Aviva Insurance Limited

Solvency and Financial Condition Report

Year ended 31 December 2022

Contents

Aviva Insurance Limited

Solvency and Financial Condition Report

2022

Summary

The purpose of the Solvency and Financial Condition Report (SFCR) is to provide information required by the Solvency II (SII) regulatory framework and in particular the capital position of Aviva Insurance Limited (the Company) at 31 December 2022. The report sets out different aspects of the Company's business and performance, system of governance, risk profile, valuation methods used for solvency purposes and its capital management practices.

Business and Performance

The Company is a limited company registered in Scotland and a member of the Aviva plc group of companies. The Company transacts general and health insurance business in the United Kingdom (UK). This includes underwriting foreign risks arising from the inwards reinsurance arrangement with the Company's direct subsidiary, Aviva Insurance Ireland Designated Activity Company (AIIDAC) and its global corporate specialty business. The major classes of business underwritten are personal lines (motor, home and other), health and commercial lines (property, liability, motor and other).

Gross written premiums have increased during the year by 6% to £6,130m (*2021: £5,762m*) with growth across UK and Ireland general insurance and UK Health.

The Company made an IFRS profit before tax of £128m in the year ended 31 December 2022 (*2021: £300m*). This comprised underwriting profit of £114m *(2021: £134m)*, other income of £25m *(2021: costs of £23m)* less net investment losses of £11m *(2021: income of £189m)* . The reduction in the underwriting profit includes lower Motor frequency benefits and the market-wide heightened claims inflation, partially offset by strong Commercial underwriting performance.

The Company's underwriting profit, net investment return and other costs measure the Company's own performance. The performance of the Company's subsidiaries, including its principal subsidiaries Aviva Canada Inc. (ACI) and AIIDAC are not reflected in these measurements, except that dividends received from subsidiaries are included in the Company's net investment income.

The Company has a 50% quota share reinsurance arrangement with fellow subsidiary Aviva International Insurance Limited (AIIL) and ceded net underwriting profit of £114m *(2021: £135m)* to AIIL during the year.

The other income received during the year ended 31 December 2022 include gains from changes in economic assumptions for claims provisions of £69m (2021: losses of *£41m*) less foreign exchange losses of £42m *(2021: gains of £51m)* and impairment losses on the valuation of subsidiaries, following the receipt of dividends by the Company, of £6m *(2021: £14m)*.

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

System of Governance

The Board's role is to be collectively responsible for promoting the long-term success of the Company and for setting the Company's 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 Company is adequately resourced. A strong system of governance throughout the Company aids effective decision-making and supports the achievement of the Company's objectives for the benefit of customers and shareholders whilst maintaining compliance with regulations.

All employees of the Company are involved in the management and mitigation of risk, with the Risk Management Framework (RMF) embedded in the day-to-day management and decision-making processes. The 'three lines of defence model' is adopted by the Company and across Aviva Plc (as required by the RMF policy). Line management in the business is accountable for risk management, including the implementation of the RMF and embedding of the risk culture.

The RMF is embedded throughout the Company and forms an integral part of the management and Board processes and decision-making framework across the Company. The RMF comprises the systems of governance, risk management processes and Risk Appetites Framework (RAF) and is owned by the Company's Board. It establishes the principles and fundamental statements by which the Company Identifies, Measures, Manages, Monitors and Reports risk (IMMMR).

The Company's Board and Board Committee responsibilities and arrangements, and the fundamental approach to the system of governance, have not materially changed. At various times during 2022, crisis management procedures have been invoked to effectively manage the Company's response to heightened economic uncertainty. As part of this, in November 2022, an internal targeted review of all key elements of the Company's RMF was undertaken and this evidenced that the Company's RMF continues to operate effectively.

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

Risk Profile

The types of risk to which the Company is exposed are credit, market, underwriting, liquidity and operational risks. The Company's risk profile looks through to the underlying risk exposures of its subsidiaries, including ACI and AIIDAC.

Risk identification is carried out on a regular basis, is embedded in the business planning process and any major business initiatives and draws on a combination of internal and external data, covering both normal conditions and stressed environments.

The SII Capital Requirement (SCR) and SII Cover Ratio are the bases on which the Company sets SII capital risk appetites and limits and are used to assess the significance of risks and to appropriately direct resources to their management.

Some categories of risk are not measured and managed solely by holding capital, principally liquidity risk, which is measured through both absolute level targets and bespoke liquidity coverage ratios.

The Company's risk exposure as measured by the SCR has remained relatively stable during the year albeit reflecting changes in economic conditions (e.g. an increase in interest rates) and insurance market conditions (e.g. increased reinsurance retentions). Further detail is provided in section C of this report, which further describes the risks to which the Company is exposed and how it measures, monitors, manages and mitigates these risks, including any changes in the year to the Company's risk exposures and specific risk mitigation actions taken.

Valuation for Solvency Purposes

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

At 31 December 2022, the Company's excess of assets over liabilities was £1,391m on a SII basis which is £412m lower than the value under IFRS. The difference is driven by the different bases used to value the Company's participations in its subsidiaries, including ACI and AIIDAC, and the elimination of intangibles. Under SII, participations are valued at the Company's proportionate equity share of the excess of assets over liabilities of each subsidiary, valued on a look through basis to the SII value of the assets and liabilities of the entity. Intangibles are valued at nil under SII.

The majority of the Company's assets measured at fair value are based on quoted market information or observable active market data. Where the quoted market information or observable market data is not available, an alternative method for valuation is used.

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

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

Capital Management

The Company's primary capital management objective is to maintain an efficient capital structure in a manner consistent with the Company's risk profile whilst maintaining its regulatory capital surplus in accordance with approved risk appetites.

There have been no material changes to the Company's objectives, policies or processes for managing its capital during the year.

The Company manages its Own Funds in conjunction with its SCR and seeks, on a consistent basis, to:
- Match the profile of its assets and liabilities, taking into account the risks inherent in the business;
- Maintain sufficient, but not excessive, financial strength to support new business growth, and satisfy the requirements of the Company's policyholders and its regulator;
- Retain financial flexibility by maintaining strong liquidity; and
- Allocate capital efficiently, applying it to support value-adding growth and repatriating excess capital to its shareholder through dividends.

In the calculation of the SCR, the Company has chosen to implement a partial internal model (PIM), defined as using a combination of internal model (IM) and standard formula (SF) approaches to calculate solvency capital requirements for different components of its business.

At 31 December 2022, the total eligible Own Funds to meet the SCR was £1,685m (*2021: £2,226m)*. This was represented by £1,241m unrestricted tier 1 capital, £294m tier 2 capital and £150m tier 3 capital, *(2021: £1,825m, £281m and £120m respectively*).

Total eligible Own Funds to meet the Minimum Capital Requirement (MCR) were £1,321m (*2021: £1,903m)*. This was represented by £1,241m unrestricted tier 1 capital and £80m tier 2 capital, (*2021: £1,825m and £78m respectively)*.

The Company's SCR, at 31 December 2022, was £1,008m (*2021: £1,065m)*. Its MCR was £405m (*2021: £390m)*.

