

# Aviva International Insurance Limited

Solvency and Financial Condition Report  
Year ended 31 December 2021

# Contents

## In this report

	Executive Summary	1
A	Business and Performance	4
B	System of Governance	8
C	Risk Profile	16
D	Valuation for Solvency Purposes	26
E	Capital Management	43
F	Additional Information	50

# Executive Summary

The purpose of the Solvency and Financial Condition Report (SFCR) is to provide information required by the Solvency II regulatory framework, in particular the capital position of Aviva International Insurance Limited (the Company) at 31 December 2021. 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 incorporated in the United Kingdom and is a member of the Aviva plc group of companies. The principal activity of the Company is to act as the internal reinsurance vehicle of the Aviva plc Group (the Group). The Company accepts reinsurance of different risk types across the Group in order to promote capital efficiency, improve fungibility of capital, and realise the benefits of group diversification of risk.

On 30 September 2021, Aviva Group Holdings (AGH) completed the sale of its entire shareholding in Aviva France to Aéma Groupe. The Company's quota share reinsurance arrangement with Aviva Assurances (FGI), a former Group subsidiary incorporated in France now known as Abeille Assurances, remained in place until 31 December 2021 when it was terminated, resulting in an estimated IFRS reporting loss on termination of £40 million before tax. The final premium payable on termination is subject to agreement or determination between AGH/the Company and Aéma Groupe in the first half of 2022.

The Company uses international accounting standards in conformity with the requirements of the Companies Act 2006 (IFRS) profit before tax to present and measure its performance in its financial statements. The profit before tax for the year was £172 million (2020: £(962) million loss before tax). The increase in profits compared to 2020 is primarily due to the non recurrence of the £(1,434) million loss before tax in 2020 from the Aviva Life & Pensions UK Limited (UK L&P) treaty amendments, where the reinsurance arrangement was priced on an economic basis which makes allowance for items not included within the IFRS valuation. 2021 reported profits include adverse investment variances primarily resulting from an increase in interest rate yields, as well as reduced life treaty profits on new business with lower margins attributable to a lower spread environment. Underlying profits on the general insurance treaties in the UK and Canada have been driven by improvements in underwriting performance and reduced COVID-19 related claims, offset by adverse experience in France along with the estimated loss on the unwind of the treaty.

The Company paid dividends totalling £480 million to its parent company during the year (2020: £515 million).

The Board continues to promote the long-term sustainable success of the Company by identifying opportunities to create and preserve value. On 19 January 2022, the Company entered into a revised quota share arrangement with the seven insurance companies comprising the general insurance business of Aviva Canada (CGI) to reinsure 50% of CGI insurance liabilities backdated to 1 January 2022.

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

## System of governance

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, whilst ensuring the business is adequately resourced. A strong system of governance aids effective decision-making and supports the achievement of the Company's objectives whilst maintaining compliance with regulations. The Board has established and delegated responsibilities to its Audit and Risk committees to assist in its oversight of risk management and the approach to internal controls. Roles and responsibilities for risk management in the Company are based around the 'three lines of defence model' where ownership for risk is taken at all levels in the Company.

The Company's Board and Board Committee responsibilities and arrangements, and the fundamental approach to the system of governance, have not materially changed.

Section B of this report provides further detail about the Company's system of governance, the roles and responsibilities of the Board and the four key control functions (Risk Management, Actuarial, Compliance and Internal Audit), the risk management framework, internal control system, and explains how it complies with the requirements of Solvency II. It also describes the approach to the Company's Own Risk and Solvency Assessment and governance over its Partial Internal Model (PIM), which is used to determine the Company's required Solvency II capital.

## Risk profile

The majority of the risks that the Company faces arise through the business that it has reinsured from its fellow Group subsidiaries. The types of risk to which the Company is exposed are market risk including credit risk, life underwriting, non-life underwriting and health underwriting, counterparty and operational risks.

The primary basis used by the Company to measure risks is the Solvency Capital Requirement (SCR) which is calculated as Solvency II Own Funds at risk in a 1-in-200 year loss event over a 1-year time horizon.

A summary of the Company's diversified SCR by primary risk type at 31 December 2021 is set out below:

	Total £m
<b>31 December 2021</b>	
Market risk	1,566
Counterparty risk	95
Life underwriting risk	1,534
Health underwriting risk	49
Non-life underwriting risk	508
Operational risk	584
Loss-absorbing capacity of deferred taxes	(622)
Other risks and adjustments (including rounding)	(82)
<b>Total undiversified components</b>	<b>3,632</b>
Diversification	(1,694)
<b>Solvency Capital Requirement</b>	<b>1,939</b>

Some categories of risk are not measured in the SCR, principally liquidity risk, which is measured through a Liquidity Coverage Ratio.

On 24 February 2022, on-going tensions between Russia and Ukraine developed into full-scale armed conflict between the two countries. The Company is monitoring and responding to this dynamic situation. Section C.7.5 reflects how the Russia-Ukraine conflict has impacted the Company.

Section C of this report further describes the risks to which the Company is exposed, how the risks are assessed and mitigated, including any specific risk mitigation actions taken, risk concentrations and risk sensitivity.

## Valuation for Solvency Purposes

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

The value of technical provisions under Solvency II is equal to the sum of a best estimate liability and a risk margin. Technical provisions also include a transitional measure which allows companies to transition between the previous and current solvency regimes, and which must be amortised over 16 years from 1 January 2016.

At 31 December 2021, the Company's excess of assets over liabilities was £3,722 million on a Solvency II basis which was £1,420 million higher than the value under IFRS as presented in the Company's financial statements. The difference is primarily driven by the overall value of technical provisions being lower on a Solvency II basis. This is due to prudent margins held under IFRS not being required for Solvency II, and the separately required Solvency II risk margin being mostly offset by the transitional measure on technical provisions, which was £1,229 million at 31 December 2021.

Section D of this report provides further description of the bases, methods and main assumptions used in the valuation of assets, technical provisions and other liabilities for each material asset/liability class. In addition, it also provides an explanation of the material differences between the IFRS and Solvency II bases of valuation.

## Capital management

The Company's primary capital management objective is to manage the balance between return and risk, whilst maintaining economic capital in accordance with risk appetite. The Company's capital and risk management objectives are closely interlinked, and support the dividend policy, whilst also recognising the critical importance of protecting policyholder and other stakeholder interests. In managing own funds, the Company seeks to maintain sufficient financial strength in accordance with its risk appetite and to satisfy regulatory requirements, maintain strong liquidity, and allocate capital efficiently to remain within risk appetite and drive growth.

There have been no material changes to the Company's objectives, policies or processes for managing its capital during the year. The Company managed its capital cautiously, taking into account the economic outlook. The Solvency II surplus is £1,783 million at 31 December 2021 (2020: £1,707 million). The movement in the year reflects capital generation from new and existing business, the impact of economics on the balance sheet, the remittance of dividends and the termination of the quota share reinsurance arrangement between the Company and FGI.

The Company's solvency position as at 31 December 2021 is shown below:

	Total £m
<b>31 December 2021</b>	
Own Funds	3,722
Solvency Capital Requirement	1,939
<b>Solvency II Surplus</b>	<b>1,783</b>
Cover ratio	192%

The Company's Own Funds are equal to the excess of assets over liabilities of its Solvency II balance sheet. They are entirely represented by unrestricted tier 1 capital and are not subject to any significant restrictions.

The Company's SCR is calculated using a Partial Internal Model, defined as using a combination of Internal Model (IM) and standard formula approaches to calculate solvency capital requirements for different components of the business. The Partial Internal Model has been designed to accurately model the capital requirements of the Company's various lines of business, allowing for differing risk profiles. The Partial Internal Model outputs are used in day-to-day risk management and business decisions in the Company.

The Minimum Capital Requirement (MCR) represents the minimum level below which the amount of financial resources of the Company should not fall. The MCR for the Company at 31 December 2021 is £872 million (2020: £1,107 million).

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 the structure and quality of Own Funds, the calculation of the SCR, and further information about the Partial Internal Model.

# Section A

## Business and Performance

### In this section

A.1	Business	5
A.2	Underwriting Performance	6
A.3	Investment Performance	7
A.4	Performance of other activities	7
A.5	Any other information	7

## Section 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

Aviva International Insurance Limited (the Company) is a private limited company incorporated and domiciled in the United Kingdom (UK). The principal activity of the Company is to act as the internal reinsurance vehicle of the Aviva plc Group (the Group). The Company accepts reinsurance of different risk types across the Group in order to promote capital efficiency, improve fungibility of capital, and realise the benefits of group diversification of risk.

#### Qualifying holdings

The Company's shares and the associated voting rights are solely held by its immediate parent Aviva Group Holdings Limited (AGH), a limited company incorporated and domiciled in the UK. The ultimate parent undertaking is Aviva plc, a public limited company incorporated and domiciled in the UK.

#### Supervisor

The Company and the Group's Supervisor is the Prudential Regulatory Authority (PRA), which 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 Company's external auditor is PricewaterhouseCoopers LLP. Contact details are as follows:

Address: 7 More London Riverside, London, EC2R 6DA.

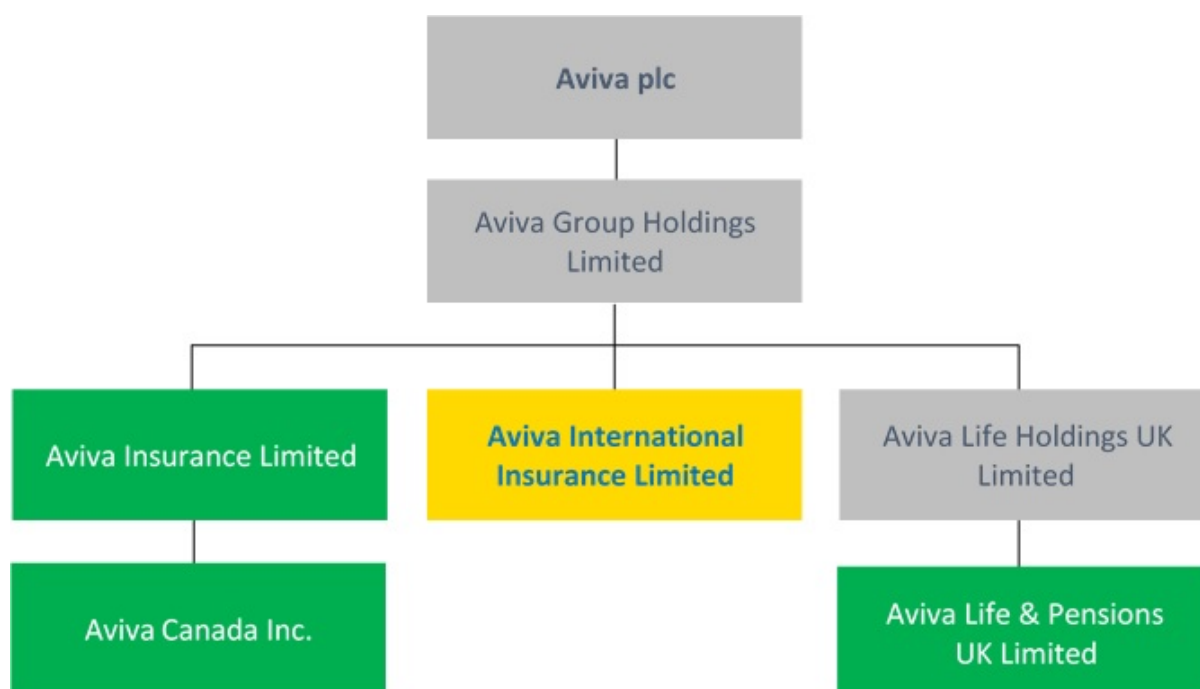
Telephone number: +44 (0) 20 7583 5000

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

#### A.1.1 Organisation

The following chart shows, in simplified form, the position of the Company within the Group's organisational structure as at 31 December 2021. Aviva plc is the ultimate holding company of the Group. Aviva International Insurance Limited is a wholly owned subsidiary of Aviva Group Holdings Limited, which is itself a wholly owned subsidiary of Aviva plc.

Fellow Group subsidiaries that have entered into reinsurance agreements with the Company as at 31 December 2021 are highlighted in green in the chart below. The Company has no material related undertakings. On 30 September 2021, AGH completed the sale of its entire shareholding in Aviva France to Aéma Groupe. The Company's quota share reinsurance arrangement with FGI remained in place until 31 December 2021 when it was terminated.



## A1.2 Business operations and events occurring in the year

### Business operations

At 31 December 2021, the Company's quota share reinsurance arrangements were as follows:

- Aviva Insurance Limited (AIL) which transacts general and health insurance business, to reinsure 50% of its insurance liabilities;
- UK L&P which transacts investment and long term insurance business, to reinsure 30% of the liabilities in its NPSF; and
- CGI which transacts general and health insurance business to reinsure 25% of its insurance liabilities (this was increased to 50% from 1 January 2022, see Significant Business and Other Events for further detail).

The Company also had a quota share reinsurance arrangement with FGI which transacts general and health insurance business. The arrangement to reinsure 50% of FGI insurance liabilities was in place until 31 December 2021 when it was terminated.

The material lines of business written by the Company, in order of the value of gross premium written during the year, as presented in QRT S.05.01.02 (Section F.2) are:

- Life reinsurance;
- Proportional reinsurance accepted in respect of;
  - Fire and other damage to property;
  - Motor vehicle liability;
  - Other motor insurance;
  - General liability; and
  - Medical expense.

The material geographical areas where the Company underwrites business in the current year are the United Kingdom, France and Canada.

### Significant business and other events

On 30 September 2021, AGH completed the sale of its entire shareholding in Aviva France to Aéma Groupe. The Company's quota share reinsurance arrangement with FGI remained in place until 31 December 2021 when it was terminated, resulting in an estimated loss on termination of £40 million before tax. The final premium payable on termination is subject to agreement or determination between AGH/ the Company and Aéma Groupe in the first half of 2022.

The Company aims to promote capital efficiency and realise the benefits of group diversification of risk through lower solo capital requirements in the ceding entities. The Company continues to explore opportunities to develop its capacity to provide capital benefits to the Group. During 2021, extensive analysis was undertaken to assess an opportunity to extend the reinsurance arrangements with CGI. After due consideration of the risks and potential benefits, in December 2021, the Board approved a proposal to extend the reinsurance arrangement from 25% to 50%. On 19 January 2022, the Company entered into the revised quota share arrangement with CGI backdated to 1 January 2022.

## A.2 Underwriting performance

### A.2.1 Measurement of underwriting performance

The Company uses IFRS profit before tax to present and measure its performance in the financial statements of the Company.

The Company's profit before tax is comprised of three main components:

- Underwriting result, being the profits arising on the quota share reinsurance arrangements noted above (which are disclosed within Note 26 'Related party transactions' in the Company's IFRS financial statements);
- Investment result, being the income earned on the Company's own assets, but excluding investment income on deposits with ceding undertakings (such income being included within the profits arising on the quota share reinsurance arrangements within the underwriting result); and
- Performance of other activities, being expenses other than those incurred directly in respect of the quota share reinsurance arrangements (such expenses being included within the profits arising on the quota share reinsurance arrangements within the underwriting result).

The Company's results, split by life, non-life and material geographical area are presented below:

Reconciliation of profit before tax to underwriting result	Life £m	Non-Life <sup>1</sup> £m	Total 2021 £m	Life £m	Non-Life £m	Total 2020 £m
<b>Underwriting result</b>						
UK	156	95	251	(1,021)	2	(1,019)
France	—	(104)	(104)	—	13	13
Canada	—	62	62	—	84	84
<b>Total underwriting result</b>	<b>156</b>	<b>53</b>	<b>209</b>	<b>(1,021)</b>	<b>99</b>	<b>(922)</b>
Investment result			(11)			(19)
Performance of other activities			(25)			(21)
<b>Profit/(Loss) before tax as presented in the Company's financial statements</b>			<b>172</b>			<b>(962)</b>

(1) The France Non-Life results presented include the estimated IFRS loss before tax of £40 million recognised on termination of the FGI treaty.

### A.2.2 Premiums, claims, and expenses presented in QRT S.05.01.02

Detailed information on premiums, claims, changes in technical provisions and expenses by Solvency II line of business is presented in QRT S.05.01.02 'Premiums, claims and expenses by line of business' within Section F.2.



### A.2.3 Underwriting performance during the year

The underwriting profit for the year was £209 million (2020: loss of £(922)). The increase in profits compared to 2020 is primarily due to the non recurrence of the £(1,434) million loss before tax in 2020 from the UK L&P treaty amendments, where the reinsurance arrangement was priced on an economic basis which makes allowance for items not included within the IFRS valuation. 2021 reported profits include adverse investment variances primarily resulting from an increase in interest rate yields, as well as reduced life treaty profits on new business with lower margins attributable to a lower spread environment. Underlying profits on the general insurance treaties in the UK and Canada have been driven by improvements in underwriting performance and reduced COVID-19 related claims, offset by adverse experience in France along with the estimated loss on the unwind of the treaty.

## A.3 Investment performance

### A.3.1 Measurement of investment performance

Total net investment income as disclosed in the Company's financial statements includes an element of investment income which arises on deposits with cedant undertakings, and which is already included within the underwriting result presented in Section A.2 above. The Company's own investment result reflects the net investment income earned on the Company's own managed assets.

The table below provides an analysis of total net investment income by asset class. As noted above, £4,351 million (2020: £3,546 million) of this investment income is included within the underwriting result presented in Section A.2.

The increase in investment income on cedant deposits compared to 2020 is due to returns on debt and equity investments held by the cedants (which are presented within investment income). During the year, equity investment income increased compared to prior year reflecting movements in underlying indices offset by lower debt securities returns due to an increase in interest rate yields. These movements largely arise on unit-linked contracts where the movement in asset values are substantially offset by a movement in liabilities. The increase in the Company's net investment result in the year of £(11) million (2020: £(19) million) was driven by foreign exchange movements.

Net investment income analysed by asset class	Own managed assets					Own managed assets				
	Deposits with ceding undertaking	Financial Investments	Loans receivable from Group companies	Derivatives	Total 2021	Deposits with ceding undertaking	Financial Investments	Loans receivable from Group companies	Derivatives	Total 2020
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Interest and similar income	4,351	1	4	—	4,356	3,546	3	6	—	3,555
Net realised gains/(losses)	—	—	—	—	—	—	—	—	(31)	(31)
Net unrealised gains/(losses)	—	—	—	(16)	(16)	—	—	—	3	3
Investment expenses	—	—	—	—	—	—	—	—	—	—
<b>Total net investment income</b>	<b>4,351</b>	<b>1</b>	<b>4</b>	<b>(16)</b>	<b>4,340</b>	<b>3,546</b>	<b>3</b>	<b>6</b>	<b>(28)</b>	<b>3,527</b>
Included within underwriting result					<b>4,351</b>					<b>3,546</b>
<b>Investment result</b>					<b>(11)</b>					<b>(19)</b>

### A.3.2 Gains and losses recognised directly in equity

No gains and losses have been recognised directly in equity within the year.

### A.3.2 Investments in securitisations

As at 31 December 2021, the Company has exposure to securitisations through its deposits with ceding undertakings, and its holdings in collective investment schemes.

## A.4 Performance of other activities

The underwriting and investment results disclosed in Sections A.2 and A.3 include the income and expenses incurred in respect of the Company's quota share reinsurance arrangements and in respect of the management of its own directly-held investments.

The total performance of other activities for the period ending 31 December 2021 was a net expense of £25 million (2020: £21 million net expense). This forms part of the Company's overall profit before tax, and includes the Company's own operating expenses, foreign exchange movements and changes in the Company's IFRS technical provisions in respect of its own expenses. The £4 million increase in other activities compared to 2020 is the result of an increase in foreign exchange movements and operating expenses partially offset by a decrease in the Company's own expense technical provisions.

### A.4.1 Material leasing arrangements

The Company has no material leasing arrangements.

## A.5 Any other information

The Company has no other material information to disclose.

## Section B

# System of Governance

### In this section

B.1	General information on the system of governance	9
B.2	Fit and proper policy	11
B.3	Risk management system including the own risk and solvency assessment	12
B.4	Internal control system	14
B.5	Internal audit function	14
B.6	Actuarial function	15
B.7	Outsourcing	15
B.8	Any other material information	15

## Section 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 Company’s ‘administrative, management and supervisory body’ (defined as the Board and Board committees) are provided. The roles, responsibilities and governance of the Company’s key functions (defined as the Risk, Compliance, Internal Audit and Actuarial functions) are also provided. Other components of the system of governance are outlined, including the risk management system and internal control system implemented across the business.

### B.1 General Information on the System of governance

#### B.1.1 Overview of the Company’s system of governance

##### **Role and Responsibilities of the Board**

The Board is responsible for promoting the long-term success of the Company and for setting its strategy, against which management’s performance is monitored. It sets the Company’s risk appetite and satisfies itself that financial controls and risk management systems are robust, whilst ensuring the business is adequately resourced. A strong system of governance aids effective decision-making and supports the achievement of the Company’s objectives whilst maintaining compliance with regulations.

The Board comprises the Chairman (an independent Non-Executive Director (iNED)), the Chief Executive Officer (CEO), the Chief Financial Officer (CFO), a Non-Executive Director (Group Chief Capital Officer) and three further iNEDs. Consistent with the Board Terms of Reference, and separately the Senior Managers and Certification Regime (SM&CR), role profiles are in place for the Chairman and the CEO which clearly set out the duties of each role. The Chairman’s priority is to lead the Board and ensure its effectiveness and the CEO’s priority is the management of the Company. The Board has delegated the day-to-day running of the Company to the CEO within certain limits, above which matters must be escalated to the Board for determination.

The Board has established and delegated responsibilities to its Audit and Risk committees to assist in its oversight of risk management and the approach to internal controls. There is good working practice between each committee, and they make regular reports to the Board.

The full duties of the Company’s Board and of each of its committees are set out in 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 Risk Committee is responsible for assisting the Board in its oversight of risk, reviewing the Company’s risk appetite, risk preferences and risk profile in relation to capital and liquidity and franchise value, reviewing the effectiveness of the Company’s risk management framework, oversight of liquidity and investment risk strategy, reviewing the methodology used in determining the Company’s capital requirements, stress testing, ensuring due diligence appraisals are carried out on strategic or significant transactions, and monitoring the Company’s regulatory requirements.

The Audit Committee is responsible for monitoring the integrity of the Company’s financial statements and the effectiveness of the systems of internal control including having comfort in respect of Group whistleblowing provisions and for monitoring the effectiveness, performance, independence and objectivity of the internal and external auditors.

In addition to establishing the committees above, the Board has also established frameworks for risk management and internal control using a ‘three lines of defence’ model outlined below.

##### **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’ where ownership for risk is taken at all levels in the Company.

##### ***The first line: Management***

Management is responsible for the application of the Risk Management Framework (RMF), for implementing and monitoring the operation of the system of internal control, embedding a risk culture and for providing assurance to the Audit and Risk Committees and the Board.

##### ***The second line: Risk Management, Compliance and Actuarial functions***

The Risk Management function is accountable for the quantitative and qualitative oversight and challenge of the identification, measurement, monitoring and reporting of principal risks and for developing the RMF. As the business responds to changing market conditions and customer needs, the Risk Management function regularly monitors the appropriateness of the Company’s risk policies and the RMF to ensure they remain up to date.

The Compliance function supports and advises the business on the identification, measurement and management of its regulatory, financial crime and conduct risks. It is also accountable for monitoring and reporting on the Company’s compliance risk profile.

The Actuarial function is accountable for actuarial methodology, reporting to the relevant governing body on the adequacy of reserves and capital requirements, as well as on underwriting and reinsurance arrangements.

Refer to Sections B.3.2, B.4.2 and B.6 for further details on the roles, responsibilities, authority, resources, independence and reporting lines of the Company’s Risk Management, Compliance and Actuarial functions respectively, and how their independence is ensured.

**The third line: Internal audit**

The Internal Audit function provides independent and objective assessment on the robustness of the RMF and the appropriateness and effectiveness of internal control to the Audit and Risk Committees and to the Board. Refer to Section B.5 of this report for details on the roles, responsibilities, authority, resources, independence and reporting lines of the Company's Internal Audit function.

**B.1.2 Assessment of adequacy of 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 2021, and led to the CEO certifying that:

- There are sound risk management and internal control systems that are effective and fit for purpose in place across the business; and
- The business operates in a manner which conforms to the requirements outlined in the Company's risk policies and business standards.

The Chief Risk Officer (CRO) also provided a risk opinion which stated that:

- The Risk function has reviewed and challenged the process supporting the CEO's certification and is satisfied that it can provide reasonable assurance of the material accuracy and completeness of the CEO's assessment; and
- No material gaps exist in the Risk Management Framework.

Any material risks not previously identified, 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 results of the declaration process were reviewed by the 2nd March 2022 Audit Committee.

**B.1.3 Material changes in the system of governance**

The Company's Board and Board Committee responsibilities and arrangements, and the fundamental approach to the system of governance, have not materially changed.

**B.1.4 Remuneration Policy**

Aviva's reward principles and arrangements are designed to support the execution of our strategy, rewarding sustained performance and growth aligned with the Group's values. The remuneration policy is aligned to the Group's strategy, incentivises achievement of the Group's annual business plan and longer-term sustainable growth of the business, and differentiates reward outcomes based on performance and behaviour that is consistent with the Group's values. Remuneration policy for all employees, including Executive Directors and Other Employees, is documented in the "Aviva Remuneration Policy" which forms part of Reward Governance Framework set out on page 2.43 of the 2021 Aviva plc Annual Report and Accounts, which can be found on the Group's website at <https://www.aviva.com/investors/reports/>.

The structure for all employees means they are remunerated primarily through the following remuneration elements, described in more detail below:

- a. Basic salary;
- b. Variable remuneration including, where applicable, discretionary bonus (with cash and deferred elements if appropriate), Long Term Incentive Plan (LTIP) and/or deferred share awards and specialist incentive remuneration;
- c. Employee benefits (which may include cash allowances where applicable).

**B.1.4.1 Basic Salary (Fixed Pay)**

Basic salary should be set on the principle of equal treatment for individuals performing work that is the same or broadly similar. It should reflect:

- a. The value of a job to Aviva as determined by its external value in the market (e.g. the market benchmark), and its internal value; as determined by the Aviva global grading structure and underpinned by an appropriate job sizing methodology;
- b. Individual skills and capabilities, performance and contribution; and
- c. Minimum salary levels as set through any collective agreements, where applicable.

