Gresham Insurance Company Limited

Solvency and Financial Condition Report

Year ended 31 December 2020

AVIVA

Contents

Gresham Insurance Company Limited

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2020

Summary

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

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

Business and Performance

The Company is a limited company registered in England and Wales and member of the Aviva plc group of companies. The Company transacts general insurance business in the United Kingdom through a business arrangement with Barclays Bank plc. The major class of business underwritten is personal lines home insurance. Whilst the Company only conducts non-life insurance activities, it also has life insurance obligations in relation to annuities stemming from non-life insurance contracts (PPO).

The Company made an IFRS profit before tax of £3,845 thousand in the year ended 31 December 2020 (2019*: £4,667 thousand*). This comprised underwriting profit of £274 thousand *(2019 : £455 thousand)*, net investment income of £1,469 thousand *(2019: £1,264 thousand)* and other income of £2,102 thousand *(2019 : other income of £2,948 thousand)*.

Gross written premium fell by 3% in the year (2019: fell by 4%). New business sales were down due to a highly competitive home insurance market now coping with Covid-19 lockdown disruption seeing lower branch footfall, offset in part by strong digital growth and strong retention rates. The majority of written premium is ceded to the Company's parent AIL, through a quota share reinsurance arrangement, with levies being excluded from this arrangement. Gross claims incurred of £43,853 thousand (2019: £50,334 thousand) decreased due to the favourable impacts of reduced economic activity from the impact of COVID 19 on current year claims.

The Company's net investment income for the year of £1,469 thousand (2019: £1,264 thousand) comprised interest receivable of £817 thousand and unrealised gains on the Company's holding of financial investments in Government Bonds and Collective Investment Undertakings of £652 thousand. The Company received non-insurance income of £3,571 thousand (2019: £4,212 thousand).

The Board declared an interim dividend of £14,000 thousand. There have been no other significant business or other events during the year which have had a material effect on the Company.

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

System of Governance

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

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

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

There have been no other material changes in the Company's system of governance during the year. Governance arrangements were reviewed in response to COVID-19 with adjustments made to the frequency and content of governance meetings, management oversight and management information provided as required.

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

Risk Profile

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

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

The types of risk to which the Company is exposed have not changed significantly over the year and remain credit, market, underwriting, liquidity and operational risks. The impact of COVID-19 is not considered to be significant given that the Company primarily underwrites personal household business.

For those risk types managed through the holding of capital, the Company measures and monitors its risk profile on the basis of the Solvency Capital Requirement (SCR). Some categories of risk are not measured and managed solely by holding capital, principally liquidity risk, which is measured through both absolute level targets and bespoke liquidity coverage ratios.

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

Valuation for Solvency Purposes

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

At 31 December 2020, the Company's excess of assets over liabilities was £16,224 thousand (2019:£25,504 thousand) on a SII basis which is £1,155 thousand (2019: £1,167 million) higher than the value under IFRS. This decrease is driven by an interim dividend distribution of £14,000 thousand paid during the year.

Section D of this report provides further description of the bases, methods and main assumptions used in the valuation of assets, technical provisions and other liabilities for each material asset or liability class. In addition, it also provides an explanation of the material differences between the IFRS and SII bases of valuation. The impact of COVID-19 on the Company's financial position is not considered to be significant given that the Company underwrites personal household business, and the 100% quota share reinsurance arrangement with it's parent company, Aviva Insurance Limited.

Capital Management

The Company manages Own Funds in conjunction with solvency capital requirements. In the calculation of the SCR, the Company has chosen to implement the standard formula (SF).

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

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

There have been no material changes to the objectives, policies or processes of the Company for managing its Own Funds during the year. The impact of COVID-19 on the Company's financial position is not considered to be significant given that the Company underwrites personal household business, and the 100% quota share reinsurance arrangement with it's parent company, Aviva Insurance Limited.

At 31 December 2020, the total eligible Own Funds to meet the SCR was £16,224 thousand (2019*: £25,504 thousand) a*ll of which was represented by unrestricted tier 1 capital.

The Company's SCR, at 31 December 2020, was £4,085 thousand (2019*:£4,178 thousand)*. The overall surplus position was £12,139 thousand (2019: £21,326 thousand) which translates to a regulatory cover ratio of 397% (2019: 610%). This decrease is driven by an interim dividend distribution of £14,000 thousand paid during the year.

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

Gresham Insurance Company Limited

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A. Business and Performance

In this Chapter

A. Business and Performance

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

A.1 Business

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

Qualifying holdings

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

Supervisor

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

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

External auditor

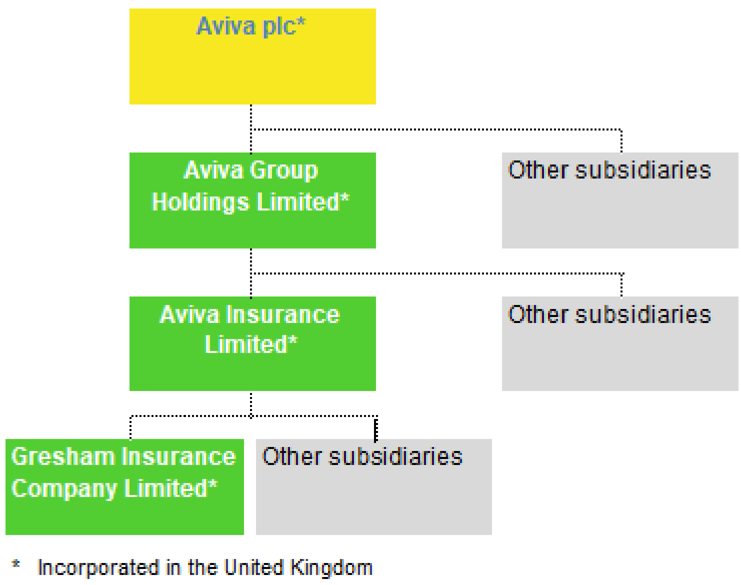
The PRA have issued the Company waiver to exempt the SFCR from the external audit requirements in the PRA handbook. Consequently, all qualitative and quantitative disclosure in this document is unaudited.

Financial statements

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

A.1.1 Organisation

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



Gresham Insurance Company Limited is a subsidiary of Aviva Insurance Limited, which is registered in Scotland. Aviva plc is the ultimate controlling parent entity registered in England.

A.1.2 Business operations and events occurring in the year

Business operations

The only material SII line of business underwritten by the Company is Fire and Other Damage to Property. The Company underwrites its business in the UK, as presented in QRT S.05.01 (Appendix F.1).

Whilst the Company only conducts non-life insurance activities, it does have life insurance obligations in relation to annuities stemming from non-life insurance contracts (PPO).

Significant business and other events

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

The impact of COVID-19 on the Company's financial position is not considered to be significant given that the Company underwrites personal household business, and the 100% quota share reinsurance arrangement with it's parent company, Aviva Insurance Limited.

The Company is taking a cautious approach on capital given the uncertain economic outlook. The Company's balance sheet exposure and solvency position has been continually reviewed during the year and actions taken to protect the solvency position and further reduce the sensitivity to economic shocks. The Company's Solvency II capital surplus of £16,224 thousand (2019: £25,504 thousand) is a key metric for the Company and remains strong.

Since the onset of the pandemic the Company has remained operational, with key activities such as cash payments and transaction processing being maintained, IT systems remaining operational, and employees including frontline customer facing staff being supported to ensure that we are there to support our customers when they need us most.

A.2 Underwriting Performance

A.2.1 Measurement of underwriting performance

The Company uses the underwriting result to measure its underwriting performance. Underwriting result is a non-GAAP financial performance measure, calculated on an IFRS basis. It excludes certain items to enhance comparability and understanding of underwriting performance by highlighting net income attributable to on-going underwriting operations. Examples of items excluded from underwriting result are investment return, economic assumption changes, and non-insurance income. The items excluded from underwriting result, which comprise the Company's investment performance and its performance of other activities, are detailed in sections A.3 and A.4 respectively.

A.2.2 Underwriting performance during the year

The Company made a profit before tax of £3,845 thousand for the year ended 31 December 2020 (2019: *£4,667 thousand*). This comprises an underwriting profit of £274 thousand (2019:*£455 thousand*), net investment income of £1,469 thousand (2019*: £1,264 thousand*) and a profit from other activities of £2,102 thousand (2019: *£2,948 thousand*), as shown in the table below

Year ended 31 December	£000s 2020	£000s 2020	£000s 2019	£000s 2019
Profit for the year before tax		**3,845**		**4,667**
Less: Net investment income (see A.3)		(1,469)		(1,264)
Performance of other activities (see A.4)		(2,102)		(2,948)
Underwriting profit		**274**		455

Personal household business has reduced in the UK as COVID-19 disrupted new business and lockdown disruption saw lower branch footfall. The impact of COVID-19 on the Company's profit before tax is not considered to be significant given that the Company primarily underwrites personal household business and the majority of written premium is ceded to the Company's parent AIL, through a quota share reinsurance arrangement.

A.2.3 Solvency II lines of business

A summary of the information provided in the premium, claims and expenses QRT S.05.01, analysed by SII lines of business, is provided in the table below. The net result of £3,845 thousand (2019*: £4,667 thousand*) comprises the underwriting result of £274 thousand *(2019 : £455 thousand* and the profit from other activities of £3,571 thousand (2019: £4,212 thousand).