The surplus of eligible Own Funds to SCR was £677m (*2021: £1,161m)* which translates to a SII Cover Ratio of 167% (*2021: 209%)*. The decrease was mainly driven by capital generated from the Company's operations and its subsidiary ACI being more than offset by dividends paid. In July 2022 the directors declared interim dividends of £329m that were paid in September 2022. In November and December 2022 the directors declared further interim dividends of £222m and £298m respectively. Both dividends were paid in the same month.

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

Aviva Insurance Limited

Solvency and Financial Condition Report

2022

A. Business and Performance

In this Chapter

A. Business and Performance

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

A.1 Business

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

Qualifying holdings

The Company's shares and the associated voting rights are wholly owned by Aviva Group Holdings Limited (AGH), being a qualifying holding in the Company.

Supervisor

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

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

External auditor

The Company's external auditor is PricewaterhouseCoopers LLP. Contact details are as follows:

Address	7 More London Riverside, London, SE1 2RT
Telephone number	+44 (0) 20 7583 5000

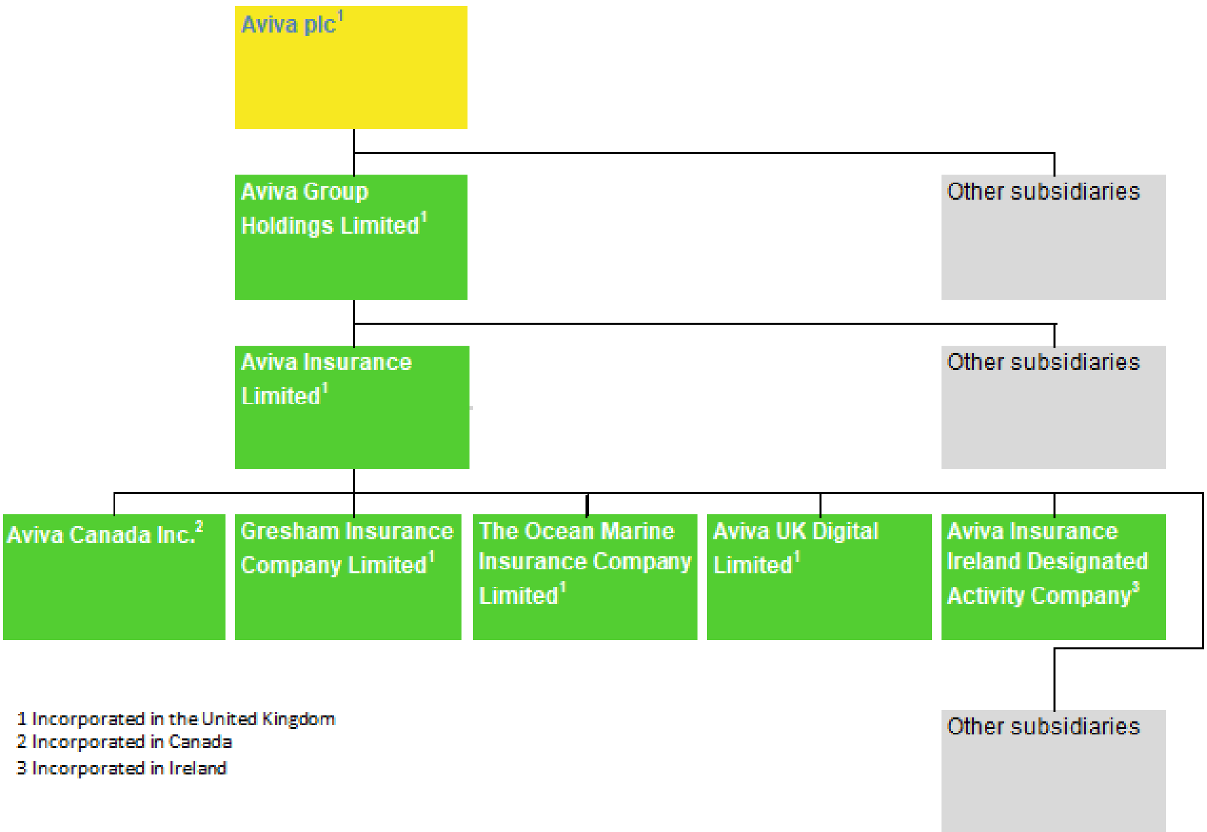
Financial statements

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

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

A.1.1 Organisation

The following chart shows, in simplified form, the Company's position within the structure of the Group at 31 December 2022:



AGH is the immediate parent entity of the Company and Aviva plc is the ultimate controlling parent entity, both are registered in England and Wales. The chart above also presents the Company's material subsidiaries at 31 December 2022. The Company's material subsidiaries are wholly owned by the Company. A complete list of the Company's subsidiaries and associates is provided in note 36 to the financial statements.

A.1.2 Business operations and events occurring in the year

Business operations

The Company transacts general and health insurance business in the UK. This includes underwriting foreign risks arising from the inwards reinsurance arrangement with the Company's direct subsidiary, AIIDAC and its global corporate specialty business. The major classes of business underwritten are personal lines (motor, home and other), health and commercial lines (property, liability, motor and other). Whilst the Company only conducts non-life insurance activities, the Company has material obligations, similar in nature to life insurance, in the UK in relation to annuities stemming from non-life insurance contracts also known as Periodic Payment Orders (PPO).

Significant business and other events

During 2022 global financial markets experienced significant volatility and inflationary headwinds, but despite this, trading momentum has remained strong and the Company's service has remained market-leading, supported by its ongoing investment in digital journeys and an effective continued hybrid-working model.

A.2 Underwriting Performance

A.2.1 Measurement of underwriting performance

The Company uses underwriting result to measure its underwriting performance. Underwriting result is a non-GAAP financial performance measure, calculated on an IFRS basis. It excludes certain items to enhance comparability and understanding of underwriting performance by highlighting net underwriting income attributable to on-going underwriting operations. Examples of items excluded from underwriting result are investment return and costs associated with closed defined benefit pension schemes. The Company's investment performance and its performance of other activities, are detailed in sections A.3 and A.4 respectively.

A.2.2 Underwriting profit

The table below presents the underwriting profit for the Company for the year ended 31 December 2022, as well as the reconciliation of underwriting profit to the profit before tax. The profit before tax is as shown in the Company's financial statements.

Year ended 31 December	£m 2022	£m 2022	£m 2021	£m 2021
Gross written premiums		6,130		5,762
Premiums ceded to reinsurers		(3,335)		(3,142)
Premiums written net of reinsurance		2,795		2,620
Net change in provision for unearned premiums		(88)		(99)
Net earned premiums		2,707		2,521
Fee and commission income, net of reinsurance		24		23
Net investment return		(11)		189
(Loss)/profit on the disposal of subsidiary		(1)		3
Income		**2,719**		**2,736**
Claims paid net of recoveries from reinsurers		(1,629)		(1,409)
Change in insurance liabilities, net of reinsurance		(40)		(166)
Fee and commission expense, net of reinsurance		(679)		(673)
Other expenses, net of reinsurance		(243)		(188)
Profit for the year before tax		**128**		**300**
Less: Net investment income (above, see A.3)		11		(189)
Add back:				
Impact of changes in economic assumptions on claims provisions	(69)		41	
Net pension costs recharged to the Company for closed defined benefit schemes	—		16	
Impairment losses on investment in subsidiaries	6		14	
Foreign exchange losses/(gains)	42		(51)	
Other	(4)		3	
Performance of other activities (see A.4)		(25)		23
Underwriting profit		**114**		**134**

The Company's gross written premiums have increased during the year by 6% to £6,130m (*2021: £5,762m*) with growth in UK and Ireland general insurance and UK Health. The increase in the UK reflects strong growth in Commercial lines, driven by a combination of strong retention, new business growth and a hard rating environment across both Global Corporate & Specialty businesses and Small & Medium Enterprises. Personal lines premiums have also increased reflecting a good trading performance as the Company maintained pricing discipline in a soft rating environment with high levels of inflation.

