The Ocean Marine Insurance Company Limited

Solvency and Financial Condition Report

Year ended 31 December 2019

AVIVA

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The Ocean Marine Insurance Company Limited

Solvency and Financial Condition Report

2019

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 2019.

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.

On 11 March 2020, the World Health Organization declared the outbreak of a strain of novel coronavirus disease, COVID-19, a global pandemic. Figures presented in the SFCR and the associated Quantitative Reporting Templates (QRTs) have been prepared based on conditions and best estimate assumptions at 31 December 2019 and have therefore not been adjusted for any impacts of COVID-19 including any impacts on technical provisions. On 23 March 2020 the PRA announced that COVID-19 should be treated as a "major development" as per Article 54(1) of the Solvency II Directive. Further information on the impact of COVID-19 on the relevance of information disclosed in the SFCR is contained in section F.5.

Business and Performance

The Company is a limited company registered in England and Wales and member of the Aviva plc group of companies (the Group). 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's underwriting result net of reinsurance for the year ended 31 December 2019 is £nil thousand (2018: loss of £31 thousand). The profit before tax for the year of £232 thousand *(2018: £1,063 thousand)* is driven by the unwind of discount of £549 thousand on the receivable due from NICo (2018: £525 thousand) together with non-underwriting investment gains and losses, offset by primarily a £346 thousand foreign exchange loss (2018: gains of £520 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.

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

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 Group to assist in its oversight of risk management and the approach to internal controls;
- The Company has implemented four key control functions – Risk, 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 its Internal Model (IM) are set out in its Risk Management Framework policy and its risk policies and business standards;
- The Company's outsourcing strategy is supported by its Procurement and Outsourcing Business Standard.

There have been no material changes in the system of governance during the year

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 policyholders from risk. As an insurer, the Company accepted the risks inherent to its core business line of non-life insurance.

The Company received 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 shareholder. 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 SII 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.

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.

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 valuation principle that underlies the methodology for SII purposes 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 2019, the Company's excess of assets over liabilities was £90,021 thousand *(2018: £114,631 thousand)* on a SII basis which is £420 thousand *(2018: £420 thousand)* lower than the value under IFRS. The decrease was mainly due to payment of a dividend of £25,000 thousand.

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/liability class. In addition, it also provides an explanation of the material differences between the IFRS and SII bases of valuation.

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 in accordance with risk appetite, to satisfy the requirements of the Company's regulators and other stakeholders, giving the Company's policyholders assurance of its financial strength;
- Retain financial flexibility by maintaining strong liquidity; and
- Allocate capital rigorously to repatriate excess capital where appropriate.

At 31 December 2019, the total eligible Own Funds to meet the SCR was £90,021 thousand *(2018: £114,631 thousand)*, all of which was represented by unrestricted tier 1 capital. The decrease was mainly due to payment of a dividend of £25,000 thousand. The Company's SCR, at 31 December 2019, was £4,988 thousand *(2018: £5,056 thousand)*. The overall surplus position was £85,033 thousand *(2018 £109,575 thousand)* which translates to a regulatory cover ratio of 1,805% *(2018: 2,267%)*.

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.

Other information

The Coronavirus pandemic (COVID19) has impacted around 200 countries to date, including the UK, and will continue to cause significant economic and social disruption. Although there insurance arrangements the Company has in place limit the sensitivity to economic shocks, the impact that it will continue to have on the global economy will require continual monitoring.

The Ocean Marine Insurance Company Limited

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A. Business and Performance

In this Chapter

A.1 Business

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 Ocean Marine Insurance Company Limited is a limited company, registered in England and Wales, and is a member of the Aviva plc group of companies.

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 have issued the company a 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.

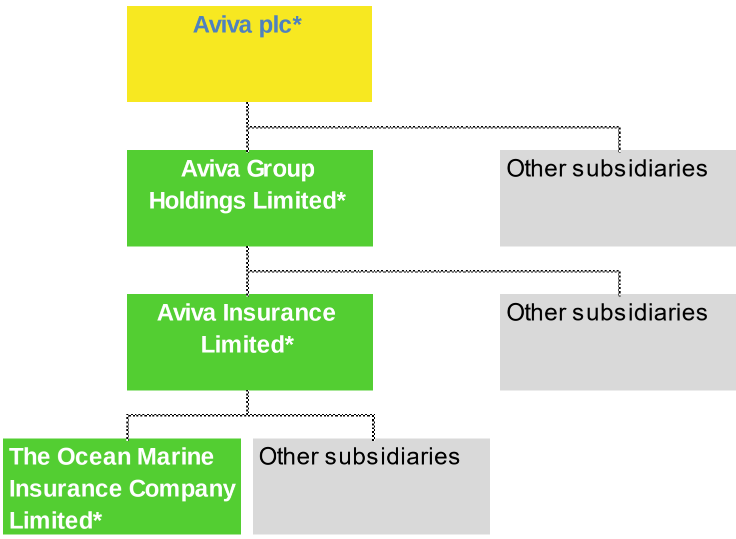
Financial statements

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

The SFCR is presented in pound sterling rounded to the nearest thousand which is consistent with the presentation in the IFRS financial statements. The Quantitative Reporting Templates (QRT) are presented in pound sterling rounded to the nearest thousand. Rounding differences of +/- one unit can occur.