When fully performing in role, and depending on their performance over time, an individual's basic salary should be positioned within the agreed market-based salary range (where used). A level of basic salary above the upper quartile may exceptionally be justified if warranted by individual performance. Positioning towards the upper end of market practice may also be justified where considered necessary to attract and retain scarce talent. A salary below the market median would generally be expected for those new in role and therefore not yet fully performing, and / or those whose performance needs to improve.

Basic salary progression should be based on the sustained performance level of the individual in the role, internal equity, and the ability for the business to pay and absorb fixed costs.

It is important that all our people enjoy a decent standard of living and we are proud to be a Real Living Wage employer in the UK.

Basic salary is inclusive of any statutory director's fees which may be payable to an employee under the constitutional documents of any Group subsidiary company or any Group affiliated company for which an employee is appointed a statutory director.

Independent Non-Executive Directors receive a basic annual fee in respect of their Board duties. Further fees are paid for membership and, where appropriate, chairing Board committees. The iNEDs do not participate in any incentive or performance plans or pension arrangements and do not receive an expense allowance. The iNEDs are reimbursed for reasonable expenses, and any tax arising on those expenses is settled directly by the Company.

**B.1.4.2 Variable Pay Awards**

Aviva's short term and long term incentives are designed to reward the people who have contributed to our growth and role modelled our values and behaviours.

To ensure that variable pay meets these objectives, Aviva operates variable pay within a controlled governance environment to ensure that reward is only delivered when it is deserved and that risk, conduct and compliance are considered throughout the variable pay cycle.

Individuals may be considered for variable pay awards to align the interests of employees and the Company (and its shareholders). This recognises that individual performance against goals and contribution is essential for the success of the business. This includes long term contribution which is recognised through long term deferred awards i.e. Long Term Incentive Awards and any deferred element of the Annual Bonus.

Malus and Clawback can be applied to all Variable Pay paid or awarded to employees or former employees of any company within the Aviva Group.

Fixed and variable pay should be appropriately balanced, with a sufficiently high proportion of fixed pay to avoid dependence on variable pay to meet day-to-day expenses. The proportion of variable pay generally increases with seniority in the organisation.

**B.1.4.3 Employee Pensions and Benefits**

Benefits offered vary by market and may include a company sponsored retirement provision (pension), sick pay, share ownership opportunities, and other items, such as Aviva products and services at discounted rates.

In general, benefits aim to:

- be market competitive as part of total remuneration;
- be compliant with all legal requirements; and,
- provide choice and flexibility to meet individual needs.

Where market practice means that pension provision is appropriate, such provision will be through defined contribution type pension arrangements, or appropriate in-country variations. Aviva does not offer defined benefit type pension arrangements, enhanced pension arrangements or early retirement schemes. Legacy defined benefit pension arrangements have been closed to future accrual and all benefits are now deferred, unless mandated otherwise by local legislation.

**B.1.5 Material transactions with shareholders and persons exercising significant influence during the period**

No material transactions have been identified during the period with shareholders, with persons who exercise a significant influence on the undertaking, or with members of the administrative, management or supervisory body.

Key management personnel of the Company may from time to time purchase insurance, savings, asset management or annuity products marketed by Group companies on equivalent terms to those available to all employees of the Group. In 2021, such transactions with key management personnel were not deemed to be significant either by size or in the context of their individual positions.

Additional information on the material transactions with the Company's shareholder is included within Note 26 – 'Related party transactions' of the Company's financial statements.

**B.2 Fit and proper policy****B.2.1 Requirements concerning skills, knowledge and expertise of directors and key function holders**

For persons responsible for running the undertaking subject to regulatory approval/notification, an assessment of fitness and propriety must consider their allocated responsibilities and skills and experience across the following areas, as appropriate:

- Insurance and financial markets;
- Business strategy and business models;
- System of governance;
- Financial and actuarial analysis where applicable to the role; 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 for assessing fitness and propriety of directors and key function holders**

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 Financial Conduct Authority's (FCA) Fit & Proper requirements for individuals subject to the Senior Managers and Certification Regime (SM&CR). This means:

- Fit – an individual's career history will be assessed and validated to establish whether their skills and knowledge are appropriately matched to the role; and
- Proper – checks are in place to ensure that an individual is honest, of good reputation, has integrity and is financially sound.

The governance over the fitness and propriety of individuals includes recruitment, performance management and training. To ensure that the Company protects itself against employing individuals who potentially could threaten its people, 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 are subject to regulatory approval by the PRA and FCA.

## 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, risk oversight committees and roles and responsibilities; and
- The processes used to identify, measure, manage, monitor and report (IMMMR) risks, 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, life insurance, general insurance, operational and conduct risks. Risks falling within these types may affect a number of metrics, including those relating to balance sheet strength, liquidity and profit.

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.

A regular top-down key risk identification and assessment process is carried out by the Risk Management function, including the consideration of emerging risks, which is supported by deeper thematic reviews across the Group. This, together with the risk and control self-assessment (RCSA) process, are the main processes used to IMMMR risks. The RCSA process focuses on operational risks and is run by the first line, with challenge by the Risk Management function. RCSAs ensure there is a regular review of applicable operational risks to ensure that they are appropriately managed. The risk assessment processes are run separately but are complementary. They are used to generate risk reports which are shared with the Risk Committee.

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 tests (where one risk factor, such as equity returns, is assumed to vary) and scenario tests (where combinations of risk factors are assumed to vary) are undertaken to evaluate their impact on the business and the management actions available to respond to the conditions envisaged.

The Risk Management 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.

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 for capital, liquidity, climate and operational risks. For those risk types managed through the holding of capital, the risk profile is measured and monitored on the basis of the Solvency II SCR. The Company's position against risk appetite is monitored and reported to the Board on a regular basis.

Board oversight of risk and risk management across the Company is maintained on a regular basis through the Risk Committee. The oversight of risk and risk management is supported by management's Asset Liability Committee (ALCo), the Operational Risk Committee (ORC) and the Executive Risk Committee (ERC) which focus on business and financial risks, operational and reputational risks and the overall risk profile respectively.

### B.3.2 Risk function

The Risk function is responsible for the design and implementation of the Risk Management Framework, and the design, implementation and validation of economic capital models requiring regulatory approval. The Risk function reports to the Board on material risks identified, 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 system through, amongst other tools, 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. Key business decisions require input from the Risk function.

The Risk function operates as part of the overall Risk function, which includes the Actuarial and Compliance functions as well as Risk. The CRO has direct management accountability for the Risk function and the Compliance function, whilst the Chief Actuary has direct responsibility for the Actuarial function. Appointment and removal of the CRO is a matter reserved for the Board, on the recommendation of the Risk Committee, which ensures the independence of the Risk Management function. The CRO reports to the Risk Committee and to the Group CRO via a Group Risk function reporting line. The CRO has a dotted line to the All CEO.

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.

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

Sections B.3.1 and B.3.2 explain how risk management is integrated into the organisational structure and the decision-making process. To further support the role of risk management in decision making processes, the role of the 'first line' is critical as part of the three lines of defence model. The CEO is responsible for the implementation of strategies, plans and policies, the monitoring of operational and financial performance, the assessment and control of financial, business and operational risks and the maintenance and ongoing development of a robust control framework and environment. The ALCo is chaired by the CEO and assists with financial and insurance risk management oversight. The Executive Risk Committee (ERC) has been established to monitor the firms overall risk profile and is chaired by the CRO. The

ORC remains in place as a sub-committee of the ERC and focuses specifically on operational risk management and is also chaired by the CRO.

#### **B.3.4 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, reflecting the company's strategy and business plans, and ensures that its capital requirements are met at all times.

The ORSA therefore comprises a number of elements of the Risk Management Framework which are embedded in the business through the requirements of the business standards around capital allocation, strategy, 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 with insights on the key risks and current and future capital requirements.

The CEO and the CEO's 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, as well as the risk assessment process and annual ORSA reporting.

#### **Review and approval of the ORSA**

The output from the ORSA processes is reported to and reviewed by the Board and the Risk Committee regularly during the year. The Risk Committee sets the approach to the ORSA and on behalf of the Board oversees the ORSA processes including the identification of risk, the methodology and assumptions used in the Company's Internal Model (for the purpose of determining the Company's required economic capital), and the results of the Internal Model validation exercise (see Section B.3.5). The results of the ORSA processes play a key role in supporting decision making by the Board when reviewing the Company's strategy and approving annually the Company's business and capital plan.

The ORSA report is produced annually or in the event that ORSA triggers are met (per the Company's ORSA policy). 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. The annual ORSA report is submitted to the Board and Board Risk Committee for approval and subsequently shared with the PRA.

#### **Interaction between capital management and risk management**

The Board has approved that for the purpose of ORSA, capital resources and requirements are measured on the basis of Solvency II requirements for determining own funds and SCR.

Solvency II capital (as a risk-based capital measure) is embedded at the heart of the Company's risk and capital evaluation and is used as a key input to a wide range of business and strategic decisions. The Risk Management Framework, supported by risk policies and business standards, sets out the areas where the Company is expected to use Solvency II capital management information as part of its decision-making and risk management processes. This ensures that the requirements to use Solvency II capital are embedded within the relevant processes (including, but not limited to, Asset Liability Management; strategy and planning). Solvency II capital is calculated using the Company's Partial Internal Model, which comprises business that uses an Internal Model and business that uses the standard formula (SF). Further detail on the calculations and use of the PIM can be found in Section E.

#### **B.3.5 Governance over the internal model**

The Solvency II Model Governance, Internal Model Independent Validation and Solvency II Data Governance Business Standards are part of the overall Risk Management Framework. They combine to ensure that the Company operates within a controlled environment when developing methodologies or assumptions, and when running processes and systems. The appropriateness of the Company's Internal Model is tested and confirmed by model validation, review and challenge, weakness and limitation management and general change control processes. In aggregate, these tests ensure there is a robust governance framework to support the use of the Internal Model in both a production environment and during model development or change.

The CRO owns the Internal Model on behalf of the Board. In practice the day to day responsibilities are delegated to the Company's Chief Actuary, who gives assurance to the Board that the Internal Model is appropriate for use on an ongoing basis; adequately reflects the Company's risk profile; takes into account new information as it becomes available; is accurate; and works effectively. This enables the Board to conclude whether the Internal Model is fit for purpose whilst also ensuring it is used to provide information for important strategic and business decisions, capital management, business planning, risk mitigation, investment allocation and product development.

The Risk Committee is responsible for approving any Internal Model changes impacting the Company before submission to the College of Supervisors. One group-wide model change application a year is anticipated. The quarterly model change reports and supporting evidence provide the required information to support Risk Committee and the College of Supervisors' approval.

The Internal Model results and any changes to the model are subject to an Internal Model Independent Validation Review (refer to the section below for further details) which helps the Board assess whether the Internal Model is suitably accurate and fit for purpose.

#### **Validation processes**

The Company's Internal Model is validated by testing the individual calibrations and methodologies that are input into the model and the results that are output from the model. The validation tests applied comprise both mathematically defined tests and those based on qualitative judgement, to ensure that the model and its components are both accurate and reflect management opinion. Key tests include benchmarking, back-testing and sensitivity testing. The validation tests are run, documented and assessed against criteria set by the



Actuarial function, which are designed to draw conclusions on the appropriateness of the Internal Model. This analysis is made available to the Board and Risk Committee.

In addition, a separate and independent Internal Model Independent Validation Review is undertaken to provide an opinion to the Board Risk Committee that the model is appropriate for use on an ongoing basis. The Internal Model Independent Validation business standard defines the scope and approach for each independent validation exercise. The Board Risk Committee reviews the findings of the exercise, alongside the conclusions of the Chief Actuary and approves whether the Internal Model is suitably accurate and fit for purpose.

## B.4 Internal Control System

### B.4.1 Description of the internal control system

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

The Group's suite of business standards sets out Aviva's required control objectives and minimum control requirements for effective internal control across the Group. These control objectives are:

- Ensure the business demonstrates a commitment to integrity and ethical behaviour and promotes Aviva's desired culture and values, with the CEO and Senior Management.
- Reduce future losses and detriment to customers arising from failures in operational risk management and controls.
- Support reliable reporting on the operational risk and control environment at all levels of the business, to increase the confidence of the Board, Regulator and Customers in the effectiveness and efficiency of our operational processes.

### B.4.2 Compliance function

The Company's Compliance function forms part of its Risk function and is managed by the CRO.

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 strategic and business goals. Three key processes comprise the Company's compliance activity:

- Conduct regulatory risk management, performed by the Group Compliance function, with oversight from the CRO, and including activities such as:
  - Setting conduct and financial crime policy framework;
  - Providing advice, support, guidance and challenge on conduct and financial crime risk;
  - Managing conduct and financial crime regulatory engagement.
- Prudential regulatory risk management, performed by the Group Risk function, and including activities such as:
  - Setting prudential regulatory risk policy framework;
  - Providing advice, support, guidance and challenge on prudential regulatory risk;
  - Managing prudential regulatory engagement.
- Legal developments monitoring performed by the Legal & Company Secretarial function.

Through these processes the Compliance, Risk and Legal functions jointly take responsibility for reporting compliance information to the Board and its committees. The CRO has responsibility for prudential and conduct regulatory risk management, whilst the General Counsel is responsible for monitoring legal developments.

The Compliance 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 scope of Compliance activities extends to outsourcing and reinsurance arrangements where applicable. The independence of the Compliance function is derived through its membership of the wider Risk function.

## B.5 Internal Audit function

### B.5.1 Roles and responsibilities

Internal Audit's purpose is to help the Board and Executive Management to protect the assets, reputation and sustainability of Aviva by providing independent and objective assurance designed to add value and improve Aviva's operations. Internal Audit does this by assessing and reporting (to group and business unit audit, risk and governance committees and to management as appropriate) on the effectiveness of the design and operation of the framework of controls, the effectiveness of management actions to address the deficiencies in the framework of controls and whether all significant risks are identified, managed appropriately, reported by management to the Board and executive management. Internal Audit undertakes this work in accordance with its Internal Audit Charter and in conformance with the Institute of Internal Audit Standards and the Chartered Institute of Internal Auditors code for Effective Audit in Financial Services.

### B.5.2 Independence and objectivity of the Internal Audit function

Internal Audit must always be independent from management in order to be effective in performing its activities. The arrangements to protect the independence and objectivity of Internal Audit are set out below:

The Company's Internal Audit Director reports directly to the Group Chief Audit Officer (CAO) and has a dotted reporting line to the Chair of the Company's Audit Committee.



The Chair of the Company's Audit Committee has a duty to recommend to the Board the appointment or dismissal of the Company's Internal Audit Director and to participate, jointly with the Group CAO or designee, in the determination of the objectives of the Internal Audit Director and the evaluation of the levels of achievement, including consultation with the Chief Executive Officer.

The Head of Quality Assurance monitors and evaluates the function's adherence to all relevant Internal Audit standards of practice and Internal Audit methodology. An independent external assessment of the Internal Audit function is performed every 5 years in line with Internal Audit standards.

Internal Audit will provide the Company's Audit Committee with an annual confirmation of its independence, supported by an independence declaration form signed by all members of Internal Audit staff. Staff working in Internal Audit will have no direct responsibility or authority over any operational activities reviewed and should not relieve others of such responsibilities, and Internal Audit manage a staff rotation process to ensure that independence is maintained.

Internal Audit staff who previously worked in Aviva Group, but outside of Internal Audit, will not perform or manage reviews in the business area for which they were previously responsible for a period of at least one year after the end of their role within the business. This excludes similar business areas in other legal entities or operating units. Internal auditors on rotation from a business unit will not perform or manage reviews in the business area for which they were previously responsible.

### **B.5.3 Authority and resources of the Internal Audit function**

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

## **B.6 Actuarial function**

The Actuarial function is led by the Company's Interim Chief Actuary, subject to regulatory approval. This role is currently covered by the Company's CRO.

The Actuarial function is accountable for actuarial methodologies and calibrations. It also considers the appropriateness of the Internal Model, supports the Internal Model validation exercises and maintains the Internal Model change log. The Actuarial function produces an annual report to the Board providing information necessary for the Board to form their own opinion on the adequacy of technical provisions and capital requirements, and on underwriting and reinsurance arrangements.

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. The independence of the Actuarial function is derived through its membership of the wider Risk function. The Chief Actuary ensures that those 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.

## **B.7 Outsourcing**

The Company's outsourcing policy is detailed in a Procurement and Outsourcing business standard, which sets out the responsibilities, objectives, processes and monitoring to be applied to outsourcing arrangements. The standard applies to any externally or internally (intragroup) outsourced activity, and to all staff involved in supplier related activities. The standard is benchmarked against relevant regulatory expectations.

The objective of the standard is to ensure that minimum control objectives and controls for supplier related activities are followed, 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. It explains the definition of outsourcing, including where activity is delegated to an intermediary, and whether a function or activity outsourced is assessed as material.

The control objectives and controls in the 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;
- Supplier management and business continuity – risk-based approach to management of supply contracts; and
- Business contingency and exit plans – a means to safely exit the arrangement without material harm to the business.

Material outsourced functions and activities attract the highest level of rigour, including regulatory notification, performance and relationship reviews, regulatory compliance review and risk and control assessments.

The Company does not have any material external outsourcing arrangements. The material outsourcing arrangements that it does have are intragroup and located in the UK only, and include investment management, financial & actuarial, tax, legal, IT services, risk, and audit services.

## **B.8 Any other material information**

The Company has no other material information to disclose.

# Section C

## Risk Profile

### In this section

C.1	Underwriting risk	17
C.2	Market risk	19
C.3	Credit risk	21
C.4	Liquidity risk	22
C.5	Operational risk	22
C.6	Other material risks	23
C.7	Any other information	23

## Section C: Risk Profile

This section of the report provides an overview of the key risks to which the Company is exposed. These risks primarily arise through the Company's quota share reinsurance arrangements with fellow Group subsidiaries.

As described in Section A.1.2, on 30 September 2021, AGH completed the sale of its entire shareholding in Aviva France to Aéma Groupe. The Company's quota share reinsurance arrangement with FGI remained in place until 31 December 2021 when it was terminated.

The primary basis used by the Company to measure risks is the Solvency II SCR which is calculated as Solvency II own funds at risk in a 1 in 200 year loss event over a 1-year time horizon. At 31 December 2021, the Company's SCR amounted to £1.9 billion (2020: £2.5 billion). This is summarised in the table below with the respective risks discussed in the following subsections. Note that for the purposes of the below table, the market risk line includes credit risk as described in Section C.3, following the Solvency II Standard Formula convention.

The Company's SCR by risk component as at 31 December 2021		Total £m
Market risk		1,566
Counterparty risk		95
Life underwriting risk		1,534
Health underwriting risk		49
Non-life underwriting risk		508
Operational risk		584
Loss-absorbing capacity of deferred taxes		(622)
Other risks and adjustments (including rounding)		(82)
<b>Total undiversified components</b>		<b>3,633</b>
Diversification		(1,694)
<b>Solvency Capital Requirement</b>		<b>1,939</b>

Some categories of risk are not measured in the SCR, principally liquidity risk, which is measured through a Liquidity Coverage Ratio (see Section C.4.1 for details).

Operational risks (see Section C.5) have the potential to significantly impact the Company's reputation compared to other risk types which are relatively more significant measured on the basis of Solvency II SCR.

The Company also measures and assesses risk in terms of its total gross exposure and sum at risk, as well as monitoring risk indicators that might indicate changes in risk exposure and act as a trigger for management action. These are generally risk type specific and are considered in Sections C.1 to C.6.

The Company continues to maintain strong solvency and liquidity positions and undertakes stress and scenario testing.

### C.1 Underwriting Risk

Underwriting risk is the risk of loss on underwriting activity caused by an adverse change in the value of liabilities arising from inappropriate insurance pricing, inadequate claims reserving assumptions, as well as unforeseen fluctuations in the timing, frequency and severity of insured events relative to the expectations at the time of underwriting. The risk excludes operational risk arising from internal processes in the writing of insurance business or settling of claims. The risk arises from a number of underlying life insurance, health insurance and general insurance risks, which are separately discussed below.

#### C.1.1 Underwriting risk – life insurance (including health similar to life)

##### C.1.1.1 Exposure

The principal underwriting risks related to life insurance (including health similar to life) are described below:

- **Longevity risk:** The risk that annuitants may live longer than expected;
- **Mortality risk:** The risk that more policyholders die than expected, either due to general trends or due to pandemics or other specific events e.g. terrorism. This risk impacts claims on life insurance products;
- **Morbidity risk:** The risk that either more customers fall sick than expected, or customers recover at a slower rate than expected. This risk impacts claims on critical illness and income protection products;
- **Persistency risk:** The risk of adverse financial impact arising from changes in the level, trend, other changes to the term structure or volatility (i.e. variability due to population size) of the rates of policy lapses, terminations, renewals and surrenders (including partial surrenders, reductions in premium and paying up premiums); and
- **Expense risk:** The risk that the future costs of managing and administering customer policies are higher than expected.

The Company is exposed to the risk of changes in policyholder behaviour due to the exercise of options, guarantees and other product features embedded in its cedants' long-term savings products. These product features offer policyholders varying degrees of guaranteed benefits at maturity or on early surrender, along with options to convert their benefits into different products on pre-agreed terms.

The Company measures and assesses its exposure to life insurance (including health similar to life) risks in terms of Solvency II SCR. At 31 December 2021, the Company's life insurance risk undiversified SCR amounted to £1.5 billion (2020: £1.6 billion). Exposures to this risk are also monitored as part of stress and scenario testing.

The main change to the Company's life insurance underwriting risk profile during 2021 is a reduction in longevity risk exposure as a consequence of rising interest rates. Other drivers of change include new business written during 2021 which has increased exposure to underwriting risk. Better performing equity markets in 2021 also contributed to a rise in persistency risk, as increases in the size of policyholder unit-linked funds leave the Company exposed to higher financial impacts in the case of adverse rates of policy lapses, terminations and surrenders. These increases are nevertheless more than offset by the reduction in life underwriting risk due to rising interest rates over 2021.

### C.1.1.2 Risk management and mitigation

The management of life and health insurance risks is governed by group-wide risk policies and business standards covering underwriting, pricing, product design and management, in-force management, claims handling and reinsurance. The individual life and health insurance risks are managed as follows:

- Mortality and morbidity risks are partly mitigated by the use of reinsurance and by the existence of life concentration limits and are monitored against the latest external industry data and emerging trends. Reinsurers are selected from those approved by the Group, based on local factors. In addition, Group retains oversight of the overall exposures and monitors that the aggregation of risk ceded is within credit risk appetite;
- Longevity risk is partly mitigated by the use of reinsurance and monitored against the latest external industry data, emerging trends and likely or possible future trends. The Company monitors its exposure to this risk and any associated capital implications;
- Persistency risk is managed at a cedant level, with oversight from the Company, through frequent monitoring of Company experience, and benchmarked against local market information. Generally, persistency risk arises from customers lapsing their policies earlier than has been assumed or more customers ceasing to pay regular premiums than has been assumed. Where possible the financial impact of lapses is reduced through appropriate product design; and
- Expense risk is primarily managed by the cedants, with oversight from the Company, through the regular assessment of profitability and frequent monitoring of expense levels.

Implementation of risk mitigation techniques are discussed and then approved via the Risk Committee and ongoing effectiveness is monitored as part of 'business as usual' management information in the Company, the attestation process of group-wide risk policies and business standards in the Company and periodic Internal Audit reviews, significant findings from which are reported to the Audit Committee.

In addition to mitigation activity undertaken by the cedants, the Company can implement risk transfer solutions for its reinsured business, for example, if:

- The Company has a different appetite to its exposures to its reinsured business than that of its cedants; or
- Its own risk concentration profile on an aggregate basis differs from that of its cedants as a result of accumulating exposures across the Company's quota share reinsurance arrangements.

### C.1.1.3 Risk concentration

The Company mitigates its risk concentration through scale, geographic spread of business and diversity of product lines within its quota share reinsurance arrangements. Controls are in place to ensure accumulations of risk can be evaluated properly. Counterparty concentration as a result of underwriting activities and reinsurance arrangements and their management and monitoring are considered in Section C.3.3.

## C.1.2 Underwriting risk – general insurance (including health similar to non-life)

### C.1.2.1 Exposure

The principal underwriting risks related to general insurance (including health similar to non-life) are described below:

- 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 or cause;
- Inaccurate pricing of risks or inappropriate underwriting of risks when underwritten; and
- Inadequate reinsurance protection or other risk transfer techniques.

The Company measures and assesses its exposure to general insurance (including health similar to non-life) risks in terms of Solvency II SCR. At 31 December 2021, the Company's general insurance risk undiversified SCR amounted to £0.6 billion (2020: £0.8 billion). Exposures to this risk are also monitored as part of stress and scenario testing.

There is a reduction in the Company's general insurance underwriting risk profile during 2021 driven mainly by the termination of the reinsurance treaty with FGI, a reduction in the uncertainty associated with the COVID-19 pandemic and a full recalibration of the non-life underwriting risk in the UK business over 2021. In addition, non-life underwriting risk is directly influenced by the expected economic profit in the following 12 months as this forms an offset to the overall SCR. For the UK business, this economic profit was materially higher at 2021 than it was at 2020, thus having a reducing effect on the SCR over the same period.

### C.1.2.2 Risk management and mitigation

The vast majority of the general insurance business which the Company reinsures is managed and priced in the same country as the domicile of the customer.

The Company manages and mitigates its exposure to general insurance risks through the application of controls and control objectives documented in relevant group-wide risk policies and business standards. These controls and mitigating actions can be grouped into the following areas:

- Claims reserving that is undertaken by actuaries and is also subject to periodic external review;
- Risk appetites set to limit exposures to key general insurance risks;
- 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 is managed within a framework that ensures products and propositions meet customer needs;
- Product limits and exclusions;
- Governance of outsourced functions writing products on behalf of the Company;
- Documented claims management philosophies and procedures; and

- Use of reinsurance to reduce the financial impact of a catastrophe and manage earnings volatility. (See below for further detail on the use of reinsurance as a risk mitigation technique for general insurance risks).