The Company's underwriting profit of £114m *(2021: £134m)* is net of underwriting profit ceded to AIIL during the year of £114m *(2021: £135m)* under the 50% quota share arrangement.

Underwriting profit of £109m *(2021: £123m)* arose in the UK and £5m *(2021: £11m)* in Ireland.

The reduction in the UK underwriting profit includes lower Motor frequency benefits and the market-wide heightened claims inflation, partially offset by strong Commercial underwriting performance.

The reduction in the Ireland underwriting result is largely driven by a return to more normal Motor frequency.

A.2.3 Quantitative Reporting Templates S.05.01

Quantification of premiums, claims and expenses, analysed by SII lines of business, is provided in QRT S.05.01, (see Appendix F.1.2.1 and F.1.2.2). These QRT have been prepared in accordance with the definitions and formats prescribed under SII. They include the items (except net investment income) excluded from underwriting result in the reconciliation presented in section A.2.2 which are described in section A.4.

A summary of the information provided in the premium, claims and expenses QRT S.05.01, analysed by SII lines of business, is provided in the tables below.

£m	Medical expense insurance	Motor vehicle liability insurance	Other motor insurance	Fire and other damage to property insurance	General liability insurance	Annuities stemming from non-life contracts	Other SII lines of business	Total
Year ended 31 December 2022								
Gross written premium	653	1,440	360	2,661	746	—	270	6,130
Net earned premium	315	699	175	1,070	341	—	106	2,707
Gross claims incurred	(407)	(907)	(227)	(1,365)	(454)	342	(114)	(3,133)
Net claims incurred	(204)	(449)	(112)	(603)	(227)	51	(53)	(1,597)
Direct expenses incurred	(79)	(181)	(45)	(489)	(107)	—	(33)	(935)
Year ended 31 December 2021								
Gross written premium	539	1,463	366	2,449	737	—	209	5,762
Net earned premium	259	722	180	964	311	—	85	2,521
Gross claims incurred	(339)	(942)	(236)	(1,031)	(336)	(53)	(114)	(3,050)
Net claims incurred	(169)	(474)	(118)	(459)	(197)	(32)	(52)	(1,501)
Direct expenses incurred	(68)	(183)	(46)	(505)	(100)	—	(34)	(936)

The material SII lines of business underwritten by the Company, in order of the value of gross written premium, as presented in QRT S.05.01 (Appendix F.1.2.1 and F.1.2.2), are:

Year ended 31 December	% 2022	% 2021
Fire and other damage to property insurance	**43%**	43%
Motor vehicle liability insurance	**23%**	25%
General liability insurance	**12%**	13%
Medical expense insurance	**11%**	9%
Other motor insurance	**6%**	6%
Other SII lines of business	**5%**	4%
Total	**100%**	100%

A.3 Investment Performance

A.3.1 Measurement of investment performance

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

Net investment return analysed by asset class

The table below provides an analysis of net investment return by asset class.

Net investment return £m	Investments in subsidiaries	Debt securities	Other financial investments	Loans with Group companies	Interest (payable) / receivable under quota share reinsurance with AIIL	Investment property	Total
Year ended 31 December 2022							
Dividend income	279	—	8	—	—	—	287
Interest income/(expense)	—	67	35	35	304	—	441
Unrealised gains/(losses)	—	(352)	248	—	—	(38)	(142)
Realised gains/(losses)	—	(132)	(465)	—	—	(3)	(600)
Rental income less expense	—	—	—	—	—	11	11
Other (incl. investment expenses)							(8)
	279	(417)	(174)	35	304	(30)	(11)
Year ended 31 December 2021							
Dividend income	197	—	6	—	—	—	203
Interest income/(expense)	—	50	24	38	(18)	—	94
Unrealised gains/(losses)	—	(143)	8	—	—	56	(79)
Realised gains/(losses)	—	9	(44)	—	—	(1)	(36)
Rental income less expense	—	—	—	—	—	13	13
Other (incl. investment expenses)							(6)
	197	(84)	(6)	38	(18)	68	189

The Company's net investment return for the year ended 31 December 2022 was a loss of £11m, which is £200m lower than the equivalent amount received in 2021 (*£189m income*). The decrease was driven by:

- A reduction in total investment return from debt securities. 2022 totalled a loss of £417m, which was £333m adverse to 2021. This has primarily arisen from large increases in interest rates year on year leading to significant unrealised and realised losses, partially offset by foreign exchange gains on US bonds.
- Net investment return from other financial investments was a loss of £174m, which was £168m adverse to 2021. This has primarily arisen from movements in equity markets and volatility in inflation expectations, interest rates and FX rate movements over 2022 which impact the valuation of the Company's derivative contracts.
- A decrease in income from investment property (£30m loss in 2022 compared to £68m income in 2021). This is primarily driven by unrealised losses experienced in 2022 relative to unrealised gains in 2021..
- A reduction in the amount of interest received on loans with Group companies (£35m in 2022 compared to £38m in 2021) due to lower loan balances.
- Partly offset by:
  - An increase in interest receivable under quota share reinsurance with AIIL, £304m receivable in 2022 compared to £18m payable in 2021.
  - An increase in dividends from received from subsidiaries, £279m received in 2022, compared to £197m in 2021.

Net investment income is stated after deduction of £8m *(2021: £6m)* of investment expenses.

A.3.2 Gains and losses recognised directly in equity

No gains or losses on investments have been recognised directly in equity (*2021: £nil*)

A.3.3 Investments in securitisation

The Company does not have any investments in securitisation.

A.4 Performance of Other Activities

A.4.1 Other income and expense

As described in section A.2.1, performance of other activities comprises those items of other income and expense, other than net investment return, excluded from underwriting result. The table in section A.2.2 summarises the gain of £25m *(2021: loss of £23m)* that the Company experienced from its performance of other activities during the year. The material components are as follows:

Changes in economic assumptions for claims provisions: gains of £69m (*2021: losses of £41m*)

Gains from changes in economic assumptions for claims provisions of £69m (*2021: losses of £41m*) have predominantly arisen on changes in interest rates

Foreign exchange losses: £42m (2021: gains of £51m)

Foreign exchange losses of £42m *(2021: gains of £51m)* have predominantly arisen on the Company's claims held in other currencies.

Impairment losses on the valuation of investments in subsidiaries: £6m (*2021: £14m*)

Net impairments of £6m (*2021: £14m*) arose from the full impairment of the cost of investment in one subsidiary following the sale of its sole subsidiary and payment of dividends to the Company of £11m (*2021: £11m*) during 2022.

A.4.2 Leasing arrangements

Net rental income from investment properties was £11m *(2021: £13m)*.

A.5 Any Other Information

A.5.1 Any Other Information

On 5 January 2023, the Company's Board approved making a capital contribution to its subsidiary Gresham Insurance Company Limited, anticipated to be in the region of £60-£80 million and expected to be paid in the third quarter of 2023, in consideration for the issue of ordinary shares by Gresham Insurance Company Limited to the Company.

