

Aviva Investors Pensions Limited

2020 Solvency and Financial Condition Report (SFCR)

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Summary

Executive Summary

The purpose of the Solvency Financial and Condition Report (SFCR) is to provide information about the capital position at 31 December 2020 of Aviva Investors Pensions Limited (AIPL, 'the Company') based on the Solvency II requirements.

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

Business and performance

AIPL is a limited company incorporated and domiciled in the UK, which provides customers with long-term life insurance services in the form of a unit-linked insurance business.

In 2020, operating profit decreased by £0.1 million to £0.3 million (2019: £0.4 million), mainly due to customer redemptions during the year of £192.8 million (2019: £188.5 million) across eight unit-linked funds, partly offset by net investment income of £23.5 million (2019: £60.6 million). As a result of the redemptions in the year, revenues arising from annual management charges (AMCs) has decreased to £4.1 million for the full year 2020 (2019: £5.0 million). Similarly, there was a corresponding decrease to expenses arising from management fees and other variable administrative costs paid to Aviva Investors Global Services Limited (AIGSL) of £3.8million (2019: £4.7 million).

No interim dividend was paid during the year 2020 (2019: £nil). The directors do not recommend the payment of a final dividend for the financial year ending 31 December 2020.

In early 2021 the directors of the Company took the decision to wind up the remaining unit linked policyholder funds. This is described further in A.1.3 Events after the reporting period.

Section A of this report sets out further details about AIPL's business structure, key operations, market position and financial performance over the reporting period, split by underwriting performance, investment performance, and performance from other activities.

System of governance

The Board's responsibility includes ensuring that an appropriate system of governance is in place for the Company. To discharge this responsibility, the Board has established frameworks for risk management and internal control using a 'three lines of defence' model and sets the Company's risk appetite. A strong system of governance for the Company aids effective decision-making and supports the achievement of the Company's objectives for the benefit of customers, shareholders and the UK regulators.

Section B of this report describes the system of governance in place throughout AIPL by which the operations of the Company are overseen, directed, managed, and controlled, and explains how it complies with the requirements of Solvency II. It describes the following key features:

- The role and responsibility of the Board and delegation of authority to senior management;
- The role and responsibilities of the four key control functions – Risk management, Actuarial, Compliance and Internal Audit – and how they are implemented within the Company;
- The remuneration policy, skills requirements, and procedures for assessing fitness and propriety for senior management and key function holders;
- AIPL's Risk and Oversight Management Framework (ROMF) and its codification through risk policies and business standards, which sets out the risk strategy, appetite, framework and minimum requirements for AIPL's operations, and includes the Company's approach to its Own Risk and Solvency Assessment (ORSA) and governance over its capital model for Solvency II under the Standard Formula (SF) approach;

- How AIPL adheres to the Aviva Group (the Group) business standards which set out mandated control objectives and controls that mitigate operational risks faced by the Group, collectively providing the Group's framework of internal control; and
- AIPL's outsourcing policy and information on important outsourced operational functions, including any intra-group outsourcing arrangements.

Risk Profile

AIPL seeks to optimise its business performance subject to remaining within risk appetite and meeting the expectations of stakeholders. This is achieved by embedding rigorous and consistent risk and oversight management within the business.

The Board meets at least five times per annum and is responsible for identifying, measuring, managing, monitoring, and reporting on AIPL's full spectrum of current and future risks facing the business whilst achieving its strategic objectives. The Board is responsible for the identification, measurement, management, monitoring and reporting of key, material, proximate and emerging risks which it does at least annually.

The types of risk to which AIPL is exposed have not changed significantly over the year and remain credit, market, lapse, expense, operational and liquidity risks. For those risk types managed through the holding of capital, AIPL measures and monitors risk profile on the basis of the Solvency Capital Requirement (SCR).

Some categories of risk are not measured and managed by holding capital, principally liquidity risk, which is measured through an absolute level target based on stress testing and the operational needs of the business.

In addition, through the ORSA process, management consider whether there are any risks not captured in the SCR for which AIPL should hold additional capital.

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

Valuation for Solvency Purposes

Assets, technical provisions and other liabilities are valued in AIPL's Solvency II balance sheet according to the Solvency II regulations. The principle that underlies the valuation methodology for Solvency II purposes is the amount for which they could be exchanged, transferred or settled by knowledgeable and willing third parties in an arms length transaction.

At 31 December 2020, AIPL's excess of assets over liabilities was £9.5 million on a Solvency II basis, which is £0.1 million greater than the total equity reported under International Financial Reporting Standards (IFRS). The valuation of technical provisions adjustments did not materially adjust IFRS equity. The valuation difference on a Solvency II basis is driven by £0.4 million present value of future profits (PVFP) included in the best estimate liability (BEL), offset by the inclusion of risk margin (RM) of £0.3 million.

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 Solvency II bases of valuation.

Capital management

AIPL manages Own Funds in conjunction with capital requirements as defined by the Solvency II framework. In the calculation of the SCR, management has chosen to implement the SF approach.

In managing capital, AIPL seeks to, on a consistent basis:

- Maintain sufficient financial strength in accordance with risk appetite and satisfy the requirements of the Financial Conduct Authority (FCA) and the Prudential Regulation Authority (PRA), the dual regulators of the Company, and other stakeholders giving both customers and shareholders assurance of the Company's financial strength;
- Retain financial flexibility by maintaining strong liquidity; and
- Repatriate excess capital where appropriate.

At 31 December 2020, the total eligible Own Funds of £9.5 million (2019: £9.1 million) was represented by unrestricted tier 1 capital. The SCR at 31 December 2020 was £1.9 million (2019: £2.0 million). This was lower than the Minimum Capital requirement (MCR) of £3.3 million. Therefore, as at 31 December 2020 the Company's minimum capital requirement was the MCR. This resulted in the overall AIPL surplus position of £6.2 million (2019: £5.9 million), which translates to a regulatory cover ratio of 288% (2019: 284%), and to a surplus above appetite of 216%.

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

Section 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

SECTION A: BUSINESS AND PERFORMANCE

The 'Business and Performance' section of the report sets out Aviva Investors Pensions Limited's (hereafter AIPL or 'the Company') business structure, key operations and financial performance over the reporting period.

A.1 Business

A.1.1 Business Overview

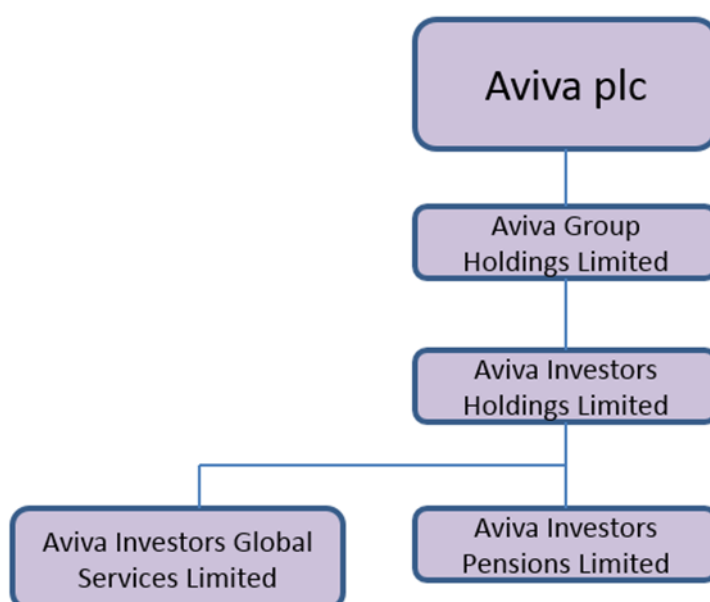
AIPL is a limited company incorporated, domiciled and operating in England and Wales. Its principal activity is the provision and administration of unit-linked insurance business in the UK.

AIPL is a wholly owned subsidiary of Aviva Investors Holdings Limited ('AIHL'). AIHL is the holding company of the Aviva Investors business and is wholly owned by Aviva Group Holdings Limited which is in turn wholly owned by Aviva plc.

AIPL manages eight unit-linked funds across fixed income, equities, property and multi-asset. As at 31 December 2020, the largest fund is the Property Fund which represents c.53% of the assets under management (AUM) in the fund range.

A.1.2 Organisational structure of the Group

The following chart shows, in simplified form, an extract of the Company's position within the structure of the Group and specific subsidiaries with whom AIPL has key relationships at 31 December 2020. Aviva plc is the ultimate parent of the Company and Aviva Investors Holdings Limited (AIHL) is the immediate parent and holding company of the Aviva Investors group of companies.



A.1.3 Significant events in the reporting period

Events after the reporting period

In January 2021 the decision was taken to wind up three unit linked policyholder funds, the Balanced Managed Fund, the Corporate Bond Fund, and the High Alpha Gilt Fund. Policyholders invested in these funds were served notice which was effective from 22 January 2021. The Corporate Bond Fund and the High Alpha Gilt Fund closed on 22 April 2021 and the closure of the Balanced Managed Fund is expected in line with the 12-month deferral period. In April 2021, a further decision was taken to wind up the five remaining funds, the Property Fund, the Long-Dated Corporate Bond Fund, the Global Return-Seeker Fund, the UK Equity Active Fund and the Index Linked Gilt Fund. Policyholders invested in these funds were served notice which was effective from 14 April 2021. The closure of the Property Fund is expected in line with the 24-month deferral period. The closure of the other funds is expected on 14 July 2021. As a result of the decision to serve notice on all remaining unit linked policyholder funds and following the expected closure of all funds within 24 months of the final notice being served, the Company is expected to cease operating and commence a voluntary liquidation.

A.1.4 Other information

Qualifying holdings

AIPL is a 100% subsidiary of AIHL and is a member of the Aviva plc group of companies. AIHL is the only qualifying holding as defined by Article 13(21) of Directive 2009/138/EC as AIHL has 100% of the voting rights and interest in AIPL.

Supervisor

The Company is authorised by the PRA and regulated by both PRA and 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 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.

A.2 Underwriting Performance

The Company charges unit-linked policyholders fees for policy administration, investment advisory for a range of pooled investment funds, and other contract services. The Company then delegates investment management to a

fellow subsidiary, AIGSL, on an arms length basis, for which it is charged a management fee. The excess of AMCs over management fees payable to AIGSL is the principal profit generating activity of the Company.

Operating profit is the key performance metric used to manage performance within the Aviva Group. This is a non-GAAP measure, and in the case of AIPL, is an appropriate measure of underwriting performance.

Operating profit is defined across Aviva Group as profit before income taxes, excluding the following items: investment return variances and economic assumption changes on long-term business, profit or loss on the disposal of assets and re-measurement of subsidiaries, joint ventures and associates.

For AIPL, operating profit is aligned to profit before income taxes as outlined in section A.2.1.

A.2.1 Performance from underwriting and other activities

Profit before tax as disclosed in the AIPL financial statements for full year 2020 represents the Company's overall performance over the reporting period. As noted earlier in this report, this metric represents the excess of AMCs (revenue) paid by the policyholders of the unit-linked business over the underlying management fees paid to AIGSL (administrative expenses) for management of the policyholder assets. The following table presents profit before tax for the year ended 31 December 2020 along with comparatives for 2019.

Statement of Comprehensive Income For the year ended 31 December 2020		
	2020	2019
	£m	£m
Income		
Revenue	4.1	5.0
Net investment income	23.5	60.6
	27.6	65.6
Expenses		
Claims payable	-	-
Change in investment contract provisions	(23.3)	(60.4)
Administrative expenses	(3.8)	(4.7)
Other operating expenses	(0.2)	(0.1)
	(27.3)	(65.2)
Profit before tax	0.3	0.4
Tax credit/(expense)	-	0.1
Profit for the year and total comprehensive income for the year	0.3	0.5

Net investment income is largely attributable to policyholders and so is offset by corresponding changes in investment contract provisions and other operating expenses. On an IFRS basis, liabilities for unit-linked investment contracts have decreased to £729.5 million at 31 December 2020 (2019: £899.3 million) primarily due to redemptions of £192.8 million (2019: £188.5 million) across eight funds, partly offset by favourable net investment income of £23.5 million (2019: £60.6 million). As a result of the redemptions in the year, revenues arising from AMCs have decreased to £4.1 million for the full year 2020 (2019: £5.0 million). This has been partly offset by lower expenses arising from management fees and

other variable administrative costs paid to AIGSL, which have decreased to £3.8 million in the year (2019: £4.7million). As a result, the 2020 profit before tax decreased by £0.1 million to £0.3 million.

AIPL also has operating and finance lease arrangements within the property fund of the unit-linked insurance business. Further information regarding lease arrangements can be found in section D.3.2.

A.3 Investment Performance

Net investment income as disclosed in the Company's financial statements represents the Company's overall investment performance for both policyholders and shareholders. Investment income consists of dividends, interest and rents receivable for the year, realised gains and losses, and unrealised gains and losses on investments held at fair value.

Long-term insurance and savings business

Policyholders and shareholder funds are invested in order to generate a return for both policyholders and shareholders. The financial strength of the Company and both the current and future operating results and financial performance are, therefore, in part dependent on the quality and performance of these investment portfolios.

As different products vary in their cash flows and in the expectations placed upon them by policyholders, the Company may need to hold different types of investments in the different fund ranges to meet these different cash flows and expectations. With the unit-linked business, the primary objective is to maximise investment returns, subject to following an investment policy consistent with representations made to unit-linked policyholders. Shareholder exposure to loss on policyholder assets is limited to the extent that income arising from asset management charges is based on the value of assets in the funds.

A.3.1. Investment performance by asset class

Net investment income represents the Company's overall investment performance for both policyholders and shareholders. The following section summarises the Company's net investment income and provides an analysis of net investment income by fund type.

Net investment income – Total

2020 Net Investment Income – Total (£k)	Debt Securities	Equity Securities	Other financial investments	Investment property	Total
Dividends	-	1,849	239	-	2,088
Interest	3,132	-	30	-	3,163
Net realised gains/(losses)	9,981	14,658	1,850	-	26,489
Net unrealised gains/(losses)	4,562	(15,444)	2,039	-	(12,921)
Rental income less expenses	-	-	-	14,142	(14,142)
Realised gains/(losses) on disposal of investment property	-	-	-	(5,155)	(5,155)
Unrealised gains/(losses) on investment property	-	-	-	(4,313)	(4,313)
Total	17,675	1,062	81	4,674	23,493

2019 Net Investment Income – Total (£k)	Debt Securities	Equity Securities	Other financial investments	Investment property	Total
Dividends	-	2,884	764	-	3,648
Interest	3,414	-	85	-	3,499
Net realised gains/(losses)	4,035	4,338	3,105	-	11,478

Net unrealised gains/(losses)	9,386	13,686	7,638	-	30,710
Rental income less expenses	-	-	-	24,457	24,457
Realised gains/(losses) on disposal of investment property	-	-	-	83	83
Unrealised gains/(losses) on investment property	-	-	-	(13,306)	(13,306)
Total	16,835	20,908	11,592	11,234	60,569

Of the net investment income in the table above, £25,212 (2019: £61,538) relates to the shareholder interest income on cash deposits (held in other financial assets above). The remainder relates to unit-linked policyholder assets. These assets are invested in line with the fund choices made by our unit-linked policyholders and the investment risk is borne by the policyholders.