The Company's reinsured businesses hold third-party external excess of loss and aggregate excess of loss reinsurance to mitigate general insurance risk and ensure exposures remain within risk appetite. Significant reinsurance purchases are reviewed annually at cedant and Group level to verify that the levels of protection being bought reflect any developments in exposure and the risk appetite of the cedants, the Company and the Group. The basis of these purchases is underpinned by analysis of Solvency II capital, earnings and capital volatility, cash flow and liquidity and franchise value.

Implementation of risk mitigation techniques are discussed and then approved via the Risk Committee and ongoing effectiveness is monitored as part of 'business as usual' management information in the Company, the attestation process of group-wide risk policies and business standards in the Company and periodic Internal Audit reviews, significant findings from which are reported to the Audit Committee.

In addition to mitigation activity undertaken by the cedants, the Company can implement risk transfer solutions for its reinsured business, for example, if:

- The Company has a different appetite to its exposures to its reinsured business than that of its cedants; or
- Its own risk concentration profile on an aggregate basis differs from that of its cedants as a result of accumulating exposures across the Company's quota share reinsurance arrangements.

### C.1.2.3 Risk concentration

The Company mitigates its risk concentration through scale, geographic spread of business and diversity of product lines within its quota share reinsurance arrangements. Controls are in place to ensure accumulations of risk can be evaluated properly. Counterparty concentration as a result of underwriting activities and reinsurance arrangements and their management and monitoring are considered in the Section C.3.3.

### C.1.2.4 Additional information on COVID-19

General insurance risks

The Company continues to closely monitor the impact of COVID-19 on General insurance and health business reinsured from its cedants. The exposures, together with mitigants available to the Company's cedants are:

**Business Interruption:** For the significant majority of UK commercial policies reinsured by the Company, where policy wordings are determined by the Company's cedant, cover is based on a specified list of diseases. These policies exclude business interruption due to new and emerging diseases, like COVID-19. Business interruption losses stemming from the COVID-19 outbreak are therefore not covered under the significant majority of policies. In the UK, the FCA test case sought to provide legal clarity in terms of the events and the cover provided by a variety of policy wordings, including broker determined policy wordings where the Company's cedant is the lead or follow insurer. Following the judgement received on 15 September 2020 and the subsequent Supreme Court appeal on 15 January 2021, the legal uncertainty in the UK around gross losses has been significantly reduced. In order to provide clarity to policyholders and mitigate exposure to future events of a similar nature, exclusions were added to relevant policy wordings at renewal for businesses written by the Company's cedants. In Canada, the Company's cedant is party to a number of litigation proceedings, including class actions that challenge coverage under commercial property policies; however, the Company's cedant believes it has a strong argument that there is no pandemic coverage under these policies. The Company's cedants purchase reinsurance protection that includes coverage for business interruption and are collecting or seeking reinsurance recoveries of business interruption losses that are covered by reinsurance. The continuing nature of the event, and the associated legal uncertainties, means that the final exposure is subject to a significant degree of uncertainty.

**Travel Insurance:** The Company, through its cedants, is potentially exposed to claims due to travel cancellation, disruption and sickness, primarily in the UK. The Company's cedants are only exposed to losses after recoveries have been made from travel providers (e.g. tour operators or airlines) and agents. COVID-19 wording has been clarified to eliminate ambiguity, pricing adjusted to ensure risk is appropriately priced and further reinsurance cover has been purchased by the Company's cedants. These costs are offset by reduced claims frequency as a result of the current low levels of international travel, and are also partially mitigated through profit commission and future pricing agreements with distribution partners.

**Other:** There have also been impacts in other product lines as a result of reduced economic activity, for example there was a reduction in claims frequency and a change in the severity of claims on motor insurance as a result of changes in behaviour in response to government restrictions, although claims frequency has increased during 2021 as restrictions have eased. The Canadian personal motor market is highly regulated and commoditised. The reduction in claims frequency due to COVID-19 continued to drive increased government and regulatory pressure impacting on pricing. The disruption to global supply chains as a result of COVID-19 has also led to upwards pressure on claims severity experienced by the Company's cedants. Private health insurance claims experienced by the Company's cedants have also continued to be lower than expected as a result of the disruption caused by the COVID-19 pandemic, and in the UK the Company's cedant provided a fair value pledge to policyholders to recognise the ongoing uncertainty around the ability to access treatment.

## C.2 Market risk

### C.2.1 Exposure

Market risk is the risk of adverse financial impact resulting, directly or indirectly, from fluctuations in interest rates, inflation, foreign currency exchange rates, equity indices and property prices. Market risk arises due to fluctuations in both the value of liabilities and the value of investments held. The Company is primarily exposed to market risk through the valuation of its technical provisions and deposits with ceding undertakings, whereby, through a funds withheld structure, it is exposed to the underlying valuations of the cedants' asset portfolios. Principal market risk types are described below:

- **Equity price risk:** The Company is subject to equity price risk arising from changes in the market values of cedants' equity securities portfolios. The Company's most material exposures are to the equity assets held by our cedants and policyholder unit-linked funds, which are exposed to a fall in the value of the fund thereby reducing the fees earned on those funds;
- **Interest rate risk:** Interest rate risk arises primarily from nominal and real yield curve exposure within both assets and liabilities;
- **Property price risk:** Property price risk arises primarily from holdings of investment properties in UK and indirectly through property collateral on commercial mortgage and equity release mortgage loans;
- **Inflation risk:** Inflation risk arises primarily from the Company's exposure to inflation on general insurance claims and the UK annuity portfolio in addition to expense inflation;
- **Foreign currency exchange rate risk:** The Company has minimal exposure to currency risk from financial instruments held by cedants in currencies other than their functional currencies, as nearly all such holdings are backing either unit-linked contract liabilities or are hedged. The Company's cedants operate internationally and as a result the Company is exposed to foreign currency exchange risk arising from fluctuations in exchange rates;
- **Derivatives risk:** The Company is exposed to market risk through its derivative portfolio. Derivatives are used by the Company and its cedants, primarily for efficient investment management and risk hedging purposes; and
- **Correlation risk:** The Company recognises that lapse behaviour and potential increases in consumer expectations are sensitive to, and interdependent with, market movements and interest rates. These interdependencies are taken into consideration in the SCR and in scenario analysis.

The Company measures and assesses its market risk exposure in terms of Solvency II SCR. At 31 December 2021, the Company's market risk undiversified SCR amounted to £1.6 billion (2020: £1.7 billion). Exposures to this risk are also monitored as part of stress and scenario testing.

The main changes to the Company's market risk profile during 2021 are:

- A reduction in exposure to spread risk mainly driven by the termination of the quota share reinsurance arrangement between the Company and FGI and from reduction in sovereign spread risk as a consequence of the replacement of gilts hedging Solvency II balance sheet interest rate exposure with interest rate receiver swaps.
- An increase in exposure to equity risk driven mainly by investment activities taken by the Company's cedants.

#### C.2.2. Risk management and mitigation

Exposures by individual market risk types are monitored through Solvency II capital modelling, sensitivity testing and stress and scenario testing. Derivative investment activity is overseen by the Company's Asset Liability Management (ALM) team. In addition, Risk teams in the Company and Group monitor exposure levels and approve large or complex transactions.

The management of market risk is undertaken using the group-wide market risk policies and business standards within local regulatory constraints. The Company's Capital and ALM teams are responsible for managing the Company's market risk. Market risk is managed in line with agreed risk corridors. Assets and liabilities are matched to limit the impact of mismatches due to market movements.

In addition, where the Company has reinsured insurance and investment products where the majority of investment risks are borne by their policyholders, these risks are managed in line with local regulations and marketing literature, in order to satisfy the policyholders' risk and reward objectives. The Company's exposure to market risk on this business is limited to the extent that income arising from asset management charges is based on the value of assets in the fund.

The Company's principal risk management and mitigation actions are set out below by principal market risk type, in line with the Group market risk framework:

- **Equity price risk:** Direct equity exposure is limited in line with risk preferences. At a cedant level, investment limits and local investment regulations require that cedants hold diversified portfolios of assets thereby reducing exposure to individual equities. Equity risk is also managed using derivative instruments;
- **Interest rate risk:** Interest rate risk is typically managed by adopting asset-liability matching techniques, including the use of a variety of derivative instruments, to minimise the impact of mismatches between the value of assets and liabilities (including capital requirements) from interest rate movements. Any asset-liability mismatch is monitored through Solvency II capital measures and interest rate hedges are used to maintain the sensitivity of the Solvency II balance sheet within risk appetite;
- **Property price risk:** Investment in property is subject to investment limits, liquidity requirements and the expectations of policyholders. The financial impact from changes in property values is examined through stress and scenario analysis. Exposure to property risk on equity release mortgages from sustained underperformance in house price inflation is managed by setting suitably low loan-to-value levels at origination and monitoring levels of business written against agreed credit limits;
- **Inflation risk:** Inflation risk is typically managed through the investment strategy and, in particular, by investing in inflation-linked securities and through inflation-linked swaps;
- **Foreign currency exchange rate risk:** The Company does not directly hold any assets denominated in foreign currencies. Cedants aim to maintain sufficient assets in local currency to meet local currency liabilities. Currency risk in cedants is also managed using derivatives instruments; and
- **Derivatives risk:** The Company and its cedants follow strict Group-mandated administration and valuation processes and follow a control framework that is consistent with market and industry practice for the activity that is undertaken.

The Company's ALM team oversees all material financial risk mitigation undertaken in the Company's cedants as required under the Risk Management Framework and Group Derivative Escalation framework.

Both the Company and its cedants, as required under the Group's Risk Management Framework, assess and document the effectiveness of arrangements in place to mitigate market and credit risks (financial risks). This assessment is initially undertaken prior to execution when structuring and deciding whether or not to enter into an arrangement, and should consider its impact on key metrics including:



- Measures of risk, primarily Solvency II capital (Internal Model or standard formula basis); and
- Financial measures, including cash flow, IFRS profit and expenses.

Where the initial assessment indicates that the impact on key metrics is material, further assessments will be carried out at appropriate regular intervals throughout the life of the arrangement. These assessments typically include stress testing and sensitivity analysis, and transactions aimed at mitigating the same risk may be considered in aggregate (e.g. interest rate or foreign exchange hedging programmes).

### C.2.3 Risk concentration

The Company monitors investment exposures in aggregate across all classes of financial instruments (debt securities, equities, derivatives and other investments) and to individual issuers, geographies, sectors, and asset classes to ensure the Company is not individually exposed to significant risk concentrations. Where information is available, this includes underlying investments held within investment funds. Further information on how the Company manages, monitors and limits investment exposures is included in Section C.3.2.

The Company's biggest foreign currency exposures are to the euro and Canadian dollar, with the latter exposure arising mostly via its reinsurance of CGI. CGI assets represent 2% of the Company's total assets although these assets back liabilities denominated in the Canadian dollar, so do not give rise to material currency risk.

## C.3 Credit risk

### C.3.1 Exposure

Credit risk is the risk of financial loss as a result of 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. Accepting credit risk can provide the returns required to satisfy policyholder liabilities and generate returns for the Company's shareholders. Therefore, the Company is prepared to accept a degree of credit risk based on its credit risk analysis capability and the structural investment advantages conferred to insurers with long-dated, relatively illiquid liabilities.

The principal credit risk categories that the Company is exposed to are as follows:

- **Spread risk** is the risk that credit spreads over risk-free interest rates change. Credit concerns (improving or worsening) with respect to the issuer and market factors such as risk appetite and liquidity within the market can give rise to spread risk;
- **Default risk** is the risk that a counterparty is unable or unwilling to meet its financial obligations when they fall due; and
- **Rating migration risk** is the risk that a change in the external credit rating of a counterparty adversely impacts the Company.

The Company's credit risks arise principally through the following exposures:

- **Debt securities:** Includes investments in sovereign and corporate bonds.
- **Loans** including policy loans, loans and advances to banks; and mortgage loans.
- **Reinsurance assets:** Where the Company's cedants have reinsurance arrangements in place, credit risk arises in relation to the reinsurance counterparties.
- **Other investment assets:** Credit risk arises in relation to other assets, including structured investments, bank deposits and derivative counterparties.
- **Intra-group debt:** In 2013, the Company provided a loan to its immediate parent, Aviva Group Holdings Limited (AGH), secured on the net assets of Aviva Insurance Limited (AIL), a fellow group subsidiary. As at 31 December 2021, the loan had an outstanding balance of £200 million. The agreement for the secured loan provided by the Company to AGH contains a number of trigger levels in terms of the adequacy of collateral provided, requiring action to be taken. These triggers are monitored by the Company's management. Due to the nature of the intra-group loan, and the fact that it is not traded, the Company is not exposed to the risk of changes to the market value caused by changing perceptions of the credit worthiness of AGH.

The following factors are used both by the Company and its cedants when measuring and assessing credit risk exposure:

- **Maximum exposure:** The maximum exposure to credit risk of financial assets and reinsurance assets, without taking collateral or hedges into account, is represented by the carrying value of the financial assets and reinsurance assets recognised in the Solvency II balance sheet;
- **Credit ratings:** Credit ratings (both internal and external) are used as indicators of credit risk to help determine risk management actions, investment decisions and asset allocation; and
- **Loan-specific factors:** The loan exposures for the Company's reinsured UK L&P business use loan-to-value, interest and debt service cover, and diversity and quality of the tenant base metrics to monitor exposures to commercial mortgage loans. The risk characteristics of commercial mortgage loans are assessed before acquisition and are monitored thereafter.

The Company measures and assesses its exposure to credit risk in terms of Solvency II SCR. The majority of credit risk relates to that arising from corporate and government bond holdings, which is reported within market risk SCR. In addition to this, at 31 December 2021, the counterparty default risk element of the Company's credit risk undiversified SCR amounted to £0.1 billion (2020: £0.1 billion).

The main changes to the Company's credit risk profile during 2021 are:

- Reduced exposure to credit risks as a result of trading in Company's cedants and higher interest rates, which reduce SCR as a result of the higher impact of discounting. There was also a reduction in our UK business due to run-off of corporate credit risk on existing business.
- The termination of the reinsurance treaty between the Company and FGI reducing the Company's exposure to credit risk.

### C.3.2 Risk management and mitigation

Credit risk management processes include a limit framework (section C.3.3), risk management committees, and reporting and monitoring of exposures against pre-established risk criteria.

The Company and its cedants may impose ad-hoc restrictions to control exposure, including to specific counterparties.

Specific credit risk mitigation techniques apply in cedants to certain portfolios of assets, for example:

- The Company's UK cedants have significant securities financing operations. The risks within this activity are mitigated by collateralisation and minimum counterparty credit quality requirements;
- The Company is exposed to counterparty credit risk through derivative trades. This risk is generally mitigated through holding collateral for most trades. Residual exposures are managed via the credit management framework; and
- In unit-linked business, to which the Company is exposed through reinsurance of the UK L&P business, the policyholder bears the direct market risk and credit risk on investment assets in the unit funds and the Company's exposure to credit risk is limited to the extent of the income arising from asset management charges based on the value of assets in the fund.

In addition to credit hedging in cedants, the Company holds a series of macro credit hedges to reduce the overall credit risk exposure. The Company's portfolio of macro credit hedges uses credit tranches to reduce the Company's credit risk in a cost-effective manner. The tranches are based on standardised credit indices and standardised tranche attachment and detachment points to maximise the liquidity and price transparency of the positions held.

### C.3.3 Risk concentration

The Company holds a diversified portfolio of assets subject to credit risk due to the application of the group-wide credit risk policies, business standards and limits framework, which limit investments in individual issuers, geographies, sectors and asset classes. Credit concentrations in the Company are monitored as part of the regular credit monitoring process and are reported to the Company's ALCo and Risk Committee.

The Company's most significant investment asset exposures are to cash and cash equivalents, through its holdings of liquidity funds. At 31 December 2021, the Company's has shareholder exposure to the Aviva Investors Sterling Government Liquidity Fund and the Aviva Investors Sterling Liquidity Fund.

## C.4 Liquidity risk

### C.4.1 Exposure

Liquidity risk is the risk of not being able to make payments as they become due because there are insufficient assets in cash form. Liquidity issues may arise from uncertainty in the value and timing of liabilities as well as uncertainty in the ability to realise assets as cash to meet certain obligations, for example:

- In the short term, the Company's liquidity position is sensitive to changes in market and credit conditions which lead to collateral calls on its directly owned derivatives. Changes in market and credit conditions impact the market value of the Company's directly owned assets which are sources of liquidity; and
- In the longer term, the Company's liquidity position is sensitive to changes in underwriting risks which, combined with changes to the market and credit conditions, can lead to reinsurance claims being made by the Company's cedants.

The design of the Company's reinsurance arrangements ensures that the liquidity needed for cash and short-term liquidity will be less than the long-term liquidity requirements. Liquidity risk appetite is expressed and measured through both absolute level targets and a bespoke Liquidity Coverage Ratio which measure the extent to which liquid assets held and stressed inflows are sufficient to meet liquidity requirements over a specified time horizon. Over 2021, the Company has continued having sufficient liquidity sources to meet its stressed liquidity needs in line with its liquidity risk appetite.

Liquidity risk exposure is also analysed via stress and scenario testing, including reverse stress tests, undertaken for the purpose of recovery planning and to test the resilience of the business plan. This testing considers specific impacts on the Company's liquidity position. Refer to Section C.7.1 for further details of this testing.

### C.4.2 Risk management and mitigation

The Company manages and mitigates its exposure to liquidity risk by setting liquidity risk appetite levels as described above. The Company monitors the effectiveness of liquidity risk mitigation techniques as follows:

- Provision of management information to compare actual position to risk appetite;
- Assurance work (e.g. testing) to ensure that controls that enable effective liquidity risk management are in place and working effectively; and
- Continual monitoring of actual and projected liquid resources, cash inflows and outflows, in both normal and stressed scenarios.

### C.4.3 Risk concentration

Concentration of liquidity risk can occur if the Company's assets are invested in a limited number of issuers, asset classes and sectors, and in the event of an external shock market liquidity for these investments disappears and the Company is unable to realise them for cash. The measures taken to avoid such risk concentrations are set out in Section C.3.3.

If there is a loss event or a series of loss events in at least one of the Company's cedants, the Company may receive reinsurance claim requests; the Company considers this risk as part of its risk appetite setting. Certain scenarios may be more likely to lead to reinsurance claim requests across multiple cedants; the Company considers this as part of its stress and scenario testing analyses.

## C.5. Operational risk

### C.5.1 Exposure

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



Conduct risk, which is an element of operational risk, is the risk of positive customer outcomes not being achieved. The Company is individually exposed to conduct risk through its reinsured business where it is treated as a key priority across the whole lifecycle of the products and throughout the end to end customer journey.

The Company also seeks to manage its exposure to reputational risk. Examples of factors, regardless of whether authenticated or not, which could damage the Company's 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.

Operational risks are initially assessed through the RCSA process, in which the Company identifies operational risks arising from inadequate or failed internal processes, people and systems. Following an assessment of inherent operational risks and of the design adequacy and operating effectiveness of the controls implemented, a residual risk impact and probability assessment is performed. Residual impact is quantitatively assessed on the basis of financial loss and misstatement and qualitatively for reputational and conduct considerations. The nature of operational risks (e.g. interruption of service to customers or loss of customer data) means that the reputational and conduct impacts are often more significant than the financial impact. The residual impact is compared to pre-defined operational risk tolerances to identify where management action is required. Operational risks outside tolerance require prioritised management action to reduce the residual risk to within the pre-defined level of tolerance. Notwithstanding this, the Company will also seek to reduce residual operational risk exposures for those operational risks within tolerance where it is cost effective to do so.

To the extent that operational risks cannot be fully mitigated and in recognition of the risk of control failure (i.e. due to ineffectiveness in design or performance), the Company holds Solvency II capital to cover these risks calculated on the basis of Solvency II SCR. The bulk of the Company's operational risk calibration for internally modelled businesses consists of a scenario based approach, which covers potential loss events (drawing on the risks identified through the RCSA process) that are low frequency/high impact. At 31 December 2021, the Company's operational risk undiversified SCR amounted to £0.6 billion (2020: £0.5 billion).

### C.5.2 Risk management and mitigation

The Company seeks to ensure that all material risks falling outside its risk tolerances are being mitigated, monitored and reported to an appropriate level. Any risks with a high potential impact are monitored on a regular basis. The Company uses key indicator data to help monitor the status of the risk and control environment. The Company also identifies and captures loss events, taking appropriate action to address actual control breakdowns and promote internal learning.

The group-wide risk policies and business standards set out the minimum control objectives and controls that each business area is expected to have in place. Operational risk tolerances act as quantitative boundaries that constrain specific risk-taking activities at an operational level.

The Company records and analyses operational risk events arising from inadequate or failed processes, people or systems or external events to ensure remedial action is taken and lessons are learned. This includes risk events which do not give rise to a financial loss, such as near misses or fortuitous gains. The lessons learned enable the Company to highlight areas for improvement, implement corrective actions to avoid recurrence, and improve the Company's risk assessment and understanding of operational risk, feeding into the risk and control self-assessment process.

The Company's three lines of defence all monitor the effectiveness of the controls that are in place to manage and mitigate operational risks. Further details on 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 ORC, which is a senior management committee and a sub-committee of the ERC.

### C.5.3 Risk concentration

Concentrations of operational risk arise when there is dependency on a single supplier (internal to the Company as well as external) to provide a product or service supporting a business critical function. 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.

## C.6 Other material risks

The Company does not have any material risks other than those detailed in Sections C.1 to C.5.

## C.7 Any other information

### C.7.1 Stress and scenario testing and sensitivity analyses

The Company performs stress and scenario testing (including reverse stress testing) and sensitivity analysis to understand the impact of changes on the Company's capital and liquidity risk profile, used to help inform decision making.

Stress and scenario testing is a key element of the Company's Risk Management Framework and business planning process, helping it to identify and analyse the risks and evaluate ways of mitigating or managing those risks. At least annually, a broad range of Company risk specific stress and scenario tests are defined; the events tested range from those that are considered likely to arise, to extreme events with the potential to cause business model failure that would require recovery action. A range of assumptions are made in the identification of risk and measurement of resilience; these assumptions are defined by suitable experts and, where applicable, by regulators. The Company maintains a Recovery Plan with a set of plausible recovery actions that it can execute in a timely manner, and which will enable the Company to survive a range of severe stresses, caused by either Company specific or market-wide issues.

The SCR is the primary basis used by the Company to measure and assess its risks. Sensitivity analyses performed by the Company include consideration of the sensitivity of its SCR cover ratio (own funds divided by SCR) to increases and decreases in economic and non-economic assumptions as detailed in the table below.

The sensitivity allows for any consequential impact on the assets and liability valuations. All other assumptions remain unchanged for each sensitivity, except where these are directly affected by the revised economic conditions or where a management action that is allowed for in the SCR calculation is applicable for that sensitivity.

Transitional measures on technical provisions are assumed to be recalculated in all sensitivities where their impact would be material.

Sensitivities (net of tax), as at 31 December 2021		Change in Solvency II SCR cover ratio
Changes in economic assumptions	25 bps increase in interest rate	6.5 %
	50 bps increase in interest rate	12.6 %
	100 bps increase in interest rate	24.2 %
	25 bps decrease in interest rate	(6.9)%
	50 bps decrease in interest rate	(12.5)%
	50 bps increase in Corporate Bond spread	8.0 %
	100 bps increase in Corporate Bond spread	15.9 %
	50 bps decrease in Corporate Bond spread	(9.6)%
	Credit downgrade on annuity portfolio	(9.4)%
	10% increase in market value of equity	0.5 %
	25% increase in market value of equity	1.0 %
	10% decrease in market value of equity	— %
	25% decrease in market value of equity	(0.7)%
	20% increase in value of commercial property	5.4 %
	20% decrease in value of commercial property	(9.7)%
	20% increase in value of residential property	7.4 %
	20% decrease in value of residential property	(10.5)%
Changes in non-economic assumptions	10% increase in maintenance expenses and investment expenses	(10.1)%
	10% increase in lapse rates	(3.4)%
	5% increase in mortality/morbidity rates -Life assurance	(1.9)%
	5% decrease in mortality rates - annuity business	(21.6)%

### Limitations of sensitivity analysis

The table above demonstrates the effect of a change in a key assumption while other assumptions remain unchanged. In reality, there is a correlation between the assumptions and other factors. It should also be noted that these sensitivities are non-linear, and larger or smaller impacts should not be interpolated or extrapolated from these results.

The sensitivity analysis does not take into consideration that the assets and liabilities of the Company's cedants are actively managed. Additionally, the Solvency II position of the Company may vary at the time that any actual market movement occurs. For example, the Company's financial risk management strategy aims to manage the exposure to market fluctuations.

As investment markets move past various trigger levels, management actions could include selling investments, changing investment portfolio allocation, and taking other protective action. Other limitations in the above sensitivity analysis include the use of hypothetical market movements to demonstrate potential risk that only represent the Company's view of possible near-term market changes that cannot be predicted with any certainty, and the assumption that all interest rates move in identical fashion.

### 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 the Solvency II regulatory framework and PRA guidance through the collective application of group-wide 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 overall solvency needs. The Asset Liability Management business standard and certain provisions of the Investment Management business standard contain mandatory controls to ensure that the Company takes into account the risks associated with its investments without relying only on the risk being adequately captured by the capital requirements. Risk appetites by risk type are also set and monitored by the Company.

Other relevant mandated controls are captured across a number of other business standards covering areas such as the quality of investment assets (including setting risk limits to control the market and credit risk within a portfolio), matching of assets to liabilities, diversification of invested assets, use of derivatives, assets not admitted for trading and the consistency of investment mandates with the way the investment proposition is described and marketed to customers of unit-linked contracts.

### C.7.3 Exposure to insurance special purpose vehicles

As at 31 December 2021, the Company has no insurance special purpose vehicles as defined in the Solvency II regulatory framework.

### C.7.4 Expected Profit included in Future Premiums

The Company's Expected Profit included in Future Premiums (EPIFP), defined in Section E.6, was £0.7 billion as at 31 December 2021 (2020: £0.7 billion).