The Company has no other material information to disclose.

Aviva Insurance Limited

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B. System of Governance

In this Chapter

B. System of Governance

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

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

B.1 General Information on the System of Governance

B.1.1 Board structure

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

The Company's Board has established various committees and delegated responsibilities to assist in its oversight of risk management and the approach to internal controls. The duties of the Company's Board and of each of its committees are set out in their respective terms of reference. The terms of reference list both those items that are specifically reserved for decision by the Board and those matters that must be reported to the Board.

The diagram below shows the segregation of responsibilities between the various committees, in addition to a description of the main roles of each.

The Board

Audit Committee

Assist the Board in discharging its responsibilities for monitoring the integrity of the Company's financial statements.

Review the adequacy and effectiveness of the controls over the Company's systems of internal financial control and monitor the effectiveness, performance and objectivity of the internal and external auditors.

Risk Committee

Assist the Board in its oversight of all categories of risk, with particular focus on risk appetite, risk preferences, risk tolerances and risk profile and the effectiveness of the Company's risk management framework.

Assess and make recommendations to the Board regarding the Company's liquidity, operational, conduct and climate risk

Review and assess the methodology used in determining the Company's capital requirements, liquidity position and stress testing.

Monitor regulatory requirements.

Ensure that a due diligence appraisal are carried out on strategic or significant transactions and are consistent with the agreed risk strategy.

Conduct Committee

Assisting the Board in its oversight of the Company's conduct framework and monitoring its effectiveness, and in reviewing and assessing the performance of the Company's conduct and financial crime risk profile and overseeing the brand and reputation of the Company.

Review whether the Company has satisfactory controls and business standards in place in line with regulatory requirements to ensure good customer outcomes, including for vulnerable customers.

Monitor relationships with key regulators and the Company's response to new or changing regulations

Manage good and influential relationships with the Company's conduct regulators.

The Company's Board comprises the Chairman (an Independent Non-Executive Director (NED)), the Chief Executive Officer (CEO), the Chief Financial Officer (CFO) and six further NEDs (five independent and one nominated by the Group as a Shareholder Representative Director). The three committees also comprise independent NEDs only.

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

All employees of the Company are involved in the management and mitigation of risk, with the RMF embedded in the day-to-day management and decision making processes. The three lines of defence model is adopted by the Company and Aviva group (as required by the RMF policy). Further details are below:

The first line (The Business)

Accountable for the management of all risks relevant to the business of the Company. The CEO is responsible for the implementation of the Company's 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 in their areas of responsibility.

The second line (Risk Function)

- Accountable for providing independent objective quantitative and qualitative challenge and oversight and challenge of the identification, measurement, management, monitoring and reporting of material risks and for designing and implementing the RMF. Within the Risk Function;
  - Actuarial Function is accountable for actuarial methodology, and reporting to the relevant governing body on the adequacy of reserves and capital requirements, as well as on underwriting and reinsurance arrangements; and
  - Compliance Function supports and advises the business on the identification, measurement and management of its regulatory and conduct risks and is accountable for monitoring and reporting on the Company's compliance risk profile.

The third line (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, Conduct and Risk Committees, and to the Board.

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

B.1.2 Material changes in the system of governance

The Company's Board and Board Committee responsibilities and arrangements, and the fundamental approach to the system of governance, have not materially changed. At various times during 2022, crisis management procedures have been invoked to effectively manage the Company's response to heightened economic uncertainty. As part of this, in November 2022, an internal targeted review of all key elements of the Company's RMF was undertaken and this evidenced that the Company's RMF continues to operate effectively.

There have been no other material changes in the Company's systems of governance during the year.

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

An assessment of the effectiveness of the Company's governance, internal control and risk management systems was conducted at the end of 2022, including an attestation by the CEO. Key operational risks and any control weaknesses or non-compliance with the Company's risk policies and business standards or local delegations of authority are highlighted as part of this process. Significant progress has continued to be made with enhancing the Company's management of operational risk in 2022. This will remain a key focus in 2023, along with ongoing work in areas of regulatory focus. The Chief Risk Officer (CRO) provided an opinion on the CEO's attestation which confirms accuracy of the CEO's declaration and noted no additional qualifications or weaknesses. There has been regular reporting to the Risk Committees throughout the year to ensure that areas of improvement are both identified and remediated, and this monitoring will continue in 2023.

During 2022, the Chairman provided an attestation in respect of the Company's adherence to the Aviva Governance Framework and Subsidiary Governance Principles. No qualifications or weaknesses were identified.

B.1.4 Remuneration policy

Aviva's reward principles and arrangements are designed to incentivise and reward employees for achieving stated business goals in a manner that is consistent with the Company's approach to sound and effective risk management. Aviva's remuneration policy is aligned to the Company's strategy and Key Performance Indicators, incentivises achievement of the Company'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 Company's values.

The Annual Report on remuneration contained in the 2022 Aviva plc Annual Report and Accounts sets out how Aviva has implemented its policy for Executive Directors during the course of 2022. Key management personnel of the Company may from time to time purchase insurance, savings, asset management or annuity products markets by group companies on equivalent terms to those available to all employees in the Group. In 2022, other transactions with key management personnel were not deemed to be significant either by size or in the context of their individual financial positions. Note 5 of the Company's financial statements shows total compensation to those employees classified as key management, being those having authority and responsibility for planning and controlling the activities of the Group, including the executive and non-executive directors. Further details on the remuneration of Directors is included within note 5 – 'Directors' remuneration' of the Company's financial statements.

The Remuneration Policy was approved by shareholders at the Aviva Plc AGM on 9 May 2022. The full and definitive Policy is therefore set out in the Aviva Plc 2022 Annual Report and Accounts, which can be found on our website at https://www.aviva.com/investors/reports/.

B.1.4.1 Pension and early retirement schemes

The Company did not operate any enhanced pension arrangements or early retirement schemes during the reporting period.

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

No material transactions have been identified during the period with persons who exercise a significant influence on the undertaking, or with members of the administrative, management or supervisory body. In 2022 other transactions with key management personnel were not deemed to be significant either by size or in the context of their individual financial positions.

Additional information on the material transactions with the Company's shareholder is included within note 35 – 'Related party transactions' of the Company's financial statements.

B.2 Fit and Proper Policy

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

For persons responsible for running the undertaking or responsible for key functions an assessment of fitness and propriety must consider their allocated responsibilities and skills and experience across the following areas:

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

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

B.2.2 Process assessing fitness and propriety

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

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

Individuals approved or certified under the SMCR regime are required to re-confirm annually their compliance with fitness and propriety requirements.