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 2019:



* Incorporated in the United Kingdom

AIL is the immediate parent entity of the Company and is registered in Scotland, and Aviva plc is the ultimate controlling parent entity, registered in England and Wales. The Company is wholly owned by AIL.

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.

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 2019					
Premiums written					
Gross Written Premium	-	(4)	-	-	(4)
Claims incurred					
Gross - Direct Business	1,532	5,984	211	-	7,728
Gross - Proportional reinsurance accepted	470	1,169	171	-	1,838
Gross - Non-proportional reinsurance accepted	-	-	-	2,842	2,842
Net	-	-	-	-	-
Expenses incurred	-	61	-	-	61
Year ended 31 December 2018					
Premiums written					
Gross Written Premium	-	48	-	-	48
Claims incurred					
Gross - Direct Business	(1,010)	(3,946)	(140)	-	(5,096)
Gross - Proportional reinsurance accepted	(328)	(771)	(113)	-	(1,212)
Gross - Non-proportional reinsurance accepted				(1,874)	(1,874)
Net	-	-	-	-	-
Expenses incurred	-	60	-	-	60

The Company's profit before tax is £232 thousand *(2018: profit £1,063 thousand)*. The Company's underwriting result for the year, net of reinsurance, is a £nil thousand *(2018: loss £35 thousand)*. Items which comprise the Company's net investment income of £263m *(2018: £1,098 thousand income)* and other costs of £31 thousand *(2018: £35 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 *(2018: £nil)* due to the reinsurance arrangements. Gross claims incurred in the year of £12,407 thousand *(2018: £8,182 thousand credit)* relate to adverse movements on actuarial estimates of claims provisions and paid claims.

A.3 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.

Investment income £000s	2019	*2018*
Interest income	137	185
Realised foreign exchange gains / (losses)	(346)	524
Other (Including investment expenses)	472	389
	263	1,098

A.4 Performance of Other Activities

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

Other costs of £31 thousand were incurred during the year *(2018: £35 thousand)* primarily driven by unrealised foreign exchange losses on USD interest bearing assets.

In addition, unrealised foreign exchange gains, gross of reinsurance, of £11,610 thousand *(2018: losses of £8,527 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 *(2018: £nil)*.

A.5 Any Other Information

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.

The Coronavirus pandemic (COVID19) has impacted around 200 countries to date, including the UK, and will continue to cause significant economic and social disruption. Although there insurance arrangements the Company has in place limit the sensitivity to economic shocks, the impact that it will continue to have on the global economy will require continual monitoring.

A.5.3 Additional information on the COVID-19 global pandemic

Further information on the impact of the COVID-19 global pandemic is contained within section F.5.

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

The second line

- The Risk 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, financial crime 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, 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.

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 2019, including a certification by the parent company 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. Substantial progress has been made during the year, especially in respect of IT and data related controls. The assessment identified further work to be undertaken around IT and data and to meet the Group's enhanced Financial Crime compliance standards, ongoing work in areas of regulator interest and enhancements needed to implementation and embedding of the Risk Management Framework, including the Group's Operational Risk & Control Management methodology. 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.

The Board carried out a full review of the effectiveness of the systems of internal control and risk management in April 2020.

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.

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.

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 2019.

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 (2018: £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 £61,224 thousand (2018: £61,093) 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 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 Insurance Managers 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. 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 (IMMMR), 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. 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 service provided to customers, 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.

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, such as interest rates, 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 IMMMR 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 and liquidity.

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 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, and the design, implementation and independent validation of the IM. 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 parent company CRO has direct management accountability for the Risk Function.

B.3.3 Own Risk & 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 therefore 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 including the identification of risk, the methodology and assumptions used in the IM, and the results of the IM validation exercise. 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 sub 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.

Th annual report is submitted to the Board, and subject to their approval shared with the PRA.

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 parent company CRO is the ultimate owner of the IM, with day-to-day responsibilities delegated to the parent company Chief Actuary. The 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 methodologies and assumptions and when running processes and systems.