### C.7.5 Russia-Ukraine conflict

On 24 February 2022, on-going tensions between Russia and Ukraine developed into full-scale armed conflict between the two countries. Many countries have responded with severe economic sanctions on Russia and Belarus and connected companies and individuals. There is considerable uncertainty over how the conflict might develop, including the possibility of the conflict spreading to neighbouring countries, some of which are members of the North Atlantic Treaty Organisation (NATO).

The conflict has resulted in a significant increase in volatility in equity, credit, currency and commodity markets. In particular, the prices of oil, gas, wheat and other commodities have increased significantly since the conflict began and have heightened inflation expectations, which is likely to adversely impact disposable incomes and economic growth. There remains considerable uncertainty over the monetary policy response of central banks to the crisis, with the possible tightening of monetary policy to counteract inflation tempered by concerns over economic growth.

As a result of the escalation in the conflict, the Company's crisis management framework was invoked with the meeting of the Company's Situation Team in order to assess the Company's response, provide strategic direction, assess and monitor the financial impact on the Company and manage communications.

#### **Capital management**

The capital position of the Company is monitored on an ongoing basis; the Company continues to maintain strong solvency levels and expects to continue to meet its Solvency Capital Requirements. The Company's Financial Event Response Plan (FERP) provides an operational framework that enables senior management to respond quickly, in the event of elevated financial market stress. The sensitivity of the Company's capital position to changes in economic assumptions and non-economic assumptions such as expense inflation is disclosed in section C.7.1.

#### **Market and credit risk**

The Company has minimal direct investment exposure to Russia and Ukraine, and no exposure to Belarus. The Company does have indirect shareholder exposure to the conflict via its investments in counterparties with revenue streams in Russia and Ukraine. These are not significant.

While increasing interest rates and credit spreads as a result of the likely monetary policy response to the inflationary pressures of the conflict will positively impact the Company's solvency position, this may be partially offset or even exceeded by the negative impact of credit downgrades, counterparty defaults, claims and maintenance expenses and lapse rates, if high inflation persists and the economy stagnates.

#### **Life insurance risk**

The Company's life insurance risk exposure is not expected to be impacted by the Russia-Ukraine conflict, other than via the adverse impact on policy maintenance expenses from heightened general price inflation, and the resulting squeeze on disposable income adversely impacting lapse rates and new business.

#### **General insurance risk**

The Company's general insurance cedants do not have material direct underwriting exposure to Russia and the Ukraine. All commercial underwriting lines with exposures above £1 million have been reviewed and all have clear war exclusions. While heightened claims inflation will weigh adversely on profitability, this can be mitigated via new business pricing actions, albeit dependent on market, competitor and customer behaviour.

#### **Operational risk**

The Russia-Ukraine conflict has heightened the risk of cyber security attacks on the Group or its suppliers, in particular via denial of service attacks. Although to date no serious cyber security incidents have been reported, the Group has strengthened its perimeter controls. The Group has engaged with its suppliers to ensure they have put in place all reasonable measures to ensure that services to the Company and its cedants remain unaffected.

The Group has in place systems and controls to ensure it does not provide financial services and/or funds to individuals or connected companies subject to sanctions arising from the Russia-Ukraine conflict, and that for any client relationships existing before the imposition of sanctions assets are frozen and policies cancelled.

## Section D

# Valuation for Solvency Purposes

### In this section

D.1	Assets	27
D.2	Technical provisions	28
D.3	Other liabilities	39
D.4	Alternative methods of valuation	39
D.5	Any other material information	42

## Section D: Valuation for Solvency Purposes

This 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. It also provides an explanation of the material differences between the IFRS and Solvency II bases of valuation.

The following table sets out a summarised balance sheet as at 31 December 2021. The Company's Solvency II balance sheet (column (d)) is detailed in the balance sheet QRT S.02.01.02 in Section F.2. Its IFRS balance sheet (column (a)) has been reclassified from the presentation used under IFRS in the financial statements to the categories used in the balance sheet QRT.

### Balance Sheet – IFRS and Solvency II

31 December 2021	Accounting policy and note(s) from financial statements	IFRS balance sheet (a) £m	Reclassification (c-a) £m	IFRS Reclassified (c) £m	Solvency II balance sheet (d) £m	Valuation difference (d-c) £m
<b>Assets</b>						
Deferred acquisition costs	P & 11	507	—	507	—	(507)
Loans and Mortgages	L & 10	200	—	200	200	—
Cash and cash equivalents	Q & 22b	951	—	951	951	—
Deposits with ceding undertakings	L & 10	70,747	—	70,747	70,751	4
Receivables (insurance, reinsurance and intermediaries)	L & 10	183	222	405	405	—
Current tax assets	L & 10	222	(222)	—	—	—
<b>Total assets</b>		<b>72,810</b>	<b>—</b>	<b>72,810</b>	<b>72,307</b>	<b>(503)</b>
<b>Liabilities</b>						
Technical provisions	I & 15	70,276	—	70,276	67,874	(2,402)
Deferred tax liabilities	n/a	—	—	—	480	480
Payables & other financial liabilities	M & 19	179	53	232	231	(1)
Other liabilities	M & 20	53	(53)	—	—	—
<b>Total liabilities</b>		<b>70,508</b>	<b>—</b>	<b>70,508</b>	<b>68,585</b>	<b>(1,923)</b>
Excess of assets over liabilities		2,302	—	2,302	3,722	1,420

Reclassification differences occur where the presentation of the balance sheet in the financial statements and the Solvency II balance sheet differ. These have no net asset impact and therefore no impact on Solvency II measurement.

The material differences between the IFRS and Solvency II valuation are covered in sections D.1 Assets, D.2 Technical provisions and D.3 Other liabilities below.

### D.1 Assets

This section details the Solvency II valuation basis of each material class of asset and any material differences between that and the valuation used in the financial statements.

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

#### D.1.1 Valuation of material assets

Assets have been valued according to the requirements of the Solvency II Directive and related guidance, at the amount for which they could be exchanged between knowledgeable willing parties in an arm's length transaction. The Company applies a hierarchy of preferred valuation approaches:

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

The criteria to determine whether a market is active are consistent with IFRS 13 'Fair Value Measurement'. An 'Active market' under IFRS is defined as a market in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis. The assets, classified as Level 1 and Level 2 under IFRS 13, are deemed as market consistent under Solvency II. The assets classified as Level 3, for which there is no active market, are considered to use alternative valuation methods under Solvency II. Where alternative valuation methods have been used these are detailed in Section D.4.

The bases, methods and main assumptions used to value each class of assets for IFRS can be found under the relevant accounting policy and note in the Company's financial statements, as listed in the above table.

#### D.1.2 Material differences between the Solvency II and IFRS valuation bases

Deferred acquisition costs valued at £507 million for IFRS purposes are set to nil in the Solvency II balance sheet and instead the associated cash flows are included in the measurement of Solvency II technical provisions.

There are no other material differences.

## D.2 Technical provisions

This section details the Solvency II definition of the technical provisions and includes a description of the methods and assumptions used in their valuation, by material line of business, together with a description of the level of uncertainty associated with their value. An explanation of any material differences between the Solvency II valuation and the valuation used in financial statements is included.

### D.2.1 Definition of technical provisions

Technical provisions comprise best estimate liabilities and a risk margin and are detailed in the QRT S.12.01.02 'Life Technical Provisions' and S.17.01.02 'Non-life Technical Provisions' in Section F.2.

The best estimate liability is defined as the probability-weighted average of the present value of future cash flows on a market consistent basis, using the relevant risk-free interest rate term structure after making allowance for the volatility adjustment (VA) or matching adjustment (MA) as required.

The risk margin (unaudited) is an allowance for the amount, in addition to the best estimate liability, that a third party (buyer) would expect to receive in order to take over the insurance obligations of an existing entity. It is calculated as the present value of a cost of capital each year in respect of non-hedgeable risks.

Technical provisions also include the transitional measure on technical provisions (TMTP) (unaudited) which allows firms to transition from the Solvency I Pillar II liabilities to the Solvency II technical provisions over a period of 16 years for business written prior to the Solvency II implementation date of 1 January 2016. This is described in more detail in section D.2.5.1.

The following general principles apply to technical provisions valuation:

- The calculation of technical provisions is performed on a going concern basis. This means a proportion of expected future costs (such as general overheads) will be covered by future new business;
- A policy is recognised as an existing contract once the reinsured business becomes party to the contract where this is earlier than the date of inception (more common for general insurance business); and
- The definition of a 'best estimate' assumption is one that represents the expected outcome from the range of possible outcomes for future experience of that assumption and is reasonable and realistic with no margins for prudence included.

### D.2.2 Methodology and assumptions for best estimate liabilities

#### D.2.2.1 Methodology and non-economic assumptions for life business

##### a) Valuation methodology

The valuation methodologies and assumptions for the Company's technical provisions are initially derived from the underlying methodologies and assumptions of its reinsured cedant businesses. While these assumptions and methodologies are initially set at a cedant level, the Company separately considers and approves the appropriateness of these assumptions and methodologies in the context of its total technical provisions

In what follows therefore references to 'contracts' and 'policies' refer to contracts between the cedants and their policyholders which are within the scope of the quota share reinsurance arrangements, rather than the reinsurance arrangements between the Company and the cedants.

##### Cash flow modelling

A deterministic valuation approach producing point estimates, based on best estimate assumptions and all relevant future cash flows required to settle the life insurance liabilities, is used for most of the business. The exception is for contracts with embedded options and guarantees, where a more sophisticated stochastic approach based on the average of a number of scenarios is used.

Future investment returns are also projected in order to determine the value of such items as annual management charges, investment expenses and the value of investment guarantees.

##### Policy grouping

The cash flow projections used in the calculation of the best estimate liability for life insurance business are made separately for each policy.

##### Minimum technical provision per policy

Technical provisions for insurance contracts are allowed to be negative where future cash inflows are expected to exceed future cash outflows.

The technical provisions of an insurance contract may be lower than the surrender value available to the policyholder. This means that if the sum of the best estimate liability and the risk margin of a contract is lower than the surrender value of that contract, then the value of insurance liabilities is not increased to the surrender value of the contract.

##### Contract Boundaries

The calculation of the best estimate liability allows for any boundaries of the insurance contract. A boundary exists where the insurance undertaking has a unilateral right to: terminate the contract; reject premiums payable under the contract; or amend the premiums or benefits payable under the contract at a future date in such a way that the premiums fully reflect the risks. Any obligations which relate to cover which may be provided after that date do not belong to the contract, unless the undertaking can compel the policyholder to pay the premium for those obligations.

An immediate contract boundary also applies to unit-linked regular premium savings and pensions policies which do not have material risk benefits or guarantees.

UK unit-linked policies invested in charge-capped funds are treated as having an extended contract boundary which includes expected future premiums. As a consequence, auto-enrolment default funds, stakeholder pensions and products with explicit charge caps (set at a similar level to stakeholder pensions) are considered to have an extended contract boundary.

Where contract boundaries are applied, these contracts are treated as paid-up at the valuation date. The expense and lapse assumptions are reviewed to ensure that they are appropriate to the restricted contract boundary.

### **Financial options and guarantees**

Where options and guarantees are contract features, a stochastic approach to valuation is used, unless the risk is immaterial or there is insufficient data to calibrate the model. There are a small number of guarantees not modelled within the stochastic model for which the expected cost of guarantees is based on the results for similar products where guarantees are modelled. For some relatively small blocks of business with guaranteed annuity options that are not modelled stochastically, it is assumed that a high proportion of the guarantee is taken up.

Where policy guarantees (e.g. unit-linked Guaranteed Fund investment guarantees) mean that persistency is likely to be higher, a lower assumed lapse rate is used to reflect this, and an additional reserve is determined stochastically to reflect the time value of the investment guarantee. A small additional reserve is held to cover options to renew/convert existing protection policies at normal premium rates.

### **Basis, methods and assumptions applicable to particular classes of business**

#### *Unit-linked business*

Unit-linked business is valued as the face value of the units at market bid price, together with allowance for non-unit cash flows, including mortality and other claim benefits, future expenses and policy charges. Allowances are included where appropriate for loyalty bonus and for waiver of premium benefits, permanent health benefits, permanent total disability benefits and guaranteed insurability options.

Non-unit reserves are calculated by projecting cash flows on a monthly basis for each month that the policy is expected to remain in force. Explicit allowance is made for future commission where appropriate. Allowance is also made for the promise that the Company made to policyholders that the charges on certain pensions policies will not exceed 1% p.a. in any future year.

A non-unit reserve is determined along similar lines for unitheld with-profits business where the investment liability arises in the with-profits fund, but other policy benefits, charges and expenses arise in the non-profit funds.

On 7 December 2017 the PRA issued feedback to life insurers expressing a preference for unit liabilities included within technical provisions to be reported within technical provisions as a whole on the Solvency II Balance Sheet. This was not a mandated approach and has no impact on the measurement of own funds or of technical provisions. The Company has continued to present the unit liabilities within best estimate liabilities in line with the approach adopted in previous years.

#### *Group Protection*

For group protection contracts, the total best estimate liability consists of an unearned premium reserve, an outstanding claims reserve (consisting of 'incurred but not reported' and 'reported but not paid' reserves) and a premium deficiency reserve.

The unearned premium reserve is that portion of the policy premium that has not yet been 'earned' by the Company because the policy still has some time to run before the renewal date.

The incurred but not reported reserve is the claims that have been incurred at the reporting date but have not yet been reported to the insurer. The size of this reserve is estimated based on the past history of claim reporting delays in the portfolio.

The reported but not paid reserve is the claims that have been reported at the reporting date but not yet been paid by the insurer.

A premium deficiency reserve is recognised when the unearned premium reserve is insufficient to cover the risks associated with the unexpired policies.

The liability for current group income protection claims in payment is the discounted value of future claim payments, with any benefit escalation explicitly allowed for. In addition, claim expenses are valued explicitly for all contracts where the policyholder is currently claiming a benefit.

### **(b) Valuation components and material non-economic assumptions**

#### **Cash flows in scope**

For life reinsurance obligations (lines of business 35-36), all cash flows (including any charges related to embedded options) required to settle the insurance liabilities over their lifetime are taken into account.

The table below summarises the main cash flows that are modelled:

Cash in-flows	Cash out-flows
Future premiums (gross of commissions and policyholder tax)	Benefits including:
Annual management (and other) charges in unit-linked business	– Claims payments;
Recoveries from external reinsurers in respect of claims/benefit payments	– Maturity benefits;
	– Death and critical illness benefits;
	– Disability benefits;
	– Surrender benefits;
	– Annuity payments.
	Expenses including:
	– Administrative expenses;
	– Investment management expenses;
	– Claims management expenses (direct and indirect).
	Future premiums to external reinsurers

### Future premiums

Future premiums are projected using persistency assumptions and contract boundaries appropriate to each class of business. Premium levels will also reflect the impact of other decrements such as mortality. Recent persistency experience is reviewed annually to assist with setting assumptions for the continuation of premiums being paid by policyholders and for the number of policies remaining in force. In addition, consideration is given to factors that may cause future experience to differ from past experience, such as changes to pensions regulations. Assumptions are set by product, and may vary by duration, age, sales channel and size of policy. Lapse rate assumptions for unit-linked pensions business combine transfers and retirements.

### Expenses

The best estimate liability for future expenses is a combination of the following elements:

- Administrative expenses;
- Claims management expenses / handling expenses;
- Acquisition expenses, but only to the extent that they are incurred on existing business after the valuation date;
- Commissions which are expected to be incurred in the future;
- Reserves for exceptional and project costs;
- Investment management expenses, which are expressed as a percentage of funds under management; and
- Future expense inflation over the lifetime of each contract and is assumed to be in line with RPI, and with external agreements for business administered externally.

These allowances cover all expenses arising within cedants and from the cedant management services companies, and also in respect of the outsourcing agreements on certain business between the management services companies and the outsourcing companies, and the investment management agreements with Aviva Investors. An allowance is also made for additional head office expenses.

### Death and other claim benefits

Death and other claims benefits are projected using decrements appropriate to each class of business, including persistency, mortality and morbidity.

For deferred annuity products, the value of any benefit payable on death during the deferred period is added to the value of the deferred annuity. For deferred annuities continued beyond the normal pension age, the cash available at the normal pension age is accumulated in line with policy conditions.

For contracts which have fixed benefit increases the valuation provides for these increases within the discounted cash flow method.

The primary source of data for setting base assumptions is analysis of the Company's own experience. Publicly available data from the Continuous Mortality Investigation (CMI) on mortality experience across the industry is also considered.

The base tables used are typically the industry standard Txx08 tables for life protection policies, ACxx08 tables for critical illness protection policies, ELT15 tables for funeral plans and Axx00 tables for savings policies. Different tables apply to males and females and to smokers and non-smokers for products where the smoker status is known.

Updated assumptions include an allowance for the impact of COVID-19 pandemic, causing an increase in liabilities on the pensions business.

### Annuity payments

Most individual annuities in payment are expressed as a percentage of the 2016 Series of pension tables published by the CMI. Unlike the previous "08" series, the CMI has published different tables for the "16" Series for various sources of business. For the largest portfolio of pensions annuity business historically written in Aviva Annuity UK Limited the tables used are PMA16\_IND and PFA16\_IND, which include experience from all individual annuities (internal and external), consistent with this business arising from both internally vesting annuities and external annuities. For most other blocks of business the tables used are PMA16\_IND\_INT and PFA16\_IND\_INT. Adjustments to base tables include allowances for policyholder specific factors. For the largest portfolio of pensions annuity business historically written in Aviva Annuity UK Limited, the underlying mortality assumptions for Males are 104.1% of PMA16\_IND with base year 2016 (2020: 107.3% of PMA08 HG with base year 2008) ; for Females the underlying mortality assumptions are 100.3% of PFA16\_IND with base year 2016 (2020: 104.8% of PFA08 HG with base year 2008). The tables used for 2020 were based on the versions published in 2017 that incorporate the adjustments proposed by the CMI HAMWP and with further adjustments made at old ages to remove distortions to the shape of the tables that arise from applying historic CMI improvements i.e. to better reflect the shape of actual improvements from 2008 to the valuation date. These



adjustments were not considered necessary when moving to the 2016 tables as the improved approach to old age mortality in the HAMWP tables were already incorporated into the 2016 series tables, and because we applied adjustments to the CMI improvement models to remove the distortions from applying CMI improvements (plus the use of more recent tables would in any case reduce the significance of any such distortions to the valuation date). The conventional immediate and deferred annuity business is valued by discounting future benefit payments with an allowance for mortality, including future improvements in mortality.

Improvements are based on 'CMI\_2019 (S=7.25) Advanced with adjustments' (2020: 'CMI\_2019 (S=7.25) Advanced with adjustments') with a long-term improvement rate of 1.5% (2020: 1.5%) for males and 1.5% (2020: 1.5%) for females. An allowance has been made to allow for greater mortality improvements in the annuitant population relative to the general population on which CMI\_2019 is based using "Parameter A" which is set to 0.15% for males and 0.20% for females (for 2020 the CMI\_19 tables were instead adjusted by increasing the initial rate of mortality improvements (which has a similar effect to using "Parameter A") by 0.25% and 0.35% for males and females respectively). Advanced parameters are used to taper the long-term improvement rates to zero between ages 90 and 115 (the 'core' parameters taper the long-term improvement rates to zero between ages 85 and 110). Some further adjustments have been made to the CMI\_19 tables for 2021 but these have a small impact in aggregate.

For pension annuity business historically written in Aviva Annuity UK Limited, year-specific adjustments are made to allow for potential selection effects due to the development of the Enhanced Annuity market and covering possible selection effects from pension freedom reforms. For this business, allowance is also made for higher mortality on impaired lives (based on reinsurer loadings and with an assumption for run-off).

For the largest portfolio of BPA business, the mortality assumptions are derived from internally generated tables produced from 'Club Vita' data. The 'Club Vita' data covers a wide variety of occupational pension schemes in the public and private sector. The assumptions include adjustments to the base tables for factors such as financial usage, council tax band, region, size of pension and early retirement factors.

Updated assumptions include an allowance for the impact of the COVID-19 pandemic causing a reduction in liabilities on the annuity business.

#### **Other assumptions**

##### *Individual Income Protection*

Income protection is modelled using claim inception and termination rates based on IP06 tables and CMIR 12 tables respectively, with adjustments based on the historical experience of the portfolio for appropriate rating factors.

##### *Events not in data (ENIDs)*

The term ENIDs refers to any events not deemed to be captured by the data, which need to be allowed within the best estimate calculation to allow for the uncertainty in the future cash flows. ENIDs are considered both at line of business level, and at portfolio level with allocations to lines of business, depending on the scenario being considered.

The Company considers ENIDs through either adjusting the best estimate assumptions to ensure the likely impact of the event is included or using a scenario approach where they are expected to be material. Expert judgement is applied to determine the expected impact on future experience. For annuity business, it was concluded that no adjustment to best estimate assumptions was required. Climate change was also considered for annuities but no adjustment was made as it was considered that doing so may be spurious given the uncertainties in the improvement basis as a whole.

#### **D.2.2.2 Methodology and non-economic assumptions for non-life business**

##### **Valuation methodology**

The valuation methodologies and assumptions for the Company's technical provisions are initially derived from the underlying methodologies and assumptions of its reinsured cedant businesses. While these assumptions and methodologies are initially set at a cedant level, the Company separately considers and approves the appropriateness of these assumptions and methodologies in the context of its total technical provisions.

In what follows therefore references to 'contracts' and 'policies' refer to contracts between the cedants and their policyholders which are within the scope of the quota share reinsurance arrangements, rather than the reinsurance arrangements between the Company and the cedants.

##### **Contract boundaries**

The circumstances for when a contract boundary exists are the same as described above for Life business in D.2.2.1.

The Company's share of business written by intermediaries of the cedants on a delegated authority basis has been included on a "look-through" basis, including policies where a legal obligation has been created by the intermediary.

It is assumed that cedants renew outwards reinsurance, in accordance with Level 3 guidelines. This is done using the "principle of correspondence", whereby a proportion of the full premium and recoveries are recognised to reflect the fact that the renewed reinsurance treaty will also cover primary policies which are not yet within the contract boundary. For reinsurance purchased or renewed by the cedants before the valuation date, including pre-inception contracts, the Company uses the principle of legal obligations and allows for its share of the full cost of the reinsurance unless the cedants are legally entitled to a refund if no further exposure is written.

## Cash flows

The Company's best estimate liabilities are valued based on the present value of future cash flows discounted using relevant risk-free interest rates 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 inception 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 premiums 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.

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 (excluding PPOs)

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 cedants' 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 Solvency II lines of business.

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

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

## 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 Solvency II 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 (ENIDs)

ENIDs 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 ENIDs 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. ENIDs are considered both at Solvency II line of business level and at portfolio level with allocations to Solvency II lines of business, depending on the scenario being considered.

## Periodic Payment Orders (PPOs)

The cash flows that are considered when calculating the Best Estimate Liabilities for PPOs derive from:

- Payment of claims benefits: with the majority of PPOs providing payments relating to care needs of the claimant, with a smaller number providing loss of earnings payments; and
- Expenses: there 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.

Assumptions are made in relation to future longevity. These assumptions are updated annually and are 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 PPOs based on independent medical opinions.

PPO payments escalate based on indices specified at the time of settlement of the PPO. The majority of PPO claims in the UK escalate based on an Annual Survey of Hours and Earnings index (ASHE) with a smaller number escalating in line with the Retail Prices Index (RPI). Assumptions are therefore required for the future escalation of these indices. In the UK, it is assumed 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.2.2.3 Economic assumptions

The technical provisions are valued using the basic risk-free rate curve applicable for the currency of the liabilities. The basic risk-free rate curve incorporates a credit risk adjustment (CRA) for non-GBP currencies. A CRA deduction is no longer made for the GBP currency following the move to a SONIA based swap curve. The discount rate is then increased by a VA or MA for some categories of business. The MA calculation requires assumptions for fundamental spread (FS) for the MA spreads which are published by the PRA.

For details of the matching and volatility adjustments please refer to Section D.2.5

#### Risk free discount rates

The GBP, EUR and CAD risk-free spot rates at key durations, used to value the technical provisions at full year 2021 are stated in the table below. The figures shown below allow for a credit risk adjustment, except for the GBP rates.

Risk-free rates	1 year	5 years	10 years	15 years	20 years	40 years
GBP	0.8 %	1.1 %	0.9 %	0.9 %	0.9 %	0.7 %
EUR	(0.6)%	(0.1)%	0.2 %	0.4 %	0.5 %	1.6 %
CAD	1.2 %	1.7 %	1.9 %	1.9 %	1.9 %	2.3 %

Where swaps do not exist or are not sufficiently liquid or reliable from a certain point, the basic risk-free interest rate is extrapolated in a smooth progression. The PRA has prescribed by currency the entry points for extrapolation, the duration to convergence and the ultimate forward rate (UFR), as can be seen in the table below.

Currency	Entry point for extrapolation of risk-free rates	Duration to convergence to ultimate forward rate	Ultimate forward rate
GBP	50	40	3.60 %
EUR	20	40	3.60 %
CAD	30	40	3.60 %

#### Tax

The tax assumptions used at 31 December 2021 are shown in the table below.

Parameter	31 December 2021
Corporation tax (current year)	19 %
Corporation tax (future profits)	25 %

#### D.2.3 Risk margin methodology (unaudited)

The risk margin is calculated using a cost of capital (CoC) approach allowing for diversification between lines of business.

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

The risk margin is underpinned by the non-hedgeable SCR (nhSCR). The rate used to discount the projected nhSCR is the basic risk-free rate, with no allowance for volatility adjustment or matching adjustment.

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

- Life underwriting risk;
- Health underwriting risk;
- Non-life underwriting risk;
- Market risk where it is material (except all forms of interest rate risk including interest rate interactions with non-hedgeable risks)
- Counterparty default risk with respect to reinsurance contracts, arrangements with debtors, and any other material exposures which are closely related to the insurance obligations; and
- Operational risk.

#### Projection of the SCR

In order to project the nhSCR, a hierarchy of projection simplifications are necessary to ensure that the risk margin calculation remains proportionate to the nature, scale and complexity of the business.

The Company adopts a mix of approaches to non-hedgeable risk projections. For some risks the projected run-off is exact and no approximation is made. For others the Company makes use of risk carriers, where a suitable statistic is chosen which can be readily projected and used as a proxy.

The projected risks are then aggregated using a correlation matrix approach at each future time period to derive the nhSCR. Adjustments are made to reflect the differences between the correlation matrix approach and the Internal Model.