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

B.3.1 Risk Management Framework

The Company's RMF has a key role in supporting the business to deliver its purpose for our customers, our people and our shareholder, helping the business discover, predict, understand and manage our risks, thereby maintaining a safe risk environment. The RMF is at the heart of every business decision and is key to ensuring a robust control environment. The RMF comprises the systems of governance, risk management processes and Risk Appetite Framework (RAF) and is owned by the Company's Board. It establishes the principles and fundamental statements by which the Company Identifies, Measures, Manages, Monitors and Reports risk (IMMMR). The Company's RAF outlines the risks that the Company selects and manages in pursuit of return, the risks the Company accepts and retains a moderate level of and the risks the Company actively avoids or takes action to mitigate as far as practical. It comprises:

- Risk preferences: which are qualitative statements that express where the business prefers to take risk (or else accept or avoid) and why, applied to individual key risks types (e.g. GI Reserving and Inflation).
- Risk appetites: which include overarching statements that express the level of risk the business is willing to accept. The Company has risk appetites for Solvency, Liquidity, Operational, Climate and Conduct risk. Risk appetites are reviewed and approved by the Board or Board Committees and monitored by relevant management committees.
- Risk tolerances: which are quantitative or qualitative boundaries for specific risk-taking activities for individual risk types or combinations of risk types. Risk tolerances include limits to solvency ratio impacts for the Company's most material risk types (e.g. GI Catastrophe and macro-economic risks) or other risk types which are volatile and unrewarded (e.g. interest rate). Risk tolerances are reviewed and approved by the Board or Board Committees and monitored by relevant management committees. Within the Operational Risk and Control Management (ORCM) Framework, there are operational risk tolerances which are set for individual operational risk types.
- Risk triggers: are thresholds used to monitor the capital exposure for other individual risk types (not covered by a specific risk tolerance) where these are modelled in the Company's PIM. Risk triggers are set annually in line with the business planning process and monitored by relevant management committees.
- Risk limits: quantify more granular limits for specific defined risk exposure (e.g. maximum credit exposure limits to particular counterparties).

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 and appetite for risk and the expectations in respect of the management of risk. Compliance with these Risk Policies and Business Standards is confirmed annually.

Risk management process help the business discover, predict, understand and manage our risks, thereby maintaining a safe risk environment and enabling dynamic risk-based decision making. A variety of tools and processes are available to support risk identification. Top-Down Risk Assessment (TDRA) is carried out by the Risk Function and identifies key organisational current and emerging risks. Bottom up risk assessment focuses on risks more granular which are connected to our operational processes, managed through Risk and Control Self Assessment (RCSA) process which is run by the first line, with challenge by the Risk Function. It focuses on operational risks, which are recorded on iCARE, the Company's risk management system. These risk assessment processes are run separately but are complementary. They are used to generate risk reports which are shared with the relevant Risk Committees.

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

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

The Board is responsible for setting the Company's risk preferences, risk appetites, risk tolerances and monitoring the establishment and operation of prudent and effective controls in order to assess and manage the risks associated with the Company's operations. The Board Risk Committees assist it in carrying out these activities and in its oversight of risk and management across the Company. The Board delegate "day-to-day" management to the CEO, including risk management and responsibility for implementation of the risk policies and standards. Management committees assist the Company's Executive Committee in the discharge of their delegated authorities and their accountabilities within the Aviva Governance Framework and in relation to their defined regulatory responsibilities. The Company's Executive Risk Committee (ERC) provides formal oversight of all risks. The other management committees comprising the Asset Liability Committee (ALCO), Reserve and Projections Committee and the Insurance Committee are sub-committees of the ERC.

B.3.2 Risk Function

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

The CRO has direct management accountability for the Risk Function and is responsible for prudential regulatory risk management. The Board and Risk Committees receives regular reports from the CRO setting out their opinion on the most significant risks facing the Company and the adequacy of Management's actions being taken to address these.

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. Appointment and removal of the CRO are matters reserved for the Board, on the recommendation of the Risk Committee, which supports the independence of the Risk Function.

Prudential risk management activities performed by the Risk Function include:

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

B.3.3 Own Risk and Solvency Assessment (ORSA)

The ORSA is the entirety of the processes and procedures employed to identify, assess, monitor, manage and report the short-term and long-term risks the Company faces or may face to determine the own funds necessary to ensure that its overall solvency needs are met at all times, and determine sufficiency of resources necessary to ensure its long-term viability. In this context, the Company's ORSA basis for solvency requirements is the same as that underlying its IM.

The ORSA relies on the effective embedding of a number of elements of the RMF. The outcomes of the ORSA processes provide the Company's Board, Risk Committee and Management with a forward-looking assessment over the Plan horizon of all material risks and the extent to which they are covered by capital or addressed by risk mitigation techniques and capital requirements projections (including under stressed and reverse stress scenarios).

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

Review and approval

The outputs from the Company's ORSA processes are included in various reports regularly submitted and reviewed by the Board and/or Risk Committee and senior management in relation to earnings, capital, liquidity, strategy, and risk and control. 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 IM, and the results of the IM validation exercise. The results of the Company's ORSA processes are considered by the Board when reviewing the Company's strategy and approving annually the business and capital plan.

The annual ORSA Report brings together and summarises in a single report a high-level description of the key components of ORSA, together with key developments and outcomes during the year.

The ORSA report is produced and approved by the Board annually, or in the event that material external events or management decisions may require an update to the most recently prepared ORSA process outputs, depending upon their significance, to ensure that the Board and Risk Committees view on AIL's earnings, capital, liquidity, strategy and risk and control remain up to date. Accordingly, the occurrence of any or all of the following events are indicators of the need to consider whether an out-of-cycle 'ad-hoc' ORSA Report may be required:

- An actual or projected material impact on the Company's Own Funds or diversified SCR compared to Plan;
- The invocation of the Crisis Action Leadership Team (under the Financial Event Response Plan);
- The addition of a major change to AIL's model change log in line with AIL's/Group's Model Change Policy; and/or
- More broadly any potentially material change to the Company's risk profile.

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

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

B.3.4 Governance of the IM

The CRO is the ultimate owner of the IM. The day-to-day responsibilities are delegated to the Chief Actuary. The Chief Actuary gives assurance to the Risk Committee that the IM is appropriate for use on an ongoing basis and confirms the IM adequately reflects the Company's risk profile, is accurate and works effectively.

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

The Risk Committee is responsible for approving any material IM changes before submission to the PRA for approval. The model change reports, and supporting evidence, provide the required information to support approvals by the Risk Committees and the PRA.

There has been no material change to the governance of the IM during 2022.

Validation process

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

The Internal Model Independent Validation (IMIV) Business Standard defines the scope of IMIV. The Enterprise Risk Director reviews the findings of the exercise and provides an opinion to the Risk Committee as to whether the IM adequately reflects the Company's risk profile fit for its intended purposes and meets relevant tests and standards.

B.4 Internal Control System

B.4.1 System of Internal Control

The Company's principles for ensuring effective internal control are set out in Risk Policies and Business Standards that set the global objectives and global controls to be applied across the Aviva Group, as well as the RMF and, in particular, the ORCM Framework. These core risk documents set out mandatory business requirements as these relate to risk management and key controls. Compliance is attested in the annual CEO attestation. Key attributes of the internal control environment include:

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

B.4.2 Compliance Function

The primary purpose of the Compliance Function is to assess and manage exposure to conduct regulatory risk. The Compliance Function is an integral part of the RMF and constitutes a key part of the Company's corporate governance, including relationships with the FCA and other regulatory bodies. The function is a critical contributor to the safe and sound operation of the Company and underpins the achievement of its strategy and business goals. The Compliance Function is led by the Chief Conduct and Compliance Officer (CCCO). The key processes that comprise the Company's conduct and regulatory risk management activity are:

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

The Conduct Committee receives a report from the CCCO at each meeting, which covers any material concerns regarding conduct risk and the treatment of customers generally, along with details and an assessment of the adequacy of management's response.