The Board is responsible for approving any material IM changes before submission to the College of Supervisors for approval. The quarterly model change reports and supporting evidence provide the required information to support Board and the College of Supervisors' approval.

There has been no material change to the governance of the IM during 2019.

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 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 IMMMR 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 Compliance 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 (including monitoring regulatory developments), performed by the Compliance Function and including activities such as:
  - Setting conduct and financial crime policy framework;
  - Providing advice, support, guidance and challenge on conduct and financial crime risk; and
  - Managing conduct and financial crime regulatory engagement.

- Prudential regulatory risk management (including monitoring regulatory developments), performed by the Risk Function and including activities such as:
  - Setting prudential regulatory risk policy framework;
  - Providing advice, support, guidance and challenge on prudential regulatory risk; and
  - Managing prudential regulatory engagement.
- Legal developments monitoring, performed by the Legal and Company Secretarial Function

Through these processes the Compliance, Risk and Legal Functions also take responsibility for reporting information to the Board. The Board receives a report from the CRO annually which covers any material concerns regarding conduct risk and the treatment of customers generally, along with details and an assessment of the adequacy of management's response.

The CRO has responsibility for prudential regulatory risk management and the Chief Compliance & Conduct Officer has responsibility for conduct regulatory risk management (both responsibilities were held by the CRO during most of 2019), whilst the General Counsel is responsible for monitoring legal developments. 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.

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's 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. The Internal Audit Function 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 its 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 standard applies equally to any externally or internally (intra-group) outsourced activity. The objective of this 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, 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 a function or activity outsourced 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 review, 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.

B.8.1 Additional information on the COVID-19 global pandemic

Further information on the impact of the COVID-19 global pandemic is contained within section F.5.

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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 (2018: 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 controls 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 performing claims management and reserving 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 is 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.2 Market Risk

C.2.1 Exposure

The Company's exposure to market risk arises from the risk of adverse financial impacts resulting directly or indirectly from fluctuations in interest rates, foreign currency exchange rates and inflation. Market risk arises due to fluctuations in both the value of liabilities and 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 reporting period.

The Company's overall exposure to market risk is measured and assessed using the SCR. QRT S.25.03 (Appendix F.1.7) shows that, as at 31 December 2019, the Company's undiversified SCR for market risk is immaterial (2018: 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 as part of the wider market risk framework, within local regulatory constraints and in line with established Group policy. The management of market risk is overseen by the 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 is provided in section C.7.1.

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 detailed 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 and assess the Company's exposure to credit risk is the SCR. QRT S.25.03 (Appendix F.1.7) shows that, as at 31 December 2019, the Company's undiversified SCR for credit risk is £2,635 thousand (2018: £4,796 thousand). There has been no material change in the Company's counterparty credit risk exposure over the reporting period.

The following metrics are also used by the Company 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; and
- 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 2019, all 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 2019 the majority (83%) (2018: 84%) 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. As at 31 December 2019 the Company's exposure to NICo was £362,892 thousand (2018: £380,745 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 £61,224 thousand at 31 December 2019 (2018: £61,093 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. 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 is provided in section C.7.1.

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 AIL, 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 risks 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 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 a liquidity risk appetite which requires 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 to ensure they operate effectively; and
- Liquidity positions are 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 2019 is £nil (2018: £nil).

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 is provided in section C.7.1.

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 in 2019 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.

As part of the wider Group strategy of digital customer interaction, its use of advanced data analytics and the increasing cyber security threat, together with regulators' attention to conduct issues, the Company has increased its inherent exposure to risks such as data theft, conduct breaches and customer service interruption arising from IT systems failure. The Company and its parent have sought to contain and reduce exposure to these risks through on-going investment in programmes to improve IT security and resilience, disaster recovery, data governance and outsourcing. 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 as at 31 December 2019 is £1,530 thousand (2018: £1,480 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 in the operational risks that the Company is exposed to over the year.

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 variability in financial performance;
- Improve customer outcomes and stakeholder 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 route 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 is provided in section C.7.1.

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 enable the Company to identify and prepare for appropriate ways to mitigate and/or 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, AIL.

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 SCR cover ratio to a range of economic assumptions.

For the Company, this includes consideration of impacts from changes in reinsurer ratings and cover and changes in cash flows. 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. This limited impact is primarily driven by the asset holdings, which are predominately cash and cash equivalents held with highly-rated banking institutions or liquidity funds and the extensive reinsurance arrangements in place.

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 of the SII Directive (Directive 2009/138/EC) 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 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. Given the relatively small value of the Company’s retained liabilities, it achieves this by investing in low-risk, short term cash and cash equivalents held with highly-rated banking institutions or liquidity funds.