£000s	Fire and other damage to property insurance	Other SII lines of business	Total
Year ended 31 December 2020			
Gross written premium	120,859	3,738	124,597
Net earned premium	5,730	177	5,907
Gross claims incurred	(41,429)	(2,423)	(43,853)
Net claims incurred	(49)	(274)	(323)
Net expenses incurred	(3,286)	(102)	(3,387)
Total expenses			(3,387)
Year ended 31 December 2019			
Gross written premium	124,246	3,843	128,089
Net earned premium	5,953	184	6,137
Gross claims incurred	(49,007)	(1,327)	(50,334)
Net claims incurred	(2,329)	2,263	(66)
Net expenses incurred	(5,449)	(168)	(5,617)
Total expenses			(2,915)

The Company's gross written premium, which is underwritten in the UK, decreased by 3% (2019: fell by 4%). New business sales were down largely due to a highly competitive home insurance market now coping with Covid-19 lockdown disruption seeing lower branch footfall, offset in part by strong digital growth and strong retention rates but not sufficient to replace branch shortfall. The majority of written premium is ceded to the Company's parent AIL, through a quota share reinsurance arrangement, with levies being excluded from this arrangement.

Gross claims incurred of £43,853 thousand (2019: £50,334 thousand) decreased due to the positive impact of COVID 19 on current year claims. Net claims incurred were negative £323 thousand (2019: negative £66 thousand) reflecting the reinsurance arrangement with AIL.

Net expenses incurred of £3,387 thousand (2019: £5,617 thousand) were in line with prior years with net expenses now including non-insurance income of £2,102 thousand (2019:£2,948 thousand) previously included in total expenses, (see A.4).

A.3 Investment Performance

A.3.1 Measurement of investment performance

The Company's net investment income for the year of £1,469 thousand (2019: £1,264 thousand) comprised interest receivable of £817 thousand and unrealised gains on the Company's holding of financial investments in Government Bonds and Collective Investment Undertakings of £652 thousand. Net investment income is stated after the deduction of immaterial investment expenses.

A.4 Performance of Other Activities

A.4.1 Other income and expense

As described in section A.2.1, performance of other activities comprises those items of other income and expense, other than net investment return, excluded from underwriting result. The Company made an IFRS profit before tax of £3,845 thousand in the year ended 31 December 2020 (2019*: £4,667 thousand*) of which £3,571 thousand (2019: £4,212 thousand) arose from its performance of other activities during the year. The material component of the Company's other activities is its non-insurance income of £2,102 thousand *(2019 : £2,948 thousand)*. Non-insurance income arises from items, such as legal expenses, sold as add-ons to existing policies; this income has fallen during the year in line with premium.

A.5 Any Other Information

On 24 November 2020 the Board approved an interim dividend of £14,000 thousand.

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

Gresham Insurance Company Limited

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B. System of Governance

In this Chapter

B. System of Governance

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

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

B.1 General Information on the System of Governance

B.1.1 Board structure

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

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

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

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

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

The first line

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

The second line

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

The third line

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

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

B.1.2 Material changes in the system of governance

There have been no material changes in the system of governance during the year. Governance arrangements were reviewed in response to COVID-19 with adjustments made to the frequency and content of governance meetings, management oversight and management information provided as required.

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

An assessment of the effectiveness of the Company's governance, internal control and risk management systems was conducted at the end of 2020, including a certification by the parent company Chief Executive Officer ("CEO"). Key operational risks and any control weaknesses or non-compliance with the Company's risk policies and business standards or local delegations of authority are highlighted as part of this process. The main focus during 2020 has been on enhancing the management of operational risk and controls and on improving related documentation. Significant progress has been made and efforts will continue in the first half of 2021. The parent company Chief Risk Officer (CRO) provided his own opinion on the parent company CEO's certificate which confirms accuracy of the CEO's declaration and noted no additional qualifications or weaknesses.

B.1.4 Remuneration policy and practices

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

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

The director appointed by Barclays plc is remunerated in line with practices within Barclays plc.

B.1.4.1 Executive directors

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

Remuneration of EDs is split between the following components:

- Basic salary informed by individual and business performance, levels of increase for the broader UK employee population and relevant pay data;
- Variable components (refer to section 'Variable components' below for further details);
- Pensions;
- Benefits;
- Relocation and mobility; and
- Shareholding requirement, in the shares of the ultimate parent company.

Variable components

The main forms of variable remuneration for EDs are:

- Annual Bonus: Awards are based on performance in the year. Performance is assessed against a range of relevant financial, employee, customer and risk targets designed to incentivise the achievement of strategy as well as individual strategic objectives. Targets are set annually and pay-out levels are determined based on performance against those targets. A significant proportion of any bonus award is deferred into shares which vest in three equal tranches; and
- Long-Term Incentive Plan (LTIP): Shares are awarded which vest after a three-year period.

B.1.4.2 Other Employees

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

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

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

Performance criteria for share awards

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

Pension and early retirement schemes

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

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

The Company has a quota share reinsurance arrangement with AIL, with effect from 1 January 2006. The key terms of the agreement remain: a 100% cession rate on premiums, claims costs and underwriting expense costs is applied in respect of the underwriting year; and a requirement for the Company to retain a percentage in relation to levies.

The key management of the Company are considered to be the statutory directors. Note 4 to the financial statements gives details of their remuneration.

B.2 Fit and Proper Policy

B.2.1 Requirements for the persons who run the Company or who are other key function holders

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

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

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

B.2.2 Process assessing fitness and propriety

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

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

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

B.3.1 Risk Management Framework

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

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

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

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

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

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

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

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

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

B.3.2 Risk Function

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

The Risk Function has authority to review all areas of the Company and has full, free and unrestricted access to all activities, records, property and personnel necessary to complete its work. The Board receives regular reports from the CRO covering material risks and concerns. The parent company CRO has direct management accountability for the Risk Function and is responsible for prudential regulatory risk management.

Prudential risk management activities performed by the Risk Function include:

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

B.3.3 Own Risk and Solvency Assessment (ORSA)

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

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

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

Review and approval

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

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

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

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

The annual report is submitted to the Board, and subject to their approval shared with the PRA. The necessity for an out of cycle ORSA was considered in the light of COVID-19, but it was decided that this was not necessary as the impact of the Company's Own Funds and diversified SCR was not material.

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

B.4 Internal Control System

B.4.1 System of Internal Control

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

- An appropriate "tone from the top". This supports the effective management of exposures, adequate resourcing, effective communication, malpractice reporting, a business ethics code that is annually signed up to by employees, and a commitment to integrity, ethical behaviour and compliance;
- A clear organisational structure that supports the system of internal control and includes the effective operation of an adequately resourced three lines of defence model, appropriate and proportionate segregation of duties, a clear system of delegated authorities, clearly defined roles and responsibilities for staff, and the consideration of risk management and control responsibilities when setting objectives for, and reviewing the performance of, all staff;
- Implementation of risk policies and business standards, and consistent IMMMR of all risks;
- Effective controls for each of its core business processes which are regularly monitored and reported on; and
- A risk oversight process that provides adequate challenge to the completeness and openness of internal control and risk assessment.

B.4.2 Compliance Function

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

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

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

The General Counsel is responsible for monitoring of legal developments.

B.5 Internal Audit Function

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

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

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

Independence and objectivity

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

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

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

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

B.6 Actuarial Function

The Actuarial Function is accountable for actuarial methodologies and calibrations, plus the resultant Best Estimate Liabilities and capital requirements. The Actuarial Function produces an annual report to the Board providing all of the information necessary for the Company's Board to form their own opinion on the adequacy of Technical Provisions and on the Company's underwriting and reinsurance arrangements.

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

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

B.7 Outsourcing

Policy

The Procurement and Outsourcing Business Standard contains information on the Company's outsourcing policy, setting out the relevant responsibilities, objectives, process, and monitoring arrangements to be applied in cases of outsourcing, all of which shall be consistent with the overall strategy. The Business Standard applies equally to any externally or internally (intra-group) outsourced activity. The objective of this Business Standard is to ensure that minimum control objectives and controls for supplier-related activities are followed by all elements of the business, to ensure that supply risk is managed effectively, customers are being treated fairly and continue to receive good outcomes, as well as mitigating potential financial, operational, contractual, and brand damage caused by inadequate management.

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

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

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

Critical and important outsourced functions and activities
The Company receives a wide range of services from within the Group. Various claims handling and fulfilment activities, including loss adjusting and property repairs are outsourced to companies outside the Group.

Jurisdiction of service providers
Services provided from within the Group and claims handling and fulfilment activities are carried out in the UK. Certain support functions are carried out in India and Sri Lanka.

B.8 Any Other Information
The Company has no other material information to disclose.

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C. Risk Profile

In this Chapter

C. Risk Profile

This chapter provides information on the Company's Risk Profile.

C.1 Underwriting Risk

C.1.1 Exposure

The Company's exposure to non-life underwriting risk arises from:

- Inadequate claims reserving assumptions;
- Unforeseen fluctuations in the timing, frequency and severity of claims and claim settlements relative to expectations;
- Unexpected claims arising from a single source;
- Inaccurate pricing of risks or inappropriate underwriting of risks when underwritten; and
- Inadequate reinsurance protection or other risk transfer techniques.

The Company underwrites household insurance, transacted though a business arrangement with Barclays Bank plc. There are also some outstanding reserves in respect of motor business that was underwritten historically.

The Company has a quota share arrangement with its parent company, AIL, with effect from 1 January 2006. The majority of written premium is ceded to AIL, although an amount of premium is excluded from this arrangement to meet the cost of levies. The Company is also a named party to Group wide external catastrophe reinsurance arrangements and participates in the Flood Re reinsurance programmes which is backed by the UK Government.

There were no material changes to the Company's underwriting risk profile over the year to 31 December 2020.