Those responsible for carrying out compliance activities have authority to review all areas of the Company and have full, free and unrestricted access to all activities, records, property and personnel necessary to carry out their role, where appropriate.

The General Counsel is responsible for monitoring of legal developments.

B.5 Internal Audit Function

Role and responsibilities

Internal Audit's (IA) purpose is to help the Board to protect the assets, reputation and sustainability of the Company by providing independent and objective assurance designed to add value and improve the Company's operations.

IA 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.

IA undertakes this work in accordance with its IA Charter and in conformance with the Institute of Internal Audit (IIA) Standards and the Chartered Institute of Internal Auditors (CIIA) code for Effective Audit in Financial Services.

B.5.1 Independence and objectivity

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

- In accordance with the IA Charter, the IA team is led by the Group Chief Audit Officer (CAO) who has a direct reporting line into the chair of the Group Audit Committee (GAC) and a functional reporting line to the Group CEO. The CAO also has direct and unlimited access to the Group Board Chair, the Chair of the GAC, the Chair of the Group Risk Committee (GRC), the Chair of the Customer and Sustainability Committee (CSC) and the Chair of the Company's Audit Committee.
- All IA directors working in the business units report directly to the CAO and form part of IA (except where IA services are provided by the joint venture partners), and have a dotted reporting line to the Company's Audit Committee Chair.
- The Chair of the GAC is responsible for recommending the appointment and removal of the CAO to the Board. Board Audit Committees for business units have a duty to recommend the appointment or dismissal of the CAO to the respective business unit Board and to participate, jointly with the CAO or designee, in the determination of the objectives of the CAO and the evaluation of their levels of achievement, including consultation with the CEO.
- The Group Head of Quality Assurance (QA) monitors and evaluates the function's adherence to all relevant Internal Audit standards of practice and Internal Audit methodology and has direct access to the Group Audit Committee Chair. An independent external assessment of the Internal Audit function is performed every three years.
- Independence is confirmed through a declaration form signed annually by all members of internal audit staff. Staff working in IA have no direct responsibility or authority over any operational activities reviewed and should not relieve others of such responsibilities, and IA manage a staff rotation process to ensure that independence is maintained.

IA staff who previously worked in Aviva Group, but outside of IA, 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.5.2 Authority and resources of the internal audit function

IA 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 IA activities extends to all legal entities, joint ventures and other business partnerships, outsourcing and reinsurance arrangements. The CAO shall propose a budget which ensures that IA has appropriate skills and resources to discharge its responsibilities.

B.6 Actuarial Function

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

The independence of the Actuarial Function is derived through its membership in the wider Risk Function. The Actuarial Function is led by the Chief Actuary, who, during 2022, reported to the Company's CRO (see section B.8 for an update effective from 1 January 2023). Persons employed in certain specific roles within the Actuarial Function are subject to the Fit and Proper policy requirements to ensure they have the requisite skills and knowledge to complete their responsibilities. (Fit and Proper requirements are considered in section B.2.).

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

B.7 Outsourcing

Policy

The Aviva Procurement and Outsourcing Business Standard contains information on the Company's outsourcing policy, setting out the relevant responsibilities, objectives, process, and monitoring arrangements to be applied in cases of outsourcing, all of which shall be consistent with the overall strategy. The Business Standard applies equally to any externally or internally (intra-group) outsourced activity and is benchmarked against relevant regulatory expectations. The objective of this Business Standard is to ensure that adequate governance, minimum control objectives and controls for supplier-related activities are followed by all Aviva businesses, so that supply risk is managed effectively. This includes the need to ensure that customers are being treated fairly, their best interest are protected and that the risk of potential financial, operational, contractual, and brand damage caused by inadequate management is mitigated. The standard requires a global Outsourcing Landscape document to be produced bi-annually which captures details of all Material outsourced operational functions and activities.

The Business Standard applies to all staff involved in suppler related activities. It provides clarity to businesses on the definition of outsourcing, including where activity is delegated to an intermediary, and whether a function or activity outsourced is assessed as Material.

Aviva Plc Executive Committee (or another forum as delegated by this committee) approves the control objectives in the Business Standard. Key SII related Business Standards are required to be approved by the Plc Board following recommendation for approval from the Plc Executive Committee or delegated committee. They 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; and
- Supplier management and business continuity: risk-based approach to management of supply contracts including operational resilience.

Material or important outsourcing will attract the highest level of rigour, including any required regulatory notification, performance and relationship reviews, regulatory compliance reviews, operational resilience reviews, and risk and control assessments. The standard and the associated controls have been updated as appropriate to align to the PRA Regulations for Outsourcing and Third-Party Risk Management (PRASS2/21) from January 2022.

Material outsourced functions and activities

Aviva outsources a range of operational functions and activities. The nature of a Material outsourced arrangement primarily includes policy administration, claims handling, administration / management and investment services, document services and system development / IT support services (which includes networks, storage, hosting and telecoms).

Jurisdiction of service providers

Service providers for the above activities are mostly based in the UK, Ireland, Canada, Sri Lanka, South Africa and India. In addition some service provision from outsourced suppliers is delivered from Spain.

B.8 Any Other Information

B.8.1 Any Other Information

With effect from the 1 January 2023, the Actuarial Function has transferred from the Risk Function to the Finance Function (1st Line). The Chief Actuary and Actuarial Function will retain independence as a Solvency II Key (control) Function and will be supported in this both by the Chief Actuary retaining direct access to AIL Board Committees / Board and through dotted-line reporting into the CRO. The Chief Actuary will continue to hold SMF20 regulated accountabilities. Oversight of actuarial and reserving risks and a number of IM accountabilities, including ultimate ownership of the SII PIM (Internal Model and Standard Formula), ownership of the model governance framework and all IM independent validation activity, will remain aligned to the Risk Function.

The Company has no other material information to disclose.

Aviva Insurance Limited

Solvency and Financial Condition Report

2022

C. Risk Profile

In this Chapter

C. Risk Profile

The 'Risk Profile' section of this report provides information on the key risks encountered by the Company as well as the corresponding processes for monitoring the risk exposures and the techniques in place for mitigating these risks. Risk exposure includes any internally reinsured risk from subsidiary businesses and also looks through to the underlying retained subsidiary risks where captured under the Internal Model, principally in relation to the Canada subsidiary business, ACI. Retained risks within subsidiary businesses modelled under the Standard Formula are captured as a participation stress under Market risk, including risks retained in the Ireland subsidiary business, AIIDAC. Further comments have been included in the following sections to highlight any relevant internal reinsurance arrangements relating to subsidiary entities and where the Company is exposed to underlying risk arising from subsidiary businesses including ACI and AIIDAC.

C.1 Underwriting Risk

C.1.1 Exposure

The Company's exposure to non-life (including health similar to non-life) insurance underwriting risk in the UK, Ireland and Canada arises from:

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

The Company does not underwrite life insurance business, or health products similar to life insurance. Longevity risk, associated with bodily injury claims settled as PPO, is reinsured with Aviva Life & Pensions UK Limited (UKLAP), a fellow Group company.