A.3.2 Gains and losses recognised directly in equity

AIPL has no gains or losses recognised directly in equity.

A.3.3 Investments in securitisations

AIPL has no investments in securitisation vehicles.

A.4 Performance of other activities

AIPL has no other material income and expenses in the year.

A.5 Any other information

There is no other material information regarding the business and performance of the Company during the year.

Section 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 material information

SECTION B: SYSTEM OF GOVERNANCE

This section of the report sets out information regarding the 'System of Governance' in place within AIPL. Details of the structure of AIPL's administrative, management or supervisory body are provided. The roles, responsibilities and governance of AIPL's key control functions (the Risk, Compliance, Internal Audit, Actuarial, People, Non-executive, Investment Management, Capital Management and Finance 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 Overview of AIPL's system of governance

AIPL is a wholly owned subsidiary of Aviva Investors Holdings Limited (AIHL). AIHL is the holding company of the underlying entities within the Aviva Investors group and is wholly owned by Aviva Group Holdings Limited which is in turn wholly owned by Aviva plc. The Aviva Group's system of governance is applied across the Aviva group therefore including AIPL, AIHL and the other companies within Aviva Investors.

The operating activities of the Company, which include product development; distribution and marketing; client relationship management; back-office administration services; fund accounting; actuarial services; transfer agency services and custody relationship oversight, have been outsourced to a fellow subsidiary, Aviva Investors Global Services Limited (AIGSL) under service agreements on an arm's length basis. AIGSL, in turn, outsources certain activities to other providers, namely back-office administration to JP Morgan and transfer agency services to Royal Bank of Canada.

AIGSL is also the nominated investment manager for the AIPL fund range and the relationship is governed by the Investment Management Agreement ('IMA').

Role and responsibilities of the Board

The Board is responsible for ensuring that an appropriate system of governance is in place for the Company, that the Company is appropriately managed and that it achieves its objectives. A strong system of governance aids effective decision-making and supports the achievement of business objectives for the benefit of customers, the shareholder, and the regulators.

The specific duties of the Board are set out in its terms of reference. The terms of reference list those matters that are specifically reserved for decision by the Board. All director appointments are supported by the Aviva Group General Counsel and Company Secretary and are recommended by the Aviva Investors Holdings Limited Nomination Committee.

The Board comprises a Non-Executive Chairman, a CEO and three further Executive Directors. The Board has delegated to the CEO the approval of specific matters within certain limits, above which matters must be escalated to the Board for determination.

Board committees

The Board has delegated the oversight of the activities undertaken by AIGSL on behalf of AIPL to Global Funds Services ('GFS'), which is an internal function that oversees the activities undertaken by AIGSL on behalf of the funds businesses, including AIPL.

The GFS committees have a reporting and escalation relationship with the Board, as well as to the AIHL Board via personal committees of the Aviva Investors Executive team and the Aviva Investors Executive Committee.

GFS UK Management Committee

The Board delegates decision making to the GFS UK Management Committee, subject to it being quorate with appropriate decision makers. The GFS UK Management Committee ensures that AIPL meets its business objectives and initiates strategic decisions. The GFS UK Management Committee additionally reviews current issues, risks and emerging risks on a regular basis. The GFS UK Management Committee provides regular reports to the Board, and to the relevant Personal Committees within Aviva Investors.

The role of the GFS UK Management Committee includes:

- Implementation of AIPL board strategies and principles to effectively run the business;
- Implementation and review of Internal Control Functions (Compliance, Internal Audit and Risk Management);
- Ensuring AIPL has the necessary infrastructure and human resources to perform the activities;
- Strategic project oversight;
- Review of all stakeholder issues in all areas within scope of AIPL;
- Providing effective controls management oversight ensuring that operational risks are treated properly in accordance with the Aviva Investors risk management framework;
- Consideration of matters relating to risk and control management and activities pertaining to the legal entities which are covered by the scope of GFS;
- Reporting to the relevant AIHL personal committees and alignment to those committees where such alignment is appropriate to the legal entities within GFS; and
- Legal entity board reporting and/or escalation.

GFS Investment Oversight Committees

Investment performance and activities are overseen by the GFS Investment Oversight Committees for liquid markets and real assets, that were established to oversee the investment management activities of the funds under remit of GFS including but not restricted to reviewing and recommending changes to investment guidelines and mandates, reviewing investment performance, and challenging investment strategies. The GFS Investment Oversight Committees are chaired by the GFS Head of Global Investment Oversight. The GFS Investment Oversight Committees have a reporting and escalation relationship with the Board and the Aviva Investors Investment Committee.

GFS Supplier Oversight Committee

The oversight and monitoring of AIPL's outsource providers are performed by the GFS oversight functions, reporting into the GFS Supplier Oversight Committee. The GFS Supplier Oversight Committee ultimately has a reporting and escalation relationship with the Operations and Oversight Committee, a personal committee of the Aviva Investors Chief Operating Officer. Matters reported to the Board include details of any significant operational breach of regulation, legislation or any of the operational risk policies or standards, and key operational risks outside of tolerance.

GFS Product and Distribution Committee

The GFS Product and Distribution Committee has responsibility for the oversight of product development and management, distribution arrangements, and certain other activities managed through Aviva Investors as set out in the terms of reference. It ultimately reports into the Aviva Investors Client and Product Committee, a personal committee of the Global Head of Global Client Solutions and has an escalation responsibility to the Board.

GFS Real Assets Valuation Committee

The GFS Real Assets Valuation Committee is a sub-committee of the Aviva Investors Pricing & Valuation Committee. It was established to deliver and ensure the implementation of consistent and controlled pricing and valuation of assets across Real Assets in accordance with Aviva Group standards, best practice and regulatory requirements. It has a responsibility to escalate any issues to the GFS Investment Oversight Committees.

Aviva Investors Audit Committee

The Audit Committee, working closely with the Aviva Investors Risk Committee, assists the Board in discharging its responsibilities for monitoring the integrity of the Company's financial statements and regulatory reporting. It also reviews the adequacy and effectiveness of the Company's systems of internal control and risk management and monitors the performance and objectivity of the internal and external auditors.

The "three lines of defence model" and roles and responsibilities of key functions

Aviva Investors (including AIPL) recognises the importance of clear and appropriate apportionment of significant responsibilities among directors and senior managers. This is achieved by having clear role profiles that record senior management accountabilities and are consistent with committee and delegated authority structures.

First line of defence: management monitoring

The GFS UK Management Committee is responsible for the implementation of the Company's Risk and Oversight Management Framework (ROMF) and oversight of its suppliers.

The Board is ultimately responsible for the company's strategy, risks, plans and policies and financial performance. The GFS UK Management Committee: implements the company's strategy, plans and policies; monitors the operational and financial performance; and assesses the financial, business and operational risks of AIPL on behalf of the Board.

Second line of defence: Risk Management, Compliance and Actuarial functions

Risk function

The Risk function is responsible for developing the Company's ROMF which complements the Aviva Group and Aviva Investors Risk Management Framework (RMF) requirements insofar that it does not breach any regulatory requirements.

The Risk function reviews and challenges the identifying, measuring, managing, monitoring and reporting (IMMMR) of risk exposures performed by the first line of defence. The Risk function reports to the Aviva Investors CRO who, in turn, reports to the Board on the overall risk profile of the Company incorporating the results of the risk monitoring activities, risk assessments performed on business decisions.

The Aviva Investors CRO is responsible for the preparation of the ORSA report which includes a continuous and forward-looking assessment of the short-term and long-term risks that the Company faces, or may face, and ensuring that the Company's solvency requirements are met at all times.

Compliance and actuarial functions

The Compliance function, reporting to the Aviva Investors CRO, supports and advises the business on regulatory, financial crime and conduct risks, and monitors and reports on the overall compliance risk profile.

The Aviva Investors Chief Compliance Officer and the UK Life Chief Risk Actuary attend the Board meetings and provide their respective reports to the Board.

Refer to sections B.3.2, B.4.2 and B.6 for further details on the roles, responsibilities, authorities, resources, independence and reporting lines of the Risk, Compliance and Actuarial functions respectively.

Third line of defence: Internal Audit

Internal Audit is part of the Aviva plc Group Audit function. It has a dedicated audit team who specialise in fund management, led by an Audit Director who reports to the Chief Audit Officer of Aviva plc and the Aviva Investors' Audit Committee. Refer to section B.5 of this report for details on the roles, responsibilities, authority, resources, independence, and reporting lines of the Internal Audit Function.

Implementation and assessment of adequacy of the system of governance

To promote a consistent and rigorous approach to risk and oversight management AIPL maintains frameworks, policies, methodologies, registers and supplementary guidance documents (as is appropriate) that are aligned with the policies and standards prescribed by Aviva Group. On an annual basis the Aviva Investors CEO, supported by the CRO, signs-off compliance with the Aviva Group policies and standards (which includes AIPL), providing assurance to the relevant oversight committee that the framework is being used for managing its business and associated risks. Moreover, the GFS UK Management Committee, GFS Investment Oversight Committees and GFS Supplier Oversight Committee have a reporting and escalation relationship with the Board and AIHL Committees, which in turn have a reporting and escalation relationship with the Aviva Investors Executive Committee and the Risk Management Committee, a personal committee of the Aviva Investors CRO.

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

B.1.2 Remuneration policy

There are no employees of the Company. Mr M Craston was a non-executive director and his fees were paid for and borne by AIHL, the immediate parent undertaking. The Executive Directors are remunerated for their roles as employees of the Aviva Group but are not remunerated directly for their services as directors of AIPL. There has been no re-charge to the Company.

B.1.3 Material transactions with management, shareholders and persons with significant influence on the Group

There were no material related party transactions reported. AIPL directors may from time to time purchase insurance, savings, asset management or annuity products marketed by Group companies on equivalent terms to all employees of the Group.

B.2 Fit and Proper Policy

The Group has the following policies in place to ensure that individuals acting on behalf of the Company are both “fit” and “proper” in line with the FCA and PRA’s Fit and Proper requirements for individuals subject to the Senior Manager Certification Regime:

- Fit - 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.
- Proper – 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 spans across the employee lifecycle including recruitment, performance management and training. To ensure the Group protects itself against employing individuals who potentially could threaten our people, customers, properties, facilities or reputation, the majority of Fit and Proper activities take place within recruitment and more specifically in pre-employment screening.

A policy to apply a minimum set of basic screening requirements has been agreed and implemented in order to support the recruitment activity for all staff across the Group. Additional enhanced screening requirements and ongoing Fit and Proper requirements are also applied for individuals who are subject to regulatory approval by the PRA and / or FCA.

For persons responsible for running the undertaking subject to regulatory approval / notification this assessment must consider their allocated responsibilities and skills and experience across a skills matrix which covers the following areas as appropriate:

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

The AIHL Nomination committee identifies the skills and experience that it would like to have at both Board and subsidiary level for Aviva Investors companies (including AIPL). These qualities are recorded into a skills matrix. The Committee uses the skills matrix as part of the process to identify suitable candidates to join the Boards of AIHL and its subsidiaries including AIPL. The Committee will consider the skills and experience of the Board that have been identified, taking into account all relevant aspects of diversity, to ensure a good balance is maintained on the Board that supports the wider Aviva Group values and culture.

Prior to appointing an individual into a role which requires regulatory approval, Certification status or enhanced vetting (Non-SMF Non-executive Directors), the Regulatory Approvals Team in the People Function ensures that the relevant skills and experience have been identified and agreed for the role. This is achieved by engaging with internal subject matter experts to define the skills and experience required for each approved Certified or Non-SMF Non-executive Director role. In all cases the team ensures that all skills and experience requirements have been identified, including any specific qualifications required to carry out the role. The Certified or Non-SMF Non-executive Director role skills and experience requirements and qualifications are, where applicable, captured within role profiles.

B.3 Risk management system including the Own Risk and Solvency Assessment

This section provides an overview of the Company’s ROMF. It describes how the Company’s ROMF has been implemented and integrated into the decision-making process. It also describes the Company’s process for conducting its ORSA.

B.3.1 AIPL Risk and Oversight Management Framework

AIPL seeks to optimise its business performance subject to remaining within risk appetite and meeting stakeholders' expectations. This is achieved by embedding rigorous and consistent risk and oversight management within the business. AIPL's ROMF includes the strategies, policies, processes, governance arrangements, tools, and reporting procedures necessary to support this. The ROMF adopts the AIHL RMF risk principles.

The Board is responsible for the full spectrum of current and future risks facing the business whilst achieving its strategic objectives. The appropriate oversight activities underpinned by people, processes, systems and external factors (e.g. suppliers) are developed and embedded to adequately meet business strategic goals and minimise losses to an acceptable residual risk exposure level.

AIPL monitors the health of the business by comparing data results (leading and lagging) – for example, risk events and indicators– to appetite limits and strategic targets. Issues and related root causes identified are used by the Board to assess the residual risk exposure of the business. Exposures exceeding appetite are prioritised for resolution using rigorous issue and remediation processes.

The progress of remediation is monitored by the Board to identify early any activities that are not on track. In such instances, the Board is required to decide how to best manage the risk exposure (e.g. additional allocation of resources, tactical or short-term solutions until remediation is completed, etc.).

The ROMF is in compliance with AIPL's regulatory requirements and Aviva Investors' RMF insofar that it aligns with regulatory requirements. This document is owned by the AIPL Board and managed on their behalf by the CRO.

B.3.2 Risk management system: Own Risk and Solvency Assessment (ORSA)

AIPL's ORSA comprise all processes and tools that underpin the consideration of risk and capital implications in key decisions, including business planning. The goal of the ORSA is to provide a continuous and forward-looking assessment of the short-term and long-term risks that AIPL faces, or may face, and ensuring that the company's solvency requirements are met at all times.

The ORSA comprises several elements of the ROMF, such as:

- The risk strategy and risk appetite, which is set by the Board and then used to inform business planning.
- Capital and liquidity management information which enables the monitoring of up-to-date capital and liquidity levels.
- The IMMMR principles that must be followed by those who have responsibility for carrying them out.
- Stress and scenario testing, which helps simulate the likely impact of risks on the business (outlined in the Stress and Scenario Testing Business Standard).
- The explicit consideration of risk in the development of the business plans and strategy, and in performance reporting (outlined in the Strategy and Planning Business Standard).
- The risk register and risk spectrum, which record all quantifiable and non-quantifiable risks identified via top-down and bottom-up processes (outlined in the Aviva Group Risk Management Framework Policy and supporting guidance).