The Company's overall exposure to underwriting risk is measured using the SCR. QRT S.25.01 (Appendix F.1.7) shows that the Company's undiversified SCR for underwriting risk is immaterial (2019: immaterial). Underwriting risk is also measured and monitored in terms of best estimate liabilities, total sum insured and estimated maximum loss. Estimated maximum loss is an estimation of the maximum loss that could be reasonably sustained as a result of a single incident considered to be within the realms of probability.

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

C.1.2 Risk concentration

The Company's general insurance business is UK domiciled, and managed and priced in the UK. Its most concentrated non-life underwriting peril is North European Windstorm. The business written is sold exclusively via Barclays Insurance Services Company Limited.

C.1.3 Risk mitigation

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

- Claims reserving that is undertaken by local actuaries and is also subject to periodic external review;
- Extensive use of data, financial models and analysis to improve pricing and risk selection;
- Underwriting limits linked to delegations of authority that govern underwriting decisions;
- Product development in a management framework that ensures products and propositions meet customer needs;
- Product limits and exclusions;and
- Governance of outsourced functions writing products on behalf of the Company.

The primary technique used to mitigate underwriting risk is reinsurance as described in section C1.1.

The management of insurance risk is overseen by the Board.

C.1.4 Stress and scenario testing and sensitivity analysis

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

C.1.5 Special purpose vehicles

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

C.1.6 Additional information on COVID-19

The spread of COVID-19 has resulted in an economic downturn in jurisdictions in which the Company operates and had a significant impact on the global economy that may have adverse impacts on future premium volumes. The Company's exposure to underwriting risk is mitigated by its quota share arrangement with AIL, covering the majority of its underwriting risks.

C.2 Market Risk

C.2.1 Exposure

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

Given the reinsurance the Company has in place as outlined in section C1.1, the Company is primarily exposed to fluctuations in interest rates affecting the value of its UK Government Bonds. There is no exposure to foreign currency exchange rates.

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

The Company's overall exposure to market risk is measured using the SCR. QRT S.25.01 (Appendix F.1.7) shows that the Company's undiversified SCR for market risk is immaterial (2019: immaterial). This includes credit risk in respect of the Company's UK Government bond holdings whose risk profile and management is described in section C.3.

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

C.2.2 Risk concentration

The Company holds UK Government Bonds and Collective Investment Undertakings. It is thus exposed to a concentration of UK Government Bonds. The Collective Investment Undertakings are invested in liquidity funds.

C.2.3 Risk mitigation

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

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

C.2.4 Stress and scenario testing and sensitivity analysis

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

C.2.5 Additional information on COVID-19

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

C.3 Credit Risk

C.3.1 Exposure

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

The Company's approach to managing credit risk recognises that there is a risk of adverse financial impact resulting from fluctuations in credit quality of third parties including default, rating transition and credit spread movements. The Company's credit risks arise principally from exposures to UK Government Bonds, insurance debtors, reinsurance counterparties and bank deposits.

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

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

The principal basis used to measure the Company's exposure to credit risk is the SCR. QRT S.25.01 (Appendix F.1.7) shows that the Company's undiversified SCR for credit risk is £2,685 thousand (2019: £2,426 thousand). Counterparty risk relates to the risk associated with reinsurers and insurance debtors. The Company is additionally exposed to the credit risk associated with UK Government Bonds included in the market risk SCR reported in the QRT as described in section C2.1. There has been no material change in the Company's counterparty risk exposure over the reporting period.

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

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

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

The overall credit quality of the Company's financial investments is strong. At 31 December 2020, all Government Bonds were held with the UK Government and valued at £50,689 thousand (*2019*: £50,597 thousand). Similarly, at 31 December 2020, reinsurance assets all have external credit ratings of A- or above. Collective Investment Undertakings are held with highly rated banking institutions or liquidity funds.

C.3.2 Risk concentration

The Company has exposure to its immediate parent AIL via the reinsurance quota share arrangement discussed in section C.1.1. At 31 December 2020, the reinsurance asset recoverable from AIL is £89,250 thousand (*2019*: £92,464 thousand). This asset is neither impaired nor overdue. As at 31 December 2020, and after allowing for Deferred Acquisition Costs (DAC), this counterparty risk exposure is legally offset against a creditor balance with AIL associated with future premium payments. The Company's exposure to AIL as at 31 December 2020, net of DAC and creditor balances, is negative £33,896 thousand (*2019*: negative £13,073 thousand). The Company is also a named party to Group wide external catastrophe reinsurance arrangements, and hence could independently access external catastrophe reinsurance recoveries due.

The Company's exposure to receivables of £66,805 thousand at 31 December 2020 (*2019*: £70,182 thousand) primarily comprises amounts due from insurance contract holders which are neither impaired nor in the main overdue.

C.3.3 Risk mitigation

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

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

C.3.4 Stress and scenario testing and sensitivity analysis

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

C.3.5 Additional information on COVID-19

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

C.4 Liquidity Risk

C.4.1 Exposure

The Company's exposure to liquidity risk arises from the risk that its liabilities cannot be settled, in a timely and cost-effective manner, as they fall due because of insufficient liquid assets. Liquidity risk may arise from uncertainty of the value and timing of liabilities or the ability to realise assets to produce cash to meet obligations. The Company assesses liquidity risk under a range of scenarios and various levels of liquidity stress. Sources of liquidity risk include:

- Insurance underwriting e.g. catastrophe claims arising from adverse weather events;
- Variances of actual operational cash flow from shorter-term forecasts; and
- Timing mismatches between claims payments, premium income and reinsurance recoveries.

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

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

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

C.4.2 Risk concentration

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

C.4.3 Risk mitigation

The Company manages its liquidity risk by considering the liquidity impact before accepting new risks and managing its existing liquidity profile by:

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

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

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

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

The amount of EPIFP, calculated in accordance with Article 1 of the SII regulations and included within the valuation of the Company's Technical Provisions as at 31 December 2020 is £nil thousand (2019: £nil thousand). (See the Own Funds QRT S.23.01.01, Appendix F.1.6.).

C.4.5 Stress and scenario testing and sensitivity analysis

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

C.4.6 Additional information on COVID-19

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

C.5. Operational Risk

C.5.1 Exposure

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

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

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

As part of the wider Group strategy of digital customer interaction, its use of advanced data analytics and the increasing cyber security threat, together with regulators' attention to conduct issues, the Company has increased its inherent exposure to risks such as data theft, conduct breaches and customer service interruption arising from IT systems failure. The Company and its parent have sought to contain and reduce exposure to these risks through on-going investment in programmes to improve IT security and resilience, disaster recovery, data governance and outsourcing. The Company has an Operational Risk and Control Management Framework, which integrates the results of the risk identification and assurance activities carried out across the Company's three lines of defence.

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

QRT S.25.01 (Appendix F.1.7) shows that the Company's undiversified SCR for operational risk is £943 thousand *(2019: £962 thousand)*. The Company also produces specific conduct risk management information used to measure and analyse its exposure to conduct risk.

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

C.5.2 Risk concentration

The Company's products are marketed under the 'Barclays' brand, enabling leverage on the strength of that brand and supporting delivery of the Company's business strategy. Whilst reputational risk is mostly borne by the Barclays brand, the Company is vulnerable to any operational failures that adversely impact public perception of the 'Barclays' brand.

C.5.3 Risk mitigation

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

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

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

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

The Company has identified business critical functions and has exit and termination plans and business continuity and disaster recovery plans in the event of supplier failure. These plans are reviewed at least annually.

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

C.5.4 Stress and scenario testing and sensitivity analysis

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

C.5.5 Additional information on COVID-19

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

C.6 Other Material Risks

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

C.7 Any Other Information

C.7.1 Stress and scenario testing and sensitivity analysis

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

The Company carries out a range of sensitivity tests (where one risk factor, such as interest rates, is assumed to vary) and scenario tests (where combinations of risk factors are assumed to vary) to evaluate their impact on the business and to enable identification of plausible management actions to mitigate such impacts.

C.7.1.1 Stress and scenario testing

The SST completed for the Company, has considered potential impacts from the most significant risks to the Company of counterparty credit risk (arising from both the quota share arrangement in place with its parent company, AIL and the participation in the Group catastrophe reinsurance programme) and operational risks (arising from outsourcing operations and internal failings).

The outcome of this SST demonstrates that the Company is resilient to a range of potential adverse events and that the Company has management actions that could be executed in a timely manner, to mitigate the potential impacts from Company-specific or market-wide events. The Company is also considers, and is inherently considered within, the SST that is completed by its immediate parent company, AIL.

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

C.7.1.2 Sensitivity analysis

Management use sensitivity analyses to assess a range of single factor standalone impacts of differing levels of severity on the capital and liquidity positions of the Company and to ensure that the Company has a sufficient range of plausible management actions that could be executed in a timely manner to mitigate the potential impacts.

The sensitivity analysis performed by the Company includes consideration of the sensitivity of its SII cover ratio, determined according to SII Regulations, to a range of economic assumptions.

For the Company, this includes consideration of impacts from changes in interest rates and changes in reinsurer ratings. The results of these analyses demonstrate that, after consideration of any management actions that may be required, in extreme scenarios, the Company retains a SII surplus. This limited impact is primarily driven by the asset holdings, which are predominately UK Government Bonds and Collective Investment Undertakings with holdings in liquid funds and the extensive reinsurance arrangements in place.

