appendix F.1.7

S.25.02.21

Solvency Capital Requirement - For undertakings using the standard formula and partial internal mode

Amounts in 000s

| Unique number of component | | Component Description | Calculation of the Solvency Capital Requirement | | | | |
|---|--|---|---|-------|-----------------|--------|--|
| | | | Amount modelled | USP | Simplifications | LAC DT | |
| | | | C0070 | C0090 | C0120 | C0130 | |
| C0010 | | C0020 | C0030 | C0090 | C0120 | C0130 | |
| 100000 | | Market Risk | | | | | |
| 200000 | | Counterparty Risk | | | | | |
| 300000 | | Life underwriting risk | | | | | |
| 400000 | | Health underwriting risk | | | | | |
| 500000 | | Non-life underwriting risk | | | | | |
| 701000 | | Operational risk | | | | | |
| 801000 | | Other risks | | | | | |
| 802000 | | Loss-absorbing capacity of technical provisions | | | | | |
| 803000 | | Loss-absorbing capacity of deferred tax | | | | | |
| 804000 | | Other adjustments | | | | | |
| Calculation of Solvency Capital Requirement | | | C0100 | | | | |
| Total undiversified components | | | R0110 | 4,566 | | | |
| Diversification | | | R0060 | 852 | | | |
| Capital requirement for business operated in accordance with Art. 4 of Directive 2003/41/EC | | | R0160 | | | | |
| Solvency Capital Requirement excluding capital add-on | | | R0200 | 5,417 | | | |
| Capital add-ons already set | | | R0210 | | | | |
| Solvency capital requirement | | | R0220 | 5,417 | | | |
| Other information on SCR | | | | | | | |
| | | Amount/Estimate of the overall loss-absorbing capacity of technical provisions | R0300 | | | | |
| | | Amount/Estimate of the overall loss-absorbing capacity of deferred taxes | R0310 | | | | |
| | | Capital requirement for duration-based equity risk sub-module | R0400 | | | | |
| | | Total amount of Notional Solvency Capital Requirements for remaining part | R0410 | | | | |
| | | Total amount of Notional Solvency Capital Requirements for ring fenced funds | R0420 | | | | |
| | | Total amount of Notional Solvency Capital Requirements for matching adjustment portfolios | R0430 | | | | |
| | | Diversification effects due to RFF nSCR aggregation for article 304 | R0440 | | | | |
| Approach to tax rate | | | | | | | |
| | | Approach based on average tax rate | R0590 | | | | |
| Calculation of loss absorbing capacity of deferred taxes | | | | | | | |
| SCR2B-4T2 | | LAC DT | R0640 | | | | |
| SCR2B-420 | | LAC DT justified by reversion of deferred tax liabilities | R0650 | | | | |
| SCR2B-425 | | LAC DT justified by reference to probable future taxable profit | R0660 | | | | |
| SCR2B-430 | | LAC DT justified by carry back, current year | R0670 | | | | |
| SCR2B-435 | | LAC DT justified by carry back, future years | R0680 | | | | |
| SCR2B-440 | | Maximum LAC DT | R0690 | | | | |

Appendix F.1.8**S.28.01.01****Minimum Capital Requirement - Only life or only non-life insurance or reinsurance activity**

Amounts in 000s

Linear formula component for non-life insurance and reinsurance obligations

MCRNL Result

| | C0010 | |
|--|---|---|
| | Net (of reinsurance/SPV) best estimate and TP calculated as a whole | Net (of reinsurance) written premiums in the last 12 months |
| | C0020 | C0030 |
| R0010 | | |
| Medical expense insurance and proportional reinsurance | R0020 | |
| Income protection insurance and proportional reinsurance | R0030 | |
| Workers' compensation insurance and proportional reinsurance | R0040 | |
| Motor vehicle liability insurance and proportional reinsurance | R0050 | |
| Other motor insurance and proportional reinsurance | R0060 | |
| Marine, aviation and transport insurance and proportional reinsurance | R0070 | |
| Fire and other damage to property insurance and proportional reinsurance | R0080 | |
| General liability insurance and proportional reinsurance | R0090 | |
| Credit and suretyship insurance and proportional reinsurance | R01 00 | |
| Legal expenses insurance and proportional reinsurance | R0110 | |
| Assistance and proportional reinsurance | R0120 | |
| Miscellaneous financial loss insurance and proportional reinsurance | R0130 | |
| Non-proportional health reinsurance | R0140 | |
| Non-proportional casualty reinsurance | R0150 | |
| Non-proportional marine, aviation and transport reinsurance | R0160 | |
| Non-proportional property reinsurance | R0170 | |

Linear formula component for life insurance and reinsurance obligations

MCRL Result

| | C0040 | |
|---|---|--|
| | Net (of reinsurance/SPV) best estimate and TP calculated as a whole | Net (of reinsurance/SPV) total capital at risk |
| | C0050 | C0060 |
| R0200 | | |
| Obligations with profit participation - Guaranteed benefits | R0210 | |
| Obligations with profit participation - Future discretionary benefits | R0220 | |
| Index-linked and unit-linked insurance obligations | R0230 | |
| Other life (re)insurance and health (re)insurance obligations | R0240 | |
| Total capital at risk for all life (re)insurance obligations | R0250 | |

Overall MCR calculation

| | C0070 |
|---------------------------|-------------|
| Linear MCR | R0300 |
| SCR | R0310 5,147 |
| MCR cap | R0320 2,438 |
| MCR floor | R0330 1,354 |
| Combined MCR | R0340 1,354 |
| Absolute floor of the MCR | R0350 3,338 |

Minimum Capital Requirement

| | C0070 |
|-------|-------|
| R0400 | 3,338 |

F.2 Glossary of Abbreviations and Definitions

A glossary explaining the key terms used in this report is available on www.aviva.com/glossary.

F.3 Directors' Statement

We acknowledge our responsibility for preparing the Solvency and Financial Condition Report of The Ocean Marine Insurance Company Limited 31 December 2020 in all material respects in accordance with the PRA Rules and the Solvency II Regulations.

The Board is satisfied that to the best of its knowledge and belief:

(a) throughout the financial year to 31 December 2020, the Company has complied in all material respects with the requirements of the PRA rules and Solvency II Regulations as applicable to the Company; and

(b) it is reasonable to believe that in respect of the period from 31 December 2020 to the date of the publication of the SFCR, the Company has continued so to comply and that it will continue so to comply for the remainder of the financial year to 31 December 2020.

A J Morrish

Director

29 March 2021

F.4 External Audit

The PRA issued Policy Statement PS25/18 in October 2018 which removes the external audit requirement for the SFCR of certain small Solvency II firms. As the Company meets the criteria of a small Solvency II firm there is no requirement for this SFCR to be audited. Consequently, all qualitative and quantitative disclosure in this document is unaudited.