C.7.3 Additional information on the COVID-19 global pandemic

Further information on the impact of the COVID-19 global pandemic is contained within section F.5.

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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 and D.2 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

As at 31 December 2019 £000s	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)
Financial investments						
Collective investment undertakings		-	9,300	9,300	9,300	-
Reinsurance recoverables	H & 7	350,348	-	350,348	340,469	(9,878)
Receivables						
Reinsurance	K & 8	12,544	-	12,544	12,544	-
Trade, not insurance	K & 8	61,230	(73)	61,157	61,157	-
Cash and cash equivalents	J & 14(b)	17,980	(9,301)	8,679	8,679	-
Assets		442,102	(74)	442,028	432,150	(9,878)
Technical Provisions	G & 9	(350,348)	-	(350,348)	(340,889)	9,458
Deferred tax liabilities		(44)	44	-	-	-
Payables and other financial liabilities						
Payables (trade, not insurance)	L & 11	(1,269)	29	(1,240)	(1,240)	-
Liabilities		(351,661)	74	(351,588)	(342,129)	9,458
Excess of assets over liabilities		90,441	-	90,441	90,021	(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 is 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 2019 £000s	Best Estimate	Risk Margin	Technical Provisions
Line of Business			
Marine, aviation and transport	12,142	14	12,155
General liability insurance	249,139	293	240,432
Accepted non-proportional reinsurance	88,189	114	88,303
Total	340,469	420	340,889

D.2.1.1 Best Estimate Liabilities

The following general principles apply to the valuation of Best Estimate liabilities:

- 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 business; and
- 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 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 homogenous 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 policy conditions and claims handling procedures.

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. 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 2019.

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.

D.2.1.3 Simplifications

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 better or 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.

Further information on the impact of the COVID-19 global pandemic is contained within section F.5.

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 2019 £000s	Best Estimate Liability (BEL)	Risk Margin (RM)	SII Technical Provisions (BEL+RM)	IFRS Technical Provisions	Difference between SII and IFRS Technical Provisions
Non-life (excluding health)	340,469	420	340,889	350,348	9,458
- Marine, aviation and transport	12,142	14	12,155	12,492	337
- General liability insurance	240,139	293	240,432	247,102	6,671
- Accepted non-proportional reinsurance	88,189	114	88,303	90,753	2,450
Total	340,469	420	340,889	350,348	9,458

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 £6,383 thousand (2018: £11,830 thousand).

D.2.5 Other reliefs

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

D.3 Other liabilities

The Company does not have any material classes of liability, excluding Technical Provisions as at 31 December 2019 (2018: £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

The Company has no other material information to disclose.

D.5.1 Additional information on the COVID-19 global pandemic

Further information on the impact of the COVID-19 global pandemic is contained within section F.5.

The Ocean Marine Insurance Company Limited

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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 duration-based equity risk sub-module in the calculation of the Solvency Capital Requirement

E.4 Difference 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.

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 in Appendix F.1.6, and is summarised below.

Own Funds £000s	Total	Tier 1 (unrestricted)	*Total*	*Tier 1 (unrestricted)*
As at 31 December	2019	2019	*2018*	*2018*
Ordinary share capital	1,000	1,000	*1,000*	*1,000*
Reconciliation reserve	89,201	89,021	*113,631*	*113,631*
Total Basic Own Funds	90,021	90,021	*114,631*	*114,631*

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.

Significant changes in own funds during the year

Tier 1 own funds fell by £24,610 thousand during the year. The decrease was mainly due to payment of a dividend of £25,000 thousand.

Reconciliation reserve

The Company's capital comprises ordinary share capital, capital reserves and retained earnings. However, capital reserves and 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 Company's reconciliation reserve:

	£000s	*£000s*
As at 31 December	2019	*2018*
SII excess of assets over liabilities	90,021	*114,631*
Ordinary share capital	(1,000)	*(1,000)*
Reconciliation reserve	89,021	*113,631*

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 at 31 December	£000s 2019	£000s *2018*
Total eligible Own Funds to meet the SCR	*90,021*	*114,631*
Total eligible Own Funds to meet the MCR	*90,021*	*114,631*

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

As at 31 December	2019	*2018*
Ratio of eligible Own Funds to the SCR	*1,805%*	*2,267%*
Ratio of eligible Own Funds to the MCR	*2,825%*	*3,486%*