In combination, these elements create a holistic overview of the elements of risk that may impact the business, and which is taken into account in day-to-day decision-making. These ORSA processes provide the Board with insights on the key risks and current and future capital requirements of the Company.

The Board approved that capital resources and requirements are measured on the basis of Solvency II Standard Formula requirements for determining Solvency II Own Funds and SCR.

The ORSA reporting processes help to connect the strategy and business plans with the forward-looking assessment of risks as well as capital and liquidity requirements over the business planning horizon. They also provide the Board and management with the means to assess and challenge the risks and capital requirements associated with the execution of the business plan and key decision-making, including under stressed conditions. Key ORSA reports provided to the Board are:

- Finance Reports including capital and liquidity information: Provide an assessment, for the Board's review and approval, of the Company's capital and liquidity resources and needs and risk profile (measured by Solvency II SCR).
- CRO Report: Provide an update on the Company's risk profile, external and internal risk environment and emerging risks.
- ORSA Report: Summarises in a single report the key components of the ORSA, key developments and outcomes during the year, as well as projected solvency and liquidity positions over the 3-year plan horizon. The ORSA Report and accompanying ORSA Policy is reviewed and approved by the Board at least annually.

The second line Risk function reports to the Aviva Investors CRO. The AI CRO, in turn, reports to the Board on the overall risk profile and emerging risks of AIPL and all risk monitoring activities and business decisions as well as the effect of those risk monitoring activities and business decisions on AIPL's risk profile.

B.3.3 Integration of risk management into the decision-making processes

Current risks are the day-to-day risks facing the business whilst achieving its strategic objectives. The exposures to these risks are considered expected losses that are within the risk appetite of the business.

On an annual basis, the Board identifies and approves the current and future risks facing the business via the annual risk identification and measurement workshop, with reference to relevant internal and external data. The results of the workshops are validated, reviewed and challenged by the first and second lines of defence; and approved by the Board.

On a quarterly basis, the current risk register is reviewed by the Board to determine whether any residual risk exposures are moving outside appetite due to issues or decisions / changes in the business that have been made.

B.4 Internal control system

B.4.1 Description of the internal control system

Internal controls facilitate effective and efficient business operations, the development of robust and reliable internal reporting and compliance with laws and regulations.

The Internal Control Business Standard sets out Aviva's required controls for effective internal control across the Group which are applied directly by the Company or via the outsourcing arrangement with AIGSL. These required controls are split along five principles:

- Appropriate tone from the top: Businesses are to ensure that there is an appropriate culture ("tone from the top"). An appropriate culture includes 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;
- An organisational structure exists that supports the systems of internal control: Businesses are to implement an organisational structure which facilitates the system of internal control. This 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 a risk management framework: Businesses implement Aviva Investors' risk and oversight management framework including:
 - Implementation of the applicable risk policies;
 - Implementation of the applicable business standards;
 - Consistent IMMMR of all key risks;
 - Documentation of agreed action plans for risks out of tolerance / appetite; and,
 - Consideration of alternative responses where risks are not directly controllable by management actions.
- Effective controls and monitoring: Businesses are to ensure that there are effective controls for each core business process and that these processes are monitored and reported on regularly. The controls should be proportionate to manage risks, be adequately documented, maintained and reviewed, and the results of that review reported; and
- Risk oversight: A risk oversight process should be established that provides adequate challenge to the completeness and openness of internal control and risk assessment. Where a committee structure is put in place to support this work, all committees must have defined terms of reference and appropriate membership, with proceedings adequately recorded and actions followed up.

B.4.2 Compliance function

AIPL is authorised and regulated by the PRA for prudential matters and regulated by the FCA for all conduct matters.

The Compliance Function is part of Aviva Investors Risk and Compliance Function and constitutes a key part of the firm's control environment. The function is a critical contributor to the safe and sound operation of the business and supports the achievement of the firm's strategy and business goals.

The primary purpose of the Compliance function is advising and overseeing the business's exposure to regulatory risk, including the following core areas of regulatory risk:

- Conduct of business and systems of control;
- Prevention of financial crime and anti-money laundering;
- Interpretation and application of current rules and regulatory guidance;
- Monitoring regulatory developments and supporting regulatory change management programmes;
- Managing a compliance related training framework; and
- Developing, implementing and overseeing compliance related policies and procedures.

The structure of the Compliance team is as follows; the Aviva Investors' Chief Compliance Officer reports to Aviva Investors' Chief Risk Officer, and also has a reporting line into the Aviva Group Compliance function. The Chief Risk Officer has a dual reporting line into Aviva Investors' Chief Executive Officer and to the Chief Risk Officer for the Aviva Group.

The Compliance team is responsible for identifying compliance risks in Aviva Investors (including both AIPL and the outsourced provider AIGSL) and working with senior management to ensure that appropriate policies, procedures and guidance exist to manage such risks. The compliance policies apply to Aviva Investors globally including AIPL.

B.5 Internal audit function

The Aviva Investors Internal Audit function is part of the Aviva plc Group Audit function and provides independent and objective assessment on the robustness of the ROMF and the appropriateness and effectiveness of internal control. It is a dedicated audit team who specialise in fund management, led by the Aviva Investors Audit Director who reports to the Group CAO and the Chair of the Aviva Investors Audit Committee.

Internal Audit provides reports to the Audit Committee of the AIHL Board and to management on the effectiveness of Aviva Investors' system of internal controls, and the adequacy of this system to manage business risk and to safeguard the Company's assets and resources. Their work provides coverage of key investment and operational activities performed by AIGSL on behalf of AIPL and any specific concerns relating to AIPL would be reported to the Board on an exception basis, with the Aviva Investors Audit Director in attendance.

In pursuit of this purpose Internal Audit undertakes, objectively and independently from management, to assess and report on the effectiveness of the design and operation of the framework of controls; on the effectiveness of management actions to address any deficiencies within the framework of controls; and to investigate and report on cases of suspected financial crime.

Internal Audit is responsible for performing these functions efficiently and effectively, but it is not responsible for setting AIPL's risk appetite or for the effectiveness of the framework of controls.

B.5.1 Independence and objectivity of the internal audit function

Internal Audit must be independent from management at all times in order to be effective in performing its activities. The arrangements to protect the independence of Internal Audit are set out below.

Appointments and reporting lines

- The Group CAO has a dual reporting line into the chair of the Group Audit Committee and to the Group Chief Financial Officer (Group CFO). The Group CAO has direct and unlimited access to the Group Board Chair, the chairperson of the Group Audit Committee (GAC), the chairperson of the Group Risk Committee (GRC), the chairperson of the Group Governance Committee (GGC) and the chairs of the local audit committees.
- The Aviva Investors Audit Director reports directly to the Group CAO.
- In addition, the AI Audit Director has a dotted reporting line to the Chair of the Aviva Investors Audit Committee.
- The Aviva Investors Audit Committee has a duty to recommend the appointment or dismissal of the AI Audit Director to the AIHL Board and to participate, jointly with the Group CAO or designee, in the determination of the objectives of the AI Audit Director and the evaluation of his levels of achievement, including consultation with AI's CEO.

Staff

- Internal Audit staff shall have no direct responsibility or authority over any operational activities reviewed and should not relieve others of such responsibilities.
- Internal Audit will maintain a formal policy of rotating staff to ensure that independence is maintained.
- Internal auditors will not perform or manage reviews in the business area for which they were previously responsible for a period of at least one year after the end of their role within the business. This excludes similar business areas in other legal entities or operating units. Internal auditors on rotation from a business unit will not perform or manage reviews in the business area for which they were previously responsible.
- Internal Audit will provide to the Group and business unit audit committees an annual confirmation of its independence.

B.5.2 Authority and resources of the internal audit function

- Internal Audit is authorised to review all areas of the Aviva Group and has full, free, and unrestricted access to all activities, records, property, and personnel necessary to complete their work.
- The scope of Internal Audit's activities extends to all legal entities, joint-ventures (JVs) and other business partnerships, outsourcing and reinsurance arrangements, other than where the audit capabilities of the JV counterparty are deemed to be sufficient by the Group CAO, in which case the JV's internal audit services may be provided by the JV partner.
- The Group CAO shall propose a budget which ensures that Internal Audit has sufficient skills and resources to discharge its responsibilities.

B.6 Actuarial function

The Aviva Group Actuarial Function is accountable for Group wide actuarial methodology, reporting to the relevant governing body on the adequacy of reserves and capital requirements, and on the adequacy of underwriting and reinsurance arrangements. The Actuarial Function has been implemented in line with Solvency II requirements, and where any interpretation has been made, this has been documented in the Actuarial Charter.

The AIPL Actuarial Function is undertaken by Aviva UK Life business (UK Life) and overseen by the Aviva UK Life Chief Risk Actuary and supported by actuaries working in the Chief Finance Actuary Function of UK Life.

The Actuarial Function has authority to review all areas of the business and has full, free and unrestricted access to all activities, records, property and personnel necessary to complete its work. The Group Chief Risk Actuary leads Aviva's global Actuarial function, supported by the local Chief Risk Actuary within UK Life.

UK Life's Actuarial Function has a functional report to the Group Actuarial Function ensuring that the function is effective. As such, UK Life's Actuarial Function is required to confirm to the Group Actuarial Function the appropriate use of methodologies and underlying models, assumptions made in the calculation of provisions and other statutory requirements.

All persons employed by the Actuarial function in a defined 'actuarial' role, are subject to Aviva Group's Fit and Proper minimum requirements to ensure they have the requisite skills and knowledge to complete the responsibilities outlined in these sections.

B.7 Outsourcing

The Aviva Group Procurement and Outsourcing Standard sets 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 business 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 Aviva businesses, supplier risk is managed effectively, customers are being treated fairly and continue to receive good outcomes, as well as to mitigate potential financial, operational, contractual, and brand damage caused by inadequate management.

The standard is benchmarked against UK regulatory expectations, FCA, PRA, Solvency II framework and Group Solvency II requirements, and where appropriate, regulatory guidance will be applied as a requirement.

The 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 to businesses on the definition of outsourcing, including where activity is delegated to an intermediary, and whether a function or activity outsourced is critical or important. All staff have a responsibility to comply with this standard if they are involved with supplier related activity.

Aviva Group's Board Risk Committee approves the control objectives and controls in the standard, which 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;
- Supplier management and business continuity – risk based approach to management of supply contracts; and
- Business contingency and exit plans – a means to safely exit the arrangement without material harm to the business.

Outsourced functions and activities

AIPL outsources a wide range of operational functions and activities, including policy administration, fund and investment management, claims handling, customer contact centres and IT services. The Procurement & Outsourcing Standard requires a global Supplier Landscape document to be produced bi-annually to capture details of all critical or important outsourced operational functions and activities.

Material outsourced functions include the following:

- Primary outsourcing to AIGSL who provide asset management services:
 - AIGSL subsequently outsource to JP Morgan (custodian and fund accounting)
 - AIGSL subsequently outsource to Royal Bank of Canada (RBC) (transfer agent)

Contracts are in place with third party outsource providers located in the UK and Luxembourg, some of whom make use of other offshore locations.

Furthermore, the actuarial function is undertaken by Aviva UK Life, who provide the Best Estimate Liabilities (BEL) and Risk Margin (RM) for AIPL's unit-linked business and assist with methodologies to calculate the SCR and review the output.

Material intra-group outsourcing arrangements

For the year ended 31 December 2020 the only intra-group outsourcing arrangement is in respect of the investment management activity with AIGSL.

B.8 Any other material information

No other information on Aviva's system of governance is considered material requiring disclosure in this section.

Section C

Risk Profile

In this Chapter

- C.1 Underwriting risk
- C.2 Market risk
- C.3 Credit risk
- C.4 Operational risk
- C.5 Liquidity risk
- C.6 Climate change financial risks
- C.7 Other material risks
- C.8 Any other information

SECTION C: RISK PROFILE

Overview of the Company's risk profile

An overview of the Company's process for identifying, assessing, managing and monitoring the risks it is exposed to is set out below (see also section B.1.1 'Overview of AIPL's system of governance'). Further details, including key changes to the Company's risk profile in the reporting period and any exposure to off-balance sheet items, are further explained in sections C.1 to C.7.

Section C.8 describes the stress and scenario testing and sensitivity analysis conducted for decision-making and planning purposes, and to understand the impact of business, strategic and/or reputational risks on the Company's Risk Profile, Own Funds, Risk Margin and SCR.

Risk identification

Risk identification is carried out on a regular basis, embedded in the business planning process and any major business initiatives, drawing on a combination of internal and external data, covering both normal conditions and stressed environments. Primary sources for identifying risks include risk and scenario identification workshops, risk events analysis, external and internal trends analysis, regulatory developments, stress and scenario testing and management information as well as other risk governance processes and input from the Board and subject matter experts within Aviva Investors and the Aviva Group.

Exposure measurement and monitoring

The primary basis used by AIPL to measure and assess its risks is the Solvency II SCR on the Solvency II Standard Formula basis as it appropriately reflects AIPL's risk profile and balance sheet exposures. The SCR is risk sensitive and proportionate and reflects a level of Solvency II Own Funds at risk in a 1-in-200 year loss event over a 1-year time horizon. Refer to section E.2 of this report for details of the methodology and assumptions used in the calculation of AIPL's Solvency II SCR.

The main risk types measured in AIPL's Solvency II SCR Standard Formula are:

- Underwriting risk (refer to section C.1 of this report for further details);
- Market risk (refer to section C.2 of this report for further details);
- Counterparty default risk i.e. credit risk (refer to section C.3 of this report for further details); and
- Operational risk (refer to section C.4 of this report for further details).

The SCR is net of loss-absorbing capacity of technical provisions and deferred taxes. Further information on the SCR is reported in section E.2.2 of this report and in the public disclosure Quantitative Reporting Template (QRT) S.25.01.21 'Solvency Capital Requirement – for undertakings on Standard Formula' that is included in section F.2 of this report.

In addition, AIPL conducted a high-level assessment of the financial risks that it is exposed to from climate change, with particular focus on the Property Fund. Refer to section C.7 of this report for further details.

Risk management and mitigation

Risks arising in AIPL are mitigated through application of the AIPL Risk and Oversight Management Framework (ROMF), which includes the governance, policies and standards, appetites and limit frameworks for the Company. Refer to section B of this report for details on AIPL's overall system of governance.

In addition to AIPL's ROMF, a range of risk mitigation techniques are employed across the different types of risks that it faces. These techniques are explained in detail by risk type in sections C.1 to C.7.