C.7.2 Prudent Person Principle

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

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D. Valuation for Solvency Purposes

In this Chapter

D. Valuation for Solvency Purposes

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

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

A number of reclassifications, required to align the Company's IFRS balance sheet as shown in its financial statements, to the classifications required for the prescribed format of the SII balance sheet QRT, are given in column (c). The most significant reclassifications are:

- Under the SII Regulations cash flows relating to reinsurance premiums are included within Reinsurance Recoverables, and cash flows relating to premiums and policyholder tax are included within Technical Provisions. In the IFRS balance sheet these amounts are included within reinsurance payables, insurance and intermediaries receivables and other liabilities respectively.
- Amounts payable to Group companies under IFRS, are reclassified within the SII balance sheet to the relevant underlying nature of the balance; and
- Investments including cash equivalents are reclassified under SII.

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

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

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

The Company applied the following hierarchy of valuation approaches:

1. Quoted market prices in active markets for the same assets or liabilities;
2. Quoted market prices in active markets for similar assets and liabilities (with adjustments to reflect differences where necessary);
3. Alternative methods of valuation.

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. The assets classified as Level 1 and Level 2 under IFRS 13, are deemed as market consistent under SII. The assets classified as Level 3, for which there is no active market, are considered to use alternative valuation methods under SII. The Company has not used any alternative methods of valuation.

Balance Sheet – IFRS and SII

As at 31 December 2020 £000s	Note in financial statements (a)	IFRS balance sheet classified according to financial statements (b)	Reclassification of IFRS balances to SII balance sheet categories (c)	Reclassified IFRS balance sheet (d) =(b)+(c))	SII balance sheet (e)	Valuation differences between SII and IFRS (f) =(e)-(d)
Deferred acquisition costs	N & 11	20,443		20,443	—	(20,443)
Financial investments						
Bonds	K & 9	50,689	338	51,027	51,027	—
Collective investment undertakings		—	34,800	34,800	34,800	—
Reinsurance recoverables	I & 15	97,231	(64,749)	32,482	8,108	(24,374)
Receivables						
Insurance and intermediaries	L & 10	65,591	(65,591)	—		—
Reinsurance	L & 10	1,214	(587)	627	627	—
Cash and cash equivalents	O & 20	38,414	(34,800)	3,614	3,614	—
Prepayments and accrued income		2,019	(337)	1,683	1,683	—
Assets		**275,601**	**(130,926)**	**144,675**	**99,859**	**(44,816)**
Technical provisions	H & 14	(98,190)	62,603	(35,587)	(11,273)	24,314
Deferred tax liabilities				—	(271)	(271)
Payables and other financial liabilities						
Debts owed to credit institutions		—	(3,806)	(3,806)	(3,806)	—
Insurance and intermediaries payable	M & 17	(2,515)	—	(2,515)	(2,515)	—
Reinsurance payables	M & 17	(64,751)	64,751	—	—	—
Payables (trade, not insurance)	M & 17		(35,063)	(35,063)	(35,063)	—
Amounts due to Group companies	M & 17	(33,896)	33,896	—		—
Other liabilities	M & 17	(3,806)	3,806	—		—
Current tax liabilities	Q & 16	—	—	—	—	—
Accruals	18	(31,934)	31,934	—	—	—
Reinsurers share of DAC	N & 18	(20,443)	(1,483)	(21,926)	—	21,926
Other liabilities	18	(4,997)	(25,711)	(30,707)	(30,707)	—
Liabilities		**(260,532)**	**130,926**	**(129,606)**	**(83,635)**	**45,971**
Excess of assets over liabilities		**15,069**	**—**	**15,069**	**16,224**	**1,155**

D.1 Assets

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

D.1.1 Deferred acquisition costs

Deferred acquisition costs are recognised under IFRS reporting and deferred to the extent they are expected to be recoverable out of future margins in revenues on those contracts. Under SII these are not recognised and are therefore valued at £nil in the SII balance sheet. The associated cash flows are included in the valuation of SII Technical Provisions.

D.1.2 Collective investment undertakings

The Company's collective investment undertakings are all invested in highly liquid investments that are readily convertible into cash and valued on the basis of the liquid investments they hold. The Company's collective investment undertakings are subject to an insignificant risk of change in value.

In the IFRS financial statements collective investment undertakings are valued at fair value. This is consistent with SII.

D.1.3 Reinsurance recoverables

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

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

Reinsurance recoverables, consistent with the calculation of Technical Provisions - Best Estimate Liabilities, includes expected recoveries from pre-inception contracts where they occur within the premium or claims provisions.

Cash flows relating to future reinsurance arrangements comprise both expected recoveries and expected reinsurance premium payments. This means reinsurance contracts which are expected to be written are taken into account and thus assumptions in relation to the likely future reinsurance purchasing decisions are required.

The Company has a significant exposure to its parent company, AIL, arising from the quota share reinsurance agreement. Further details are set out in Section C.3.2.

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

- Only reinsurance cash flows relating to long tailed claims reserves are discounted under IFRS whereas all reinsurance cash flows are discounted under SII.
- The rate used to discount PPO cash flows is lower under SII than the equivalent rate used under IFRS.
- The unearned reinsurance premium reserve established under IFRS is replaced with a best estimate reinsurance premium provision. This is offset by the release of deferred reinsurance commissions from other liabilities (see section D.3.2).
- The SII valuation includes the additional reinsurance premium that is expected to be paid for reinsurance to cover business incepted at the valuation date. This is not accounted for under IFRS.

The Company does not have any Special Purpose Vehicles.

D.1.4 Prepayments

Prepayments are classified as Other Assets on the SII Balance Sheet. Prepayments are valued at their fair value, which is considered to be the same as their cost.

D.1.5 Changes made to recognition and valuation bases and estimations during the reporting period

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

D.1.6 Deferred tax assets and liabilities

Deferred tax is determined on a non-discounted basis in accordance with International Accounting Standard (IAS) 12, principles on temporary differences between the economic value of assets or liabilities on the SII balance sheet and their tax base.

Deferred tax assets and liabilities are recognised separately on the Solvency II balance sheet to the extent that deferred tax asset cannot be offset against corresponding deferred tax liabilities.

The deferred tax balances in the Solvency II balance sheet differ from those already recognised in the IFRS balance sheet as a result of the differences between the IFRS and Solvency II balance sheet valuation and consequential impact on recognition of deferred tax assets. The largest impact arises from the derecognition of IFRS deferred acquisition costs and deferred income and results in the net deferred tax liability of £271 thousand.

D.2 Technical Provisions

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

D.2.1 Valuation of Technical Provisions

SII Technical Provisions are summarised in the following table. All figures are gross of reinsurance. They are also detailed in the QRT S.17.01 (Non-life Technical Provisions) and S.12.01 (Life Technical Provisions), see Appendix F.1.3.

As at 31 December 2020 £000s	Best Estimate Liabilities	Risk Margin	Technical Provisions
Line of Business			
Motor vehicle liability & Other Motor insurance	1,489	1	1,490
Fire and property damage	(279)	141	(138)
General liability insurance	1,643	2	1,645
Non-life insurance obligations	**2,853**	**144**	**2,997**
PPOs other than health insurance	8,276	—	8,276
Life insurance obligations	**8,276**	**—**	**8,276**
Total	**11,129**	**144**	**11,273**

The impact of COVID-19 on the Company's best estimate liabilities is not considered to be significant given that the Company primarily underwrites personal household business.

Whilst the Company only conducts non-life insurance activities, it also has life insurance obligations in the UK in relation to annuities stemming from non-life insurance contracts (PPO). PPO are classified as Technical Provisions - Life (excluding health and index-linked and unit-linked), within the prescribed format of the SII Balance Sheet.

An explanation of the differences between the SII valuation of Technical Provisions and the valuation in the Company's financial statements under IFRS is given in section D.2.3.

D.2.1.1 Non-life Best Estimate Liabilities

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

- A Best Estimate is one that represents the expected outcome from the range of possible outcomes for the future and is reasonable and realistic taking account of all the uncertainties involved.
- A consistent approach has been applied across all non-life and health (similar to non-life) business.
- The calculation of Technical Provisions is performed on a going concern basis. This means that it can be assumed that contracts run to their conclusion and as a result a proportion of expected future costs will be covered by future business.

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

- In-force and expired contracts;
- Contracts that have not yet incepted but that the Company has an obligation to enter into at the valuation date (pre-inception contracts); and
- Future cancellations or endorsements by the policyholder.

Best Estimate Liabilities comprise a claims provision and a premium provision. The claims provision includes cash flows relating to events that occurred before the valuation date, whether reported or not. The cash flows include premiums, net claims costs and expenses. The premium provision includes cash flows relating to future claim events that have not yet occurred, but that are covered by existing contracts and legally binding pre-inception contracts. The cash flows include premiums, net claims and expenses, in respect of future claim events. Where future premium cash flows are expected to exceed projected future claim and expense cash flows, the premium provision is negative as is the case for Fire and Other Damage to Property.

When modelling these cash flows the inflows are considered separately from the outflows. Claims costs take into account recoveries from salvage and subrogation. Expenses include administrative, investment management, loss adjustment and acquisition expenses including commissions and premium taxes.

Claims costs

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

Qualitative judgement is used to reflect changes in external factors such as public attitudes to claiming, economic conditions, levels of claims inflation, judicial decisions and legislation, as well as internal factors such as portfolio mix, policy conditions and claims handling procedures.

Premium provisions
Premium provisions are estimated by selecting an exposure measure and using that to establish the unearned and pre-inception exposure. Claims cost projections are set for each future period using trends in historic claims data adjusted for known anomalies in the data that are not expected to be repeated in the future, changes in mix and volume of business and to allow for the impact of projected claims inflation. These cost projections are then applied to the predicted exposure to determine the cash flows.