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

The Company's Own Funds of £90,021 thousand are equal to the excess of assets over liabilities on a SII basis of £90,021 thousand. The Company's excess of assets over liabilities on a SII basis as at 31 December 2019 is £420 thousand less than its 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 2019	£000s	£000s	See Section
Total equity on an IFRS basis		90,441	
Valuation adjustments to Reinsurance Recoverables	(9,878)		D.1.2
Valuation adjustments to Technical Provisions	9,458		D.2.3
		(420)	
Excess of assets over liabilities on a SII basis		90,021	

E.1.4 Transitional arrangements and restrictions

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

E.2 Solvency Capital Requirement and Minimum Capital Requirement

E.2.1 The amount of the SCR and MCR

The Company's SCR as at 31 December 2019 was £4,988 thousand (2018: £5,056 thousand). This is shown in the SCR QRT S.25.03 in Appendix F.1.7. The Company's MCR as at 31 December 2019 was £3,187 thousand (2018: £3,288 thousand). This is shown on the MCR QRT S.28.01 in 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) As at 31 December	£000s 2019	£000s 2018
Counterparty risk	2,635	4,796
Operational risk	1,530	1,480
Diversification	823	(1,220)
Total SCR	4,988	5,056

Each risk component includes the impact of diversification within that component. The SCR includes the impact of diversification between the risk categories. At YE19, there is less investment credit risk post dividend payment, reducing the overall counterparty risk and leading to a negative diversification benefit between counterparty and operational risks.

E 2.3 Simplifications, undertaking specific parameters and matching adjustment

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 net written premium and its 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. At 31 December 2019, the Company's MCR is the absolute minimum which is £3,187 thousand (2018: £3,288 thousand) following translation into GBP.

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 Difference 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. 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 these 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, 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:

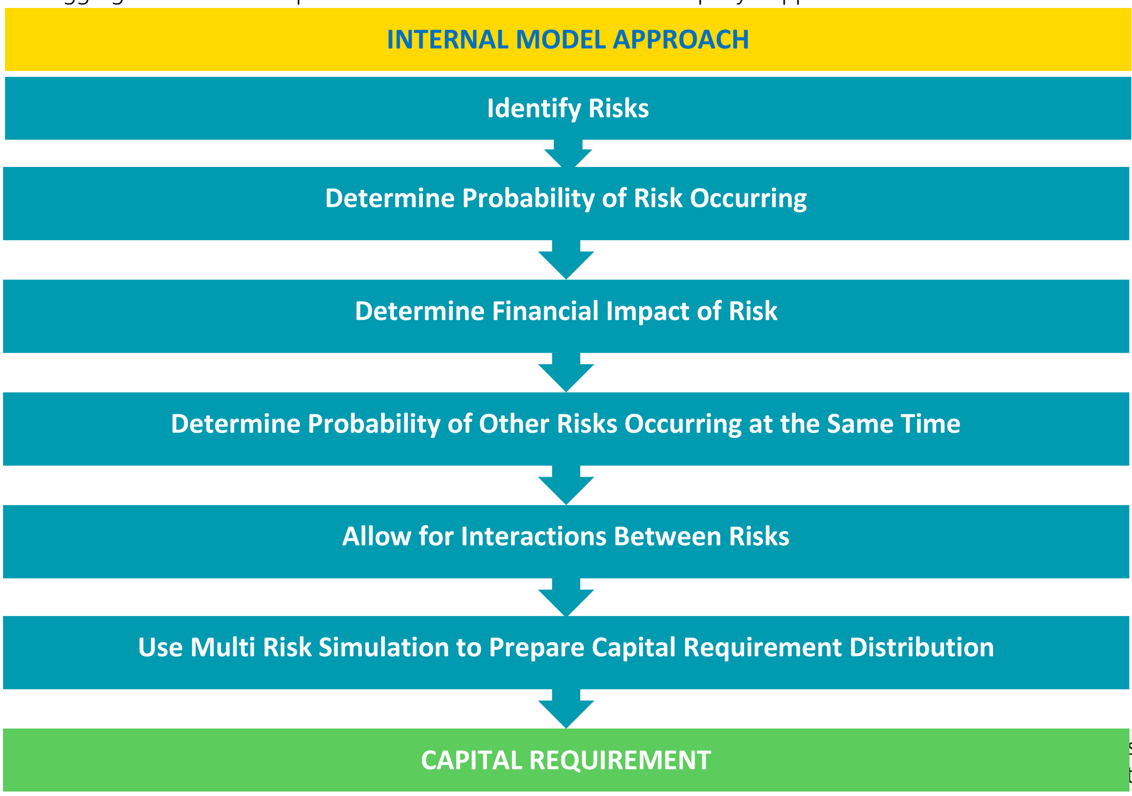
- Business planning, capital allocation, and setting risk appetites;
- Reviewing the effectiveness of the reinsurance contracts in place to mitigate undesirable risk exposures, through modelling potential adverse scenarios; and
- Measuring the impact of market changes on assets and liabilities to drive 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. An overview of the Company's approach is shown below.



s. This flexibility is
tely.