## Diversification

The risk margin allows for diversification as follows:

- Diversification is taken into account between life business accepted from different reinsured business;
- Diversification is taken into account between non-life business accepted from different reinsured business;
- No diversification is taken between life and non-life business;
- For life business, diversification between the matching adjustment portfolio and the rest of the life business in the entity is permitted.

Note that in the calculation of the risk margin, non-hedgeable risk on vested periodic payment orders is included within non-hedgeable risks for life business, regardless of which cedant has reinsured the risk to the Company.

## Diversification between internal model and standard formula for non-life business ceded

Some of the non-life business ceded to the Company is modelled on a standard formula basis. The Company's non-life diversified risk margin is calculated as a combination of the risk margin on Internal Model and standard formula ceded business.

## Loss absorbency

The loss absorbing capacity of technical provisions assumed in the calculation of the nhSCR is consistent with the loss absorbing capacity of technical provisions assumed in the calculation of the SCR. No allowance for the loss absorbency of deferred taxes is included in the risk margin.

### D.2.4 Simplified methods (*unaudited unless relating to best estimate liabilities*)

In order to project the non-hedgeable SCR which underpins the risk margin for both life and non-life business, a hierarchy of projection simplifications is necessary to ensure that the risk margin calculation remains proportionate to the nature, scale and complexity of the business (see section D.2.3 above for further details).

Simplified methods employed to calculate the best estimate liabilities are detailed below.

## Life business

For smaller blocks of business that are not included in the main models on materiality grounds, an approximate approach is used to calculate the best estimate liability. Manual adjustments to the results calculated by the main valuation systems are made to produce the required technical provisions, for example where a best estimate is set to the equivalent accounting liability. Such manual adjustments are applied in a proportionate manner.

For options and guarantees that are immaterial, alternative methods such as closed-form approaches or a series of deterministic projections are used to calculate the liability. This is based on the results for similar products where guarantees are modelled stochastically and is a proportionate approach given materiality considerations.

There are no other material simplifications.

## Non-life business

In some areas of the calculation of the Solvency II best estimate liabilities, simplified methods have been used. The methods chosen range from average cost per claim method to a simple percentage of claims provisions. The selected method depends on the nature of the business, for example, whether it is long-tailed or short-tailed; or whether it exhibits ENID characteristics. Where simplified methods are used, these are documented and justified in our reserving reports.

### D.2.5 Other reliefs

The impact of the transitional measures, volatility adjustment and matching adjustment described below can be found in QRT S.22.01.21, which is included within Section F.2.

#### D.2.5.1 Transitional deduction (*unaudited*)

The transitional measure on technical provisions (TMTP), as set out in Article 308d of Directive 2009/138/EC, allows firms to transition from the Solvency I liabilities to the Solvency II technical provisions over a period of 16 years for business written prior to the Solvency II implementation date of 1 January 2016.

The Company's TMTP was last recalculated on 31 December 2021. It is mandatory to recalculate the TMTP every 2 years with the next mandatory recalculation due 31 December 2023. A recalculation may also be undertaken if a company's risk profile materially changes. The transitional measure on technical provisions decreases linearly over 16 years from 1 January 2016 to 31 December 2031. If the transitional is recalculated, the recalculated amount is decreased linearly over the remaining period till 31 December 2031.

## PRA Approval

The PRA has approved the application for the transitional measure to be applied in the Company.

## Business Included

The unrestricted TMTP is based on the difference between the following two amounts, primarily for business ceded under the arrangements with UK L&P:

- The technical provisions on a Solvency II basis, including the impact of the matching adjustment (MA) and volatility adjustment (VA) where applicable, and after deduction of amounts recoverable from reinsurance at the valuation date; and
- The Solvency I position, which in the UK is the greater of the Pillar 1 and Pillar 2 (ICA) technical provisions, after deduction of the amounts recoverable from reinsurance and allowing for any relevant individual capital guidance (ICG) at the valuation date.

## Financial restrictions test

If necessary, the TMTP is restricted to ensure that at Company level the Solvency II financial resources (defined as the sum of the Solvency II technical provisions after application of transitional relief, other liabilities, and the solvency capital requirement) are no lower than the

most onerous of the Solvency I Pillar 1 financial resources and Solvency 1 Pillar 2 financial resources (defined as the sum of the ICA technical provisions, other liabilities, capital requirements plus ICG). The Financial restrictions test includes new business written since the effective date of Solvency II. The financial resources restriction did not apply at the last TMTP recalculation on 31 December 2021.

#### Application of TMTP

Within technical provisions, the TMTP is applied to the risk margin first. Where the total TMTP exceeds the total risk margin, the excess is allocated to the best estimate liability in proportion to the contribution of each line of business to the total deduction. At 31 December 2021, there was a reduction to the best estimate liabilities of £85 million from the transitional measure on technical provisions as it exceeded the risk margin (unaudited).

#### Impact of not applying TMTP

The impact of long-term guarantees and transitional measures is disclosed in QRT S.22.01.21 (Section F.2) using a step-by-step approach.

The impact of removing the TMTP is set out below:

	Including TMTP (A) £m	Setting TMTP to zero (B) £m	Impact of removing TMTP (C) = (B) - (A) £m
<b>31 December 2021</b>			
Technical provisions	67,874	69,103	1,229
Eligible own funds to meet SCR <sup>1</sup>	3,722	2,800	(922)
SCR	1,939	2,214	275
MCR	872	996	124

(1) Eligible own funds to meet the SCR is equal to the Company's basic own funds and its eligible own funds to meet the MCR.

The impact from the TMTP on SCR arises because the TMTP is treated as a reduction in liabilities, which generates a corresponding deferred tax liability. The SCR represents a 1-in-200 loss scenario and may be reduced by the deferred tax asset created by the loss to the extent that there are sufficient liabilities to offset the loss. The TMTP deferred tax liability can increase the tax relief on the SCR, and therefore removal of the TMTP may increase the SCR.

#### D.2.5.2 Transitional risk-free interest rate

No transitional measure is applied under Article 308c of Directive 2009/138/EC.

#### D.2.5.3 Volatility adjustment

The volatility adjustment (VA) is intended to reflect temporary distortions in spreads caused by illiquidity in the market or extreme widening of credit spreads. The VA reduces technical provisions by increasing the discount rate used to calculate the best estimate liability. VAs are prescribed by the PRA on a currency and country basis.

#### PRA Approval

The PRA has approved the application for the VA to be applied in the Company.

#### Business included

The VA is applied to all those liabilities where a matching adjustment is not applied with the exception of unit-linked business and business originally written in the FLP heritage company where, in line with the approved applications, no allowance for the VA is made.

#### Volatility adjustment

The GBP, EUR and CAD VAs used at 31 December 2021 are shown in the table below.

Volatility adjustment (bps)	31 December 2021
GBP	15
EUR	3
CAD	30

#### Impact of not applying volatility adjustment

The impact of long-term guarantees and transitional measures is disclosed in QRT S.22.01.21 (Section F.2) using a step-by-step approach. Note that the quantification of the impact of setting the volatility adjustment to zero is after the removal of transitionals. In practice the impact may be lower as the removal of the volatility adjustment would result in an increase in the transitional relief on technical provisions.

The impact of removing the volatility adjustment is set out below:

	Including VA (A) £m	Setting VA to zero (B) £m	Impact of removing VA (C) = (B) - (A) £m
<b>31 December 2021</b>			
Technical provisions (unaudited)	69,103	69,144	40
Eligible own funds to meet SCR <sup>1</sup>	2,800	2,764	(36)
SCR (unaudited)	2,214	2,232	18
MCR	996	1,005	8

(1) Eligible own funds to meet the SCR is equal to the Company's basic own funds and its eligible own funds to meet the MCR.

#### D.2.5.4 Matching adjustment

The matching adjustment (MA) is an increase applied to the risk-free rate used to value insurance liabilities where the cash flows are relatively fixed (e.g. no future premiums or surrender risk) and are well matched to assets that are intended to be held to maturity and have cash flows that are also relatively fixed. The intention is that, if held to maturity, the business can earn the additional yield on these assets that relates to illiquidity risk.

#### PRA Approval

The PRA has approved the application for the MA to be applied in the Company.

#### Business included in MA portfolio

The MA is applied in the Company to the majority of the annuity business it accepts under the UK L&P quota share reinsurance arrangement. No other business is included in the MA portfolio (MAP). The effect is that for liabilities ceded to the Company under the arrangement, the Company has the same MA as UK L&P.

#### Assets eligible for inclusion

Assets eligible for inclusion represent part of the deposit with UK L&P. Eligible assets include government and supranational bonds, corporate bonds, commercial mortgages, project finance infrastructure loans and infrastructure and equity release fixed rate notes.

Equity release mortgage assets meet the criteria for inclusion within the MA when they are securitised into an internal Special Purpose Vehicle (SPV) which then issues a fixed coupon note (equity release fixed rate note) secured by those assets to the MA portfolio.

#### Derivation of matching adjustment

The matching adjustment is broadly derived from the spread over risk-free on the assigned portfolio of assets, net of an allowance for default and downgrade (known as the fundamental spread). The fundamental spreads applied are prescribed by the PRA.

The MA used at 31 December 2021 is shown in the table below.

Matching adjustment (bps)	31 December 2021
GBP	81 bps

#### Impact of not applying matching adjustment

The impact of long-term guarantees and transitional measures is disclosed in QRT S.22.01.21 (Section F.2) using a step-by-step approach. Note that the quantification of the impact of setting the matching adjustment to zero is after the removal of transitionals and the volatility adjustment. In practice the impact may be lower as the removal of the matching adjustment would result in an increase in the transitional relief on technical provisions.

The impact of removing the matching adjustment is set out below:

	Including MA (A) £m	Setting MA to zero (B) £m	Impact of removing MA (C) = (B) - (A) £m
31 December 2021			
Technical provisions (unaudited)	69,144	71,054	1,910
Eligible own funds to meet SCR <sup>(1)</sup>	2,764	981	(1,783)
SCR (unaudited)	2,232	4,071	1,839
MCR	1,005	1,634	629

(1) Eligible own funds to meet the SCR is equal to the Company's basic own funds and its eligible own funds to meet the MCR.

#### D.2.6 Material changes in assumptions

This section highlights the most material changes to assumptions made in the calculation of technical provisions compared to the previous reporting period.

#### Annuitant mortality

The impact of mortality for annuitant contracts on long-term business relates primarily to the UK. In 2021, there has been a reduction in BEL due to longevity assumptions arising from:

- Updates to base mortality to reflect methodology and process refinements and changes to data;
- Updates to the rate of mortality improvements, consisting of a change to the allowance made for expectations of greater mortality improvements in the annuitant population than in the general population on which CMI\_2019 is based;
- Release of a Covid provision;
- Changes to base mortality tables for individual annuities (moving to 2016 series tables) and changes to assumptions for anti-selection on individual annuities.

In total, these changes reduced the BEL, net of reinsurance recoverables, by £75m.

### Non-life assumptions

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

#### D.2.7 Level of uncertainty in value (unaudited unless relating to best estimate liabilities)

Set out below are the main areas of uncertainty over the calculation of liabilities. Given the mix of business written by the Company the most material areas of uncertainty in technical provisions will be driven by the life business (non-life technical provisions comprise 7% of the total technical provisions).

The sensitivity of the Company's Solvency II cover ratio to key assumptions used in the calculation of technical provisions is disclosed in section C.7.1 (unaudited). It should be noted that these impacts include the mitigating effects of the change in the value of financial assets and reinsurance assets as well as the impact on tax and the solvency capital requirement.

### Life technical provisions

The best estimate liability corresponds to the probability-weighted average of future cash flows, taking account of the time value of money using the relevant risk-free interest rate term structure, and is derived using policyholder data, cash flow models and a set of assumptions.

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

- Fluctuation in the amount and/or timing of claims events, e.g. when estimating the length of time for which an annuity will be paid. This requires a projection of annuitant mortality rates in excess of 20 years into the future which cannot be done with certainty;
- Changes in the value of an index/market values used to determine claims amounts, e.g. estimating future inflation for benefits linked to RPI or CPI; and
- Uncertainty in policyholder behaviour, e.g. for estimating lapse rates for different policy types and for different durations of a policy.

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

The scope of assumption review papers includes documenting the degree of uncertainty inherent in the assumptions being reviewed.

Data governance and model governance standards are in place, which help to ensure that the cash flow models used to calculate technical provisions, and the data which is used within that calculation, are fit for purpose and are managed under appropriate change control processes.

The cash flow projection models which are used to determine the best estimate liability are subject to an on-going program of base-lining, to reproduce the model's results from first principles, taking into account any information obtained from policy documents and operational procedures.

### Non-life technical provisions

The actual cost of settling insurance obligations may differ from the best estimate liabilities because experience may be different 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 value of the technical provisions due to the inherent uncertainty in the underlying best estimate liabilities, including:

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

Specific areas of uncertainty are:

- In the course of conducting non-life insurance business, the Company receives general insurance liability claims, and becomes involved in actual or threatened litigation arising therefrom, including claims in respect of pollution and other environmental hazards. Amongst these are claims in respect of asbestos production and handling. Given the significant delays that are experienced in the notification of these claims, the potential number of incidents which they cover and the uncertainties associated with establishing liability, the ultimate cost cannot be determined with certainty. On the basis of current information and having regard to the substantial external reinsurance cover in place within the cedants, any additional costs arising are unlikely to have a material impact on the value of the Company's non-life technical provisions.
- PPOs represent a small part of best estimate liabilities. They also represent one of the most uncertain elements of the Company's technical provisions due to their long-tailed nature and the sensitivity to changes in economic-related assumptions. Additional uncertainty arises due to potential differences in the life expectancy of claimants compared to that expected, as well as the potential uncertainty in the propensity for non-life large injury claims to settle as PPOs as opposed to lump sum awards.
- The COVID-19 pandemic and associated government imposed restrictions increase uncertainty. See section C.1.2.4 for further detail on the impact of COVID-19, including Business Interruption claims, on the underwriting risk profile ceded from the Company's non-life cedants.
- The wider economic environment has led to increasing inflationary pressure emerging during 2021 which is expected to persist in 2022 and has increased the uncertainty associated with determining reserving assumptions for claims inflation. In particular, the disruption to global supply chains as a result of COVID-19 and other factors has led to upwards pressure on claims severity.



### D.2.8 Comparison between the Solvency II and IFRS valuation bases

The following table summarises the Company's gross technical provisions split by Solvency II line of business (with a number of smaller lines of business combined on the grounds of materiality). The non-life lines of business are all in respect of proportional reinsurance accepted, unless otherwise stated. Minor lines of business have been combined in the table below.

The Solvency II technical provisions are shown gross of reinsurance and include the impact of any transitional measures.

Insurance liabilities	Best Estimate Liabilities (BEL) <sup>1</sup>	Risk Margin (RM) <sup>2</sup>	Solvency II BEL + RM <sup>2</sup>	IFRS Technical Provisions <sup>3</sup>	Difference
31 December 2021	£m	£m	£m	£m	£m
Total non-life obligations	4,340	166	4,507	5,163	(656)
Health reinsurance	174	—	174	312	(138)
Life reinsurance	63,193	—	63,193	64,801	(1,608)
Total life obligations	63,367	—	63,367	65,113	(1,746)
Total	67,708	166	67,874	70,276	(2,402)

(1) The reduction in best estimate liabilities relating to TMTP as set out in D2.5.1 is unaudited

(2) Risk margin is unaudited

(3) Liabilities of £116m in respect of PPOs and similar structured settlements ceded by UK&I GI are included within life obligations above, but within outstanding claims provisions for general insurance and health within the financial statements.

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

#### (a) Life technical provisions

##### IFRS margins

IFRS technical provisions contain margins for prudence on mortality, persistency, and expense assumptions which are not included in Solvency II best estimate liabilities. This results in Solvency II best estimate liabilities being lower than IFRS technical provisions and affects all life reinsurance lines of business.

##### Risk margin (net of transitional measures) (unaudited)

In addition to the best estimate liabilities, Solvency II technical provisions include a risk margin (net of transitional measures) to cover the cost of capital (CoC) held each year in respect of non-hedgeable risks. This is in contrast to the additional margins held under IFRS to cover risk and uncertainty.

##### Treatment of unit-linked business

Under IFRS, the technical provisions for unit-linked business are based on current unit value, plus an allowance for non unit cash flows, but only where this would increase the technical provisions. Under Solvency II, the technical provisions are lower than the unit value reflecting the profits expected to emerge in respect of future management charges expected to be earned from existing business. This results in a decrease in Solvency II best estimate liabilities relative to IFRS technical provisions.

##### Discount Rates

The Solvency II best estimate liability is valued using a risk-free rate curve with an allowance for credit risk adjustment for non-GBP curves and a matching adjustment or volatility adjustment where applicable.

IFRS technical provisions are valued using a valuation interest rate which reflects the yields available on the underlying assets, with an allowance for credit risk based on internal analysis and an additional margin for adverse deviation.

#### (b) Non-life technical provisions

##### IFRS margins

IFRS technical provisions contain explicit margins for prudence which are not included in Solvency II best estimate liabilities. This reduces Solvency II best estimate liabilities compared to IFRS technical provisions and affects all non-life lines of business.

##### Risk margin (unaudited)

In addition to the best estimate liabilities, Solvency II technical provisions include a risk margin to cover the CoC held each year in respect of non-hedgeable risks. This is in contrast to the additional margins held under IFRS to cover risk and uncertainty.

##### Pre-inception business

The cash flows relating to pre-inception business are included in Solvency II best estimate liabilities. Pre-inception business refers to all liabilities arising from policies that the business units are contractually obliged to write at the valuation date but that have not yet inceptioned. This affects all non-life lines of business with the exception of annuities stemming from non-life insurance contracts. IFRS is not subject to the same requirement. This results in Solvency II best estimate liabilities being higher than IFRS technical provisions.

##### Treatment of unearned premium reserve

The unearned premium reserve established under IFRS for all non-life lines of business is replaced with a best estimate reserve which is typically lower, but the impact of this is offset by the release of deferred acquisition costs (see Section D.1.2).

##### Discount Rates

The Solvency II best estimate liability is valued using a risk-free rate curve with an allowance for credit risk adjustment for non-GBP curves and a volatility adjustment where applicable.

Only long-tailed claims reserves (predominantly latent claims within general liability insurance and PPOs) are discounted under IFRS.

Considered in isolation, the difference in discount rates leads to higher liabilities under IFRS.



## D.3 Other liabilities

This section details the Solvency II valuation basis of each material class of liability (excluding technical provisions), and any material differences between that and the IFRS valuation. The table at the beginning of Section D details the Solvency II and IFRS value of each material class of liability.

### D.3.1 Valuation of material other liabilities

Other liabilities are valued at the amount for which they could be transferred or settled between knowledgeable willing parties, in an arms length transaction.

There were no material changes made to the valuation and recognition bases used or on estimation methods during the period.

### D.3.2 Material differences between the Solvency II and IFRS valuation bases

#### Deferred Tax

Deferred tax for Solvency II valuation purposes is determined in accordance with IAS 12 principles on 'temporary differences' between the economic value of assets or liabilities on the Solvency II balance sheet and their tax base. Deferred tax assets may be recognised separately on the Solvency II balance sheet in the cases where there are net deferred tax assets after offset against corresponding deferred tax liabilities, or where deferred tax assets cannot be so offset. This is subject to the deferred tax assets meeting the criteria for recognition, in accordance with IAS 12 principles. At 31 December 2021 the Company had no net deferred tax assets.

During 2021 the UK Government enacted an increase in the UK corporation tax rate, from 19% to 25%, effective from 1 April 2023. This revised rate has been used in the calculation of deferred tax at 31 December 2021.

Deferred tax balances in the Solvency II balance sheet differ from those recognised in the IFRS balance sheet as a result of:

- Differences between the IFRS and Solvency II balance sheet valuation basis and consequential impact on recognition of deferred tax assets and liabilities; and
- IFRS assets and liabilities with an associated deferred tax balance treated as having no economic value under Solvency II.

#### Other material differences

There are no other material differences between the Solvency II and IFRS valuation bases.

## D.4 Alternative methods of valuation

### D.4.1 Company approach to valuation

The Company applies the Group Asset Valuation Business Standard to the valuation of its assets. This sets out a control framework in respect of valuation, including assets and liabilities valued under alternative methods of valuation. This standard defines the following control objectives:

- Primary valuation – Parties responsible for primary valuations must ensure that appropriate valuation techniques are selected and justified;
- Independent price verification – A party independent of the primary valuation process must have sufficient controls in place to ensure valuations of all asset classes are reasonable. Controls should be commensurate with the materiality of the assets.
- Valuation uncertainty – The extent of uncertainty within valuations must be understood, quantified where possible and reported to senior management;
- Reporting bases – Where appropriate the valuation must be performed consistently across reporting bases. Where a consistent basis is not used, then a reconciliation of differences should be understood, documented and reported; and
- Client supplied prices – Client supplied prices should be identified, and sufficient independent price verification (IPV) controls exercised to provide assurance over the quality of the valuation.

### D.4.2 Assets and liabilities to which an alternative valuation approach applies

For the financial year ending 2021, the Company's primary exposure to valuation under alternative valuation methods was in respect of its deposits with the cedant undertaking UK L&P, where the valuation of the deposits is based on a proportionate share of the Solvency II net assets within scope of the reinsurance arrangements.

The Company also has a loan with its immediate parent AGH, for which an alternative valuation approach applies.

### D.4.3 Justification for use of an alternative valuation approach

The majority of the Company's assets and liabilities, and those of its cedants, are measured at fair value based on quoted market information or observable active market data. Where quoted market information or observable market data is not available, an alternative valuation method is used. This occurs when either:

- The individual nature of the asset means that there is no quoted price available (for example, investment property).
- The asset is not actively traded in a market (such as holdings in unlisted private equity funds).

Alternative valuation methods include the use of estimates and assumptions that are not market observable. Where estimates and assumptions are used by the Company, or its cedants, in valuing its assets and liabilities, they are based on a combination of independent third-party evidence and internally developed models, calibrated to market observable data where possible.

### D.4.4 Assumptions underlying the valuation approach and assessment of valuation uncertainty

The Company performs an annual exercise to assess valuation uncertainty across its asset portfolio. The main assumptions underlying the valuation approach and assessment of valuation uncertainty for the key categories of assets are described below.

The assumptions for UK commercial and residential properties are derived from external market forecasts for the commercial and residential property markets. These forecasts will include the market view on the impact of COVID-19. No additional loadings above and

beyond the market forecasts have been applied. During 2021 the level of comparable market evidence available has increased and market views around long-term economic assumptions such as residential and commercial property growth rate assumptions have stabilised, reducing the impacts on valuation uncertainty caused by the pandemic.

#### **Commercial mortgages, commercial real estate loans and healthcare (PFI) loans**

The mortgages are valued using a model that calculates a credit risk adjusted value for each mortgage. The credit risk adjusted contractual future cash flows are calculated by stochastically forecasting how the future loan repayments are impacted by a large number of inputs. The key inputs feeding into the credit risk calculation are changes in property value, probability of tenant defaults, expected rental growth and property growth and likelihood of the borrower continuing to service the loan if the tenant defaults. The credit risk adjusted cash flows are then discounted at a risk-free rate plus a liquidity premium calibrated to lending on new loans.

Valuation uncertainty arises from variation in the expected range of the key inputs feeding into the credit risk calculation and the liquidity premium. Valuation uncertainty has been assessed as significant for this asset class. The future property growth and future rental growth assumptions are based on market forecasts. These forecasts will allow for market views on the impact of COVID-19 and climate change. The level of comparable market evidence available has increased and market views around long-term economic assumptions such as residential and commercial property growth rate assumptions have stabilised, reducing the impacts on valuation uncertainty caused by the pandemic. An adjustment based on market advice is also made to long term future property growth (after the end of the period covered by market forecasts) to allow for additional capex that might be required to address climate issues.

A small portion of the commercial real estate loan portfolio is managed by an external asset manager. These mortgages are valued using a discounted cash flow approach, where credit spreads depend on the rating of the mortgage and are inferred from market observations. Valuation uncertainty has been assessed as moderate for these assets.

#### **Equity release Securitised Notes and Mortgages**

The Company's exposure to equity release mortgages arises primarily through its cedant's investment in mortgage-backed securitised notes. The Company's cedant also has a direct investment in a small block of unsecuritised equity release mortgages, representing the new business written since the previous securitisation took place.

The equity release backed securitised notes consist of senior notes and a subordinated junior note (which represents the equity tranche of the asset proceeds). The overall value of the loan notes represents the underlying value of the securitisation and is equal to the value of the equity release mortgages and cash held in the securitisation, less the present value of future expenses. The value of the junior note is calculated by discounting the modelled junior note cash flows at an appropriate equity discount rate. The senior notes are valued by discounting the contractual cash flows for each note at a risk-free rate, plus a spread (consisting of the appropriate EIOPA financial long-term average spreads plus an additional spread to reflect the specific risks relating to these notes). The additional spread is set to solve the equation of value set out above.

Equity release mortgages are valued using an Internal Model, with fair value initially being equal to the transaction price. The value of these loans is dependent on the expected term of the mortgage and the forecast property value at the end of the term and is calculated by adjusting future cash flows for credit risk and discounting using a yield curve plus an allowance for illiquidity. At 31 December 2021 the illiquidity premium used in the discount rate was 180 bps.

The mortgages have a no negative equity guarantee (NNEG) such that the cost of any potential shortfall between the value of the loan and the realised value of the property, at the end of the term, is recognised by a deduction to the value of the loan. Property valuations at the reporting date are obtained by taking the most recent valuation for the property and indexing using market observable regional house price indices.

NNEG is calculated using base property growth rates reduced for the cost of potential dilapidations, using a stochastic model. In addition, a cost of capital charge is applied to reflect the variability in these cash flows. The base property growth rate assumption is RPI +0.75% which equates to a long-term growth rate of 4.4% pa. After applying the cost of capital charge, dilapidations and the stochastic distribution, the effective long-term growth rate equates to 0.6% pa. The short term future property growth (up to the end of year 5) is based on market forecasts. These forecasts will allow for market views on the impact of COVID-19 and climate change. The potential impact of climate change at longer durations has been kept under review; there is currently no explicit allowance for climate risk in the assumptions for future house price growth.