Monitoring the effectiveness of risk mitigation techniques

Annually the Aviva Investors Chief Risk Officer (AI CRO) undertakes an assessment of the effectiveness of AIPL's risk management and the robustness of its control environment. Other inputs include key risk and control indicators and the results of the own risk and solvency assessment (ORSA) activities, including stress and scenario testing. See sections C.1 to C.7 for further details by risk type.

Concentration risk is also monitored and managed by AIPL. Any significant concentrations of risk identified at the level of the individual risk are presented in sections C.1 to C.7 of this report.

Prudent Person Principle

AIPL ensures that its assets are invested in accordance with the prudent person principle as set out in Article 132 (Directive 2009/138/EC) through the collective application of its risk policies and business standards. These ensure that AIPL invests in assets whose risks it can properly identify, measure, monitor, manage, control and report, and appropriately consider in the assessment of its overall solvency needs.

AIPL applies the provisions of the Aviva Group Investment Management business standard which sets out the control objectives and controls that must be followed when performing investment management activities. Investment management is the management of financial instruments and other assets to meet specified investment objectives for the benefit of the policyholders and shareholders. The objective of this standard is to establish processes and controls to ensure that the identification, measurement, management, monitoring and reporting of risk is performed prudently and within risk appetite.

The investment management activities have been outsourced to AIGSL. Investment performance and activities are overseen by the GFS Investment Oversight Committees, which have been established to oversee the investment management activities of the funds under remit of GFS, including those of AIPL. The GFS Investment Oversight Committees are chaired by the GFS Head of Global Investment Oversight. The GFS Investment Oversight Committee has a dual reporting and escalation relationship with the Board and the AIHL Investment Committee, which in turn has a reporting and escalation relationship with the Aviva Investors Executive Committee and Aviva Investors Risk Management Committee.

The Aviva Investors second line Investment Risk team attends the GFS Investment Oversight Committees and provides additional review and challenge of investment risk, both within asset classes and at a total fund level and provides risk analysis and recommendations to the fund managers. Its objective is to ensure that each portfolio's risk profile is consistent with the funds' objectives and the stated investment process.

Exposure to special purpose vehicles

At 31 December 2020, AIPL has no special purpose vehicles as defined in the Solvency II Directive (2009/138/EC).

C.1 Underwriting risk

Life underwriting risk is the risk of loss on underwriting activity caused by an adverse change in the value of liabilities arising from inappropriate insurance pricing, inadequate claims reserving assumptions as well as unforeseen fluctuations in the timing, frequency and severity of insured events relative to the expectations at the time of underwriting. The risk excludes operational risk arising from internal processes in the writing of insurance business or settling of claims.

C.1.1 Risk exposure

Life underwriting risk for AIPL arises through its exposure to worse than anticipated operating experience on factors such as persistency levels (customers lapsing or surrendering their policies) and expense risk (the amount it costs us to administer policies).

AIPL is exposed to persistency (lapse) and expense risk in the unit-linked pensions business.

C.1.2 Measurement and monitoring

AIPL follows the Solvency II Standard Formula SCR methodology, including its standard stresses, to measure its exposure to life underwriting risk. A high-level analysis of actual experience against expected experience is conducted to support ongoing monitoring of the appropriateness of lapse risk assumptions.

Life underwriting risk SCR before diversification and tax at 31 December 2020 is disclosed in section E.2.2.

C.1.3 Changes to risk profile in the reporting period

The SCR life underwriting risk component has remained constant, primarily due to higher than expected lapses which have been partially offset by a reduction in business development fees payable by AIPL. Lapses reduce the level of underwriting risk whereas a reduction of fees paid increases the value of profits applied in the SCR stress assumptions. For further detail on the movement of life underwriting risk SCR over the reporting period, refer to section E.2.2 of this report.

C.1.4 Risk management and mitigation

AIPL manages life underwriting risk as follows:

- Persistency risk is managed through the Company strategy, frequent monitoring of lapse experience and benchmarked against local market information. Where possible, the financial impact of lapses is reduced through appropriate product design. The Company also implements specific initiatives to improve the retention of policies which may otherwise lapse.
- Expense risk is primarily managed by the Company through the regular assessment of the Company's profitability and frequent monitoring of expense levels.

C.1.5 Risk concentration

Most policyholders invested in the property fund are advised by pension fund consultants or real estate managers, as opposed to non-advised, and this can result in material increases in the level of redemption requests than might otherwise be expected.

C.2 Market risk

Market risk is the risk of adverse financial impact resulting, directly or indirectly, from fluctuations in interest rates, foreign currency exchange rates, equity, and property prices. Market risk arises in the business due to fluctuations in the value of investments held, which has an impact on the management charges earned by the Company.

C.2.1 Risk exposure

The nature of the Company's unit-linked insurance business results in the value of the Company's insurance contract liability being directly linked to the value of the related investment assets and therefore the Company's exposure relates solely to the management fees earned on the assets.

C.2.2 Measurement and monitoring

AIPL follows the Solvency II Standard Formula SCR methodology, including its standard stresses, to measure its exposure to market risk.

Investment performance and activities are overseen by the GFS Investment Oversight Committees, which is also attended by the second line Investment Risk team for additional review and challenge of investment risk.

As part of the ORSA process, stress and scenario testing, including reverse stress tests, are conducted to assess the Company's exposure to fluctuations in the values of assets and the business model resilience to the risks it faces. A fall in policyholder assets impact revenue, which is accrued based on those values and which is partially offset by amounts payable by the Company for investment sub-advisory services provided by other entities within the Aviva Investors group.

Market risk SCR before diversification and tax at 31 December 2020 is disclosed in section E.2.2.

C.2.3 Changes to risk profile in the reporting period

The SCR market risk component has remained constant, primarily due to higher than expected lapses which have been partially offset by a reduction in business development fees payable by AIPL. Lapses reduce the level of market risk whereas a reduction of fees paid increases the value of profits applied in the SCR stress assumptions. For further detail on the movement in market risk SCR over the reporting period, refer to section E.2.2 of this report.

C.2.4 Risk management and mitigation

The Board monitors the surplus of Own Funds over the company's Solvency II SCR.

As the company's exposure to fluctuations in the values of the assets relate to the impact on fee income, stress and scenario testing is conducted for decision-making and planning purposes. Management actions required to manage or mitigate the risks and scenarios are considered, where necessary.

C.2.5 Risk concentration

Due to the size and nature of the property fund, relative to other AIPL funds, the Company has a concentrated exposure to property price risk in so far as it impacts the management fees earned on the assets.

C.3 Credit risk

Credit risk is the risk of financial loss as a result of the default or otherwise failure of third parties to meet their obligations to the Company.

C.3.1 Risk Exposure

The nature of AIPL's unit-linked insurance business results in the credit risk on the investment assets held to cover the linked liabilities being borne by the policyholders.

AIPL's exposure to credit risk from trade and other receivables is mainly influenced by the default risk of its client base.

Remaining credit risk relates to cash and cash equivalents held on deposit at credit institutions. The Company adheres to the Aviva Investors Investment Policy Statement in managing the credit risk associated with cash and cash

equivalents, notably through placement of funds with high credit ratings assigned by international credit agencies. Credit exposures are identified, evaluated and managed in accordance with best practice and agreed risk appetite, to ensure that risks are managed within bounds acceptable to clients, the Aviva Investors UK Credit Risk Officer and where appropriate, the Aviva Group Credit Risk Director. Credit risk on cash and cash equivalents is considered low.

C.3.2 Measurement and monitoring

Credit risk on the investment assets held to cover linked liabilities is borne by the policyholders. The performance of the underlying assets is measured and monitored as per C.2.2 above.

Credit risk is measured using the Solvency II Standard Formula approach which considers the Company's exposure to counterparties, the loss given default and their probabilities of default.

Each counterparty is allocated to one of two categories, Type 1 or Type 2, depending on the nature of the counterparty. Generally, Type 1 counterparties are rated entities, whereas Type 2 counterparties are likely to be unrated. The major constituents of these two classes are:

Type 1

- Cash at bank
- Deposits with ceding institutions (up to 15 independent counterparties)

Type 2

- Receivables from intermediaries
- Policyholder debtors
- Deposits with ceding institutions (if the number of independent counterparties exceed 15)

The capital requirements for both types of counterparty are calculated separately and combined in a final calculation that assumes a low diversification effect between the two categories.

Credit risk SCR before diversification and tax at 31 December 2020 is disclosed in section E.2.2.

Credit quality indicators – External credit ratings

Financial assets are graded according to current external credit ratings issued. AAA is the highest possible rating. Investment grade financial assets are classified within the range of AAA to BBB ratings. Financial assets which fall outside this range are classified as sub-investment grade. The following table provides information regarding the aggregated shareholder credit risk exposure of AIPL for financial assets with external credit ratings. 'Not rated' assets capture assets not rated by external ratings agencies.

As at 31 December 2020	AAA	AA-	A+	A	BBB	Less than BBB	Not rated	Carrying value £m
Cash deposits	89%	-	11%	-	-	-	-	9.4
Total	8.4	-	1.0	-	-	-	-	9.4

The overall credit quality of AIPL's financial investments remains strong at 31 December 2020.

C.3.3 Changes to risk profile

There have been no material changes to the Company's credit risk profile in 2020. For further detail on the movement in credit risk SCR over the reporting period, refer to section E.2.2 of this report.

C.3.4 Risk management and mitigation

Investment assets held to cover linked liabilities

Credit risk on the investment assets held to cover linked liabilities is borne by the policyholders. The risk management of the underlying liquid and illiquid asset investments is conducted as per C.2.2 above. In addition, illiquid asset investments are subject to specific investment committee approval and periodic monitoring.

Banking exposures

The credit risk associated with cash and cash equivalents is managed through adherence to internal credit policy and by placing funds with counterparties with high credit ratings assigned by international credit agencies. Credit exposures are identified, evaluated and managed in accordance with best practice and AIPL's risk appetite.

Trade, other receivables and other assets

Aviva Investors has credit control procedures in place to ensure prompt settlement of fees due and ultimately, has recourse to the clients' funds. Historic losses in respect of unpaid invoices have been immaterial.

C.3.5 Risk concentration

AIPL adheres to the Aviva Group credit limit framework, which limits investments in individual issuers, geographies, sectors, and asset classes to ensure the Aviva Group, individual business units and legal entities are not individually exposed to significant concentrations of credit risk. Credit concentrations are monitored as part of the regular credit monitoring process and are reported to the AIPL Board.

C.4 Operational risk

Operational risk is the risk of direct or indirect loss arising from inadequate or failed internal processes, people and systems, or external events, including changes in the regulatory environment. The definition includes legal risk but excludes business, strategic and reputational risk. AIPL has a low appetite for operational risk and aims to reduce this risk as far as it is commercially sensible.

Conduct risk is assessed as part of operational risk and is the risk that appropriate customer outcomes are not achieved and arises throughout the whole product lifecycle from the development of products, the sales and investment processes to handling client redemptions.

C.4.1 Risk exposure

Operational risk arises mainly through the investment process, distribution channels, product development, information technology and operations, including the transfer agency activities, the majority of which have been outsourced to AIGSL.

C.4.2 Measurement and monitoring

The Solvency II Standard Formula SCR methodology is used to measure exposure to operational risk. This is based on 25% of a year's unit-linked expenses.

Operational risks for AIPL are identified and assessed through risk identification workshops, at regular risk and control committees and at the Board meetings. The Board reviews and updates the risk appetite statements at least annually

and sets its tolerances for operational risk. The Company's exposure against risk appetites is reported and monitored at the Board meetings.

Operational risk SCR before diversification and tax at 31 December 2020 is disclosed in section E.2.2.

C.4.3 Changes to risk exposure in the period

There have been no material changes to AIPL's operational risk profile in the period.

C.4.4 Risk management and mitigation

Operational risks for the Company are assessed regularly, according to the likelihood of them materialising and the potential impact on the business. Where appropriate, actions are put in place to address risks outside of tolerance or in cases where control deficiencies have been identified.

The GFS UK Management Committee ensures that AIPL meets its business objectives and initiates strategic decisions. The GFS UK Management Committee additionally reviews current issues, risks and emerging risks on a regular basis. The GFS UK Management Committee reports to the relevant AIHL committees and the Board.

The oversight and monitoring of the Company's outsource providers are performed by the GFS oversight functions reporting into the GFS Supplier Oversight Committee ('GFS SOC'). The GFS SOC has a reporting and escalation relationship with the AIHL Supplier Governance Committee. Matters to be reported to the Board would include: details of any significant operational breach of regulation, legislation or any of the operational risk policies or standards; and key operational risks outside of tolerance.

The GFS Product and Distribution Committee has responsibility for the oversight of product development and management; distribution arrangements; and certain other activities managed through Aviva Investors as set out in the terms of reference. It ultimately reports into the Aviva Investors Client and Product Committee, a personal committee of the Global Head of Global Client Solutions and has an escalation responsibility to the Board.

The Real Assets Valuation Committee is a sub-committee of the Global Pricing & Valuation Committee. It was established to deliver and ensure the implementation of consistent and controlled pricing and valuation of assets across Real Assets in accordance with Aviva Group standards, best practice and regulatory requirements. It has a responsibility to escalate any issues to the GFS Investment Oversight Committees.

C.4.5 Concentration risk

As described above, AIPL has concentrated operational risk exposure to AIGSL.

C.5 Liquidity risk

Liquidity risk is the risk that liabilities cannot be met in a timely and cost-effective manner as they fall due. Liquidity issues may arise from uncertainty in the value and timing of liabilities as well as uncertainty in the ability to realise assets into cash to meet its obligations.

C.5.1 Risk exposure

AIPL is exposed to liquidity risk from a shareholder and a policyholder perspective.

Shareholder liquidity risk

The key risks facing AIPL from a shareholder liquidity perspective are as follows:

- Medium to long term reduction of the AIPL business model through client redemptions (persistence risk) or poor performance causing reduced fee income and leading to reduced cash generation

- Late receipt of fee income. This is considered low risk due to the diverse client base and direct deduction of asset management charges on pooled assets in the fund
- Exceptional fines or other operational risk event crystallisation
- Mismatches in revenue collection compared to operating outflows and dividend payments
- High levels of bad debt write-offs

Policyholder liquidity risk (fund liquidity risk)

Policyholder liquidity risk arises from the following factors:

- Nature of the assets held in the funds
- Redemption terms provided to policyholders
- Concentration of investors in the funds
- Policyholder or investor sentiment
- Market conditions

C.5.2 Measurement and assessment of liquidity risk exposure

Shareholder liquidity risk

AIPL aims to ensure a high degree of confidence that it can meet its obligations as they fall due. To support this, AIPL complies with the Aviva Group Liquidity Business Standard and Aviva Group Liquidity Policy that requires management to consider a range of approaches to determine the appropriate minimum liquidity appetite.