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 is derived from this and ensures the Company holds sufficient capital to withstand a 1 in 200 year event. 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.
- The Company's IM considers default risk in more detail, taking into account 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.
- 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, including data on claims, policies in force and past policies;
- 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.

E.6.1 Additional information on the COVID-19 global pandemic

Further information on the impact of the COVID-19 global pandemic is contained within section F.5.

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F. Appendices

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S.17.01 Technical Provisions [non-life]
S.19.01 Insurance claims [non-life]
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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 outcome of the negotiations on the future economic 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; 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 7 April 2020 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 who this document is shown or into whose hands it may come, and any such responsibility or liability is expressly disclaimed.

Annex I
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	9,300
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	9,300
Derivatives	R0190	
Deposits other than cash equivalents	R0200	0
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	340,469
- Reinsurance recoverables - Non-life and health similiar to non-life	R0280	340,469
- Reinsurance recoverables - Non-life excluding health	R0290	340,469
- 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	12,544
Receivables (trade, not insurance)	R0380	61,157
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	8,679
Any other assets, not elsewhere shown	R0420	1
Total assets	R0500	432,150
Liabilities		
Technical provisions - Non-life	R0510	340,889
- Technical provisions - Non-life (excluding health)	R0520	340,889
- TP calculated as a whole - Non-life (excluding health)	R0530	
- Best Estimate - Non-life (excluding health)	R0540	340,469
- 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	
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	840
Total liabilities	R0900	342,129
Excess of assets over liabilities	R1000	90,021

Annex I
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								-4				
Gross - Proportional reinsurance accepted	R0120												
Gross - Non-proportional reinsurance accepted	R0130												
Reinsurers' share	R0140								-4				
Net	R0200												
Premiums earned													
Gross - Direct Business	R0210								-4				
Gross - Proportional reinsurance accepted	R0220												
Gross - Non-proportional reinsurance accepted	R0230												
Reinsurers' share	R0240								-4				
Net	R0300												
Claims incurred													
Gross - Direct Business	R0310						1,532	211	5,984				
Gross - Proportional reinsurance accepted	R0320						497	171	1,169				
Gross - Non-proportional reinsurance accepted	R0330												
Reinsurers' share	R0340						2,029	383	7,154				
Net	R0400						0						
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								61				
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					-4
Gross - Proportional reinsurance accepted	R0120					
Gross - Non-proportional reinsurance accepted	R0130					
Reinsurers' share	R0140					-4
Net	R0200					
Premiums earned						
Gross - Direct Business	R0210					-4
Gross - Proportional reinsurance accepted	R0220					
Gross - Non-proportional reinsurance accepted	R0230					
Reinsurers' share	R0240					-4
Net	R0300					
Claims incurred						
Gross - Direct Business	R0310					7,728
Gross - Proportional reinsurance accepted	R0320					1,838
Gross - Non-proportional reinsurance accepted	R0330		1,128	1,568	146	2,842
Reinsurers' share	R0340		1,128	1,568	146	12,408
Net	R0400					0
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					61
Other expenses	R1200					
Total expenses	R1300					61

Annex I
S.05.02.01
Premiums, claims and expenses by Country
Amounts in 000s

		Home Country	Top 5 countries (by amount of gross premium written) - non-life obligations					Total Top 5 and home country
		C0010	C0020	C0030	C0040	C0050	C0060	C0070
	R0010							
		C0080	C0090	C0100	C0110	C0120	C0130	C0080
Premiums written								
Gross - Direct Business	R0110	-4						-4
Gross - Proportional reinsurance accepted	R0120							
Gross - Non-proportional reinsurance accepted	R0130							
Reinsurers' share	R0140	-4						-4
Net	R0200							
Premiums earned								
Gross - Direct Business	R0210	-4						-4
Gross - Proportional reinsurance accepted	R0220							
Gross - Non-proportional reinsurance accepted	R0230							
Reinsurers' share	R0240	-4						-4
Net	R0300							
Claims incurred								
Gross - Direct Business	R0310	7,728						7,728
Gross - Proportional reinsurance accepted	R0320	1,838						1,838
Gross - Non-proportional reinsurance accepted	R0330	2,842						2,842
Reinsurers' share	R0340	12,408						12,408
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	61						61
Other expenses	R1200							
Total expenses	R1300							61