Expenses
Expenses are adjusted for expense and claims inflation and allocated between the claims and premium provisions. They are analysed by homogeneous risk group or at a minimum by SII line of business. Future administrative costs and commission payments are projected using best estimate expense forecasts. Investment expenses are modelled as a percentage of Technical Provisions. Future unallocated loss adjustment expense provisions are set in relation to expected claims levels.

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

Allowances for "known unknowns" are made using scenario analysis to cover any foreseeable event with a potentially material impact. A core list of events is specified which are considered as the starting point for the analysis. ENID are considered both at SII lines of business level, and at portfolio level with allocations to SII lines of business, depending on the scenario being considered.

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

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

D.2.1.2 PPO Best Estimate Liabilities
The Company's Best Estimate Liabilities for PPO, in common with non-life business, are valued based on the present value of future cash flows discounted using the relevant risk-free interest rate adjusted for the EIOPA prescribed credit risk adjustment and Volatility Adjustment at the valuation date. The cash flows that are considered when calculating the Best Estimate Liabilities for PPO derive from:
- Payment of claims benefits: with the majority of PPO providing payments relating to care needs of the claimant, with a smaller number providing loss of earnings payments; and
- Expenses: these are relatively small (compared to the size of claims benefits) administrative costs in relation to each PPO.

PPO Best Estimate Liabilities use life insurance actuarial methods and techniques to estimate appropriate assumptions for each individual claimant.

Discounting

PPO cash flows are discounted using the appropriate SII yield curve adjusted for the EIOPA prescribed credit risk adjustment and Volatility Adjustment. The methods are consistent with those applied to non-life cash flows.

Longevity assumptions
Assumptions are made in relation to future longevity. These assumptions are updated annually and based on the latest general mortality assumptions for the population as a whole (including future expected changes in mortality), as well as any impairment to life expectancy on individual PPO based on independent medical opinions.

Inflation assumptions
PPO payments escalate based on indices specified at the time of settlement of the PPO. The majority of PPO claims escalate based on an Annual Survey of Hours and Earnings index (ASHE) with a smaller number escalating in line with the Retail Price Index ("RPI"). Assumptions are therefore required for the future escalation of these indices. The Company assumes that, over the longer term, the future escalation of the ASHE indices will be linked to RPI within the UK economy and uses market consistent views of future RPI inflation as the basis to project future ASHE inflation. Adjustments are then made to allow for any expected differences between future ASHE inflation and future RPI inflation.

D.2.1.3 Risk Margin
The Risk Margin is an estimate of the amount, in addition to the Best Estimate Liability, that a third party would expect to receive in order to assume ownership of the Company's insurance obligations. The Risk Margin calculation takes material underwriting, non hedgeable

market (except interest rate), credit and operational risk into account. Once calculated it is allocated to each SII line of business, although on materiality grounds some SII lines of business are allocated no Risk Margin.

The Company's Risk Margin is £144 thousand (2019; £149 thousand) as at 31 December 2020.

D.2.1.4 Simplifications

Best Estimate Liabilities

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

- The Company's Best Estimate Liabilities include a provision in relation to ENIDs. For the purposes of discounting cashflows, it is assumed that ENIDs have the same cashflow profile as other claims.
- Cashflows are modelled in monthly time intervals for the first 10 years and annually thereafter. For the purposes of discounting, all payments are assumed to occur mid-month or mid-year as dictated by the time intervals used.
- When calculating provisions for potential reinsurer default, reinsurance assets are grouped by reinsurer counterparty credit rating and within each credit rating the same probabilities of default are assumed.
- Gross premium debtors are split by class of business and payment date based on the split of written premium.
- The volume of Legally Obliged Unincepted business has been estimated based on a proportion of January's planned written premium.

D.2.1.5 Material changes in the relevant assumptions compared to the previous reporting period

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

D.2.2 Level of uncertainty

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

- Catastrophic weather events;
- Unanticipated legislative changes; and
- Unanticipated inflation.

Specific areas of uncertainty are:

- Given the nature of the Company's business, on a gross of reinsurance basis the uncertainty around future weather claims experience is the largest risk the Company is exposed to. The Company has extensive reinsurance in place against these claims so net of reinsurance the level of uncertainty is reduced.
- Gresham's has extensive reinsurance in place which materially reduces the level of uncertainty.
- The UK's decision to exit the EU increases the uncertainty within the valuation process, mainly in relation to future claims ratio forecasts. This is driven by increased uncertainty around the economic outlook for the UK – including inflation expectations, economic activity, unemployment levels and the future strength of sterling against other currencies. There's also uncertainty regarding whether the UK is now more likely to introduce legislative changes which have the potential to impact claims costs. Most lines of business have the potential to be impacted.
- The uncertainty and impact of further potential lockdowns and evolving strains of the COVID-19 virus may introduce some variability around the frequency and severity of claims for multiple lines of business.

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

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

Technical Provisions as at 31 December 2020 £000s	Best Estimate Liabilities	Risk Margin (unaudited)	Technical Provisions	IFRS reclassified Technical Provisions	Difference between SII and IFRS reclassified Technical Provisions
Non-life insurance obligations	**2,853**	**144**	**2,997**	**28,536**	**25,539**
– Motor vehicle liability & Other Motor insurance	1,490	1	1,491	890	(601)
– Fire and property damage	(279)	141	(138)	24,971	25,109
– General liability insurance	1,643	2	1,645	2,675	1,030
Life (excluding health and index-linked and unit-linked) (PPO)	**8,276**	**—**	**8,276**	**7,050**	**(1,226)**
Total	**11,129**	**144**	**11,273**	**35,586**	**24,314**

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

- The unearned premium reserve established under IFRS is replaced with a Best Estimate premium provision which incorporates the expected cost of claims and expenses on the unearned periods of exposure. This leads to a lower premium provision under SII than the equivalent unearned premium reserves under IFRS and is the most material difference between SII and IFRS Technical Provisions in the table above. This difference has a material impact on the Fire and property damage line of business, but immaterial impacts on the other lines of business;

- Only PPO claims are discounted within IFRS provisions, whereas all cash flows are discounted under SII. This difference reduces SII Technical Provisions compared to IFRS provisions and affects all Non-life (excluding health) lines of business;
- An explicit margin for uncertainty is included within IFRS provisions but removed under SII. This impacts all lines of business and reduces SII Technical Provisions compared to IFRS provisions;
- Under SII, provisions are established for Legally Obliged Unincepted Business, whereas these provisions are not included within the IFRS valuation basis. This difference mainly impacts the Fire and property damage line of business. This decreases SII Technical Provisions compared to IFRS provisions.

D.2.4 Volatility Adjustment

The Volatility Adjustment removes temporary distortions in spreads caused by illiquidity in the market or extreme widening of credit spreads, in particular in relation to government bonds. The PRA has approved the Company's application to apply a Volatility Adjustment (PRA reference number: 2191473). The impact of the Volatility Adjustment on Technical Provisions, Basic Own Funds, Eligible Own Funds to meet the SCR, the SCR (unaudited), Eligible Own Funds to meet the Minimum Capital Requirement (MCR) and the MCR is detailed in the Long Term Guarantees and Transitional measures QRT S.22.01 (see Appendix F.1.5). The impact of removing the Volatility Adjustment from gross SII Technical Provisions would be to increase their value by less than £1m.

D.2.5 Other reliefs

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

D.3 Other Liabilities

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

The Company's financial statements provide information about contingent liabilities and other risk factors in note 19. The Company has no additional material contingent liabilities to recognise under SII.

D.3.1 Reinsurers share of deferred acquisition costs

Reinsurers' share of deferred acquisition costs of £20,443 thousand (2019: £21,367 thousand), included within other liabilities under IFRS, are not recognised and therefore valued at £nil in the SII balance sheet.

D.3.2 Other liabilities

Other Liabilities comprise accruals and cash flows payable under the quota share arrangement. Other liabilities expected to be settled within one year are valued, on the SII balance sheet, at the amount expected to be paid. Non-current accruals and other liabilities are valued at their fair value, and are not adjusted to take account of the impact of changes in the own credit standing of the Company. In valuing such liabilities, the timing and monetary amount of expected outflow of cash or other resources are determined and these projected cash flows discounted.

Deferred income of £1,483 thousand (2019: £1,624 thousand), included within other liabilities under IFRS, is not recognised and therefore valued at £nil in the SII balance sheet.

D.3.3 Assumptions, judgements and uncertainty

No material assumptions or judgements were applied to, nor is any material uncertainty associated with, the recognition and valuation of other liabilities.

D.3.4 Changes made to recognition and valuation bases and estimations during the reporting period

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

D.4 Alternative Methods of Valuation

The Company has not used any alternative methods of valuation.

D.5 Any Other Information

The Company has no other material information to disclose.

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E. Capital Management

In this Chapter

E. Capital Management

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

E.1 Own Funds

E.1.1 Management of Own Funds

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

In managing its Own Funds the Company also 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 to support new business growth and satisfy the requirements of its policyholders and its regulator, the PRA;
- Retain financial flexibility by maintaining sufficient liquidity; and
- Allocate capital efficiently, applying it to support value-adding growth and repatriating excess capital to its shareholder through dividends.

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

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

E.1.2 Eligible Own Funds

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

Own Funds £000s As at 31 December	Total 2020	Tier 1 (unrestricted) 2020	Total 2019	Tier 1 (unrestricted) 2019
Ordinary share capital	10,000	10,000	10,000	10,000
Reconciliation reserve	6,224	6,224	15,504	15,504
Total Basic Own Funds	16,224	16,224	25,504	25,504

The impact of COVID-19 on the Company's Own Funds is not considered to be significant given that the Company primarily underwrites personal household business and the 100% quota share reinsurance arrangement with it's parent company, Aviva Insurance Limited.