Valuation uncertainty has been assessed as moderate for these assets.

#### **Investment property and property partnerships**

Investment property is valued either quarterly or monthly by external chartered surveyors in accordance with guidance issued by The Royal Institution of Chartered Surveyors (RICS). Valuations are performed by surveyors in accordance with methodologies described in the RICS (red book). A property gross value is calculated by dividing the expected rental cash flows by an appropriate rental yield. Future cash flows are calculated based on the surveyor's expectation of rental receipts during and after the current tenancy ends, typically based on an assessment of rents charged on comparable properties.

The extent of uncertainty within the valuation of investment properties has been assessed based on back-testing analysis performed across the UK L&P's portfolio. This back-testing analysis compares sale prices of investment properties against the properties' valuation one year prior to the date of sale, with adjustments made to allow for movements in property markets over the year. The results of this analysis corroborate closely with other research information available in the public domain and suggest that valuation uncertainty is significant for this asset class.

#### **Over-the-counter (OTC) derivatives**

Although valued using established and accepted valuation methodologies, some of the OTC derivatives held by the Company's cedants are not quoted in an active market and an element of valuation uncertainty may exist in arriving at a fair value. The extent of valuation uncertainty is assessed by comparing valuations against counterparty statements as well as considering any differences between balance sheet valuations and the level at which contracts could hypothetically be closed out. Valuation uncertainty has been assessed as moderate for this asset class. Please note this section excludes uncollateralised OTC derivatives with PFI counterparties (see comments below).

#### **PFI and private infrastructure lending**

PFI and infrastructure loans are valued using either a model that calculates a credit risk adjusted value for each loan or using a discounted cash flow model, depending on the nature of the loan.

Loans valued using credit risk adjusted contractual future cash flows are calculated by stochastically forecasting how the future loan repayments are impacted by a large number of inputs. The key inputs feeding into the credit risk calculation are changes in security value, probability of government defaults and expected inflation on income and costs. The credit risk adjusted cash flows are then discounted at a risk-free rate plus a liquidity premium calibrated to lending on new loans.

Infrastructure loans valued using a discounted cash flow model add spreads for credit and illiquidity to a risk-free discount rate. Credit spreads are updated quarterly using an internally developed methodology which depends on the credit rating of each loan, the duration of each loan, credit spreads on publicly traded bonds and an adjustment to reflect the estimated recovery rate in the event of the loan defaulting.

Valuation uncertainty arises from variation in the expected range of the key inputs feeding into the credit risk calculation and the illiquidity premium. Valuation uncertainty has been assessed as moderate for this asset class.

#### **Privately placed corporate debt securities**

Privately placed notes are valued using a discounted cash flow model. The discounted cash flow model uses discount factors based on swap curves, plus credit spreads inferred from comparable, publicly traded bonds as well as an incremental spread to reflect the illiquidity of the securities.

Valuation uncertainty arises on the private placement portfolio in the choice of spreads for credit and liquidity. Valuation uncertainty has been assessed as moderate for this asset class.

#### **Privately placed debt securities with explicit sovereign or supranational guarantees**

UK L&P holds a number of debt securities supported by explicit sovereign or supranational guarantees, under export credit agency or similar schemes. In these cases, the credit spreads used to value the instruments reflect the security provided by the sovereign guarantee. An additional illiquidity premium is also included in the total spread.

Valuation uncertainty has been assessed as low for these loans.

#### **Private equity and infrastructure funds**

Fair values for unlisted private equity and infrastructure funds are based on net asset value statements provided by fund administrators. The valuation of underlying equities is compliant with guidelines published by the British Venture Capital Association, the European Private Equity and Venture Capital association and other international bodies.

The extent of valuation uncertainty is estimated with reference to back testing analysis which involves comparing sale proceeds for portfolio businesses against lagged valuations adjusted for movements in value to earnings ratios for proxy stock market indices. Valuation uncertainty has been assessed as significant for this asset class.

#### **Collateralised lending with banks**

Collateralised lending with banks comprises loans to banking counterparties which have been collateralised with illiquid securities. Fair values are calculated using valuation models which incorporate a number of assumptions, including probability of counterparty default and expected loss in the event of counterparty default. Expected loss in the event of counterparty default is driven by assumptions describing the expected liquidation period of the collateral, the volatility of the collateral during this liquidation period and the extent to which we believe there is a correlation between the collateral value and counterparty default probability.

Valuation uncertainty arises from variation in the expected range for a number of the key assumptions described above. Valuation uncertainty has been assessed as moderate for this asset class.

#### **Collateralised loan obligations**

There is an illiquid senior note issued by an SPV which is backed by a series of loans to PFI counterparties. The valuation of this position incorporates assumptions regarding credit spreads on the underlying PFI loans, expected recoveries in the event of PFI default and joint default probabilities. Valuation uncertainty has been assessed as moderate for this asset.

#### **Uncollateralised interest rate and inflation swaps**

There are a number of interest rate and inflation swaps with PFI counterparties which are not collateralised, meaning the Company is exposed to counterparty credit risk. The valuation of these swaps therefore includes a credit valuation adjustment (CVA) to reflect counterparty default risk. The CVA is calculated with reference to a number of assumptions including likelihood of counterparty default,

recovery in event of default and exposure to counterparty at time of default. Valuation uncertainty has been assessed as moderate for this asset class.

#### **Illiquid inflation linked notes**

There are a number of illiquid, long duration inflation linked notes. Future cash flows are forecast using market-implied CPI/RPI rates then discounted using swap curves, plus credit spreads inferred from the closest comparable publicly traded instruments (with adjustments where necessary) and an illiquidity premium.

Valuation uncertainty has been assessed as moderate for this asset class.

#### **Other illiquid debt securities, private loans and structured finance**

A range of other illiquid debt securities are valued using discounted cash flow methodologies. Discount factors are constructed using risk free rates, credit and illiquidity spreads appropriate for the security in question.

Valuation uncertainty has been assessed as moderate for this asset class.

#### **Loan with AGH**

The Company's loan with AGH is valued using an income approach, which reflects the present value of cash flows the loan is expected to generate calibrated as far as possible to market observable parameters. The loan accrues interest at 12-month SONIA swap rate with flat adjustment based on the ISDA fallback rate relating to 1-year LIBOR plus a credit risk margin. The 12-month SONIA rate is reset annually. The credit margin is reset every five years based on a fair value assessment of the credit risk of AGH and the terms and conditions of the loan agreement. The credit margin was reset on 31 December 2017 and the next reset of the credit margin is due 31 December 2022.

The 12-month SONIA reset means the value of the loan is insensitive to the level of risk-free interest rates. In the absence of relevant market observable credit risk parameters, changes in credit risk are assessed according to any observable changes in the sufficiency of available collateral supporting the loans.

The loan can be repaid early at any time, at the option of AGH, and so the value of the loan is restricted to be no more than the nominal amount plus any accrued interest. Valuation uncertainty has been assessed as immaterial for this asset.

#### **D.4.5 Adequacy of the valuation compared to experience**

The Company operates independent price verification (IPV) controls across all assets. For asset types where a secondary source is available (such as OTC derivatives and bonds marked to market), this involves comparing the primary valuation to a secondary independent source, investigating material differences and making valuation adjustments where the Company believes it is appropriate to do so.

For illiquid debt securities which are marked to model the IPV process includes a review of the valuation methodology, periodic assessment of both observable and judgemental model inputs as well as reviewing any secondary trading activity in the asset to understand whether anything can be learnt regarding the appropriateness of the valuation methodology.

For asset classes where a secondary source is not available and there is no secondary trading activity (such as investment property and private equity), the Company relies on the implementation of accepted valuation standards by parties independent of the Group as described above (e.g. valuation of investment property in line with the methodologies described in the RICS (red book). To assess the reasonableness of the valuations back testing analysis is performed on an annual basis for any assets sold during the year. Results of these back-testing analyses are presented in the Company's valuation uncertainty assessments.

#### **D.5 Any Other Material Information**

There company has no other material information to disclose.

# Section E

## Capital Management

### In this section

E.1	Own funds	44
E.2	Solvency Capital Requirement (SCR) and Minimum Capital Requirement (MCR)	45
E.3	Use of duration-based equity risk sub-module in the calculation of the SCR	46
E.4	Difference between the standard formula and any internal model used	46
E.5	Non-compliance with the MCR and non-compliance with the SCR	49
E.6	Any other material information	49

## Section E: Capital Management

This section of the report provides information on the Company's own funds and SCR and includes a description of the Internal Model.

### E.1 Own funds

#### E.1.1 Management of own funds

The primary objective of capital management is to manage the balance between return and risk, whilst maintaining economic capital in accordance with risk appetite. The Company's capital and risk management objectives are closely interlinked, and support the dividend policy, whilst also recognising the critical importance of protecting policyholder and other stakeholder interests.

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

- Maintain sufficient, but not excessive, financial strength in accordance with risk appetite, to satisfy the requirements of regulators and other stakeholders;
- Retain financial flexibility by maintaining strong liquidity; and
- Allocate capital efficiently to remain within risk appetite and drive value adding growth.

The Company uses a number of sensitivity tests to understand the volatility of earnings, the volatility of its capital requirements, and to manage its capital efficiently. Sensitivities to economic and operating experience are regularly produced on the Company's key financial performance metrics to inform decision making and planning processes over a five-year planning horizon, and as part of the framework for identifying and quantifying the risks to which the Company is exposed.

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

#### E.1.2 Eligible own funds

The Company's own funds comprise unrestricted Tier 1 capital which consists of its ordinary share capital and retained earnings. Retained earnings are not separately disclosed in own funds but are included in the Reconciliation Reserve, which reconciles the total excess of assets over liabilities with identifiable capital investments included in own funds.

Own funds by tier is presented in QRT S.23.01.01 'Own Funds' within Section F.2. The table below sets out a summary of the Company's own funds by tier for the year ended 31 December 2021:

	2021		2020	
	Total £m	Tier 1 unrestricted £m	Total £m	Tier 1 unrestricted £m
Ordinary share capital	780	780	780	780
Reconciliation reserve	2,942	2,942	3,387	3,387
<b>Total eligible Own Funds to meet the SCR / MCR</b>	<b>3,722</b>	<b>3,722</b>	<b>4,167</b>	<b>4,167</b>

As at 31 December 2021, the Reconciliation Reserve is comprised entirely of the Company's retained earnings.

Tier 1 capital is of the highest quality and permanent. 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 share capital and retained earnings is classified as Tier 1.

The Company's own funds are not subject to capital fungibility restrictions and are therefore available to absorb losses in their entirety.

The Company has no ring-fenced funds and has no eligibility restrictions in respect of ring-fenced funds or matching adjustment portfolios.

The Company's matching adjustment portfolio (MAP) does not have surplus assets in excess of its notional SCR and, as a consequence, no restriction to own funds has been applied.

As all own funds are unrestricted Tier 1, there are no eligibility restrictions due to the application of quantitative limits, therefore the entire amount of the Company's own funds is available to cover the SCR and MCR.

The Company has no ancillary own funds.

#### E.1.3 Significant changes in own funds during the reporting period

Own funds decreased by £445 million from £4,167 million to £3,722 million over the reporting period. The main reason for the decrease was the remittance of dividends.

#### E.1.4 Material differences between equity as shown in the financial statements and own funds

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

31 December 2021	Total £m
<b>Total equity on an IFRS basis</b>	<b>2,302</b>
Elimination of deferred acquisition costs	(507)
Insurance liability valuation differences (net of transitional deductions)	2,569
Inclusion of risk margin (net of transitional deductions)	(166)
Net deferred tax adjustments <sup>(1)</sup>	(480)
Other adjustments (including fair value adjustments)	4
<b>Solvency II Own Funds</b>	<b>3,722</b>
<b>Difference between IFRS equity and Solvency II Own Funds</b>	<b>1,420</b>

(1) Net deferred tax adjustments includes the tax effect of all other reconciling items in the table above which are shown gross of tax.

The material components of the above difference are explained in Sections D.1.2, D.2.8 and D.3.2 (in respect of differences in assets, technical provisions, and other liabilities respectively).

#### E.1.5 Transitional arrangements

The Company does not hold qualifying subordinated liabilities subject to the transitional arrangements referred to in Articles 308b(9) and 308b(10) of the Solvency II Directive.

#### E.1.6 Restrictions on the availability and transferability of own funds

There are no significant restrictions on the availability and transferability of own funds.

Under the quota share reinsurance arrangements, the Company has the ability to withdraw the excess of its deposit with ceding undertakings over the respective Solvency II best estimate liabilities.

To support the local regulatory requirements of CGI, the Company has taken out Letters of Credit (LoCs), that allows CGI to demonstrate that the Company has provided assets to fully cover the local regulatory reserves and associated margins. This ensures that in the event the Company withdrew its deposit, CGI continues to meet its local regulator's asset coverage requirements, therefore not restricting the availability or transferability of the Company's own funds.

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

#### E.2.1 Solvency Capital Requirement (SCR) (unaudited)

The Company's SCR at 31 December 2021 was £1.9 billion (2020: £2.5 billion). This section contains a breakdown of the Company's SCR by risk, and the benefit of diversification. The final amount of the Company's SCR is subject to supervisory assessment and does not include any regulator imposed capital add-ons.

The Company uses a Partial Internal Model which is made up of reinsured business from entities that use an Internal Model and reinsured business from entities that use the standard formula (SF).

A detailed breakdown of the Company's SCR by risk component is shown below, including the split of each component between IM and SF. Each risk component includes the impact of diversification within that component, and the diversification line includes diversification between risk components and the diversification between IM and SF entities (known as PIM diversification). The loss-absorbing capacity of deferred taxes (LACDT) risk component represents the loss-absorbency amounts not embedded within other risk components. The 'Other risks and adjustments' component includes adjustments to the SCR for expected changes to own funds over the next year. Note that for the purposes of the below table, the market risk line includes credit risk as described in Section C.3, following the Solvency II Standard Formula convention.

SCR by risk component (£m)	IM	SF	Total
Market risk	1,566	—	1,566
Counterparty risk	94	1	95
Life underwriting risk	1,534	—	1,534
Health underwriting risk	—	49	49
Non-life underwriting risk	508	—	508
Operational risk	577	7	584
Loss-absorbing capacity of deferred taxes	(620)	(2)	(622)
Other risks and adjustments (including rounding)	(82)	—	(82)
<b>Total undiversified components</b>	<b>3,577</b>	<b>55</b>	<b>3,633</b>
Diversification			(1,694)
<b>Solvency Capital Requirement</b>			<b>1,939</b>

The Company performs an analysis of the diversification benefit by risk and by reinsurance treaty to provide assurance that the level of diversification applied is reasonable given the Company's structure, mixture of risks and underlying risk calibrations and correlations. The Company's reported diversification benefit is £1.7 billion (2020: £1.8 billion) on an undiversified SCR of £3.6 billion (2020: £4.2 billion), which is a ratio of 47% (2020: 42%). This figure includes diversification between risk components and PIM diversification, but does not include diversification within each risk component.



**E.2.2 Minimum Capital Requirement (MCR)**

The MCR represents the minimum level below which the amount of financial resources of a firm should not fall.

The MCR is calculated using a linear formula that applies prescribed factors to capital-at-risk, the best estimate liability (net of reinsurance) and written premiums. The factors applied to the best estimate liability and written premium vary by type. The risk margin is not allowed for in the MCR technical provisions. The MCR is subject to a floor, equal to 25% of the SCR, and a cap, equal to 45% of the SCR. There is an absolute floor of €3.7 million.

The MCR for the Company at 31 December 2021 is £872 million, which is equivalent to the '45% of SCR' cap (2020: £1,107 million).

**E.2.3 Material changes over the reporting period (unaudited)**

The Company's SCR has decreased during 2021, primarily due to:

- the termination of the reinsurance treaty between the Company and FGI; and
- reduction in longevity risk due to an increase in interest rates.
- a change in UK corporate tax rate from 19% to 25% from 2023.

**E.2.4 Standard Formula simplifications (unaudited)**

Where the SCR is calculated using the SF, the Solvency II regulations specify simplified calculations that may be used across all of the SF risk modules except operational risk. The use of these simplifications is disclosed in QRT S.25.02.21, where applicable. The Company has not used any of these simplified calculations in the calculation of its SCR.

**E.2.5 Standard Formula Undertaking Specific Parameters (USPs) (unaudited)**

Where the SCR is calculated using the SF, Solvency II regulations specify certain USPs that may be used in place of the standard parameters, subject to regulatory approval. These are available for life and health revision risks, and non-life (including some health) premium and reserve risks. The use of these USPs is disclosed in QRT S.25.02.21, where applicable. The Company has not used any USPs in the calculation of its SCR.

**E.2.6 Disclosure of capital add-ons and USPs**

Regulators may impose capital add-ons to the SCR or to require the use of certain USPs in the SF if there are significant deficiencies in a firm's IM or PIM. The Company does not have any capital add-ons or use of USPs imposed on it by regulators.

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

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

**E.4 Differences between the standard formula and any internal model used (unaudited)**

This section provides information on the Company's IM, including its use, calculation methodology and a comparison to SF. It explains the PIM integration methodology.

**E.4.1 Use of the internal model in the Company's business**

The IM provides input to a number of key business processes and activities. Therefore, the IM outputs are used in day-to-day risk management and business decisions in the Company.

'Use' does not imply that the model is used to directly run the business, but rather that the outputs of the IM and the model itself are used to support decision-making, whilst acknowledging its limitations and balancing against other elements of the risk management framework.

The primary purpose of the Internal Model is to calculate the capital metrics required for regulatory reporting under Solvency II for the Company. The outputs of the model are used internally and externally in risk-based performance reporting and risk and financial strength reporting to the senior management, the Board, the shareholder and rating agencies.

The granular metrics produced by the IM are also used to set the Company's strategy and support a series of other activities, including:

- Strategy & business planning: measuring risk-adjusted return and setting risk appetites as part of the business planning cycle;
- Transactions: assessing the appropriateness of potential new reinsurance treaties or business investments through the impact on surplus capital;
- Reinsurance: identifying the need for targeted reinsurance contracts to mitigate undesirable risk exposures, through modelling potential adverse scenarios; and
- Asset and liability management: measuring the impact of market changes on assets and liabilities to drive investment strategy

**E.4.2 Undertakings in scope of the internal model**

The IM is used to calculate the SCR for all the Company's reinsured business (and all risk categories within them) with the exception of the UK private medical insurance business.

The IM has been designed to produce capital figures at a range of levels and granularities, from legal entity to treaty level (and in some cases to a product or asset level), allowing for diversification between risk types at each of those levels. Producing and understanding the capital requirements at different levels of granularity is crucial to ensure that the model outputs can be effectively used in the day-to-day running of the business.



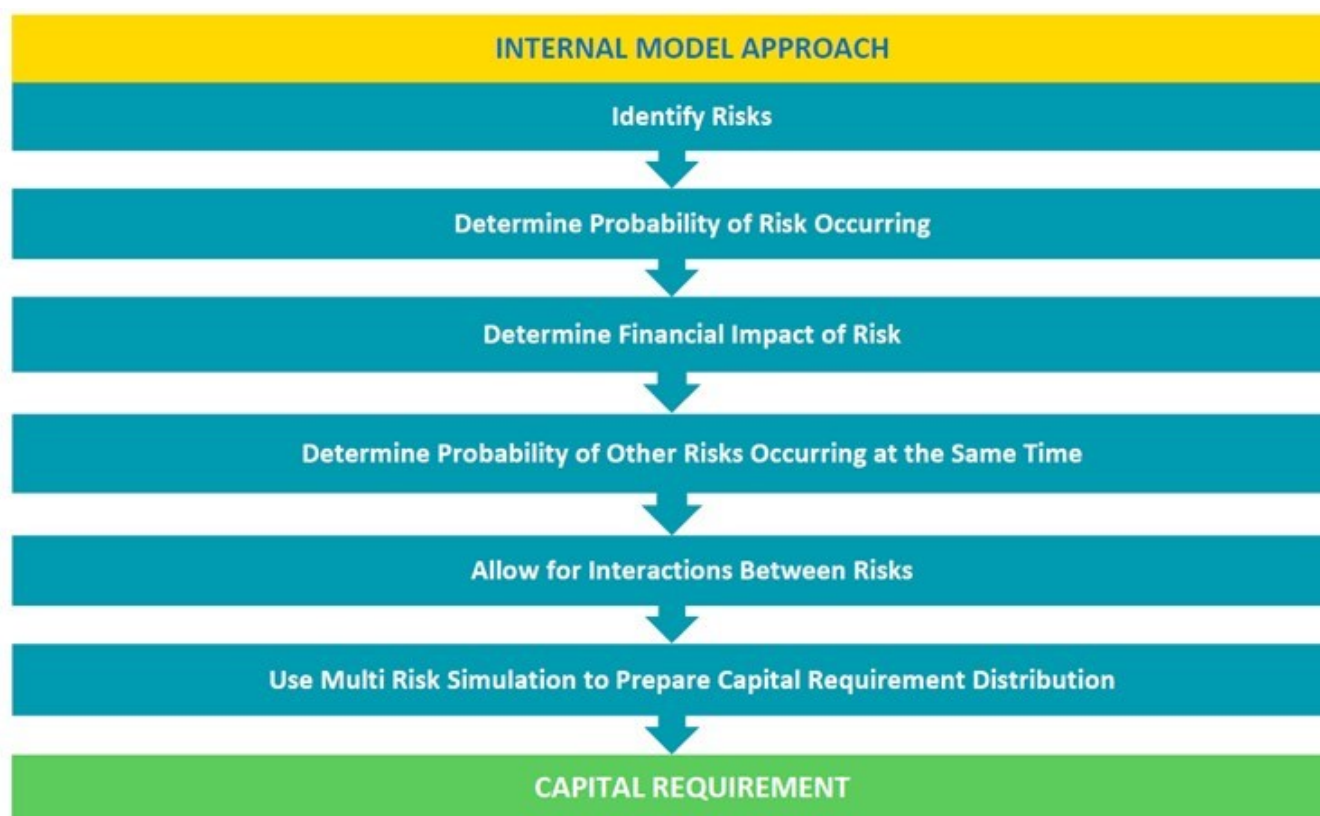
### E.4.3 Calculation of the internal model

#### E.4.3.1 Methods used

The purpose of the IM is to identify the risks to which the Company is exposed, model these risks using suitably calibrated inputs and aggregate them to compute the SCR. The model produces an aggregate distribution of the change in basic own funds over a one year time horizon from which the SCR can be directly derived (i.e. the SCR is the 99.5th percentile) in line with regulatory requirements.

An overview of the Company's approach is shown below.

#### INTERNAL MODEL APPROACH



The capital aggregation approach allows us flexibility in determining which statistical distributions to use to represent risk factors (such as mortality, interest rates or credit risk) including those with heavy tails and empirical distributions<sup>1</sup>. The Company is not limited to assuming risks follow normal (or similar) distributions, as is implicit in the SF, and the Company uses this flexibility to ensure that it accurately models the behaviour of the most important risks.

For the majority of risk factors the Company uses standard statistical distributions fitted via its standard risk factor calibration process. However, for some risk types the Company uses distributions derived from further modelling processes. The Company does this based both on the materiality of these risk types and the desire to achieve greater flexibility and granularity to ensure accurate reflection of the risk's behaviour. These risks include general insurance liability risks, credit risk, and operational risk.

Throughout the modelling process, the Company has used a wide range of testing and review processes to ensure that the calibrations are appropriate and the IM outputs are sound. These range from bottom-up reviews of the material assumptions used in the modelling process and testing of the calibrations and loss functions (i.e. the mathematical formulae used as a proxy for the calculations in the asset and liability management models for the valuation of the assets and liabilities on the balance sheet), to top-down stress and scenario testing, as well as profit and loss attribution exercises.

The Company has chosen to implement a PIM, defined as using a combination of IM and SF approaches to calculate solvency capital requirements for different components of the business. These components are distinct blocks of business, rather than risks. In order to integrate the IM capital calculations with the SF calculations the Company uses PIM Technique 2 as described in Annex XVIII of Directive 2009/138/EC.

(1) An empirical distribution is associated with the empirical measurement of the underlying sample, i.e. it is a discrete distribution made up of the same number of data points as are in the sample.

#### E.4.3.2 Data used in the internal model

The key data used in the IM is:

- Accounting Data (IFRS) – this is used, for example, in the valuation of certain assets and liabilities;
- Policy Data – this includes claims as well as policies in force and past policies;
- Operational Risk Data – the Company uses an external database of information with regards to industry Operational Risk losses which is provided by ORIC (Operational Risk Insurance Consortium);
- Financial Market Data – the calibration process for market and credit risks often uses external financial market asset data (e.g. FTSE index returns);
- Internal Asset Data – the valuation of the base Solvency II Balance Sheet relies on the market valuation of assets. The data used is taken from the accounting process and, therefore, most data will be included under the element ‘accounting data’; and
- Other Data – data that does not fall under the above five categories. This may include all data (including asset data) used for the calculation of the required economic capital under the Solvency II regime and the technical provisions including numerical, census or classification information, but not qualitative information.

The Group’s Solvency II Data Governance business standard establishes the control environment and the criteria to be used to assess the quality of the data in terms of appropriateness, completeness, accuracy and consistency before using it for SCR calculation. The data used in 2021 was considered to be appropriate in the calculation of the Company’s SCR.

#### E.4.3.3 Impact on Risk Profile

It is a key requirement for the use of an IM that the model should reflect the actual risks that are faced by the business. The IM was assessed as being appropriate when the Company was granted supervisory permission to use it in the calculation of its solvency capital requirements.

The Company assesses the model’s ongoing appropriateness using various techniques, including a large number of tests that form part of the validation framework referred to in Section B.3.5. These tests include comparisons of the IM results both with management views and with historic experience. Where a significant difference is noted, consideration is given as to whether this difference merits holding additional capital.

In the Company’s work on the Year End 2021 results, the IM was considered to appropriately reflect the risk profile of the company’s IM business, and hence no additional capital was considered necessary. An assessment was performed confirming that the SF was appropriate given the risk profile of the company’s SF business.

#### E.4.3.4 Integration of Standard Formula into the Partial Internal model

As noted above, the Company has chosen to implement a PIM, using Integration Technique 2, as detailed in Annex XVIII of the Delegated Regulations, to combine the results of the IM and SF calculations.