The Company has a preference for general insurance risk in measured amounts for explicit reward, in line with its core skills in underwriting and pricing. This includes the following risks ceded to the Company:

- Under an inwards reinsurance agreement with its subsidiary undertaking, Gresham Insurance Company Ltd (Gresham), with effect from 1 January 2006 whereby nearly all of Gresham's premiums, claims and expenses are reinsured by the Company.
- Under an inwards adverse reserve deterioration agreement with its subsidiary undertaking, The Ocean Marine Insurance Company Ltd (Ocean Marine). This agreement provides Ocean Marine with an extra £1bn of reinsurance cover to protect against circumstances in which its reinsurance agreement with National Indemnity Company (NIC) is exhausted or otherwise fails to satisfy claims. (see section C.3.2).
- On 1 February 2019, as part of its Brexit strategy, the Company transferred a subset of its insurance business to its Irish domiciled subsidiary (AIIDAC). A quota share agreement with AIIDAC transfers the majority of these risks back to the Company, through a quota share reinsurance agreement which broadly covers 70% (reduced from 85% from 1 January 2022) of the Ireland branch risks and 100% of other risks. Further details are provided in section A.1.2.

The Company's overall exposure to underwriting risk is measured using the SCR. QRT S.25.02.21 (Appendix F.1.7) shows that the Company's undiversified SCR for underwriting risk is £590m *(2021: £605m)*. Whilst overall underwriting risk exposure remains broadly stable, there have been a number of notable changes over the period including:

- Increase in the ACI-AIIL Quota Share reinsurance arrangement to 50% (previously 25%) and a reduction to the AIIDAC-AIL Quota Share arrangement to 70% (previously 85%), with the arrangements effective from 1 January 2022.
- Increase in Catastrophe risk, primarily due to changes to AIL's reinsurance programme at the 1 January 2023 renewal in light of prevailing reinsurance market conditions including increased retentions.
- Increased interest rates and associated liability discounting impacting the relative materiality of AIL's exposure to PPOs and other longer-tailed liabilities.

Underwriting risk is also measured and monitored in terms of best estimate liabilities, total sum insured and estimated maximum loss. Estimated maximum loss is an estimation of the maximum loss that could be reasonably sustained as a result of a single incident considered to be within the realms of probability. In addition, underwriting risk is directly influenced by the expected economic profit in the following 12 months as this forms an offset to the overall SCR. The Company has also introduced initial measures to assess climate risk exposure. There has been no further material change to the measures used to assess underwriting risk during the reporting period.
Inflationary pressures and supply chain disruption are an on-going key risk for the businesses within AIL achieving their profit plans and a risk to AIL solvency and liquidity positions. Forward looking estimates of claims inflation are uncertain and are driven by many factors, including current global events. The Company does not have material underwriting exposure to Russia and the Ukraine, and does not conduct operations in the affected region. All commercial underwriting lines with exposures above £1 million have been reviewed and all have clear war exclusions. The conflict in Ukraine and ongoing disruption to global supply chains has resulted in heightened claims inflation during 2022 which is expected to persist into 2023 and has increased the uncertainty associated with the cost of settling general insurance claims. While the impacts of heightened claims inflation are being mitigated via new business pricing actions, our ability to price for inflation is dependent on market, competitor and customer behaviour. The time lag between premium earning and claims emergence means that some adverse impacts on profitability were observed in 2022.

The Ogden discount rate remains a key area of uncertainty for large injury claims in the UK. The Lord Chancellor announced a discount rate of -0.25% in July 2019 and this announcement is considered to reduce uncertainty within the shorter term, however uncertainty does remain in the medium to longer term as the Lord Chancellor is anticipated to next review the Ogden discount rate in 2024 including a further review on the advantages and disadvantages of a dual rate regime. Any change in the Ogden rate would impact underwriting risk exposure because it affects the amount of awards for lump sum bodily injury claims and therefore also the tendency for claimants to settle on a lump sum basis rather than as a PPO.

COVID-19 Business Interruption reserves remain a key area of uncertainty. The removal of the majority of government restrictions related to COVID-19 has led to claims frequency increasing to and stabilising at more normal levels, but there continues to be a significant degree of uncertainty in relation to business interruption claims arising from COVID-19. On 17 October 2022, the High Court in the UK handed down its judgment on the preliminary issues trial of Stonegate Pub Co Ltd vs MS Amlin Corp Member Ltd (and others) and related cases. The Company was not a party to the cases but will be affected by the final rulings. The Court ruled in favour of the parties on different issues, and all parties have appealed the majority of the decisions. The judgment has been carefully considered and the potential impact on claims related to business interruption policies assessed, noting that significant uncertainty remains due to the appeals made to the Court of Appeal. Claims experience has largely returned to normal in other areas previously impacted by COVID-19 such as travel, motor and private healthcare.

C.1.2 Risk concentration

The Company avoids underwriting risk concentration through its scale, geographical distribution of underwriting risks, diversity of product lines and diversity of distribution channels. Individual risks and groups of risk are only accepted if, after diversification and reinsurance, the residual risk is within appetite. Controls are in place to ensure accumulations of risk are identified, evaluated and controlled.

The Company's general insurance risk is primarily located in the UK, Canada and Ireland, including where looking through to the underlying general insurance risk arising from subsidiary businesses; including ACI, which operates in Canada and reinsured business from AIIDAC, which operates in Ireland (noting AIIDAC retained risks are stressed as a participation and captured in Market risk). This is managed locally but is captured within the Company's SCR. The Company's most concentrated non-life underwriting perils are North European Windstorm and British Columbian Earthquake.

C.1.3 Risk mitigation

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

- Claims reserving that is undertaken by actuaries and is also subject to periodic internal and external review;
- Risk appetites and tolerances 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 in a management framework that ensures products and propositions meet customer needs;
- Product limits and exclusions;
- Governance of outsourced functions writing products on behalf of the Company; and
- Documented claims management philosophies and procedures.

The primary technique used to mitigate underwriting risk is reinsurance. Reinsurance is purchased to mitigate underwriting risk and to maintain exposures within appetite. In some cases, the Company participates in Group reinsurance programmes, which leverage economies of scale whilst allowing the Company to trade to the full extent of its underwriting appetite.

The Company and its subsidiaries have a number of reinsurance agreements in place, with both internal and external counterparties, to mitigate underwriting risk. Major reinsurance agreements include:

- Catastrophe reinsurance provides protection against an accumulation of two or more losses from a single qualifying event (e.g. earthquake, windstorm);
- Reinsurance of most of the Company's legacy UK latent claims reserves;
- Reinsurance of the legacy London Market claims reserves of the Company's subsidiary undertaking, Ocean Marine;
- Reinsurance of longevity risk on the Company's bodily injury claims settled as PPO;
- The 50% quota share reinsurance agreement between the Company and the Group's internal reinsurance vehicle, AIIL and the 50% quota share reinsurance agreement between ACI and AIIL. Further details are provided in section C.3.2;
- Reinsurance of specific flood risks to Flood Re Limited;
- Reinsurance of terrorism risk to Pool Reinsurance Company Limited;
- Casualty excess of loss reinsurance providing protection against the risk of large losses arising from motor liability or general liability insurance; and
- Property excess of loss reinsurance providing protection against the risk of large losses arising from property insurance.