Monthly rolling 12 months cash flow forecasts are prepared by the Aviva Investors Finance function and are monitored at the Board and at the Aviva Investors Capital Committee.

Policyholder liquidity risk

AIPL manages the exposure to policyholder liquidity risks through setting appropriate liquidity parameters within which the funds are to be managed. Policyholder liquidity risk is monitored at the GFS Investment Oversight Committees, internally by AIPL management and by the Board.

C.5.3 Changes to risk profile in the reporting period

Shareholder liquidity risk

There has been no material change to the Company's shareholder liquidity risk profile.

Policyholder liquidity risk

The Property Fund has been deferring redemptions since 2016 because it has not seen sufficient stability or predictability in redemption demand to return to daily dealing.

Due to the outbreak of COVID-19, the directors of the company took the decision on 17 March 2020 to suspend dealing in the Property Fund when, as a result of the market conditions, the company's standing independent valuer expressed material uncertainty about the value of a significant part of the properties in the portfolio.

The Board on 4 September 2020 authorised the lifting of the suspension of dealing in the Property Fund, following confirmation from the standing independent valuer that material uncertainty regarding the value of the properties in the Property fund had reduced to below 20%.

Following the lifting of the Property Fund's suspension on 9 September, the Property Fund continues to operate its redemption deferral policy. Available cash (net of minimum working capital) is being paid out to investors in the redemption queue. Rebuilding of the cash resources is being achieved through a combination of net rental income and receipts from a disposal program.

C.5.4 Risk management and mitigation

Shareholder liquidity risk

The Company evaluates its liquidity requirements on an ongoing basis and generates sufficient cash flows from its operating activities to meet its obligations arising from its operational liabilities. The Board set a liquidity appetite for the Company to ensure financial obligations can be met in both unstressed and stressed conditions.

Policyholder liquidity risk

The current position and forecast projections of liquidity in the Property Fund are reported at the GFS Investment Oversight Committee for illiquid assets, to AIPL management, and to the Board.

The AIPL Policy Document allows AIPL to defer any transaction involving the cancellation of units in any AIPL fund, other than investments in direct property, for a period of up to three months if the encashment is more than 5% of the respective fund's asset value.

On 10 August 2020, the Board approved the introduction of a 90 days' notice period for redemptions from the Property Fund, and an extension of the maximum deferral period from 12 to 24 months, effective from 18 November 2020. These measures were required to protect investors remaining in the Property Fund and to provide the fund managers with sufficient time to raise liquidity, particularly under prolonged adverse market conditions.

C.5.5 Concentration risk

Shareholder liquidity risk

There are no material concentrations of shareholder liquidity risk for AIPL.

Policyholder liquidity risk

The property fund is the largest fund run by AIPL and therefore represents a source of concentration risk for the Company in the case of high levels of redemptions. Most policyholders invested in the property fund are advised by pension fund consultants or real estate managers which can result in material increases in the level of redemption requests than might otherwise have been expected and hence is a source of increased liquidity risk for the fund.

C.5.6 Expected profit in future premium

The amount of expected profit in future premium included within the valuation of the Company's Technical Provisions at 31 December 2020 is £nil.

C.6 Climate change financial risks

The PRA issued its Supervisory Statement SS3/19 in April 2019, titled “Enhancing banks’ and insurers’ approaches to managing the financial risks from climate change”, that sets out its expectations regarding firms’ responsibility to manage financial risks from climate change. On 1 July 2020, the PRA sent a ‘Dear CEO’ letter to PRA-regulated firms, building on the expectations set out in the Supervisory Statement, providing observations on good practice, and setting out next steps for implementation. The PRA clarified that firms should have fully embedded their approaches to managing climate-related financial risks by the end of 2021.

The PRA expects a firm’s board to understand and assess the financial risks from climate change that affect the firm, and to be able to address and oversee these risks within the firm’s overall business strategy and risk appetite. The approach should demonstrate an understanding of the distinctive elements of the financial risks from climate change and a sufficiently long-term view of the financial risks that can arise beyond standard business planning horizons. A firm’s response should be proportionate to the nature, scale and complexity of its business.

In addition, the board and the highest level of executive management should identify and allocate responsibility for identifying and managing financial risks from climate change to the relevant existing Senior Management Function (SMF) most appropriate within the firm’s organisational structure and risk profile, and ensure that these responsibilities are included in the SMF’s Statement of Responsibilities.

In line with the rest of the Aviva Group, this responsibility has been assigned to the Aviva Investors Chief Risk Officer.

C.6.1 Risk exposure

Per SS3/19, financial risks from climate change arise through two primary channels: physical risks and transition risks. The reputational risks associated with climate change is also considered.

Given the proportion of the total size of the Property Fund relative to the business, and the inherent risk of climate change within real estate, an assessment of the current climate change financial risks relating to the Property Fund was undertaken. Regarding the remaining AIPL funds, Aviva Investors’ analysts and portfolio managers integrate environmental, social and governance (‘ESG’) factors into the investment analysis and decision-making process across all asset classes. Aviva Investors also engages proactively with companies on ESG risks.

Overall, the Property Fund is well positioned to manage current and developing climate change financial risks with an active approach in place to monitor the assets. The approach to ESG modelling and governance around climate risks will continually be enhanced in conjunction with the wider Real Assets business and Aviva Group to ensure alignment to future developments.

Transition risks

Transition risks can arise from the process of adjustment towards a low-carbon economy. A range of factors influence this adjustment including: climate-related developments in policy and regulation, the emergence of disruptive technology or business models, shifting sentiment and societal preferences or evolving evidence, frameworks and legal interpretations.

Regulations surrounding Energy Performance Certificate (EPC) is the key risk facing the Property Fund in relation to climate change. The result of non-compliance would be the inability to rent the properties where it cannot be proved that the issues are being addressed, and therefore there would be a revenue impact as assets would not have a yield.

Physical risks

Physical risks from climate change arise from a number of factors and relate to specific weather events and longer-term shifts in the climate.

A key concern around physical risks on the Property Fund is if the assets are overly exposed to climate change and related risks, in particular flood risk in the UK.

Reputational risk

Reputation risk may result in redemptions if investors believe that Aviva/Aviva Investors is not in line with public policy, regulation, legal developments and evolving social views in relation to climate change, and sustainability more broadly.

Given the current emphasis and focus around ESG and climate change related issues and risks, awareness has increased with investor demand for sustainable funds increasing in tandem. Based on this, there is the potential for reputational damage if the company does not keep up with changing requirements and investor preferences. Within Aviva Investors, ESG has become a key concern for clients with queries increasing to understand the sustainability of funds. In terms of specific impacts to AIPL, institutional clients are beginning to engage more on ESG which has the potential to cause reputational damage if the company is unable to answer their questions and serve their needs.

C.6.2 Measurement and monitoring

Transition risks

97% of the AIPL Property Fund assets are compliant with the regulation and EPC rated as at least an E. Of the 3% of properties which are not compliant, 2% are England based, where the regulation applies, with the remaining 1% being Scotland based, where the regulation does not currently apply.

In terms of the overall regulation and future developments, on an aggregate basis, the impact is well managed and low, however on an asset by asset basis the impact may be large if the asset is significantly behind the regulation.

Physical risks

The level of flood risk which an asset is exposed to is assessed both at the point of acquisition and on an annual basis. Acquisitions are assessed using flood modelling software which is considered to be industry best practice. All properties are assessed for forward looking flood risk exposure between 2020 and 2035 as part of the annual climate risk disclosure, led by the Aviva Group Risk team. This exercise gives an annual snapshot of flood risk in the Property Fund.

Aviva Investors and the AIPL fund have in 2020 invested in an MSCI software platform which will allow the quarterly calculation and review of Climate variance at risk (CVaR) metrics for all properties in the portfolio in order that the level of risk can be monitored and actively reduced over time.

Reputational risks

All prospective tenants are screened in relation to ESG and other specific credit criteria to ensure compliance within internal policies and also the mandates of the Property Fund. This is rigorous for new clients given the emergence of ESG considerations within the asset class. With respect to the back book/existing book, no new thresholds are applied as decisions regarding ending tenancies will not be conducted on the basis of ESG.

C.6.3 Risk management and mitigation

Transition risks

For the assets which are not compliant, a strategic review has been completed to review the assets in terms of selling the property or redeveloping the property.

Physical risks

The residual risk, considering the long timeframes over which physical (acute and chronic) climate risks could manifest, has been assessed for any assets that are exposed to physical climate risk.

C.7 Other material risks

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

C.8 Any other information

C.8.1 Business / strategic risk

Business / strategic risk is the risk that the Company is unable to generate sustainable earnings which could result in depletion of capital. Factors influencing business / strategic risk include adverse changes in the competitive environment, changes in the operational economics of business activities, and the failures or poor execution of strategic decisions.

Business / strategic risk is considered during the ORSA process as part of the emerging risk assessment and through stress and scenario testing to test the resilience of the financial position of the Company. AIPL's risk appetite levels protect the Company from its exposure to business / strategic risk.

C.8.2 Reputational risk

Reputational risk is the risk that litigation, employee misconduct, operational failures, the outcome of regulatory investigations, media speculation and negative publicity, disclosure of confidential client information, inadequate services, whether or not founded, could impact AIPL's brand or reputation. AIPL's brand or reputation could also be affected if products or services do not perform as expected (whether or not the expectations are well founded) or customers' expectations for the product change. Management seek to reduce this risk to as low a level as is commercially sensible.

C.8.3 Stress and scenario testing

As part of its ORSA, the Company performs stress and scenario testing for decision-making and planning purposes, and to understand the impact of business, strategic and/or reputational risks on the Company's Risk Profile, Own Funds, Risk Margin and SCR. The Company conducted a COVID-19 and Brexit combination scenario in 2020, reflecting the Board's view of an adverse circumstances relevant to AIPL and its risk profile. It was concluded that the Company had sufficient and appropriate capital and liquidity surpluses for the stress scenario. Given the severity of the scenario assumptions, the Company would start making a loss which would be mitigated by adjusting the business plan, predominantly through cost reductions. As part of this process the Board consider the likelihood of success of these management actions and any barriers to their successful implementation.

C.8.3 Sensitivity analysis

AIPL conducts sensitivity analysis to understand the impact of material risks and events on AIPL's key financial drivers and the magnitude of the change required to put AIPL's capital at risk. The following risk exposures were subjected to sensitivity analysis:

- Operational/liquidity risk: an operational risk event that leads to depletion of own funds or exhaustion of cash and cash equivalents that cannot be mitigated by management actions;
- Business/reputational risk: redemption levels (persistency risk) to the point of break-even profitability for the company, or that result in the underlying funds no longer being able to produce appropriate investor outcomes;
- Policyholder liquidity risk: redemption levels (persistency risk) that may result in redemption queues not being cleared in the timeframes as required by the AIPL Policy Document; and
- Group risk: Depletion of own funds or exhaustion of cash and cash equivalents due to increased expenses (expense risk).

It was concluded that AIPL has sufficient capital and liquidity resources, and available management actions, to withstand and/or mitigate the above risk exposures.

Section 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 material information

SECTION 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/liability class. It also provides an explanation of the material differences between the IFRS and Solvency II bases of valuation.

Assets and liabilities under Solvency II are valued in accordance with AIPL's accounting policies established under IFRS as adopted by the European Union (EU), except for those that are described in sections D.1, D.2 and D.3. A summary of AIPL's accounting policies under IFRS can be found in the Accounting policies section of the 2020 Annual report and financial statements.

The table below sets out a summarised balance sheet at 31 December 2020. The Company's Solvency II balance sheet is detailed in the balance sheet QRT, S.02.01.02 shown in section F.2. The IFRS balance sheet has been reclassified, from the presentation used under IFRS in the financial statements, to the categories used in the balance sheet QRT. Compared to the balance sheet QRT, the figures disclosed in this section are rounded to the nearest £0.1 million.

Balance Sheet – IFRS and Solvency II

As at 31 December 2020	Corresponding IFRS financial statement note	IFRS balance sheet £m	Reclassified IFRS balance sheet £m	Solvency II balance sheet £m	Difference between reclassified IFRS and SII balance sheet £m	SFCR note
Assets						
Investment property	8	443.0	-	-	-	D.1.1
Financial investments	9	250.1	-	-	-	D.1.2
Participations and related undertakings		-	8.4	8.4	-	D.1.3
Assets held for index-linked and unit-linked funds		-	729.5	729.5	-	D.1.4
Trade receivables	10	22.5	0.3	0.3	-	D.1.5
Cash and cash equivalents	18	36.8	1.0	1.0	-	D.1.6
Total assets		752.4	739.2	739.2	-	
Liabilities						
Technical provisions	13	(729.5)	(729.5)	(729.4)	(0.1)	D.2
Finance lease liabilities	14	(2.6)	-	-	-	D.3.1
Deferred tax liabilities	7	(0.0)	(0.0)	(0.0)	-	D.3.2
Payables (trade, not insurance)	15	(10.9)	(0.3)	(0.3)	-	D.3.3
Provisions other than technical provisions	16	(0.0)	(0.0)	(0.0)	-	
Total liabilities		(743.0)	(729.8)	(729.7)	(0.1)	
Excess of assets over liabilities		9.4	9.4	9.5	(0.1)	

IFRS Balance Sheet reclassified into Solvency II Balance Sheet categories

The main bases, methods and assumptions in respect of the valuation of assets and liabilities under Solvency II are broadly consistent with those of IFRS, disclosed through the Company's Annual report and financial statements. The key classification differences relate to assets backing unit-linked and index-linked contracts, cash and cash equivalents and investment funds. The nature of the reclassification differences are set out in sections D.1, D.2 and D.3.

Valuation differences

As noted earlier, a number of valuation differences exist in respect of liabilities reporting in the Company's balance sheet under Solvency II compared to IFRS at 31 December 2020. The net impact of these differences is an overall increase in net assets of £86,982 under Solvency II relative to IFRS. This primarily reflects the differences in assumptions and reserving methodology used under Solvency II compared to IFRS. The nature of the differences is set out in sections D.1, D.2 and D.3.

D.1 Assets

Assets have been valued according to the requirements of the Solvency II Directive and related guidance. The basis of the Solvency II valuation principle is the amount for which the assets could be exchanged between knowledgeable willing parties in an arm's length transaction.

The Company considers markets to be active where transactions take place with sufficient frequency and volume for pricing information to be available on an ongoing basis. Where the Company has concluded that markets are not active, alternative methods for valuation are used. Refer to section D.4 for further details on alternative methods for valuation.

There were no changes made to the recognition and valuation bases used or to estimations made during the period.

This section details the Solvency II valuation basis of each material class of asset and any material difference between that and the IFRS valuation.