Tiering analysis

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

The Company's Tier 1 Own Funds of £16,224 thousand (2019: £25,504 thousand) decreased by £9,280 thousand during the year. This decrease is driven by the dividend distribution of £14,000 thousand offset by capital generated by the Company's operations during the year.

Reconciliation reserve

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

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

As at 31 December	£000s 2020	£000s 2019
SII excess of assets over liabilities	16,224	25,504
Ordinary share capital	(10,000)	(10,000)
Reconciliation reserve	6,224	15,504

Eligibility of tiered capital

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

As at 31 December	£000s 2020	£000s 2019
Total eligible Own Funds to meet the SCR	**16,224**	25,504
Total eligible Own Funds to meet the MCR	**16,224**	25,504

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

As at 31 December	2020	2019
Ratio of eligible Own Funds to the SCR	**397 %**	610 %
Ratio of eligible Own Funds to the MCR	**486 %**	800 %

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

The Company's Own Funds are equal to its excess of assets over liabilities on a SII basis. The excess of £16,224 thousand is £1,155 thousand more than the Company's total equity on an IFRS basis. The following table details the material differences between the excess of assets over liabilities on a SII basis and total equity on an IFRS basis.

As at 31 December 2020	£000s	£000s	See Section
Total equity on an IFRS basis		15,069	
Elimination of deferred acquisition costs	(20,443)		D.1.1
Valuation adjustments to reinsurance recoverables	(24,374)		D.1.3
Valuation adjustments to Technical Provisions	24,314		D.2.3
Elimination of reinsurers share of deferred acquisition costs	20,443		D.3.1
Elimination of deferred income	1,483		D.3.2
Net deferred tax adjustments	(271)		D.1.6
		1,155	
Excess of assets over liabilities on a SII basis		**16,224**	

E.1.4 Transitional arrangements and restrictions

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

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

E.2.1 The amount of the SCR and MCR

The Company's SCR as at 31 December 2020 was £4,085 thousand (2019: £4,178 thousand). This is shown in the SCR QRT, S.25.01, see Appendix F.1.7. The final amount of the SCR is subject to supervisory assessment and does not include any regulator-imposed capital add-ons. The Company's MCR as at 31 December 2020 was £3,338 thousand (2019: £3,187 thousand). This is shown on the MCR QRT, S.28.01, see Appendix F.1.8.

E.2.2 The composition of the SCR

The Company determines its SCR using SF. An analysis by risk module is presented in the table below. Further detail is shown in the SCR QRT, see Appendix F.1.7.

Diversified SCR by material risk category (per the SCR QRT) As at 31 December	£000s 2020	£000s 2019
Market risk	**932**	1,393
Counterparty risk	**2,685**	2,426
Underwriting risk	**210**	277
Diversification between risk categories	**(684)**	(883)
Basic SCR	**3,143**	3,214
Operational risk	**943**	962
Total SCR	**4,085**	4,178

Each risk module includes the impact of diversification within that module. The diversification benefit presented in the table above of negative £684 thousand (2019: negative £883 thousand) therefore only includes the benefit of diversification between risk modules. This has reduced in year following the reduction in the component risks explained below.

The SCR reduction was mainly driven by the Market risk due to a decrease in interest rate risk. The impact of COVID-19 is not considered to be significant. Gresham holds a single asset, a UK gilt maturing in 2023, which is now a year closer to maturity and provides a better match to the liabilities than at the previous year-end. This has been partly offset by an increase in the counterparty risk owing to the increase in liquidity funds. Operational risk is capped at 30% of the Basic SCR and reduces in line with the other risks.

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

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

E.2.4 MCR calculation

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

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

The Company does not use this option.

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

The Company does not use an Internal Model (IM).

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

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

E.6 Any Other Information

The Company has no other material information to disclose.

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F. Appendices

In this Section

F.0 Cautionary Statement

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

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

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

This Solvency and Financial Condition Report has been published for information only, it is based on our understanding as at 30 March 2021 and does not provide financial or legal advice. Other than as set out in section F.3 (Directors Statement), the Company, its directors, employees, agents or advisers do not accept or assume responsibility to any person to who this document is shown or into whose hands it may come, and any such responsibility or liability is expressly disclaimed.

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

		Solvency II Value
		C0010
Assets		
Intangible assets	R0030	
Deferred tax assets	R0040	
Pension benefit surplus	R0050	
Property, plant & equipment held for own use	R0060	
Investments (other than assets held for index-linked and unit-linked contracts)	R0070	85,827
Property (other than for own use)	R0080	
Holdings in related undertakings, including participations	R0090	
Equities	R0100	
- Equities - Listed	R0110	
- Equities - Unlisted	R0120	
Bonds	R0130	51,027
- Government Bonds	R0140	51,027
- Corporate Bonds	R0150	
- Structured Notes	R0160	
- Collateralised securities	R0170	
Collective Investments Undertakings	R0180	34,800
Derivatives	R0190	
Deposits other than cash equivalents	R0200	
Other investments	R0210	
Assets held for index-linked and unit-linked contracts	R0220	
Loans & mortgages	R0230	
- Loans on policies	R0240	
- Loans & mortgages to individuals	R0250	
- Other loans & mortgages	R0260	
Reinsurance recoverables from:	R0270	8,108
- Reinsurance recoverables - Non-life and health similiar to non-life	R0280	706
- Reinsurance recoverables - Non-life excluding health	R0290	706
- Reinsurance recoverables - Health similar to non-life	R0300	
- Reinsurance recoverables - Life and health similar to life, excluding health and index-linked and unit-linked	R0310	7,402
- Reinsurance recoverables - Health similar to life	R0320	
- Reinsurance recoverables - Life excluding health and index-linked and unit-linked	R0330	7,402
- Reinsurance recoverables - Life index-linked and unit-linked	R0340	
Deposits to cedants	R0350	
Insurance & intermediaries receivables	R0360	
Reinsurance receivables	R0370	627
Receivables (trade, not insurance)	R0380	
Own Shares (held directly)	R0390	
Amounts due in respect of own fund items or initial fund called up but not yet paid in	R0400	
Cash and cash equivalents	R0410	3,614
Any other assets, not elsewhere shown	R0420	1,683
Total assets	R0500	99,859

Liabilities		
Technical provisions - Non-life	R0510	2,997
- Technical provisions - Non-life (excluding health)	R0520	2,997
- TP calculated as a whole - Non-life (excluding health)	R0530	
- Best Estimate - Non-life (excluding health)	R0540	2,853
- Risk margin - Non-life (excluding health)	R0550	144
- Technical provisions - Health (similar to non-life)	R0560	
- TP calculated as a whole - Health (similar to non-life)	R0570	
- Best Estimate - Health (similar to non-life)	R0580	
- Risk margin - Health (similar to non-life)	R0590	
Technical provisions - Life (excluding index-linked and unit linked)	R0600	8,276
- Technical provisions - Health (similar to life)	R0610	
- TP calculated as a whole - Health (similar to life)	R0620	
- Best Estimate - Health (similar to life)	R0630	
- Risk margin - Health (similar to life)	R0640	
- Technical provisions - Life (excluding health and index-linked and unit-linked)	R0650	8,276
- TP calculated as a whole - Life (excl health, index-linked and unit-linked)	R0660	
- Best Estimate - Life (excl health, index-linked and unit-linked)	R0670	8,276
- Risk margin - Life (excl health, index-linked and unit-linked)	R0680	—
Technical provisions - Index-linked and unit-linked	R0690	
- TP calculated as a whole - Index-linked and unit-linked	R0700	
- Best Estimate - Index-linked and unit-linked	R0710	
- Risk margin - Index-linked and unit-linked	R0720	
Contingent liabilities	R0740	
Provisions other than technical provisions	R0750	
Pension benefit obligations	R0760	
Deposits from reinsurers	R0770	
Deferred tax liabilities	R0780	271
Derivatives	R0790	
Debts owed to credit institutions	R0800	3,806

Financial liabilities other than debts owed to credit institutions	R0810	
Insurance & intermediaries payables	R0820	2,515
Reinsurance payables	R0830	
Payables (trade, not insurance)	R0840	35,063
Subordinated liabilities	R0850	
- Subordinated liabilities not in BOF	R0860	
- Subordinated liabilities in BOF	R0870	
Any other liabilities, not elsewhere shown	R0880	30,707
Total liabilities	R0900	83,635
Excess of assets over liabilities	R1000	16,224

Appendix F.1.2.1
S.05.01.02
Premiums, claims and expenses by line of business
Amounts in 000s

		Line of Business for: life insurance obligations						Life reinsurance obligations		Total
		Health [accepted non-proportional reinsurance]	Insurance with profit participation	Unit-linked or index-linked insurance	Other life insurance	Annuities stemming from non-life insurance contracts and relating to health insurance obligations	Annuities stemming from non-life insurance contracts and relating to insurance obligations other than health insurance	Health reinsurance	Life reinsurance	
		C0210	C0220	C0230	C0240	C0250	C0260	C0270	C0280	C0300
Premiums written										
Gross - Direct Business	R1410									
Reinsurers' share	R1420									
Net	R1500									
Premiums earned										
Gross - Direct Business	R1510									
Reinsurers' share	R1520									
Net	R1600									
Claims incurred										
Gross - Direct Business	R1610						1,226			1,226
Reinsurers' share	R1620						54			54
Net	R1700						1,171			1,171
Changes in other technical provisions										
Gross - Direct Business	R1710									
Reinsurers' share	R1720									
Net	R1800									
Expenses incurred	R1900									
Other expenses	R2500									
Total expenses	R2600									