Using this technique requires the Company to specify upper and lower bounds for correlations between the entire IM block and each of the SF risk modules. A correlation matrix is then constructed with correlations between these bounds such that it maximises the basic solvency capital requirement.

Given the multiple lines of business of varying sizes, the PIM has been designed to accurately model the capital requirements. This allows for risk profiles of a nature, scale, or complexity that is distinct from that allowed for in the SF calculation.

#### E.4.4 Differences between standard formula and internal model methodologies and underlying assumptions

The key difference between the SF and IM methodology is that the methodology and assumptions for IM risks are tailored to the Company’s risk profile, whereas the SF is a standardised approach.

The SF prescribes formulae to calculate the capital required driven by exposure to various risks: for the IM the Company calibrates a distribution of losses for each risk and uses these, along with a set of correlations between these risks, to derive a joint distribution of losses for the business. The capital requirement is derived from this joint distribution to ensure the Company holds sufficient capital with 99.5% confidence. Calibrating risks for the IM therefore requires detailed data analysis and use of statistical models to derive the most appropriate distribution.

Another key difference is in the modelling approach used to aggregate the results. For the Internal Model, the Company determines an aggregate distribution of losses by combining marginal risk distributions for each risk using a Gaussian Copula and applying loss functions. The Standard Formula uses a hierarchical correlations approach, where explicit correlation matrices are used to combine sub-module losses within each risk module, and then to combine the calculated losses of the different risk modules.

A key feature of the Company’s approach compared to the SF is that it can capture fat tailed risks (i.e. risks where the probability of extreme values is higher than using the normal distribution) and non-linear loss profiles. In addition, the Company is able to model diversification more granularly and, in particular, capture important features such as geographical diversification. Another key difference is that the IM reflects all material quantifiable risks to which the Company is exposed, whereas the SF only considers a subset of risks.

Material differences between the SF and IM methodologies and assumptions are set out below:

#### Market Risks module

- The IM considers changes in market volatility, which is not explicitly modelled in the SF. Equity volatility risks are particularly important for business with guarantees.
- Credit risk – the Company’s model includes sovereign bonds, which are not currently modelled under SF; the model also explicitly considers default migration and spread risks including some allowance for diversification between various credit exposures.
- Interest rates are modelled using three principal components, not just the change in the level of interest rates as under the SF.

- Inflation risk – the Company explicitly models inflation risk, whereas there is no inflation risk in the SF.
- Equity risk – only exposure to asset price falls is reflected in the SF, whereas the Company models the full distribution of equity returns, allowing the Company to capture exposure to equity values rising or falling.
- Currency risk – the Company models currency translation risk reflecting that exposure to this risk varies with the impact of the other risks, and that there is diversification between currencies, whereas these factors are ignored in the standard formula.

#### Health Risk module

- Health business written under the life treaties is separately modelled. Currently, health business written under the non-life treaties is assessed using the SF.

#### Counterparty Default module

- The SF considers all counterparty default risk under one module – whereas for the IM, the Company tailors the modelling to the type of the counterparty and the nature of the exposure.

#### Life Insurance module

- The SF assumes standard portfolios, whereas the Company's calibrations are tailored to the specific portfolios.

#### Non-Life Insurance module

- Latent claims and periodic payment orders (PPOs), which are not explicitly included under SF, are included in the Company's IM.
- The IM allows the Company to model the specific risks and exposures of the non-life insurance business. Inflation risk is explicitly included in the IM whereas there is no inflation risk in SF beyond that implicitly captured in the calibrations of the premium and reserve risks.
- In addition, the Company distinguishes between commercial and personal lines, whereas the SF does not reflect this level of granularity.

#### Operational Risk

- The Company models operational risks using a scenario based approach. The SF uses a formulaic approach.

### E.5 Non-compliance with the MCR and non-compliance with the SCR (*unaudited unless relating to MCR*)

The Company complied with the SCR and MCR at all times during 2021.

### E.6 Any other material information

#### E.6.1 Expected Profits In Future Premiums (EPIFP)

EPIFP is the expected present value of future cash flows which result from the inclusion in technical provisions of premiums relating to existing insurance and reinsurance contracts that are expected to be received in the future, but that may not be received for any reason, other than because the insured event has occurred, regardless of the legal or contractual rights of the policyholder to discontinue the policy. Reflecting the nature of the Company's quota share reinsurance arrangements, the Company's EPIFP is presented as the Company's share of its cedant's relevant EPIFP, net of external reinsurance arrangements.

EPIFP is presented in QRT S.23.01.01 'Own Funds' within Section F.2.

EPIFP is calculated as the difference between:

- The technical provision (excluding risk margin) of the contract.
- An alternative scenario for the contract under which no future premiums are paid. Excluding the premiums is likely to have an impact on the benefit to be paid. Relevant benefit and expense cash flows are therefore assumed to be on a paid-up or lapse basis. Where 'unearned' commission could be clawed back on a paid-up basis, this is also allowed. However, any penalties on the contract associated with the policyholder making the policy paid up are not taken into account.

When calculating the EPIFP for a contract, its contract boundary is taken into account. In non-life operations, future premiums include, as a minimum, premiums from legally obliged business, premiums due from policies with instalment premium payment terms and policyholder debtor balances (for example, overdue premiums).

# Section F

## Additional Information

### In this section

F.1	Cautionary statement	51
F.2	Public disclosure templates	52
F.3	Glossary of abbreviations and definitions	65
F.4	Approvals, determinations and modifications	67
F.5	Directors' certificate	68
F.6	Audit opinion	69

## F.1 Cautionary statement

This Report 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 Report include, but are not limited to: the impact of ongoing uncertain conditions in the global financial markets and the local and international political and economic situation generally (including those arising from the Russia-Ukraine conflict); 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 the Company’s investments; changes in interest rates that may cause the Company’s cedant policyholders to surrender their contracts, reduce the value or yield of their investment portfolio and impact the Company’s asset and liability matching; the unpredictable consequences to reforms to reference rates, including LIBOR; the impact of changes in short or long-term inflation; the impact of changes in equity or property prices on the investment portfolio; fluctuations in currency exchange rates; the effect of market fluctuations on the value of options and guarantees embedded in some of the Company’s cedant life insurance products and the value of the assets backing reserves; the amount of allowances and impairments taken on the Company’s investments; the effect of adverse capital and credit market conditions on the Company’s ability to meet liquidity needs and access to capital; changes in, or restrictions on, the Company’s ability to initiate capital management initiatives; changes in or inaccuracy of assumptions in pricing and reserving for insurance business (particularly with regard to mortality and morbidity trends, lapse rates and policy renewal rates), longevity and endowments ; a cyclical downturn of the insurance industry; the impact of natural and man-made catastrophic events (including the impact of COVID-19) on the Company’s business activities and results of operations; the transitional, litigation and physical risks associated with climate change; the Company’s reliance on information and technology and third-party service providers for its operations and systems; the impact of the Company’s risk mitigation strategies proving less effective than anticipated, including the inability of the Company’s cedants reinsurers to meet obligations or unavailability of reinsurance coverage; poor investment performance of the Company’s cedants asset management; the withdrawal by customer’s at short notice of assets under the Company’s cedants management; failure to manage risks in operating securities lending of the Company’s cedants and third-party client assets; increased competition in the UK and in other countries where we have significant operations; regulatory approval of changes to the Group’s Internal Model for calculation of regulatory capital under the UK’s version of Solvency II rules; the impact of actual experience differing from estimates used in valuing and amortising deferred acquisition costs (DAC); 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 and malicious acts (including cyber attack) and theft, loss or misuse of customer data); risks associated with arrangements with third parties; the Company’s cedants reliance on third-party distribution channels to deliver their products; the failure to attract or retain the necessary key personnel; the effect of systems errors or regulatory changes on the calculation of unit prices or deduction of charges for the Company’s cedant unit-linked products that may require retrospective compensation to their customers; the effect of simplifying the Group’s operating structure and activities; the effect of a decline in any of the Company’s cedants ratings by rating agencies on their standing among customers, broker-dealers, agents, wholesalers and other distributors of the Company’s cedants products and services; changes to the Group’s brand and reputation; changes in tax laws and interpretation of existing tax laws in jurisdictions where we conduct business; changes to International Financial Reporting Standards relevant to insurance companies and their interpretation (for example, IFRS 17); the inability to protect the Group’s intellectual property; the effect of undisclosed liabilities, separation issues and other risks associated with the Group’s disposals; and other uncertainties, such as diversion of management attention and other resources, relating to future acquisitions, combinations or disposals within relevant industries; the policies, decisions and actions of government or regulatory authorities in the UK, the EU, the US, Canada or elsewhere, including changes to and the implementation of key legislation and regulation. Please see Aviva’s most recent Annual Report for further details of risks, uncertainties and other factors relevant to the business and its securities.

The Company undertakes no obligation to update the forward looking statements in this announcement or any other forward-looking statements we 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 the Company’s understanding as at 4 April 2022 and does not provide financial or legal advice. Other than as set out in section F.5 (Directors Certificate), 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.

This Solvency and Financial Condition Report has been prepared for, and only for, the members of the Company, as a body, and no other persons. The Company, its directors, employees, agents or advisers do not accept or assume responsibility to any other person to who this document is shown or into whose hands it may come, and any such responsibility or liability is expressly disclaimed.

## F.2 Public disclosure templates

The following pages contain the Company's public disclosure templates, as listed below:

- S.02.01.02 Balance Sheet
- S.05.01.02 Premiums, claims and expenses by line of business
- S.05.02.01 Premiums, claims and expenses by country
- S.12.01.02 Life and health SLT technical provisions
- S.17.01.02 Non-life technical provisions
- S.19.01.21 Non-life insurance claims
- S.22.01.21 Impact of long term guarantees and transitional measures
- S.23.01.01 Own Funds
- S.25.02.21 SCR – for undertakings using the standard formula and partial internal model
- S.28.01.01 MCR

**Annex I**  
**S.02.01.02**  
**Balance Sheet**  
Amounts in 000s

		Solvency II Value
		C0010
<b>Assets</b>		
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	951,087
Property (other than for own use)	R0080	
Holdings in related undertakings, including participations	R0090	
Equities	R0100	
- Equities - Listed	R0110	
- Equities - Unlisted	R0120	
Bonds	R0130	
- Government Bonds	R0140	
- Corporate Bonds	R0150	
- Structured Notes	R0160	
- Collateralised securities	R0170	
Collective Investments Undertakings	R0180	951,087
Derivatives	R0190	
Deposits other than cash equivalents	R0200	
Other investments	R0210	
Assets held for index-linked and unit-linked contracts	R0220	
Loans & mortgages	R0230	200,000
- Loans on policies	R0240	
- Loans & mortgages to individuals	R0250	
- Other loans & mortgages	R0260	200,000
Reinsurance recoverables from:	R0270	
- Reinsurance recoverables - Non-life and health similar to non-life	R0280	
- Reinsurance recoverables - Non-life excluding health	R0290	
- Reinsurance recoverables - Health similar to non-life	R0300	
- Reinsurance recoverables - Life and health similar to life, excluding health and index-linked and unit-linked	R0310	
- Reinsurance recoverables - Health similar to life	R0320	
- Reinsurance recoverables - Life excluding health and index-linked and unit-linked	R0330	
- Reinsurance recoverables - Life index-linked and unit-linked	R0340	
Deposits to cedants	R0350	70,750,710
Insurance & intermediaries receivables	R0360	
Reinsurance receivables	R0370	
Receivables (trade, not insurance)	R0380	405,058
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	10
Any other assets, not elsewhere shown	R0420	6
<b>Total assets</b>	R0500	72,306,870
<b>Liabilities</b>		
Technical provisions - Non-life	R0510	4,506,771
- Technical provisions - Non-life (excluding health)	R0520	4,360,140
- TP calculated as a whole - Non-life (excluding health)	R0530	
- Best Estimate - Non-life (excluding health)	R0540	4,197,517
- Risk margin - Non-life (excluding health)	R0550	162,623
- Technical provisions - Health (similar to non-life)	R0560	146,631
- TP calculated as a whole - Health (similar to non-life)	R0570	
- Best Estimate - Health (similar to non-life)	R0580	142,980
- Risk margin - Health (similar to non-life)	R0590	3,652
Technical provisions - Life (excluding index-linked and unit linked)	R0600	19,278,975
- Technical provisions - Health (similar to life)	R0610	173,858
- TP calculated as a whole - Health (similar to life)	R0620	
- Best Estimate - Health (similar to life)	R0630	173,858
- Risk margin - Health (similar to life)	R0640	
- Technical provisions - Life (excluding health and index-linked and unit-linked)	R0650	19,105,117
- 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	19,105,117
- Risk margin - Life (excl health, index-linked and unit-linked)	R0680	
Technical provisions - Index-linked and unit-linked	R0690	44,088,346
- TP calculated as a whole - Index-linked and unit-linked	R0700	
- Best Estimate - Index-linked and unit-linked	R0710	44,088,346
- 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	479,851
Derivatives	R0790	178,827
Debts owed to credit institutions	R0800	
Financial liabilities other than debts owed to credit institutions	R0810	
Insurance & intermediaries payables	R0820	
Reinsurance payables	R0830	
Payables (trade, not insurance)	R0840	52,165
Subordinated liabilities	R0850	
- Subordinated liabilities not in BOF	R0860	
- Subordinated liabilities in BOF	R0870	
Any other liabilities, not elsewhere shown	R0880	0
<b>Total liabilities</b>	R0900	68,584,936
<b>Excess of assets over liabilities</b>	R1000	3,721,934



Annex I  
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
<b>Premiums written</b>										
Gross - Direct Business	R1410							89,090	5,050,677	5,139,767
Reinsurers' share	R1420									
Net	R1500							89,090	5,050,677	5,139,767
<b>Premiums earned</b>										
Gross - Direct Business	R1510							89,090	5,050,677	5,139,767
Reinsurers' share	R1520									
Net	R1600							89,090	5,050,677	5,139,767
<b>Claims incurred</b>										
Gross - Direct Business	R1610							40,511	4,299,617	4,340,129
Reinsurers' share	R1620									
Net	R1700							40,511	4,299,617	4,340,129
<b>Changes in other technical provisions</b>										
Gross - Direct Business	R1710							4,005	-4,539,055	-4,535,050
Reinsurers' share	R1720									
Net	R1800							4,005	-4,539,055	-4,535,050
<b>Expenses incurred</b>	R1900							15,856	467,089	482,945
<b>Other expenses</b>	R2500									0
<b>Total expenses</b>	R2600									482,945

Annex I  
S.05.01.02  
Premiums, claims and expenses by line of business  
Amounts in 000s

		Line of Business for: non-life insurance and reinsurance obligations (direct business and accepted proportional reinsurance)											
		Medical expense insurance [direct business]	Income protection insurance [direct business]	Workers' compensation insurance [direct business]	Motor vehicle liability insurance [direct business]	Other motor insurance [direct business]	Marine, aviation and transport insurance [direct business]	Fire and other damage to property insurance [direct business]	General liability insurance [direct business]	Credit and suretyship insurance [direct business]	Legal expenses insurance [direct business]	Assistance [direct business]	Miscellaneous financial loss [direct business]
		C0010	C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0090	C0100	C0110	C0120
Premiums written													
Gross - Direct Business	R0110	0											
Gross - Proportional reinsurance accepted	R0120	370,541	31,693		1,089,783	501,925	30,202	1,565,072	488,431	26,766	28,642	12,488	18,854
Gross - Non-proportional reinsurance accepted	R0130												
Reinsurers' share	R0140												
Net	R0200	370,541	31,693		1,089,783	501,925	30,202	1,565,072	488,431	26,766	28,642	12,488	18,854
Premiums earned													
Gross - Direct Business	R0210												
Gross - Proportional reinsurance accepted	R0220	358,980	33,152		1,090,140	496,243	29,928	1,481,875	455,212	25,735	28,188	12,352	14,255
Gross - Non-proportional reinsurance accepted	R0230												
Reinsurers' share	R0240												
Net	R0300	358,980	33,152		1,090,140	496,243	29,928	1,481,875	455,212	25,735	28,188	12,352	14,255
Claims incurred													
Gross - Direct Business	R0310												
Gross - Proportional reinsurance accepted	R0320	246,938	18,398		789,532	325,904	15,801	794,682	305,165	10,677	18,689	7,822	11,125
Gross - Non-proportional reinsurance accepted	R0330												
Reinsurers' share	R0340												
Net	R0400	246,938	18,398		789,532	325,904	15,801	794,682	305,165	10,677	18,689	7,822	11,125
Changes in other technical provisions													
Gross - Direct Business	R0410												
Gross - Proportional reinsurance accepted	R0420		212										212
Gross - Non-proportional reinsurance accepted	R0430												
Reinsurers' share	R0440												
Net	R0500		212										212
Expenses incurred	R0550	86,416	9,737		288,234	143,507	12,065	696,658	144,425	12,617	8,206	3,759	6,303
Other expenses	R1200												
Total expenses	R1300												

		Line of Business for: accepted non proportional reinsurance				
		Non-proportional health reinsurance	Non-proportional casualty reinsurance	Non-proportional marine, aviation and transport reinsurance	Non-proportional property reinsurance	Total
		C0130	C0140	C0150	C0160	C0200
<b>Premiums written</b>						
Gross - Direct Business	R0110					0
Gross - Proportional reinsurance accepted	R0120					4,164,398
Gross - Non-proportional reinsurance accepted	R0130					
Reinsurers' share	R0140					
Net	R0200					4,164,398
<b>Premiums earned</b>						
Gross - Direct Business	R0210					
Gross - Proportional reinsurance accepted	R0220					4,026,061
Gross - Non-proportional reinsurance accepted	R0230					
Reinsurers' share	R0240					
Net	R0300					4,026,061
<b>Claims incurred</b>						
Gross - Direct Business	R0310					
Gross - Proportional reinsurance accepted	R0320					2,544,732
Gross - Non-proportional reinsurance accepted	R0330					
Reinsurers' share	R0340					
Net	R0400					2,544,732
<b>Changes in other technical provisions</b>						
Gross - Direct Business	R0410					
Gross - Proportional reinsurance accepted	R0420					424
Gross - Non-proportional reinsurance accepted	R0430					
Reinsurers' share	R0440					
Net	R0500					424
<b>Expenses incurred</b>	R0550					1,411,925
<b>Other expenses</b>	R1200					15,778
<b>Total expenses</b>	R1300					1,427,704

## Annex I

## S.05.02.01

## Premiums, claims and expenses by Country

Amounts in 000s

		Home Country	Top 5 countries (by amount of gross premium written) - life obligations					Total Top 5 and home country
		C0150	C0160	C0170	C0180	C0190	C0200	C0210
	R1400		FR					
		C0220	C0230	C0240	C0250	C0260	C0270	C0280
<b>Premiums written</b>								
Gross	R1410	5,139,767	0					5,139,767
Reinsurers' share	R1420							
Net	R1500	5,139,767	0					5,139,767
<b>Premiums earned</b>								
Gross	R1510	5,139,767						5,139,767
Reinsurers' share	R1520							
Net	R1600	5,139,767						5,139,767
<b>Claims incurred</b>								
Gross	R1610	4,333,674	6,454					4,340,129
Reinsurers' share	R1620							
Net	R1700	4,333,674	6,454					4,340,129
<b>Changes in other technical provisions</b>								
Gross	R1710	-4,535,050						-4,535,050
Reinsurers' share	R1720							
Net	R1800	-4,535,050						-4,535,050
Expenses incurred	R1900	482,945						482,945
Other expenses	R2500							0
<b>Total expenses</b>	R2600							482,945

## Annex I

## S.05.02.01

## Premiums, claims and expenses by Country

Amounts in 000s

	Home Country	Top 5 countries (by amount of gross premium written) - non-life obligations					Total Top 5 and home country
		C0010	C0020	C0030	C0040	C0050	
			CA	FR			
		C0080	C0090	C0100	C0110	C0120	C0130
							C0080
<b>Premiums written</b>							
Gross - Direct Business	R0110		0	0			0
Gross - Proportional reinsurance accepted	R0120	2,620,629	813,663	730,106			4,164,398
Gross - Non-proportional reinsurance accepted	R0130						
Reinsurers' share	R0140						
Net	R0200	2,620,629	813,663	730,106			4,164,398
<b>Premiums earned</b>							
Gross - Direct Business	R0210						
Gross - Proportional reinsurance accepted	R0220	2,521,495	786,395	718,171			4,026,061
Gross - Non-proportional reinsurance accepted	R0230						
Reinsurers' share	R0240						
Net	R0300	2,521,495	786,395	718,171			4,026,061
<b>Claims incurred</b>							
Gross - Direct Business	R0310						
Gross - Proportional reinsurance accepted	R0320	1,466,839	414,826	663,067			2,544,732
Gross - Non-proportional reinsurance accepted	R0330						
Reinsurers' share	R0340						
Net	R0400	1,466,839	414,826	663,067			2,544,732
<b>Changes in other technical provisions</b>							
Gross - Direct Business	R0410						
Gross - Proportional reinsurance accepted	R0420	424					424
Gross - Non-proportional reinsurance accepted	R0430						
Reinsurers' share	R0440						
Net	R0500	424					424
<b>Expenses incurred</b>	R0550	940,597	308,023	163,305			1,411,925
<b>Other expenses</b>	R1200						15,778
<b>Total expenses</b>	R1300						1,427,704

		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 than health insurance	Accepted reinsurance	Total (Life other than health insurance, incl. Unit-Linked)	
		C0020	C0030	Contracts without options and guarantees C0040	Contracts with options or guarantees C0050	C0060	Contracts without options and guarantees C0070	Contracts with options or guarantees 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									63,278,461	63,278,461
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									63,278,461	63,278,461
Risk Margin	R0100									1,131,232	1,131,232
Amount of the transitional on Technical Provisions											
Technical Provisions calculated as a whole	R0110										
Best estimate	R0120									-84,998	-84,998
Risk margin	R0130									-1,131,232	-1,131,232
Technical provisions - Total	R0200									63,193,463	63,193,463

		Health [accepted non-proportional reinsurance]		Annuities stemming from non-life insurance contracts and relating to health insurance only	Health reinsurance	Total (Health similar to life insurance)	
		Contracts without options and guarantees	Contracts with options or guarantees				
		C0160	C0170	C0180	C0190	C0200	C0210
Technical provisions calculated as a whole	R0010						
	R0020						
Technical provisions calculated as a sum of BE and RM							
Best Estimate							
Gross Best Estimate	R0030					173,858	173,858
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					173,858	173,858
Risk Margin	R0100					13,143	13,143
Amount of the transitional on Technical Provisions							
Technical Provisions calculated as a whole	R0110						
Best estimate	R0120						
Risk margin	R0130					-13,143	-13,143
Technical provisions - Total	R0200					173,858	173,858

Technical provisions calculated as a whole

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

Technical provisions calculated as a sum of BE and RM

Best estimate

Premium provisions

Gross

Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default

Net Best Estimate of Premium Provisions

Claims provisions

Gross

Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default

Net Best Estimate of Claims Provisions

Total Best estimate - Gross

Total Best estimate - Net

Risk margin

Amount of the transitional on Technical Provisions

Technical Provisions calculated as a whole

Best estimate

Risk margin

Technical provisions - Total

Technical provisions - Total

Recoverable from reinsurance contract/SPV and Finite Re after the adjustment for expected losses due to counterparty default - Total

Technical provisions minus recoverables from reinsurance/SPV and Finite Re - Total

	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
R0010												
R0050												
R0060	97,105	6,469		304,356	190,165	10,073	452,588	117,954	16,463		1,367	25,221
R0140												
R0150	97,105	6,469		304,356	190,165	10,073	452,588	117,954	16,463		1,367	25,221
R0160	27,101	12,305		1,612,946	63,204	17,032	557,645	803,886	25,242		5,567	4,873
R0240												
R0250	27,101	12,305		1,612,946	63,204	17,032	557,645	803,886	25,242		5,567	4,873
R0260	124,206	18,774		1,917,303	253,369	27,105	1,010,233	921,840	41,705		6,934	30,094
R0270	124,206	18,774		1,917,303	253,369	27,105	1,010,233	921,840	41,705		6,934	30,094
R0280	3,326	325		78,448	4,143	385	25,717	52,527	1,317		100	187
R0290												
R0300												
R0310												
R0320	127,532	19,099		1,995,751	257,512	27,490	1,035,950	974,367	43,022		7,035	30,281
R0330												
R0340	127,532	19,099		1,995,751	257,512	27,490	1,035,950	974,367	43,022		7,035	30,281

Accepted non-proportional reinsurance	Total Non-Life obligation			
Health [accepted non-proportional reinsurance]	Casualty [accepted non-proportional reinsurance]	Marine, aviation, transport [accepted non-proportional reinsurance]	Property [accepted non-proportional reinsurance]	
C0140	C0150	C0160	C0170	C0180

Technical provisions calculated as a whole

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

Technical provisions calculated as a sum of BE and RM

Best estimate

Premium provisions

Gross

Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default

Net Best Estimate of Premium Provisions

Claims provisions

Gross

Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default

Net Best Estimate of Claims Provisions

Total Best estimate - Gross

Total Best estimate - Net

Risk margin

Amount of the transitional on Technical Provisions

Technical Provisions calculated as a whole

Best estimate

Risk margin

Technical provisions - Total

Technical provisions - Total

Recoverable from reinsurance contract/SPV and Finite Re after the adjustment for expected losses due to counterparty default - Total

Technical provisions minus recoverables from reinsurance/SPV and Finite Re - Total

R0060					1,221,762
R0140					
R0150					1,221,762
R0160	327	0	-11,393		3,118,734
R0240					
R0250	327	0	-11,393		3,118,734
R0260	327	0	-11,393		4,340,496
R0270	327	0	-11,393		4,340,496
R0280			-202		166,275
R0290					
R0300					
R0310					
R0320	327	0	-11,595		4,506,771
R0330					
R0340	327	0	-11,595		4,506,771