D.1.1 Investment property

Investment property is valued in accordance with IFRS whereby it is recognised at its fair value at the balance sheet date. The fair values are assessed by qualified external valuation specialists or by qualified staff and reflect rental income and other assumptions that market participants would use when pricing the investment property under current market conditions. All investment property relates to the unit-linked business and so is reclassified in the Solvency II balance sheet (section D.1.4).

Further information on investment property valued using an alternative method to either a quoted market price or a quoted market price for a similar asset is included in section D.4.

D.1.2 Financial Investments

Financial investments are valued in accordance with IFRS whereby they are recognised at fair value at the balance sheet date. Fair value is obtained from quoted market prices or, if these are not available, by using relevant valuation techniques. All financial investments are attributable to the unit-linked business. For further detail, refer to section D.1.4.

There are no financial investments valued using an alternative method to either a quoted market price or a quoted market price for a similar asset.

D.1.3 Participations and related undertakings

Participations and related undertakings consist of investments in internally managed Collective Investment Undertakings (CIUs), which are liquidity funds. Under IFRS, the assets are recognised as cash and cash equivalents (D.1.6 'Cash and cash equivalents'). AIPL's total investment in CIUs at 31 December 2020 is £8.4 million. These investments are measured at fair value in the Solvency II valuation which is equal to the IFRS carrying value.

D.1.4 Assets held for index-linked and unit-linked contracts

Assets held for index linked and unit-linked contracts represent all assets that are attributable to policyholders upon redemption of their investment contracts. Assets held to cover index-linked and unit-linked funds are measured at fair value for both Solvency II and IFRS purposes. These assets are not recognised separately in the IFRS balance sheet and are therefore reclassified to this category for Solvency II reporting purposes. As such, the assets held for index linked and unit-linked contracts comprises in whole or part the IFRS balances of investment property, financial investments, cash and cash equivalents, receivables and payables that have been reclassified from their separate captions in the IFRS financial statements.

There is no difference between the valuation basis for Solvency II and the IFRS balance sheets.

D.1.5 Receivables (insurance, reinsurance and intermediaries)

Under Solvency II, receivables are held at fair value, being the amount for which they could be exchanged between knowledgeable parties in an arm's length transaction. Where receivables are expected to be recovered within one year, as is the case for AIPL, the Solvency II fair value is equal to the IFRS carrying value. Receivables attributable to the policyholders of the unit-linked business are reclassified to Assets held for index-linked and unit-linked contracts (see section D.1.4).

D.1.6 Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and in hand, deposits held on call with banks and other short term highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in value. Such investments are those with less than three months' maturity from the date of acquisition, or which are redeemable on demand only with an insignificant change in their fair values. Under Solvency II shareholder investments in CIUs are reclassified from cash and cash equivalents to Participations (see section D.1.3), while cash and cash equivalents attributable to the policyholders of the unit-linked business are reclassified to Assets held for index-linked and unit-linked contracts (see section D.1.4). The residual balance held in the cash and cash equivalents line under Solvency II is valued in accordance with IFRS principles.

D.2 Technical Provisions

This section describes the Solvency II valuation of technical provisions, the level of uncertainty associated with the valuation and an explanation of material differences between the Solvency II and IFRS valuation.

Technical provisions are detailed in the QRT S.12.01.02 'Life Technical Provisions', section F.2 'Public disclosure templates'.

D.2.1 Definition of Technical Provisions

The value of technical provisions under Solvency II is equal to the sum of a best estimate liability and a risk margin. The best estimate liability is defined as the probability-weighted average of the present value of future cash flows on a market consistent basis, using the relevant risk-free interest rate term structure after making allowance for credit risk.

The risk margin is the present value of the cost of capital held each year in respect of non-hedgeable risks and represents the amount, in addition to the best estimate liability, that a third party might expect to receive in order to take over the insurance obligations of an existing entity.

The following general principles apply to technical provisions valuation:

- The calculation of technical provisions is performed on a going concern basis. This means that it can be assumed that contracts run to their expected term (only including premiums within the boundary of the contract) and a proportion of expected future costs (such as general overheads) will be covered by future business.
- The definition of a "best estimate" assumption is one that represents the expected outcome from the range of possible outcomes for future experience of that assumption and is reasonable and realistic with no deliberate margins for prudence included.

AIPL has not applied to the PRA for any transitional measures on technical provisions.

D.2.2 Technical provisions methodology and assumptions

(i) Cash flow modelling

A deterministic valuation approach producing point estimates, based on best estimate assumptions and all relevant future cash flows required to settle the life insurance liabilities, is used. The best estimate liability is calculated separately for cash flows in different currencies. AIPL's cash flows are all modelled in sterling.

The cash flow projections used in the calculation of the best estimate liability are grouped together since contracts are essentially homogeneous.

The calculation of technical provisions is performed on a going concern basis. This means current fully loaded unit costs are assumed to continue, which implicitly assumes that future business will replace that running off.

(ii) Minimum technical provision per policy

Technical provisions for insurance contracts are allowed to be negative where future cash in-flows are expected to exceed future cash out-flows.

The technical provisions of an insurance contract may be lower than the surrender value available to the policyholder of the underlying contract.

(iii) Contract Boundaries

Solvency II technical provisions are required to allow for any boundaries of the insurance contract. A boundary exists where the insurance undertaking has a unilateral right to: terminate the contract; reject premiums payable under the contract; or amend the premiums or benefits payable under the contract at a future date in such a way that the premiums fully reflect the risks.

Solvency II technical provisions for unit-linked business take into consideration all expected profits over the expected lifetime of the contracts based on those premiums paid to date. Only premiums paid to date are included in the projection; any future premiums would fall outside the contract boundary.

(iv) Cash flows in scope

For life insurance obligations, all cash flows required to settle the insurance liabilities over their lifetime are taken into account. The table below summarises the main cash flows that are modelled:

Gross cash in-flows	Gross cash out-flows
Annual management (and other) charges in Unit Linked Business	Benefits including: - Surrender benefits
	Expenses including: - Investment management expenses - Administrative expenses
Reinsurance cash in-flows	Reinsurance cash out-flows
None	None

No future premiums are taken into account. There are no regular premium contracts in force.

(v) Economic and non-economic assumptions

Economic assumptions are reviewed quarterly while non-economic assumptions are reviewed at least on an annual basis to ensure that these remain appropriate, relevant and realistic. The choice of assumptions is validated through experience analyses and where available and appropriate, benchmarked against external sources.

The basic risk-free rate curves used to value the technical provisions reflect the curves published by EIOPA.

The risk-free rates at key durations used to value the technical provisions at full year 2020 are stated in the table below. The figures shown below allow for a Credit Risk Adjustment of 11 bps.

Risk-free rates	1 year	5 years	10 years	15 years	20 years
	-0.110%	0.083%	0.289%	0.415%	0.469%

There is no Matching Adjustment or Volatility Adjustment applied.

Expense inflation

- Expenses which are not directly related to unit-linked assets are assumed to increase in line with RPI +0.5% p.a. The annual rate of increase used at end-2020 was 3.76%.

Tax rates

The tax assumptions used at 31 December 2020 are shown in the table below. We are not anticipating a material effect due to corporation tax changes in 2023.

Parameter	31 December 2020
Corporation tax (current year)	19%
Corporation tax (future profits)	19%

(vi) Reinsurance counterparty default allowances

As at 31 December 2020, AIPL has no reinsurance arrangements.

(vii) Expenses

The future profits following the valuation date allow for all expected expenses, including:

- Investment management fees in line with the management agreement between AIPL and Aviva Investors Global Services Limited (AIGSL);
- Fund administration and other administration services payable to AIGSL for costs equivalent to those levied by JPMorgan Chase Bank NA related to fund accounting and also other corporate overhead fees in line with the outsourcing arrangement;
- Registrar and transfer agent fees payable to AIGSL to cover maintenance and system access in line with the outsourcing arrangement to cover shareholder servicing, transaction processing and any other transfer agent fees; and
- Distribution fees payable to AIGSL for business development services.

(viii) Persistency assumptions

Recent persistency experience is reviewed annually in order to set assumptions for the number of unit-linked policies remaining in force. The lapse rate assumptions at 31 December 2019 were 17% p.a. for all business. These have remained the same at 31 December 2020 at 17% p.a. for all business. These assumptions have limited impact on the Company's solvency position, they reflect average expected future long-term withdrawals following a period of more volatile exits due mainly to uncertainty in property markets.

(ix) Events not in data ("ENID")

The term ENID refers to any events not deemed to be captured by the data, which need to be allowed for within the best estimate calculation to allow for the uncertainty in the future cash flows.

AIPL considers ENID through adjusting the best estimate assumptions to ensure the likely impact of the event is included. Expert judgement is applied to determine the expected impact on future experience.

For unit-linked business, the assumed lapse rates take into account expert judgement on expected future experience.

(x) Tax

Reserves are established (or credit is taken) for tax on unrealised gains (or losses) for unit-linked business as part of the technical provisions.

(xi) Consistency of assumptions

The calculation of the best estimate liability requires a number of projection assumptions to be used. These assumptions are consistently reflected in both the valuation of technical provisions and the calculation of the SCR where necessary.

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

In contrast to Solvency II, the IFRS provisions are a single calculation of liabilities, with appropriate margins for uncertainty included within the assumptions and/or methodology. Compared to IFRS technical provisions, £0.1 million

Solvency II valuation difference is driven by £0.4 million present value of future profits (PVFP) included in the best estimate liability (BEL), offset by the inclusion of risk margin (RM) of £0.3 million.

The following table summarises the Company's gross technical provisions split by Solvency II line of business.

Insurance liability As at 31 December 2020		IFRS technical provisions £m	Best Estimate Liability (BEL) Risk Margin (RM) £m		Solvency II technical provisions £m	Difference £m
31	Index-linked and unit-linked	729.5	729.1	0.3	729.4	0.1

Key areas of difference between the methods used to calculate Solvency II technical provisions and the methods used to calculate IFRS technical provisions are:

(i) Treatment of unit-linked business

Under IFRS, the technical provisions are based on current unit value (plus an allowance for non-unit cash flows if this would increase the technical provisions, though this is not the case at 31 December 2020). Under Solvency II, the technical provisions are lower than the unit value reflecting the profits expected to emerge from existing business. This results in a decrease in Solvency II best estimate liability relative to IFRS technical provisions.

(ii) Discount Rates

Solvency II best estimate liabilities are valued using an EIOPA prescribed basic risk-free rate curve with an allowance for credit risk. No matching adjustment or volatility adjustment is used. Discount rates have no impact on unit-linked IFRS best estimate because IFRS non-unit provisions are zero due to the treatment described above.

As noted earlier in this report, AIPL has not applied to the PRA for any transitional measures on risk-free interest rates.

(iii) Risk Margin

In addition to the best estimate liability, Solvency II technical provisions include a risk margin. This is analogous to the additional margins held under IFRS to cover uncertainty.

(iv) IFRS margins

IFRS margins have no impact on IFRS technical provisions because IFRS non-unit provisions are zero due to the treatment described above.

D.2.4 Level of uncertainty in value

The best estimate liability corresponds to the probability-weighted average of future cash flows, taking account of the time value of money using the relevant risk-free interest rate term structure. They reflect estimates of how markets and the business might behave in the future given policyholder data, cash flow models and a set of assumptions.

All estimates are based on management's knowledge of current facts and circumstances; assumptions based on that knowledge; and their predictions of future events and actions. Actual results may differ from those estimates, possibly significantly. The list below sets out the estimates and assumptions that are considered particularly susceptible to valuation uncertainty:

- Changes in the value of an index/market values used to determine claims amounts, e.g. estimating future market values of the unit-linked assets; and
- Uncertainty in policyholder behaviour, e.g. for estimating lapse rates for unit-linked policies.

The best estimate liability assumptions are governed by a rigorous process, underpinned by actuarial judgement and peer review.

Following the requirements of the Aviva Group Data Governance and Model Governance standards helps to ensure that the cash flow models used to calculate technical provisions, and the data which is used within that calculation, are fit for purpose and are managed under appropriate change control processes.

Regulatory compliance

The Company's insurance business is subject to dual regulation in the UK, directly authorised by both the PRA (for prudential regulation) and the FCA (for conduct regulation). Between them, the PRA and the FCA have broad powers including the authority to grant, vary the terms of, or cancel a regulated firm's authorisation; to investigate marketing and sales practices; and to require the maintenance of adequate financial resources.

The Company has compliance resources to respond to regulatory enquiries in a constructive way and take corrective action when warranted. However, all regulated financial services companies face the risk that their regulator could find that they have failed to comply with applicable regulations or have not undertaken corrective action as required. The impact of any such finding could have a negative impact on the Company's reported results.

D.2.5 Risk margin methodology

The risk margin is calculated using a Cost of Capital (CoC) approach.

The calculation of the risk margin is defined as the present value of the cost of capital applied to the SCR in respect of non-hedgeable risks in each future year.

The cost of capital rate is the cost in excess of the risk-free rate, to the third party taking over the liabilities, of raising and holding capital to support the non-hedgeable risks over the lifetime of the business. The same cost of capital rate is used for all insurance companies and is prescribed by EIOPA at 6% per annum.

As the SCR in the risk margin calculation takes into account non-hedgeable risks only, the rate used to discount the projected non-hedgeable SCR is the basic risk-free rate (including credit risk adjustment).

The SCR in the risk margin calculation takes the following risks into account:

- Life underwriting risk, including lapse risk
- Operational risk
- Counterparty default risk

All market risks in respect of investment assets are considered hedgeable.

No allowance for the loss absorbency of deferred taxes is included in the risk margin.

In order to project the non-hedgeable SCR which underpins the risk margin, some projection simplifications are necessary to ensure that the risk margin calculation remains proportionate to the nature, scale and complexity of the business.

This means that for expense risk, the projected SCR run-off has been calculated directly. For other risks, so-called risk carriers are used, where a suitable statistic is chosen which can be readily projected and used as a proxy for the projected size of the risk relative to its size at the balance sheet date. For example, the best estimate liability excluding the unit value ("non-unit BEL") is used as a carrier for lapse risk, operational risk and counterparty risk.

The risk margin allows for diversification between risks using the Standard Formula defined aggregation approach.

D.2.6 Simplified methods

There are no material simplifications used by management.

D.2.7 Material changes in assumptions since the prior period

There have been no material changes to assumptions since the prior period.

D.3 Other Liabilities

This section details how "other liabilities" are valued under Solvency II rules and how this differs to the statutory accounts valuations. There have been no changes made to the recognition and valuation bases during the reporting period.

Under Solvency II, other liabilities expected to be paid within one year are considered to be the same as IFRS value.

D.3.1 Lease arrangements

At 31 December 2020, AIPL has finance lease commitments totalling £2.6 million. The average lease term is 99 years. There is no difference between the IFRS and Solvency II valuation of finance leases.