Annex I

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	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						12,142		240,139				
Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	R0240						12,142		240,139				
Net Best Estimate of Claims Provisions	R0250												
Total Best estimate - Gross	R0260						12,142		240,139				
Total Best estimate - Net	R0270												
Risk margin	R0280						19		401				
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						12,160		240,540				
Recoverable from reinsurance contract/SPV and Finite Re after the adjustment for expected losses due to counterparty default - Total	R0330						12,142		240,139				
Technical provisions minus recoverables from reinsurance/SPV and Finite Re - Total	R0340						19		401				

		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		87,255	934		340,469
Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	R0240		87,255	934		340,469
Net Best Estimate of Claims Provisions	R0250					
Total Best estimate - Gross	R0260		87,255	934		340,469
Total Best estimate - Net	R0270					
Risk margin	R0280					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		87,255	934		340,889
Recoverable from reinsurance contract/SPV and Finite Re after the adjustment for expected losses due to counterparty default - Total	R0330		87,255	934		340,469
Technical provisions minus recoverables from reinsurance/SPV and Finite Re - Total	R0340					420

Annex I
S.19.01.21
Non-Life Insurance Claims Information
Amounts in 000s

Total Non-Life Business

Accident year / Underwriting year	**Z0020**	AY

Gross Claims Paid (non-cumulative)
(absolute amount)

		Development Year													In Current year	Sum of years (cumulative)
		0	**1**	**2**	**3**	**4**	**5**	**6**	**7**	**8**	**9**	**10&+**				
		C0010	C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0090	C0100	C0110			C0170	C0180
Prior	R0100											19,200		R0100	19,200	19,200
R0160	R0160													R0160		
R0170	R0170													R0170		
R0180	R0180													R0180		
R0190	R0190													R0190		
R0200	R0200													R0200		
R0210	R0210													R0210		
R0220	R0220													R0220		
R0230	R0230													R0230		
R0240	R0240													R0240		
R0250	R0250													R0250		
													Total	R0260	19,200	19,200

Gross undiscounted Best Estimate Claims Provisions
(absolute amount)

		Development Year													Year end (discounted data)
		0	**1**	**2**	**3**	**4**	**5**	**6**	**7**	**8**	**9**	**10&+**			
		C0200	C0210	C0220	C0230	C0240	C0250	C0260	C0270	C0280	C0290	C0300			C0360
Prior	R0100											394,648		R0100	340,469
R0160	R0160													R0160	
R0170	R0170													R0170	
R0180	R0180													R0180	
R0190	R0190													R0190	
R0200	R0200													R0200	
R0210	R0210													R0210	
R0220	R0220													R0220	
R0230	R0230													R0230	
R0240	R0240													R0240	
R0250	R0250													R0250	
													Total	R0260	340,469

Annex I

S.22.01.21

Impact of long term guarantees and transitional measures

Amounts in 000s

		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
Technical Provisions	R0010	340,889			6,383	
Basic Own Funds	R0020	90,021				
Eligible own funds to meet Solvency Capital Requirement	R0050	90,021				
Solvency Capital Requirement	R0090	4,988				
Eligible own funds to meet Minimum Capital Requirement	R0100	90,021				
Minimum Capital Requirement	R0110	3,187				

Annex I
S.23.01.01
Own Funds
Amounts in 000s

		Total	Tier 1 Unrestricted	Tier 1 Restricted	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	89,021	89,021			
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	**90,021**	**90,021**			
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	90,021	90,021			
Total available own funds to meet the MCR	R0510	90,021	90,021			
Total eligible own funds to meet the SCR	R0540	90,021	90,021			
Total eligible own funds to meet the MCR	R0550	90,021	90,021			
SCR	R0580	**4,988**				
MCR	R0600	**3,187**				
Ratio of eligible own funds to SCR	R0620	**18.0488**				
Ratio of eligible own funds to MCR	R0640	**28.2470**				

		C0060
Reconciliation Reserve		
Excess of assets over liabilities	R0700	90,021
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	**89,021**
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	

Annex I

S.25.03.21

Solvency Capital Requirement - For undertakings on Full Internal Models

Amounts in 000s

Unique number of component	Component Description	Calculation of the Solvency Capital Requirement	LAC DT
C0010	C0020	C0030	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	
Diversification	R0060	
Capital requirement for business operated in accordance with Art. 4 of Directive 2003/41/EC (transitional)	R0160	
Solvency capital requirement excluding capital add-on	R0200	
Capital add-ons already set	R0210	
Solvency Capital Requirement	R0220	
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	
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 based on average tax rate
Approach to tax rate (Solos only)		C0109
Approach based on average tax rate	R0590	