Appendix F.1.2.2
S.05.01.02
Premiums, claims and expenses by line of business
Amounts in 000s

		Line of Business for: non-life insurance and reinsurance obligations (direct business and accepted proportional reinsurance)											
		Medical expense insurance [direct business]	Income protection insurance [direct business]	Workers' compensation insurance [direct business]	Motor vehicle liability insurance [direct business]	Other motor insurance [direct business]	Marine, aviation and transport insurance [direct business]	Fire and other damage to property insurance [direct business]	General liability insurance [direct business]	Credit and suretyship insurance [direct business]	Legal expenses insurance [direct business]	Assistance [direct business]	Miscellaneous financial loss [direct business]
		C0010	C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0090	C0100	C0110	C0120
Premiums written													
Gross - Direct Business	R0110							120,859	3,738				
Gross - Proportional reinsurance accepted	R0120												
Gross - Non-proportional reinsurance accepted	R0130												
Reinsurers' share	R0140							115,129	3,561				
Net	R0200							5,730	177				
Premiums earned													
Gross - Direct Business	R0210							123,288	3,813				
Gross - Proportional reinsurance accepted	R0220												
Gross - Non-proportional reinsurance accepted	R0230												
Reinsurers' share	R0240				16			117,542	3,635				
Net	R0300				(16)			5,746	178				
Claims incurred													
Gross - Direct Business	R0310				(84)			41,429	1,281				
Gross - Proportional reinsurance accepted	R0320												
Gross - Non-proportional reinsurance accepted	R0330												
Reinsurers' share	R0340				815			41,380	1,280				
Net	R0400				(899)			49	2				
Changes in other technical provisions													
Gross - Direct Business	R0410												
Gross - Proportional reinsurance accepted	R0420												
Gross - Non-proportional reinsurance accepted	R0430												
Reinsurers' share	R0440												
Net	R0500												
Expenses incurred	R0550							3,286	102				
Other expenses	R1200												
Total expenses	R1300												

		Line of Business for: accepted non proportional reinsurance				Total
		Non-proportional health reinsurance	Non-proportional casualty reinsurance	Non-proportional marine, aviation and transport reinsurance	Non-proportional property reinsurance	
		C0130	C0140	C0150	C0160	C0200
Premiums written						
Gross - Direct Business	R0110					124,597
Gross - Proportional reinsurance accepted	R0120					
Gross - Non-proportional reinsurance accepted	R0130					
Reinsurers' share	R0140					118,690
Net	R0200					5,907
Premiums earned						
Gross - Direct Business	R0210					127,101
Gross - Proportional reinsurance accepted	R0220					
Gross - Non-proportional reinsurance accepted	R0230					
Reinsurers' share	R0240					121,194
Net	R0300					5,907
Claims incurred						
Gross - Direct Business	R0310					42,627
Gross - Proportional reinsurance accepted	R0320					
Gross - Non-proportional reinsurance accepted	R0330					
Reinsurers' share	R0340					43,475
Net	R0400					(848)
Changes in other technical provisions						
Gross - Direct Business	R0410					
Gross - Proportional reinsurance accepted	R0420					
Gross - Non-proportional reinsurance accepted	R0430					
Reinsurers' share	R0440					
Net	R0500					
Expenses incurred	R0550					3,387
Other expenses	R1200					
Total expenses	R1300					3,387

Appendix F.1.3.1
S.12.01.02
Life and Health SLT Technical Provisions
Amounts in 000s

		Insurance with profit participation	Unit-linked or index-linked insurance			Other life insurance			Annuities stemming from non-life insurance contracts and relating to insurance obligations other	Accepted reinsurance	Total (Life other than health insurance, incl. Unit-Linked)
				Contracts without options and guarantees	Contracts with options or guarantees		Contracts without options and guarantees	Contracts with options or guarantees			
		C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0090	C0100	C0150
Technical provisions calculated as a whole	R0010										
Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default associated to TP as a whole	R0020										
Technical provisions calculated as a sum of BE and RM											
Best Estimate											
Gross Best Estimate	R0030								8,276	—	8,276
Total Recoverables from reinsurance and SPV after the adjustment for expected losses due to counterparty default	R0080								7,402		7,402
Best estimate minus recoverables from reinsurance and SPV - Total	R0090								873		873
Risk Margin	R0100								—	—	—
Amount of the transitional on Technical Provisions											
Technical Provisions calculated as a whole	R0110										
Best estimate	R0120										
Risk margin	R0130										
Technical provisions - Total	R0200								8,276		8,276

		Health [accepted non-proportional reinsurance]			Annuities stemming from non-life insurance contracts and relating to health insurance obli	Health reinsurance	
			Contracts without options and guarantees	Contracts with options or guarantees			Total (Health similar to life insurance)
		C0160	C0170	C0180	C0190	C0200	C0210
Technical provisions calculated as a whole	R0010						
Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default associated to TP as a whole	R0020						
Technical provisions calculated as a sum of BE and RM							
Best Estimate							
Gross Best Estimate	R0030						
Total Recoverables from reinsurance and SPV after the adjustment for expected losses due to counterparty default	R0080						
Best estimate minus recoverables from reinsurance and SPV - Total	R0090						
Risk Margin	R0100						
Amount of the transitional on Technical Provisions							
Technical Provisions calculated as a whole	R0110						
Best estimate	R0120						
Risk margin	R0130						
Technical provisions - Total	R0200						

Appendix F.1.3.2
S.17.01.02
Non-Life Technical Provisions
Amounts in 000s

		Direct business and accepted proportional reinsurance											
		Medical expense insurance [direct business]	Income protection insurance [direct business]	Workers' compensation insurance [direct business]	Motor vehicle liability insurance [direct business]	Other motor insurance [direct business]	Marine, aviation and transport insurance [direct business]	Fire and other damage to property insurance [direct business]	General liability insurance [direct business]	Credit and suretyship insurance [direct business]	Legal expenses insurance [direct business]	Assistance [direct business]	Miscellaneous financial loss [direct business]
		C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0090	C0100	C0110	C0120	C0130
Technical provisions calculated as a whole	R0010												
Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default associated to TP as a whole	R0050												
Technical provisions calculated as a sum of BE and RM													
Best estimate													
Premium provisions													
Gross	R0060							(20,224)	56				
Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	R0140							(22,006)	56				
Net Best Estimate of Premium Provisions	R0150							1,781					
Claims provisions													
Gross	R0160				1,492	(2)		19,945	1,587				
Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	R0240				1,492	(2)		19,579	1,587				
Net Best Estimate of Claims Provisions	R0250							366					
Total Best estimate - Gross	R0260				1,492	(2)	—	(279)	1,643				
Total Best estimate - Net	R0270							2,147					
Risk margin	R0280				1	—	—	141	3				
Amount of the transitional on Technical Provisions													
Technical Provisions calculated as a whole	R0290												
Best estimate	R0300												
Risk margin	R0310												
Technical provisions - Total													
Technical provisions - Total	R0320				1,493	(2)		(138)	1,645				
Recoverable from reinsurance contract/SPV and Finite Re after the adjustment for expected losses due to counterparty default - Total	R0330				1,492	(2)		(2,426)	1,643				
Technical provisions minus recoverables from reinsurance/SPV and Finite Re - Total	R0340				1	—		2,288	3				

		Accepted non-proportional reinsurance				
		Health [accepted non-proportional reinsurance]	Casualty [accepted non-proportional reinsurance]	Marine, aviation, transport [accepted non-proportional reinsurance]	Property [accepted non-proportional reinsurance]	Total Non-Life obligation
		C0140	C0150	C0160	C0170	C0180
Technical provisions calculated as a whole	R0010					
Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default associated to TP as a whole	R0050					
Technical provisions calculated as a sum of BE and RM						
Best estimate						
Premium provisions						
Gross	R0060					(20,169)
Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	R0140					(21,950)
Net Best Estimate of Premium Provisions	R0150					1,781
Claims provisions						
Gross	R0160					23,022
Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	R0240					22,656
Net Best Estimate of Claims Provisions	R0250					366
Total Best estimate - Gross	R0260					2,853
Total Best estimate - Net	R0270					2,147
Risk margin	R0280					144
Amount of the transitional on Technical Provisions						
Technical Provisions calculated as a whole	R0290					
Best estimate	R0300					
Risk margin	R0310					
Technical provisions - Total						
Technical provisions - Total	R0320					2,997
Recoverable from reinsurance contract/SPV and Finite Re after the adjustment for expected losses due to counterparty default - Total	R0330					706
Technical provisions minus recoverables from reinsurance/SPV and Finite Re - Total	R0340					2,291

Appendix F.1.4
S.19.01.21
Non-Life Insurance Claims Information
Amounts in 000s

Total Non-Life Business

Accident year / Underwriting year Z0020	AY

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

		Development Year 0	1	2	3	4	5	6	7	8	9	10&+		In Current year	Sum of years (cumulative)
		C0010	C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0090	C0100	C0110		C0170	C0180
Prior	R0100											182	R0100	182	182
R0160	R0160	58,405	25,154	3,069	1,543	998	603	474	134	128	(65)		R0160	(65)	90,443
R0170	R0170	63,786	29,236	2,995	1,352	681	475	135	62	52			R0170	52	98,773
R0180	R0180	48,480	30,044	3,595	1,207	369	406	254	127				R0180	127	84,482
R0190	R0190	50,779	21,227	2,160	1,547	597	(100)	(29)					R0190	(29)	76,182
R0200	R0200	39,115	20,306	2,461	281	254	109						R0200	109	62,526
R0210	R0210	37,651	16,481	1,423	456	558							R0210	558	56,569
R0220	R0220	35,587	14,258	1,475	377								R0220	377	51,696
R0230	R0230	41,305	17,623	2,506									R0230	2,506	61,434
R0240	R0240	32,162	11,998										R0240	11,998	44,160
R0250	R0250	27,800											R0250	27,800	27,800
													Total R0260	43,615	654,247