D.3.2 Deferred tax liabilities

Deferred tax for Solvency II valuation purposes is determined on a non-discounted basis in accordance with IAS 12 principles on 'temporary differences' between the economic value of assets or liabilities on the Solvency II balance sheet and their tax base.

Deferred tax balances in the Solvency II balance sheet usually differ from those already recognised in the IFRS balance sheet as a result of differences between the IFRS and Solvency II balance sheet valuation basis and consequential impact on recognition of deferred tax liabilities.

As at 31 December 2020, the value of deferred tax liabilities is £0.0 million under both IFRS and Solvency II. The value is the same due to the negligible overall IFRS and Solvency II balance sheet valuations difference.

D.3.3 Payables (trade, not insurance)

Under Solvency II, payables are measured at fair value, adjusted to eliminate movement in fair value due to changes in the own credit standing of the entity. Under IFRS, payables are initially recognised at cost, being fair value. Subsequent to initial measurement they are measured at amortised cost. There is no difference in the valuation of trade payables between the restated IFRS balance sheet and the Solvency II balance sheet.

D.4 Alternative methods of valuation

At 31 December 2020, approximately 61% of AIPL's unit-linked assets are held in investment property for which quoted market data or observable market data is not available. In addition, approximately 13% of AIPL's unit-linked assets in debt securities are valued based on inputs other than quoted prices in active markets that are observable for the asset, either directly or indirectly. The remainder of AIPL's assets and liabilities are measured at fair value based on quoted market information or observable market data.

Although the Solvency II valuation hierarchy differs from IFRS, the methodology for valuing assets and liabilities measured at fair value remains consistent. The assets valued using quoted prices for identical or similar assets from inactive markets (within the fair value hierarchy of IFRS) fall under alternative methods for valuation under Solvency II.

(i) Justification for use of alternative valuation method approach

In accordance with the Aviva Group Asset Valuation Business Standard, alternative methods for valuation are applied in respect of the valuation of assets and liabilities only where a readily observable, external market valuation is not available, or where the relevant market is deemed to be inactive.

(ii) Assumptions underlying the valuation approach and key drivers of valuation uncertainty

Alternative methods for valuation include the use of estimates and assumptions that are not market observable but based on a combination of independent third-party evidence and internally developed models, calibrated to market observable data where possible. Valuation uncertainty arises from variation in the expected range of the key inputs feeding into models, judgemental features of model inputs and assumptions used and reliance on third-party adherence to accepted valuation standards.

The main assumptions underlying the valuation approach and key drivers of valuation uncertainty for investment property are described below:

Investment Property

The directly held investment property is valued monthly in the UK by external valuers to fair value in accordance with the Royal Institute of Chartered Surveyors (RICS) Valuation – Global Standards 2020 and the UK National Supplement 2018. Properties are either valued on an investment basis or utilising a residual valuation method.

Investment properties are valued on an income approach that is based on current rental income plus anticipated uplifts at the next rent review, lease expiry, or break option taking into consideration lease incentives and assuming no further growth in the estimated rental value of the property. The uplift and discount rates are derived from rates implied by recent market transactions on similar properties.

Development properties are valued using a residual valuation method. Under this methodology, the valuer assesses the completed development value using income and yield assumptions. Deductions are then made for estimated costs to complete, including finance and developer's profit, to arrive at the valuation. As the development approaches completion, the valuer may consider the income capitalisation approach to be more appropriate.

The extent of uncertainty systemic within the valuation of investment properties has been assessed based on ranges of expected rental yields provided by several independent surveyors by property type and by reference to the Private Real Estate Valuation Sale Price Comparison Report 2019 prepared by MSCI and dated June 2020.

(iii) Adequacy of valuation compared to experience

AIPL is required to operate independent price verification (IPV) controls, including an assessment of adequacy of valuation methods applied, across all assets.

For illiquid assets such as AIPL's investment property, which are marked to model, the IPV process includes a review of the valuation methodology and periodic assessment of both observable and judgemental model inputs.

For investment property AIPL relies on implementation of accepted valuation standards by parties that are independent to the Group.

D.5 Any other material information

The Company has no other material information to disclose.

Section E

Capital Management

In this Chapter

- E.1 Own Funds
- E.2 Solvency Capital Requirement (SCR) and Minimum Capital Requirement (MCR)
- E.3 Use of duration-based equity risk sub-module in the calculation of the SCR
- E.4 Difference between the standard formula and any internal model used
- E.5 Non-compliance with the MCR and non-compliance with the SCR
- E.6 Any other material information

SECTION E: CAPITAL MANAGEMENT

The Capital Management section of the report describes the objectives, policies and procedures employed by AIPL for managing its Own Funds. The section also covers information on structure and quality of Own Funds and calculation of SCR. Compared to the QRTs disclosed in section F.2, the figures disclosed in this section are rounded to the nearest £0.1 million.

E.1 Own Funds

E.1.1 Management of Own Funds

The primary objective of capital management is to maintain an efficient capital structure, in a manner consistent with the Company's risk profile and the regulatory and market requirements of the business. In managing Own Funds, the Company seeks to:

- Match the profile of its assets and liabilities, taking account of the risks inherent in the business;
- Maintain sufficient, but not excessive, financial strength in accordance with risk appetite to support new business growth and satisfy the requirements of its policyholders and its regulators;
- Retain financial flexibility by maintaining strong liquidity; and
- Allocate capital efficiently to support growth and repatriate excess capital where appropriate.

In order to achieve these objectives, Own Funds are monitored via projections over a three-year planning horizon. The Company also uses a number of sensitivity tests to understand the volatility of earnings (being the primary determinant of Own Funds for the Company) and to manage its capital more efficiently. Sensitivities to economic and operating experience are regularly produced on the Company's key financial performance metrics to inform decision making and planning processes, and as part of the framework for identifying and quantifying the risks to which the Company is exposed.

A Capital Management Standard, applicable Aviva Group-wide, sets out minimum standards and guidelines over responsibility for capital management, including consideration for capital management discussions and requirements for management information, capital monitoring, reporting, forecasting, planning and overall governance. The Solvency II capital surplus of the Company, determined as the excess of Own Funds over the higher of the Solvency Capital requirement (SCR) or the Minimum Capital Requirement (MCR), is monitored monthly at the Aviva Investors Capital Committee and quarterly by the Board.

There have been no material changes to the objectives, policies or processes with respect to the management of Own Funds during the year.

E.1.2 Own Funds by tier

The table below sets out AIPL's Own Funds by tier at 31 December 2020.

As at 31 December 2020	Total £m	Tier 1 Unrestricted £m
Ordinary share capital	8.0	8.0
Reconciliation reserve	1.5	1.5
Total Basic Own Funds	9.5	9.5
Total Eligible Own Funds to meet the SCR & MCR	9.5	9.5

As at 31 December 2019	Total	Tier 1 Unrestricted
------------------------	-------	---------------------

	£m	£m
Ordinary share capital	8.0	8.0
Reconciliation reserve	1.1	1.1
Total Basic Own Funds	9.1	9.1
Total Eligible Own Funds to meet the SCR & MCR	9.1	9.1

All of the Company's Own Funds is unrestricted Tier 1 capital. This consists of ordinary share capital and the reconciliation reserve, which reconciles the total excess of assets over liabilities less share capital. Dividend payments are not declared. As such all of the Company's share capital can be classified as Tier 1.

At 31 December 2020, total basic Own Funds equal the total eligible Own Funds to meet the SCR, with no tiering limit restrictions. Compared to 2019, Eligible Own Funds have increased by £0.4 million. This is mainly driven by profit in current year of £0.3 million. As well as this, unit-linked funds redemptions of £193 million in the year led to circa £0.4 million reduction in the present value of future profits, but this also leads to an offsetting reduction in the risk margin.

Further information on Own Funds by tier is presented in QRT S.23.01.01 'Own Funds' within section F.2.

E.1.3 Reconciliation reserve

The table below sets out the constituents of the reconciliation reserve:

	2020 £m	2019 £m
Solvency II excess of assets over liabilities	9.5	9.1
Share capital	(8.0)	(8.0)
Reconciliation reserve	1.5	1.1

The reconciliation reserve equals the total excess of Solvency II assets over liabilities reduced by the share capital.

E.1.4 Differences between IFRS net assets and the excess of assets over liabilities as calculated for solvency purposes

The table below lists the material differences between equity as shown in the financial statements of the Company and the excess of assets over liabilities as calculated under Solvency II:

	2020 £m	2019 £m
Total equity on an IFRS basis	9.4	9.1
Liability valuation differences	0.4	0.3
Inclusion of risk margin	(0.3)	(0.3)
Net deferred tax	-	-
Solvency II Net Assets	9.5	9.1
Difference between IFRS and SII Net Assets	0.1	0.0

Net assets under IFRS differ to Solvency II by £0.1 Million as at 31 December 2020 after the inclusion of solvency valuation differences. The key component of the SII adjustment is the recognition of future expected profits within unit-linked Solvency II best estimate liabilities £0.4 million which is offset by the associated Solvency II risk margin £0.3 million.

Valuation of assets and liabilities is explained further in sections D.1, D.2, D.3 and D.4.

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

E.2.1 SCR Calculation Method

AIPL calculates the SCR using the Standard Formula which is a regulatory prescribed method with standard model parameters. Given the Company has a non-complex business model offering no guarantees on performance or charges, the Board considers that this appropriately reflects AIPL's risk profile. Appropriate allowance is made for agreed management actions within the calculation of the SCR.

E.2.2 Solvency Capital Requirement (SCR)

AIPL's SCR at 31 December 2020 is £1.9 million (2019: £2.0 million). The SCR has decreased in 2020 due to higher than expected exits. This has been partially offset by a reduction in business development fees payable by AIPL.

The table below shows the SCR split by risk module and the diversification benefit between risks. The figures disclosed in this section are rounded to the nearest £0.1 million.

	2020	2019
SCR by risk module	£m	£m
Life underwriting risks (i.e. lapse risk and expense risk)	0.7	0.6
Market risk	0.5	0.4
Credit risk (counterparty default risk)	0.1	0.1
Operational risk	0.9	1.2
Loss absorbing capacity of deferred taxes	(0.0)	(0.0)
Total undiversified components	2.2	2.3
Diversification	(0.3)	(0.3)
Solvency capital requirement	1.9	2.0

Diversification Benefits

AIPL performs an analysis of the diversification benefit to provide assurance that the level of diversification applied is reasonable given the Company's structure, mixture of risks and underlying risk calibrations. AIPL's overall diversification benefit is £0.3 million which is calculated on an undiversified SCR of £2.2 million, which is a ratio of 14%.

E.2.3 Minimum Capital Requirement (MCR)

The MCR for each European Economic Area (EEA) insurance undertaking is calculated using a linear formula that applies prescribed factors to Technical Provisions, written premiums, capital at risk, deferred tax and administrative expenses (all net of reinsurance). In accordance with the guidelines the MCR is subject to a floor, equal to 25% of the SCR, and a cap, equal to 45% of the SCR. The MCR is also subject to an absolute floor of €3.7 million. The MCR for the Company at 31 December 2020 is £3.3 million, which is the absolute floor. The MCR is disclosed in QRT S.28.01.01 'Minimum Capital Requirement - Only life or only non-life insurance or reinsurance activity' (see section F.2 'Public disclosure templates').

E.2.4 Standard Formula Simplifications

Where the SCR is calculated using the Standard Formula approach, the Solvency II regulations specify simplified calculations that may be used across all of the risk modules except operational risk. Management has not used any of these simplified calculations to calculate the SCR at 31 December 2020.

E.2.5 Standard Formula Undertaking Specific Parameters (USPs)

Where the SCR is calculated using the Standard Formula approach, Solvency II regulations specify certain USPs that may be used in place of the standard parameters, subject to regulatory approval. These are available for life and health

revision risks, and non-life (including some health) premium and reserve risks. Management has not used any USPs to calculate the SCR at 31 December 2020.

E.2.6 Transitional measures, disclosure of capital add-ons and USPs (unaudited)

Local regulators have the power to impose capital add-ons to the SCR or to require the use of certain USPs, where there are significant deficiencies in a firm's internal model or partial internal model, or where a firm's risk profile deviates significantly from the assumptions underlying the Standard Formula. AIPL has not had to apply any capital add-ons to calculate the SCR at 31 December 2020.

E.3 Use of the duration-based equity risk sub-module in the calculation of the SCR

Insurance firms that have particular types of retirement provision business managed on a ring-fenced basis, for which the SCR is calculated using the Standard Formula, are entitled to calculate the equity risk capital requirement using a specified duration-based approach. Management does not use the duration-based equity risk sub-module in the calculation of the SCR.

E.4 Difference between the standard formula and any internal model used

Management only uses the Standard Formula and has not used an Internal Model.

E.5 Non-compliance with the MCR and non-compliance with the SCR

The Company has complied with the MCR and SCR at all times during the year.

E.6 Any other material information

Management has no other material information to disclose regarding the capital management of its insurance undertaking.

Section F

Other Information

In this Chapter

- F.1 Glossary of abbreviations used in the report
- F.2 Public disclosure templates
- F.3 Directors Statement
- F.4 Cautionary statement

F.1 Glossary of abbreviations used in the report

AIGSL	Aviva Investors Global Services Limited
AIHL	Aviva Investors Holdings Limited
AIPL	Aviva Investors Pensions Limited
AMC	Annual management charges
Aviva Group	Aviva plc Group
AUM	Assets under management
BEL	Best Estimate Liabilities
CEO	Chief Executive Officer
CIU	Collective Investment Undertaking
CoC	Cost of Capital
CRO	Chief Risk Officer
CVaR	Climate Variance at Risk
EEA	European Economic Area
EIOPA	European Insurance and Occupational Pension Authority
ENID	Events not in data
EPC	Energy Performance Certificate
ESG	Environmental, Social, and Governance
EU	European Union
FCA	Financial Conduct Authority
GAAP	Generally Accepted Accounting Principles
GAC	Group Audit Committee
GFS	Global Fund Services
GFS SOC	GFS Supplier Oversight Committee
GGC	Group Governance Committee
GRC	Group Risk Committee
Group CAO	Group Chief Audit Officer
Group CFO	Group Chief Financial Officer

IFRS	International Financial Reporting Standards
IMA	Investment Management Agreement
IMMMR	Identifying, measuring, managing, monitoring and reporting
IPV	Independent price verification
JV	Joint Ventures
MCR	Minimum Capital Requirement
MSCI	Morgan Stanley Capital International
ORSA	Own Risk and Solvency Assessment
PRA	Prudential Regulation Authority
PVFP	Present Value of Future Profits
QRT	Quantitative Reporting Template
RBC	Royal Bank of Canada
RICS	Royal Institute of Chartered Surveyors
RM	Risk Margin
RMF	Risk Management Framework
ROMF	Risk and Oversight Management Framework
SCR	Solvency Capital Requirement
SF	Standard Formula
SFCR	Solvency and Financial Condition Report
SMF	Senior Management Function
USP	Undertaking Specific Parameter
UK	United Kingdom
UK Life	Aviva UK Life business

F.2 Public disclosure templates

List of reported templates:

S.02.01.02 - Balance sheet

S.05.01.02 - Premiums, claims and expenses by line of business

S.05.02.01 - Premiums, claims and expenses by country

S.12.01.02 – Life and Health SLT Technical Provisions

S.23.01.01 - Own Funds

S.25.01.21 - Solvency Capital Requirement - for undertakings on Standard Formula

S.28.01.01 - Minimum Capital Requirement - Only life or only non-life insurance or reinsurance activity

The templates are included at the end of this report.