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

Total Non-Life Business

Accident year / Underwriting year

Z0020	AY
-------	----

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

		Development Year										In Current year	Sum of years (cumulative)
		0	1	2	3	4	5	6	7	8	9	10&+	
		C0010	C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0090	C0100	C0110	
Prior	R0100												R0100
R0160	R0160		4,590	3,197	9,144	836	49	3,074					R0160
R0170	R0170				210	30	663						R0170
R0180	R0180	128,183	58,536	134,689	10	41							R0180
R0190	R0190	68,899	79,816										R0190
R0200	R0200	1,675,537	755,758	403,367	278,509	194,822	138,739						R0200
R0210	R0210	983,246	376,841	120,182	88,481	70,376							R0210
R0220	R0220	1,049,530	427,148	117,050	91,120								R0220
R0230	R0230	1,538,967	638,027	269,188									R0230
R0240	R0240	1,092,806	513,054										R0240
R0250	R0250	1,085,757											R0250
													Total

Gross undiscounted Best Estimate Claims Provisions  
(absolute amount)

		Development Year										Year end (discounted data)	
		0	1	2	3	4	5	6	7	8	9	10&+	
		C0200	C0210	C0220	C0230	C0240	C0250	C0260	C0270	C0280	C0290	C0300	
Prior	R0100												R0100
R0160	R0160					3,185	2,669						R0160
R0170	R0170				674	918	5	5					R0170
R0180	R0180			105	53								R0180
R0190	R0190			1									R0190
R0200	R0200	2,584,192	1,640,297	1,061,965	848,352	647,752	288,870						R0200
R0210	R0210	909,642	408,346	343,641	266,956	120,735							R0210
R0220	R0220	900,176	490,236	395,663	243,714								R0220
R0230	R0230	1,856,680	1,153,454	805,094									R0230
R0240	R0240	1,310,265	643,570										R0240
R0250	R0250	1,117,019											R0250
													Total



Annex I

S.22.01.21

Impact of long term guarantees and transitional measures

Amounts in 000s

		Amount with LG measures and transitionals	Impact of transitional on technical provisions	Impact of transitional on interest rate	Impact of volatility adjustment set to zero	Impact of matching adjustment set to zero
		C0010	C0030	C0050	C0070	C0090
Technical Provisions	R0010	67,874,092	1,229,373		40,312	1,910,054
Basic Own Funds	R0020	3,721,934	-922,030		-36,050	-1,783,152
Eligible own funds to meet Solvency Capital Requirement	R0050	3,721,934	-922,030		-36,050	-1,783,152
Solvency Capital Requirement	R0090	1,938,676	275,218		18,332	1,838,844
Eligible own funds to meet Minimum Capital Requirement	R0100	3,721,934	-922,030		-36,050	-1,783,152
Minimum Capital Requirement	R0110	872,404	123,848		8,250	629,342

**Annex I**
**S.23.01.01**
**Own Funds**

Amounts in 000s

**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
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
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
--	-------

**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
Total available own funds to meet the MCR	R0510
Total eligible own funds to meet the SCR	R0540
Total eligible own funds to meet the MCR	R0550

**SCR**

	R0580
--	-------

**MCR**

	R0600
--	-------

**Ratio of eligible own funds to SCR**

	R0620
--	-------

**Ratio of eligible own funds to MCR**

	R0640
--	-------

Total	Tier 1 Unrestricted	Tier 1 Restricted	Tier 2	Tier 3
C0010	C0020	C0030	C0040	C0050

780,000	780,000			
2,941,934	2,941,934			

--	--	--	--	--

3,721,934	3,721,934			


3,721,934	3,721,934			
3,721,934	3,721,934			
3,721,934	3,721,934			
3,721,934	3,721,934			
1,938,676				
872,404				
1.9198				
4.2663				

**C0060**
**Reconciliation Reserve**

Excess of assets over liabilities	R0700
Own shares (held directly and indirectly)	R0710
Foreseeable dividends, distributions and charges	R0720
Other basic own fund items	R0730
Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced funds	R0740
<b>Reconciliation reserve</b>	R0760

**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
--	-------

3,721,934
780,000
2,941,934
630,466
39,094
669,560

## Annex I

S.25.02.21

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

Amounts in 000s

Unique number of component	Component Description		Calculation of the Solvency Capital Requirement	Amount modelled	USP	Simplifications	LAC DT
C0010	C0020		C0030	C0070	C0090	C0120	C0130
100000	Market Risk		1,566,355	1,566,355		None	
200000	Counterparty Risk		94,927	94,060			
300000	Life underwriting risk		1,534,375	1,534,375	None	None	
400000	Health underwriting risk		48,771		None	None	
500000	Non-life underwriting risk		508,415	508,415	None	None	
701000	Operational risk		583,856	576,502			
801000	Other risks						
802000	Loss-absorbing capacity of technical provisions						
803000	Loss-absorbing capacity of deferred tax		-621,872	-620,250			
804000	Other adjustments		-81,983	-81,983			
<b>Calculation of Solvency Capital Requirement</b>			C0100				
<b>Total undiversified components</b>		R0110	<b>3,632,844</b>				
Diversification		R0060	-1,694,168				
Capital requirement for business operated in accordance with Art. 4 of Directive 2003/41/EC		R0160					
<b>Solvency Capital Requirement excluding capital add-on</b>		R0200	<b>1,938,676</b>				
Capital add-ons already set		R0210					
<b>Solvency capital requirement</b>		R0220	<b>1,938,676</b>				
<b>Other information on SCR</b>							
Amount/Estimate of the overall loss-absorbing capacity of technical provisions		R0300					
Amount/Estimate of the overall loss-absorbing capacity of deferred taxes		R0310	-621,872				
Capital requirement for duration-based equity risk sub-module		R0400					
Total amount of Notional Solvency Capital Requirements for remaining part		R0410	857,327				
Total amount of Notional Solvency Capital Requirements for ring fenced funds		R0420					
Total amount of Notional Solvency Capital Requirements for matching adjustment portfolios		R0430	1,749,925				
Diversification effects due to RFF nSCR aggregation for article 304		R0440					
<b>Approach based on average tax rate</b>							
			C0109				
SCRB2B-305	Approach based on average tax rate	R0590	2				
<b>Calculation of loss absorbing capacity of deferred taxes</b>							
SCRB2B-4T2	<b>LAC DT</b>	R0640					<b>-621,872</b>
SCRB2B-420	LAC DT justified by reversion of deferred tax liabilities	R0650					-479,851
SCRB2B-425	LAC DT justified by reference to probable future taxable profit	R0660					-142,021
SCRB2B-430	LAC DT justified by carry back, current year	R0670					
SCRB2B-435	LAC DT justified by carry back, future years	R0680					
SCRB2B-440	Maximum LAC DT	R0690					-640,137

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

Amounts in 000s

**Linear formula component for non-life insurance and reinsurance obligations**

MCRNL Result	R0010	C0010	
		751,367	

**Linear formula component for life insurance and reinsurance obligations**

		C0040	
MCRL Result	R0200	841,060	
		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		186,410,215
Obligations with profit participation - Future discretionary benefits	R0220	39,787	
Index-linked and unit-linked insurance obligations	R0230	44,088,346	
Other life (re)insurance and health (re)insurance obligations	R0240	19,239,188	
Total capital at risk for all life (re)insurance obligations	R0250		

**Overall MCR calculation**

		C0070	
Linear MCR	R0300	1,592,426	
SCR	R0310	1,938,676	
MCR cap	R0320	872,404	
MCR floor	R0330	484,669	
Combined MCR	R0340	872,404	
Absolute floor of the MCR	R0350	1,083	
		C0070	
<b>Minimum Capital Requirement</b>	R0400	872,404	

### F.3 Glossary of abbreviations and definitions

The following abbreviations and terms have been used in this report:

Abbreviation	Definition
99.5th percentile	An event that would be expected to occur once in every 200 years
AGH	Aviva Group Holdings Limited
AIL	Aviva Insurance Limited
ALCo	Asset Liability Committee
ORC	Operational Risk Committee
ALM	Asset Liability Management
Alternative valuation methods	Valuation methods that are consistent with Article 75 of the Solvency II Directive other than those which solely use the quoted market prices for the same or similar assets or liabilities
ASHE	Annual Survey of Hours and Earnings Index
BEL	Best estimate liability
CAO	Chief Audit Officer
CEO	Chief Executive Officer
CFO	Chief Financial Officer
CGI	Canada general insurance comprising the following companies: Aviva Insurance Company of Canada, Aviva General Insurance Company, Traders General Insurance Company, Scottish & York Insurance Co Limited, Elite Insurance Company, S&Y Insurance Company and Pilot Insurance
CMI	Continuous Mortality Investigation
CoC	Cost of Capital approach allowing for diversification between lines of business and on a net-of-reinsurance basis
The Company	Aviva International Insurance Limited
CPI	Consumer Price Index
CA	Chief Actuary
CRO	Chief Risk Officer
Diversification benefit	The reduction in the risk exposure of insurance and reinsurance undertakings and groups related to the diversification of their business, resulting from the fact that the adverse outcome from one risk can be offset by a more favourable outcome from another risk, where those risks are not fully correlated
EEA	European Economic Area
EIOPA	European Insurance and Occupational Pensions Authority
ENIDs	Events Not in Data 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.
Expected profit included in future premium (EPIFP)	The expected present value of future cash flows which result from the inclusion in technical provisions of premiums relating to existing insurance and reinsurance contracts that are expected to be received in the future, but that may not be received for any reason, other than because the insured event has occurred, regardless of the legal or contractual rights of the policyholder to discontinue the policy
FCA	Financial Conduct Authority
FGI	France general insurance: Aviva Assurances S.A., Abeille Assurances S.A.
FLL	Friends Life Limited
FTSE	Financial Times Stock Exchange
The Group	Aviva plc and its subsidiary companies
IAS	International Accounting Standards
ICA	Internal Capital Assessment
ICG	Individual Capital Guidance
IFRS	International accounting standards in conformity with the requirements of the Companies Act 2006
IM	Internal Model
IMMR	The processes used to identify, measure, manage, monitor and report risks
IPV	Independent price verification
INED	Independent Non-Executive Director
LACDT	Loss-Absorbing Capacity of Deferred Taxes. This is an adjustment which can be applied to the SCR reflecting the potential compensation of unexpected losses through a simultaneous change in deferred taxes
Latent claims	General insurance claims that are often not made until many years after the period of cover provided, due to the impact of perils or causes not becoming evident for a number of years. Sources of latent claims include asbestos-related diseases, environmental pollution and industrial deafness.
LTIP	Long Term Incentive Plan
MA	Matching adjustment
MAP	Matching adjustment portfolio
MCR	Minimum Capital Requirement
MSA	Management Services Agreement
NED	Non-Executive Director
nhSCR	Non-hedgeable SCR, which takes into account non-hedgeable risks only
NNEG	No negative equity guarantee
NPF	Non-profit fund

Summary	Business and Performance	System of Governance	Risk Profile	Valuation for Solvency Purposes	Capital Management	Other Information
NPSF		Non-profit sub-fund				
ORIC		Operational Risk Insurance Consortium				
ORSA		Own Risk and Solvency Assessment				
OTC derivatives		Over-the-counter derivatives are contracts that are traded (and privately negotiated) directly between two parties, without going through an exchange or other intermediary. Products such as swaps and forward rate agreements are almost always traded in this way.				
Outsourcing		An arrangement of any form between an insurance or reinsurance undertaking and a service provider, whether a supervised entity or not, by which that service provider performs a process, a service or an activity, whether directly or by sub-outsourcing, which would otherwise be performed by the insurance or reinsurance undertaking itself				
PFI		Private Finance Initiative				
PIM		Partial Internal Model				
PPO		Periodic Payment Orders (annuities stemming from non-life insurance contracts)				
PRA		Prudential Regulatory Authority				
Qualifying holding		A direct or indirect holding in an undertaking which represents 10% or more of the capital or of the voting rights or which makes it possible to exercise a significant influence over the management of that undertaking				
QRT		Quantitative Reporting Templates				
RCSA		Risk and control self assessment				
RICS		The Royal Institution of Chartered Surveyors				
Risk Margin		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.				
Risk mitigation techniques		All techniques which enable insurance and reinsurance undertakings to transfer part or all of their risks to another party				
RMF		Risk Management Framework				
RPI		Retail Price Index				
Scenario analysis		The analysis of the impact of a combination of adverse events				
SCR		Solvency Capital Requirement				
SM&CR		Senior Managers and Certification Regime				
SF		Standard Formula				
SFCR		Solvency and Financial Condition Report				
Solvency II Directive		Directive 2009/138/EC of the European Parliament and of the Council on the taking-up and pursuit of the business of Insurance and Reinsurance				
Solvency II Regulations		Commission delegated regulation (EU) 2015/35 of 10 October 2014 supplementing Directive 2009/138/EC of the European Parliament and of the Council on the taking-up and pursuit of the business of Insurance and Reinsurance (Solvency II)				
Special Purpose Vehicle (SPV)		Any undertaking, whether incorporated or not, other than an existing insurance or reinsurance undertaking, which assumes risks from insurance or reinsurance undertakings and which fully funds its exposure to such risks through the proceeds of a debt issuance or any other financing mechanism where the repayment rights of the providers of such debt or financing mechanism are subordinated to the reinsurance obligations of such an undertaking				
TMTF		Transitional measure on technical provisions				
UKA		ex-Aviva Annuity Limited				
UK&I GI		UK and Ireland General Insurance				
UK L&P		Aviva Life and Pensions UK Limited				
UKLS		Aviva UK Life Services Limited				
USP		Undertaking Specific Parameters				
VA		Volatility adjustment				

## F.4 Approvals, determinations and modifications

The following approvals, determinations and modifications apply for the Company at 31 December 2021:

### Approvals

Approval	Further information	PRA / regulator reference
Matching adjustment in the calculation of technical provisions	7 November 2015	2200600
	11 November 2016	3087745
	24 November 2021	00003457
Volatility adjustment in the calculation of technical provisions	30 November 2015	2200426
	29 June 2020	00001364
Transitional measures on technical provisions	22 December 2015: Approval of use of TMTP	2198917
	20 July 2016: Approval of reset at 30 June 2016	2799369
	10 August 2016: Approval of reset at 30 June 2016	2825130
	28 December 2017: Approval of reset at 31 December 2017	4850458
	19 December 2019: Approval of reset at 31 December 2019	5400813
	30 June 2020: Approval of reset at 26 June 2020	00001367
	10 December 2021: Approval of reset at 31 December 2021	00003601
Partial internal model in the calculation of the SCR	5 December 2015: Approval of the partial internal model	2243963
	1 March 2016: Approval of the partial internal model integration technique	2429728
	23 March 2017: Approval of changes to the partial internal model*	3605395
	21 December 2017: Approval of changes to the partial internal model	4800495
	10 December 2018: Approval of changes to the partial internal model	4973445
	25 October 2019: Approval of changes to the partial internal model	5276048
	9 December 2020: Approval of extensions and changes to the partial internal model	00002050
	1 December 2021: Approval of changes to the partial internal model	00003516

(\*) The major model change written approval notice received from the PRA takes effect from 16 February 2017. Formal confirmation from the PRA dated 27 July 2016 and 23 March 2017 confirmed that this can be backdated to 31 December 2016.

In the Company, there are no ancillary own funds, 'non-standard' items in own funds, use of transitional measure on the risk-free interest rate, application of the duration-based equity risk sub-module for standard formula operations or application of undertaking specific parameters for standard formula operations.

### Determinations and modifications

There are no determinations or modifications.



## F.5 Directors' certificate

We acknowledge our responsibility for preparing the Solvency and Financial Condition Report (SFCR) of Aviva International Insurance Limited at 31 December 2021 in all material respects in accordance with the PRA Rules, the Solvency II Regulations, and the approvals, determinations and modifications listed in Section F.4.

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

- 1) throughout the financial year to 31 December 2021, the Company has complied in all material respects with the requirements of the PRA Rules and the Solvency II Regulations as applicable to the Company and with the approvals, determinations and modifications listed in Section F.4; and
- 2) it is reasonable to believe that in respect of the period from 31 December 2021 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 2022.

Richard English  
Chief Financial Officer, Aviva International Insurance Limited

4 April 2022

## F.6 Audit Report

### Report of the external independent auditors to the Directors of Aviva International Insurance Limited ('the Company') pursuant to Rule 4.1 (2) of the External Audit Part of the PRA Rulebook applicable to Solvency II firms

#### Report on the Audit of the relevant elements of the Solvency and Financial Condition Report

##### Opinion

Except as stated below, we have audited the following documents prepared by the Company as at 31 December 2021:

- The 'Valuation for solvency purposes' and 'Capital management' sections of the Solvency and Financial Condition Report of the Company as at 31 December 2021, (**'the Narrative Disclosures subject to audit'**); and
- Company templates S.02.01.02, S.12.01.02, S.17.01.02, S.22.01.21, S.23.01.01 and S.28.01.01 (**'the Templates subject to audit'**).

The Narrative Disclosures subject to audit and the Templates subject to audit are collectively referred to as the **'relevant elements of the Solvency and Financial Condition Report'**.

We are not required to audit, nor have we audited, and as a consequence do not express an opinion on the Other Information which comprises:

- Information contained within the relevant elements of the Solvency and Financial Condition Report set out above which is, or derives from the Solvency Capital Requirement, as identified in the Appendix to this report;
- The 'Summary', 'Business and performance', 'System of governance' and 'Risk profile' elements of the Solvency and Financial Condition Report;
- Company templates S.05.01.02, S.19.01.21 and S.25.02.21;
- Information calculated in accordance with the previous regime used in the calculation of the transitional measure on technical provisions, and as a consequence all information relating to the transitional measure on technical provisions as set out in the Appendix to this report;
- The written acknowledgement by management of their responsibilities, including for the preparation of the Solvency and Financial Condition Report ('the Responsibility Statement').

To the extent the information subject to audit in the relevant elements of the Solvency and Financial Condition Report includes amounts that are totals, sub-totals or calculations derived from the Other Information, we have relied without verification on the Other Information.

In our opinion, the information subject to audit in the relevant elements of the Solvency and Financial Condition Report of the Company as at 31 December 2021 is prepared, in all material respects, in accordance with the financial reporting provisions of the PRA Rules and Solvency II regulations on which they are based, as modified by relevant supervisory modifications, and as supplemented by supervisory approvals and determinations.

##### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) including ISA (UK) 800 and ISA (UK) 805, and applicable law. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the relevant elements of the Solvency and Financial Condition Report section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the Solvency and Financial Condition Report in the UK, including the FRC's Ethical Standard as applied to public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

##### Conclusions relating to going concern

Our evaluation of the directors' assessment of the Company's ability to continue to adopt the going concern basis of accounting included:

- Obtaining the Directors' Going Concern assessment and challenging the rationale for the downside scenarios adopted and material assumptions made using our knowledge of the Company's business performance, review of regulatory correspondence and obtaining further corroborating evidence;
- Considering management's assessment of the regulatory Solvency coverage and liquidity position in the forward looking scenarios considered which have been driven from the Company's ORSA;
- Considering information obtained during the course of the audit and publicly available market information to identify any evidence that would contradict management's assessment of going concern (including the impacts of COVID-19); and
- Enquiring and understanding the actions taken by management to mitigate the impacts of COVID-19 and the geopolitical uncertainty in Ukraine, including review of Board, Risk and Audit Committee minutes and attendance at Audit Committee meetings.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Company's ability to continue as a going concern for a period of at least twelve months from the date on which the Solvency and Financial Condition Report is authorised for issue.

In auditing the Solvency and Financial Condition Report, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the Solvency and Financial Condition Report is appropriate.

However, because not all future events or conditions can be predicted, this conclusion is not a guarantee as to the Company's ability to continue as a going concern.

Our responsibilities and the responsibilities of the Directors with respect to going concern are described in the relevant sections of this report.

### Emphasis of Matter - Basis of Accounting

We draw attention to the 'Valuation for solvency purposes', 'Capital management' and 'Approvals, determinations and modifications' of the Solvency and Financial Condition Report, which describe the basis of accounting. The Solvency and Financial Condition Report is prepared in compliance with the financial reporting provisions of the PRA Rules and Solvency II regulations, and therefore in accordance with a special purpose financial reporting framework. The Solvency and Financial Condition Report is required to be published, and intended users include but are not limited to the Prudential Regulation Authority. As a result, the Solvency and Financial Condition Report may not be suitable for another purpose. Our opinion is not modified in respect of this matter.

### Other Information

The Directors are responsible for the Other Information.

Our opinion on the relevant elements of the Solvency and Financial Condition Report does not cover the Other Information and we do not express an audit opinion or any form of assurance conclusion thereon.

In connection with our audit of the Solvency and Financial Condition Report, our responsibility is to read the Other Information and, in doing so, consider whether the Other Information is materially inconsistent with the relevant elements of the Solvency and Financial Condition Report, or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the relevant elements of the Solvency and Financial Condition Report or a material misstatement of the Other Information. If, based on the work we have performed, we conclude that there is a material misstatement of this Other Information, we are required to report that fact. We have nothing to report in this regard.

### Responsibilities of Directors for the Solvency and Financial Condition Report

The Directors are responsible for the preparation of the Solvency and Financial Condition Report in accordance with the financial reporting provisions of the PRA rules and Solvency II regulations, which have been modified by the modifications, and supplemented by the approvals and determinations made by the PRA under section 138A of FSMA, the PRA Rules and Solvency II regulations on which they are based, as detailed in Section F.4 'Approvals, Determinations and Modifications' of the Solvency and Financial Condition Report below:

- Matching adjustment in the calculation of technical provisions
- Volatility adjustment in the calculation of technical provisions
- Transitional measures on technical provisions
- Partial internal model in the calculation of the SCR

The Directors are also responsible for such internal control as they determine is necessary to enable the preparation of a Solvency and Financial Condition Report that is free from material misstatement, whether due to fraud or error.

### Auditors' Responsibilities for the Audit of the relevant elements of the Solvency and Financial Condition Report

It is our responsibility to form an independent opinion as to whether the information subject to audit in the relevant elements of the Solvency and Financial Condition Report is prepared, in all material respects, in accordance with financial reporting provisions of the PRA Rules and Solvency II regulations on which they are based.

Our objectives are to obtain reasonable assurance about whether the relevant elements of the Solvency and Financial Condition Report are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but it is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the decision making or the judgement of the users taken on the basis of the Solvency and Financial Condition Report.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below.

Based on our understanding of the Company/industry, we identified that the principal risks of non-compliance with laws and regulations related to breaches of the UK regulatory principles, such as those governed by the Prudential Regulation Authority ("PRA") and the Financial Conduct Authority ("FCA"), and we considered the extent to which non-compliance might have a material effect on the Solvency and Financial Condition Report. We also considered those laws and regulations that have a direct impact on the Solvency and Financial Condition Report. We evaluated management's incentives and opportunities for fraudulent manipulation of the Solvency and Financial Condition Report (including the risk of override of controls), and determined that the principal risks were related to management bias in accounting estimates and judgemental areas of the Solvency and Financial Condition Report. Audit procedures performed included:

- Discussions with the Board, management, Internal Audit, senior management involved in the Risk and Compliance functions and the Company's legal function, including consideration of known or suspected instance of non-compliance with laws and regulation and fraud;
- Assessment of matters reported on the Company's whistleblowing helpline and fraud register and the results of management's investigation of such matters;
- Reading key correspondence with the PRA and FCA in relation to compliance with laws and regulations;
- Reviewing relevant meeting minutes, including those of the Board, Risk Committee and Audit Committee;
- Attendance at Audit Committees;
- Identifying and testing journal entries, in particular any journal entries posted with unusual account combinations or posted by senior management; and
- Designing audit procedures to incorporate unpredictability around the nature, timing or extent of our testing of areas identified as having an increased risk.

There are inherent limitations in the audit procedures described above. We are less likely to become aware of instances of non-compliance with laws and regulations that are not closely related to events and transactions reflected in the Solvency and Financial Condition Report. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

A further description of our responsibilities for the audit is located on the Financial Reporting Council's website at: [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditors' report.

#### Use of this report

This report, including the opinion, has been prepared for the Board of Directors of the Company in accordance with External Audit rule 2.1 of the Solvency II firms Sector of the PRA Rulebook, and for no other purpose. We do not, in providing this report, accept or assume responsibility for any other purpose or to any other party save where expressly agreed by our prior consent in writing.

#### Other Matter

The Company has authority to calculate its Solvency Capital Requirement using a partial internal model ("the Model") approved by the Prudential Regulation Authority in accordance with the Solvency II Regulations. In forming our opinion (and in accordance with PRA Rules), we are not required to audit the inputs to, design of, operating effectiveness of and outputs from the Model, or whether the Model is being applied in accordance with the Company's application or approval order.

#### Report on Other Legal and Regulatory Requirements

In accordance with Rule 4.1 (3) of the External Audit Part of the PRA Rulebook for Solvency II firms we are also required to consider whether the Other Information is materially inconsistent with our knowledge obtained in the audit of the Company's statutory financial statements. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

The engagement partner on the audit resulting in this independent auditors' report is Philip Watson.

*PricewaterhouseCoopers LLP*  
*Chartered Accountants*  
London

4 April 2022

## Appendix – relevant elements of the Solvency and Financial Condition Report that are not subject to audit

The relevant elements of the Solvency and Financial Condition Report that are not subject to audit comprise:

- The following elements of template S.02.01.02:
  - Row R0550: Technical provisions – non-life (excluding health) – risk margin
  - Row R0590: Technical provisions – health (similar to non-life) – risk margin
  - Row R0640: Technical provisions – health (similar to life) – risk margin
  - Row R0680: Technical provisions – life (excluding health and index-linked and unit-linked) – risk margin
  - Row R0720: Technical provisions – Index-linked and unit-linked – risk margin
- The following elements of template S.12.01.02
  - Row R0100: Technical provisions calculated as a sum of BE and RM – Risk margin
  - Rows R0110 to R0130 – Amount of transitional measure on technical provisions
- The following elements of template S.17.01.02
  - Row R0280: Technical provisions calculated as a sum of BE and RM – Risk margin
  - Rows R0290 to R0310 – Amount of transitional measure on technical provisions
- The following elements of template S.22.01.21
  - Column C0030 – Impact of transitional on technical provisions
  - Row R0010 – Technical provisions
  - Row R0090 – Solvency Capital Requirement
- The following elements of template S.23.01.01
  - Row R0580: SCR
  - Row R0740: Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced funds
- The following elements of Company template S.28.01.01
  - Row R0310: SCR
- Elements of the Narrative Disclosures subject to audit identified as ‘unaudited’.