Gross undiscounted Best Estimate Claims Provisions
(absolute amount)

		Development Year 0	1	2	3	4	5	6	7	8	9	10&+		Year end (discounted data)
		C0200	C0210	C0220	C0230	C0240	C0250	C0260	C0270	C0280	C0290	C0300		C0360
Prior	R0100											2,077	R0100	2,068
R0160	R0160						838	277	187	155	395		R0160	385
R0170	R0170					1,091	414	225	199	208			R0170	208
R0180	R0180				710	549	429	235	284				R0180	283
R0190	R0190			1,730	745	239	(39)	137					R0190	136
R0200	R0200		3,680	1,017	606	782	(141)						R0200	140
R0210	R0210	12,953	3,533	1,441	924	435							R0210	434
R0220	R0220	12,982	3,355	1,029	918								R0220	916
R0230	R0230	16,926	3,884	2,543									R0230	535
R0240	R0240	15,041	3,093										R0240	3,086
R0250	R0250	12,843											R0250	12,832
													Total R0260	23,022

Appendix F.1.5
S.22.01.21
Impact of long term guarantees and transitional measures
Amounts in 000s

		Amount with LG measures and transitionals	Impact of transitional on technical provisions	Impact of transitional on interest rate	Impact of volatility adjustment set to zero	Impact of matching adjustment set to zero
		C0010	C0030	C0050	C0070	C0090
Technical Provisions	R0010	11,273			324	
Basic Own Funds	R0020	16,224				
Eligible own funds to meet Solvency Capital Requirement	R0050	16,224				
Solvency Capital Requirement	R0090	4,085				
Eligible own funds to meet Minimum Capital Requirement	R01 00	16,224				
Minimum Capital Requirement	R0110	3,338				

Appendix F.1.6
S.23.01.01
Own Funds
Amounts in 000s

		Total	Tier 1	Tier 1	Tier 2	Tier 3
		C0010	C0020	C0030	C0040	C0050
Basic own funds before deduction for participations in other financial sector as foreseen in article 68 of Delegated Regulation 2015/35						
Ordinary share capital (gross of own shares)	R0010	10,000	10,000			
Share premium account related to ordinary share capital	R0030					
Initial funds, members' contributions or the equivalent basic own fund item for mutual and mutual-type undertakings	R0040					
Subordinated mutual member accounts	R0050					
Surplus funds	R0070					
Preference shares	R0090					
Share premium account related to preference shares	R0110					
Reconciliation reserve	R0130	6,224	6,224			
Subordinated liabilities	R0140					
An amount equal to the value of net deferred tax assets	R0160					
Other own fund items approved by the supervisory authority as basic own funds not specified above	R0180					
Own funds from the financial statements that should not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds						
Own funds from the financial statements that should not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds	R0220					
Deductions						
Deductions for participations in financial and credit institutions	R0230					
Total basic own funds after deductions	R0290	16,224	16,224			
Ancillary own funds						
Unpaid and uncalled ordinary share capital callable on demand	R0300					
Unpaid and uncalled initial funds, members' contributions or the equivalent basic own fund item for mutual and mutual-type undertakings, callable on demand	R0310					
Unpaid and uncalled preference shares callable on demand	R0320					
A legally binding commitment to subscribe and pay for subordinated liabilities on demand	R0330					
Letters of credit and guarantees under Article 96(2) of the Directive 2009/138/EC	R0340					
Letters of credit and guarantees other than under Article 96(2) of the Directive 2009/138/EC	R0350					
Supplementary members calls under first subparagraph of Article 96(3) of the Directive 2009/138/EC	R0360					
Supplementary members calls other than under first subparagraph of Article 96(3) of the Directive 2009/138/EC	R0370					
Other ancillary own funds	R0390					
Total ancillary own funds - Solo	R0400					
Available and eligible own funds						
Total available own funds to meet the SCR	R0500	16,224	16,224			
Total available own funds to meet the MCR	R0510	16,224	16,224			
Total eligible own funds to meet the SCR	R0540	16,224	16,224			
Total eligible own funds to meet the MCR	R0550	16,224	16,224			
SCR	R0580	4,085				
MCR	R0600	3,338				
Ratio of eligible own funds to SCR	R0620	3.9712				
Ratio of eligible own funds to MCR	R0640	4.8608				

		C0060
Reconciliation Reserve		
Excess of assets over liabilities	R0700	16,224
Own shares (held directly and indirectly)	R0710	
Foreseeable dividends, distributions and charges	R0720	
Other basic own fund items	R0730	10,000
Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced funds	R0740	
Reconciliation reserve	R0760	6,224
Expected profits		
Expected profits included in future premiums (EPIFP) - Life business	R0770	
Expected profits included in future premiums (EPIFP) - Non-life business	R0780	
Total expected profits included in future premiums (EPIFP)	R0790	

Appendix F.1.7
S.25.01.21
Solvency Capital Requirement - For undertakings using the standard formula
Amounts in 000s

Component Description		Gross Solvency Capital Requirement	USP	Simplifications	LAC DT
C0020		C0030	C0090	C0120	C0130
Market Risk	R0010	932		None	
Counterparty Risk	R0020	2,685			
Life underwriting risk	R0030	100	None	None	
Health underwriting risk	R0040		None	None	
Non-life underwriting risk	R0050	110	None	None	
Diversification	R0060	(684)			
Intangible asset risk	R0070				
Basic Solvency Capital Requirement	R0100	3,143			

Calculation of Solvency Capital Requirement		C0100
Operational risk	R0130	943
Loss-absorbing capacity of technical provisions	R0140	
Loss-absorbing capacity of deferred taxes	R0150	
Capital requirement for business operated in accordance with Art. 4 of Directive 2003/41/EC	R0160	
Solvency Capital Requirement excluding capital add-on		
Capital add-ons already set	R0200	4,085
Solvency capital requirement for undertakings under consolidated method	R0210	
Other information on SCR	R0220	4,085
Capital requirement for duration-based equity risk sub-module	R0400	
Total amount of Notional Solvency Capital Requirements for remaining part	R0410	
Total amount of Notional Solvency Capital Requirements for ring fenced funds	R0420	
Total amount of Notional Solvency Capital Requirements for matching adjustment portfolios	R0430	
Diversification effects due to RFF nSCR aggregation for article 304	R0440	

		Approach based on average tax rate
Approach to tax rate		C0109
Approach based on average tax rate	R0590	

Calculation of loss absorbing capacity of deferred taxes

LAC DT	R0640	
LAC DT justified by reversion of deferred tax liabilities	R0650	
LAC DT justified by reference to probable future taxable profit	R0660	
LAC DT justified by carry back, current year	R0670	
LAC DT justified by carry back, future years	R0680	
Maximum LAC DT	R0690	

Appendix F.1.8
S.28.01.01
Minimum Capital Requirement - Only life or only non-life insurance or reinsurance activity
Amounts in 000s
Linear formula component for non-life insurance and reinsurance obligations

		C0010
MCRNL Result	R0010	

		Net (of reinsurance/SPV) best estimate and TP calculated as a whole	Net (of reinsurance) written premiums in the last 12 months
		C0020	C0030
Medical expense insurance and proportional reinsurance	R0020		
Income protection insurance and proportional reinsurance	R0030		
Workers' compensation insurance and proportional reinsurance	R0040		
Motor vehicle liability insurance and proportional reinsurance	R0050		
Other motor insurance and proportional reinsurance	R0060		
Marine, aviation and transport insurance and proportional reinsurance	R0070		
Fire and other damage to property insurance and proportional reinsurance	R0080	2,147	5,907
General liability insurance and proportional reinsurance	R0090		
Credit and suretyship insurance and proportional reinsurance	R01 00		
Legal expenses insurance and proportional reinsurance	R0110		
Assistance and proportional reinsurance	R0120		
Miscellaneous financial loss insurance and proportional reinsurance	R0130		
Non-proportional health reinsurance	R0140		
Non-proportional casualty reinsurance	R0150		
Non-proportional marine, aviation and transport reinsurance	R0160		
Non-proportional property reinsurance	R0170		

Linear formula component for life insurance and reinsurance obligations

		C0040
MCRL Result	R0200	

		Net (of reinsurance/SPV) best estimate and TP calculated as a whole	Net (of reinsurance/SPV) total capital at risk
		C0050	C0060
Obligations with profit participation - Guaranteed benefits	R0210		
Obligations with profit participation - Future discretionary benefits	R0220		
Index-linked and unit-linked insurance obligations	R0230		
Other life (re)insurance and health (re)insurance obligations	R0240	873	
Total capital at risk for all life (re)insurance obligations	R0250		

Overall MCR calculation

		C0070
Linear MCR	R0300	663
SCR	R0310	4,085
MCR cap	R0320	1,838
MCR floor	R0330	1,021
Combined MCR	R0340	1,021
Absolute floor of the MCR	R0350	3,338

		C0070
Minimum Capital Requirement	R0400	3,338

F.2 Glossary of Abbreviations and Definitions

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

F.3 Directors' Statement

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

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

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

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

T Latter

Director

30 March 2021

F.4 External Audit

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