F.3 Directors Certificate

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

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

(b) it is reasonable to believe that in respect of the period from 31 December 2020 to the date of the publication of the SFCR, the firm has continued so to comply and that it will continue so to comply for the remainder of the financial year to 31 December 2021.

Tom Howard
Director

Matthew Atkinson
Director

28 May 2021

F.4 Cautionary statement

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

The Company believes factors that could cause actual results to differ materially from those indicated in forward-looking statements in the announcement include, but are not limited to: the impact of ongoing difficult conditions in the global financial markets and the economy generally; the impact of simplifying our operating structure and activities; the impact of various local and international political, regulatory and economic conditions; market developments and government actions (including those arising from the evolving relationship between the UK and the EU); the effect of losses due to defaults by counterparties, including potential sovereign debt defaults or restructurings, on the value of our investments; changes in interest rates that may reduce the value of our portfolio; the impact of changes in short or long-term inflation; the impact of changes in equity or property prices on our investment portfolio; fluctuations in currency exchange rates; the effect of market fluctuations on the value of the assets backing reserves; the amount of allowances and impairments taken on our investments; the effect of adverse capital and credit market conditions on our ability to meet liquidity needs and our access to capital; changes in, or restrictions on, our ability to initiate capital management initiatives; changes in or inaccuracy of assumptions in pricing and reserving for insurance business (particularly with regard to policy renewal rates), a cyclical downturn of the insurance industry; the impact of natural and man-made catastrophic events (including the impact of COVID-19) on our business activities and results of operations; the transitional and physical risks associated with climate change; our reliance on information and technology and third-party service providers for our operations and systems; the inability of reinsurers to meet obligations or unavailability of reinsurance coverage; increased competition in the UK and in other countries where we have significant operations; regulatory approval of extension of use of the Company's internal model for calculation of regulatory capital under the UK's version of Solvency II rules; the impact of actual experience differing from estimates used in valuing and amortising deferred acquisition costs ('DAC'); the impact of recognising an impairment of our goodwill or intangibles with indefinite lives; 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; our reliance on third-party distribution channels to deliver our products; funding risks associated with our participation in defined benefit staff pension schemes; the failure to attract or retain the necessary key personnel; the effect of fluctuations in share price as a result of general market conditions or otherwise; 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, broker-dealers, agents, wholesalers and other distributors of our products and services; 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 EU, the US, Canada 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 prepared for information only, it is based on our understanding as at 28 May 2021 and does not provide financial or legal advice. Other than set out in section F.3 (Directors Certificate), the Company, its directors, employees, agents or advisers do not accept or assume responsibility to any other person to whom this document is shown or into whose hands it may come, and any such responsibility or liability is expressly disclaimed.

S.02.01.02**Balance sheet****Assets**

Intangible assets
Deferred tax assets
Pension benefit surplus
Property, plant & equipment held for own use
Investments (other than assets held for index-linked and unit-linked contracts)
Property (other than for own use)
Holdings in related undertakings, including participations
Equities
Equities - listed
Equities - unlisted
Bonds
Government Bonds
Corporate Bonds
Structured notes
Collateralised securities
Collective Investments Undertakings
Derivatives
Deposits other than cash equivalents
Other investments
Assets held for index-linked and unit-linked contracts
Loans and mortgages
Loans on policies
Loans and mortgages to individuals
Other loans and mortgages
Reinsurance recoverables from:
Non-life and health similar to non-life
Non-life excluding health
Health similar to non-life
Life and health similar to life, excluding health and index-linked and unit-linked
Health similar to life
Life excluding health and index-linked and unit-linked
Life index-linked and unit-linked
Deposits to cedants
Insurance and intermediaries receivables
Reinsurance receivables
Receivables (trade, not insurance)
Own shares (held directly)
Amounts due in respect of own fund items or initial fund called up but not yet paid in
Cash and cash equivalents
Any other assets, not elsewhere shown
Total assets

	Solvency II value
	C0010
R0030	
R0040	
R0050	
R0060	
R0070	8,400
R0080	
R0090	8,400
R0100	
R0110	
R0120	
R0130	
R0140	
R0150	
R0160	
R0170	
R0180	
R0190	
R0200	
R0210	
R0220	729,504
R0230	
R0240	
R0250	
R0260	
R0270	
R0280	
R0290	
R0300	
R0310	
R0320	
R0330	
R0340	
R0350	
R0360	
R0370	
R0380	269
R0390	
R0400	
R0410	1,047
R0420	-
R0500	739,220

S.02.01.02**Balance sheet****Liabilities**

Technical provisions – non-life
Technical provisions – non-life (excluding health)
TP calculated as a whole
Best Estimate
Risk margin
Technical provisions - health (similar to non-life)
TP calculated as a whole
Best Estimate
Risk margin
Technical provisions - life (excluding index-linked and unit-linked)
Technical provisions - health (similar to life)
TP calculated as a whole
Best Estimate
Risk margin
Technical provisions – life (excluding health and index-linked and unit-linked)
TP calculated as a whole
Best Estimate
Risk margin
Technical provisions – index-linked and unit-linked
TP calculated as a whole
Best Estimate
Risk margin
Contingent liabilities
Provisions other than technical provisions
Pension benefit obligations
Deposits from reinsurers
Deferred tax liabilities
Derivatives
Debts owed to credit institutions
Financial liabilities other than debts owed to credit institutions
Insurance & intermediaries payables
Reinsurance payables
Payables (trade, not insurance)
Subordinated liabilities
Subordinated liabilities not in BOF
Subordinated liabilities in BOF
Any other liabilities, not elsewhere shown
Total liabilities
Excess of assets over liabilities

	Solvency II value
	C0010
R0510	
R0520	
R0530	
R0540	
R0550	
R0560	
R0570	
R0580	
R0590	
R0600	
R0610	
R0620	
R0630	
R0640	
R0650	
R0660	
R0670	
R0680	
R0690	729,396
R0700	
R0710	729,056
R0720	340
R0740	
R0750	-
R0760	
R0770	
R0780	36
R0790	
R0800	
R0810	
R0820	
R0830	
R0840	237
R0850	
R0860	
R0870	
R0880	18
R0900	729,687
R1000	9,533

S.05.01.02
Premiums, claims and expenses by line of business

		Line of Business for: life insurance obligations						Life reinsurance obligations		Total
		Health insurance	Insurance with profit participation	Index-linked and unit-linked insurance	Other life insurance	Annuities stemming from non-life insurance contracts and relating to health insurance obligations	Annuities stemming from non-life insurance contracts and relating to insurance obligations other than health insurance obligations	Health reinsurance	Life reinsurance	
		C0210	C0220	C0230	C0240	C0250	C0260	C0270	C0280	C0300
Premiums written										
Gross	R1410			3,269						3,269
Reinsurers' share	R1420									
Net	R1500			3,269						3,269
Premiums earned										
Gross	R1510			3,269						3,269
Reinsurers' share	R1520									
Net	R1600			3,269						3,269
Claims incurred										
Gross	R1610			192,832						192,832
Reinsurers' share	R1620									
Net	R1700			192,832						192,832
Changes in other technical provisions										
Gross	R1710			169,821						169,821
Reinsurers' share	R1720									-
Net	R1800			169,821						169,821
Expenses incurred	R1900			6,652						6,652
Other expenses	R2500									586
Total expenses	R2600									7,238

S.05.02.01

Premiums, claims and expenses by country

		Home Country	Top 5 countries (by amount of gross premiums written) - life obligations					Total Top 5 and home country
		C0150	C0160	C0170	C0180	C0190	C0200	C0210
	R1400							
		C0220	C0230	C0240	C0250	C0260	C0270	C0280
Premiums written								
Gross	R1410	3,269						3,269
Reinsurers' share	R1420							
Net	R1500	3,269						3,269
Premiums earned								
Gross	R1510	3,269						3,269
Reinsurers' share	R1520							
Net	R1600	3,269						3,269
Claims incurred								
Gross	R1610	192,832						192,832
Reinsurers' share	R1620							
Net	R1700	192,832						192,832
Changes in other technical provisions								
Gross	R1710	169,821						169,821
Reinsurers' share	R1720							
Net	R1800	169,821						169,821
Expenses incurred	R1900	6,652						6,652
Other expenses	R2500							586
Total expenses	R2600							7,238

S.12.01.02
Life and Health SLT Technical Provisions

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

Technical provisions calculated as a sum of BE and RM

Best Estimate
Gross Best Estimate
Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default
Best estimate minus recoverables from reinsurance/SPV and Finite Re - total

Risk Margin
Amount of the transitional on Technical Provisions
Technical Provisions calculated as a whole
Best estimate
Risk margin

Technical provisions - total

	Insurance with profit participation	Index-linked and unit-linked insurance			Other life insurance			Annuities stemming from non-life insurance contracts and relating to insurance obligation other than health insurance obligations	Accepted reinsurance	Total (Life other than health insurance, incl. Unit-Linked)	
			Contracts without options and guarantees	Contracts with options or guarantees		Contracts without options and guarantees	Contracts with options or guarantees				
		C0020	C0030	C0040	C0050	C0060	C0070				C0080
R0010											
R0020											
R0030			729,056								729,056
R0080											
R0090			729,056								729,056
R0100		340									340
R0110											
R0120											
R0130											
R0200		729,396									729,396

S.23.01.01**Own funds****Basic own funds before deduction for participations in other financial sector as foreseen in article 68 of Delegated****Regulation (EU) 2015/35**

Ordinary share capital (gross of own shares)
 Share premium account related to ordinary share capital
 Initial funds, members' contributions or the equivalent basic own - fund item for mutual and mutual-type undertakings
 Subordinated mutual member accounts
 Surplus funds
 Preference shares
 Share premium account related to preference shares
 Reconciliation reserve
 Subordinated liabilities
 An amount equal to the value of net deferred tax assets
 Other own fund items approved by the supervisory authority as basic own funds not specified above

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

Deductions

Deductions for participations in financial and credit institutions

Total basic own funds after deductions**Ancillary own funds**

Unpaid and uncalled ordinary share capital callable on demand
 Unpaid and uncalled initial funds, members' contributions or the equivalent basic own fund item for mutual and mutual - type undertakings, callable on demand
 Unpaid and uncalled preference shares callable on demand
 A legally binding commitment to subscribe and pay for subordinated liabilities on demand
 Letters of credit and guarantees under Article 96(2) of the Directive 2009/138/EC
 Letters of credit and guarantees other than under Article 96(2) of the Directive 2009/138/EC
 Supplementary members calls under first subparagraph of Article 96(3) of the Directive 2009/138/EC
 Supplementary members calls - other than under first subparagraph of Article 96(3) of the Directive 2009/138/EC
 Other ancillary own funds

Total ancillary own funds**Available and eligible own funds**

Total available own funds to meet the SCR
 Total available own funds to meet the MCR
 Total eligible own funds to meet the SCR
 Total eligible own funds to meet the MCR

SCR**MCR****Ratio of Eligible own funds to SCR****Ratio of Eligible own funds to MCR**

	Total	Tier 1 - unrestricted	Tier 1 - restricted	Tier 2	Tier 3
	C0010	C0020	C0030	C0040	C0050
R0010	8,000	8,000			
R0030					
R0040					
R0050					
R0070					
R0090					
R0110					
R0130	1,533	1,533			
R0140					
R0160					
R0180					
R0220					
R0230					
R0290	9,533	9,533			
R0300					
R0310					
R0320					
R0330					
R0340					
R0350					
R0360					
R0370					
R0390					
R0400					
R0500	9,533	9,533			
R0510	9,533	9,533			
R0540	9,533	9,533			
R0550	9,533	9,533			
R0580	1,857				
R0600	3,338				
R0620	5.1324				
R0640	2.8562				

	C0060
R0700	9,533
R0710	
R0720	
R0730	8,000
R0740	
R0760	1,533
R0770	
R0780	
R0790	

Reconciliation reserve

Excess of assets over liabilities
 Own shares (held directly and indirectly)
 Foreseeable dividends, distributions and charges
 Other basic own fund items
 Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced funds

Reconciliation reserve**Expected profits**

Expected profits included in future premiums (EPIFP) - Life business
 Expected profits included in future premiums (EPIFP) - Non- life business

Total Expected profits included in future premiums (EPIFP)

S.25.01.21

Solvency Capital Requirement - for undertakings on Standard Formula

Market risk

Counterparty default risk

Life underwriting risk

Health underwriting risk

Non-life underwriting risk

Diversification

Intangible asset risk

Basic Solvency Capital Requirement

Calculation of Solvency Capital Requirement

Operational risk

Loss-absorbing capacity of technical provisions

Loss-absorbing capacity of deferred taxes

Capital requirement for business operated in accordance with Art. 4 of Directive 2003/41/EC

Solvency capital requirement excluding capital add-on

Capital add-on already set

Solvency capital requirement

Other information on SCR

Capital requirement for duration-based equity risk sub-module

Total amount of Notional Solvency Capital Requirement for remaining part

Total amount of Notional Solvency Capital Requirements for ring fenced funds

Total amount of Notional Solvency Capital Requirement for matching adjustment portfolios

Diversification effects due to RFF nSCR aggregation for article 304

	Gross solvency capital requirement	USP	Simplifications
	C0110	C0090	C0100
R0010	452		
R0020	126		
R0030	672		
R0040			
R0050			
R0060	- 304		
R0070			
R0100	946		

	C0100
R0130	948
R0140	
R0150	- 36
R0160	
R0200	1,857
R0210	
R0220	1,857
R0400	
R0410	
R0420	
R0430	
R0440	

S.28.01.01

Minimum Capital Requirement - Only life or only non-life insurance or reinsurance activity

Linear formula component for life insurance and reinsurance obligations

		C0040			
MCR _L Result	R0200	5,103		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	729,056			
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	5,103
SCR	R0310	1,857
MCR cap	R0320	836
MCR floor	R0330	464
Combined MCR	R0340	836
Absolute floor of the MCR	R0350	3,338
	C0070	
Minimum Capital Requirement	R0400	3,338