		LAC DT
Calculation of loss absorbing capacity of deferred taxes (Solos only)		C0130
LAC DT	R0640	
LAC DT justified by reversion of deferred tax liabilities	R0650	
LAC DT justified by reference to probable future taxable profit	R0660	
LAC DT justified by carry back, current year	R0670	
LAC DT justified by carry back, future years	R0680	
Maximum LAC DT	R0690	

Annex I

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

		C0010
MCRNL Result	R0010	

		Net (of reinsurance/SPV) best estimate and TP calculated as a whole	Net (of reinsurance) written premiums in the last 12 months
		C0020	C0030
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	R0100		
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

		C0040
MCRL Result	R0200	

		Net (of reinsurance/SPV) best estimate and TP calculated as a whole	Net (of reinsurance/SPV) total capital at risk
		C0050	C0060
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	4,988
MCR cap	R0320	2,244
MCR floor	R0330	1,247
Combined MCR	R0340	1,247
Absolute floor of the MCR	R0350	3,187
		C0070
Minimum Capital Requirement	R0400	3,187

F.2 Glossary

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 Ocean Marine Insurance Company Limited at 31 December 2019 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 2019, 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 2019 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.

T J Latter, Director

7 April 2020

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.

F.5 Additional information on the COVID-19 global pandemic

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 the global economy more widely, as well as causing increased volatility and declines in financial markets. If the pandemic is prolonged, or further diseases emerge that give rise to similar effects, the adverse impact on the global economy could be deepened and result in further declines in financial markets.

As an insurer the Company is primarily impacted by the Covid-19 pandemic through its general insurance products, although this is mitigated by the comprehensive reinsurance arrangements in place. The Company continues to maintain strong solvency levels and expects to continue to meet its capital requirements given the nature of the Company's balance sheet exposure. However, as the situation is rapidly evolving it is not practicable to quantify the potential financial impact of the outbreak on the Company at this stage.

Figures presented in the SFCR and the associated Quantitative Reporting Templates (QRTs) have been prepared based on conditions and best estimate assumptions at 31 December 2019 and have therefore not been adjusted for any impacts of COVID-19 including any impacts on technical provisions.

The following summarises the impact of COVID-19 on the information contained within sections A to E of the SFCR where this is considered relevant.

Business and performance

Information presented in Section A of this report represents the performance of the business as reported in the Company's financial statements for the 12-month period to 31 December 2019. As referred to above it is not practicable to quantify the potential financial impact of the outbreak on the company at this stage.

System of governance

The Company's overarching risk management and internal control system is responding well to the challenges of the COVID-19 outbreak and remains intact. Work is in progress to capture changes to the control environment to make allowances for the operational constraints. Any modifications are being closely monitored and subject to appropriate governance.

An out of cycle ORSA was triggered, in accordance with the ORSA Policy. Updates on the ORSA processes are being regularly provided to the Board.

Risk profile

The current process for monitoring the risks, the risk-mitigation techniques in place and the material concentrations of risk to which the business is exposed as a result of COVID-19 for each of the Company's key risk types are set out in this section.

The Company performs sensitivity analyses, stress and scenario testing in order to understand the impact that changes in underlying risk calibrations and correlations of those risks would have on the Company's risk profile and SCR. See section C.7 for details of the methodology employed in sensitivity analysis, the assumptions and limitations in performing these analyses and the results obtained at 31 December 2019.

Underwriting risk: 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.

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

Credit risk: 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.

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

Operational risk: 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 our outsourcing arrangements. Processes and controls, including those in respect of the oversight of outsourced operations, are being monitored to ensure operational risks remain at an acceptable level.

Valuation for solvency purposes

The COVID-19 pandemic has resulted in declines in global financial markets with a corresponding impact on the valuation of certain financial assets held at fair value within the Company's balance sheet. Technical provisions have been prepared based on conditions and best estimate assumptions at 31 December 2019 and have therefore not been adjusted for any impacts of COVID-19.

The Company reviews the best estimate assumptions used in the calculation of technical provisions on an ongoing basis and will update them accordingly for the expected impacts of COVID-19. However, given the rapidly evolving nature of the situation, it is not practicable at this stage to quantify the potential valuation impact of the pandemic and related financial market impacts, on the financial assets and technical provisions of the Company.

Capital management

The capital of the Company is monitored on an ongoing basis. As at 31 December 2019 the Company had strong solvency levels and expects to continue to meet its Solvency Capital Requirements. Notwithstanding this, the COVID-19 pandemic may have an adverse impact on the Company's own funds and solvency coverage ratio. The Company's balance sheet exposure and solvency position is being reviewed on an ongoing basis and actions would be taken as required to protect the solvency position.