Reinsurance purchases are reviewed to verify that the levels of protection being bought reflect any developments in exposure and the risk appetite of the Company. The basis of these purchases is underpinned by extensive financial and capital modelling and actuarial analyses which consider the cost and capital efficiency benefits. This may involve utilising externally sourced probabilistic models to verify the accumulations and loss probabilities based on specific portfolios of business. In addition to external models, scenarios are developed and tested using Company data to determine potential losses and appropriate levels of reinsurance protection. Reinsurance covers single large exposures and concentrations of exposures.

The management of insurance risk is overseen by specific senior management committees, including the Insurance Committee, the Reserve and Projections Committee and the ALCO.

C.1.4 Stress and scenario testing and sensitivity analysis

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

C.1.5 Special purpose vehicles
The Company has not transferred underwriting risk to special purpose vehicles, as defined by the SII Directive.

C.2 Market Risk
C.2.1 Exposure
The Company's exposure to market risk arises from the risk of adverse financial impacts resulting directly or indirectly from fluctuations in interest rates, equity prices, property prices, foreign currency exchange rates and inflation. Market risk arises due to fluctuations in both the value of liabilities and the value of assets held. In addition to its own risks, the Company's SCR also includes the underlying risks of its subsidiaries, including its principal subsidiaries ACI and AIIDAC.

Interest rate risk arises primarily from the Company's fixed income securities and liabilities, which are exposed to fluctuations in interest rates. The Company seeks to match assets to liabilities and also uses interest rate derivatives to meet its interest rate risk appetite.

Property price risk arises from the Company's investments in investment property and property investment vehicles. Property price risk is accepted by the Company to drive investment return as part of the Company's investment strategy.

Equity risk arises from the level or volatility of market prices for equities. Equity risk is accepted by the Company to drive investment returns as part of the Company's investment strategy, including the use of equity derivatives to mitigate downside risk where considered appropriate.

The Company is exposed to inflation risk where there is a mismatch between assets and liabilities that are sensitive to inflation. Retail Price Index (RPI) elements of inflation risk are monitored and managed through asset-liability matching and inflation-linked derivatives, where appropriate, in accordance with the agreed risk appetite.

The Company's material exposure to foreign currency risk arises primarily from: its investments in ACI and AIIDAC; the quota share agreement with AIIDAC; the growth of global corporate and specialty business lines; and non-domestic currency denominated investments. The Company seeks to match non-sterling liabilities from its Ireland exposure and non-sterling denominated global corporate and specialty business using a combination of non-sterling assets and currency derivatives to ensure liabilities in non-domestic currency can be settled as they fall due. The Company also seeks to mitigate the impact of foreign currency risk to its SII cover ratio (denominated in sterling) by using currency derivatives to hedge the contribution of ACI (denominated in Canadian Dollars). The Company also seeks to mitigate foreign currency risk on non-domestic denominated investments, where not matched to liabilities, by the use of currency derivatives.

The Company's overall market risk exposure has increased during the reporting period primarily due to re-risking activity undertaken in 2022 including further deployment into corporate bonds to bring investment in this asset class up to the Company's longer term target Strategic Asset Allocation.

The Company's overall exposure to market risk is measured using the SCR. QRT S.25.02.21 (Appendix F.1.7) shows that the Company's undiversified SCR for market risk is £693m *(2021: £681m)*. This includes credit risk in respect of the Company's bond holdings whose risk profile and management is described in section C.3. In addition to the SCR, a number of risk-specific metrics are used to monitor market risk at a granular level:
- Key interest rate, RPI, and currency related parameters; and
- Changes in the price level of individual assets or specific asset classes
- Exposure to a macro-economic shock scenario

Additional measures and longer term carbon intensity targets have been introduced since 2021 to assess the climate risk of individual investments. There has been no other material change to the measures used to assess market risk during the reporting period.

C.2.2 Risk concentration
The Company monitors its investment exposures in aggregate across all classes of financial instruments (debt securities, equities, derivatives and other investments), to individual issuers, geographies, sectors, and asset classes.

The Company's largest foreign currency exposure is to the Canadian Dollar, via ACI, with currency forward derivatives in place to mitigate the foreign exchange risk to the Company's SII cover ratio position. The valuation of assets and liabilities are materially impacted by movements in market-implied interest rates and inflation, with those risks being managed within pre-defined risk tolerances using a combination of asset-liability matching and derivatives.

C.2.3 Risk mitigation
The Company manages market risk within its market risk framework, within local regulatory constraints and in line with established Group policy, including minimum principles for matching liabilities with appropriate assets. As described in section C.2.1, the Company monitors exposures to market risks and uses derivatives to mitigate interest rate, inflation, foreign currency exchange rate and equity risks.

The Company only uses derivatives to reduce risks and facilitate efficient portfolio management. Risks arising from use of derivatives for hedging purposes include basis risk, which is the risk of an unexpected adverse financial impact arising because the exposure covered by a risk-mitigation technique, such as hedging using derivatives, does not correspond to the Company's risk exposure. The Company controls derivative basis risk by applying strict controls to its processes for their administration and valuation. The Company's control framework for derivative risk is consistent with market and industry practice.

In accordance with the requirements of its RMF, the Company assesses and documents the effectiveness of arrangements to mitigate market risk. This assessment is initially undertaken prior to deciding whether or not to enter into an arrangement, and considers the impact of the proposed arrangement on key metrics including:
- Risk measures, including economic capital; and
- Financial measures, including cash flow, IFRS operating profit, liquidity and expenses.

If the initial assessment indicates that the impact on key metrics is material, further assessments are carried out at regular intervals throughout the duration of the arrangement. These assessments typically include stress testing and sensitivity analysis. Transactions to mitigate the same risk may be considered in aggregate (e.g. programmes to mitigate interest rate risk or foreign exchange risk).

The Company conducts on-going monitoring of the effectiveness of market risk mitigation techniques by reporting management information and analysis to the ALCO and the Board's Risk Committee. Investment performance analysis including actual returns against expected are also reported to the ALCO and Board. Processes are also in place to monitor key economic data against pre-defined trigger points to enable appropriate oversight and actions to take place if economic conditions deteriorate, as set out in the Company's event response plans.

C.2.4 Stress and scenario testing and sensitivity analysis

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

C.3 Credit Risk

C.3.1 Exposure

The Company's exposure to credit risk arises from the risk that it will incur a financial loss from the default or failure of third parties to meet their payment obligations to the Company, or variations in market values as a result of changes in expectations related to these risks. In addition to its own risks, the Company's SCR also includes the underlying risks within its subsidiaries, including its principal subsidiaries ACI and AIIDAC.

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

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

The principal basis used to measure the Company's exposure to counterparty risk is the SCR. QRT S.25.02.21 (Appendix F.1.7) shows that the Company's undiversified SCR for counterparty risk is £71m *(2021: £80m)*. Counterparty risk relates to the risk associated with reinsurers and insurance debtors. The Company is additionally exposed to the credit risk associated with investment bond holdings included in the market risk SCR reported in the QRT as described in section C2.1. The following metrics are also used by the Company when measuring and assessing its credit risk exposure and to support risk management actions and investment decisions:

- Maximum exposure: credit exposure of the Company's financial assets to counterparties;
- External credit rating: available Moody, Standard & Poor and Fitch ratings;
- Market adjusted credit ratings: external credit ratings modified for the market price of the counterparty's credit default swap; and
- Internal credit ratings: determined for broker counterparties that are not externally rated, using methodologies broadly consistent with those used by external rating agencies.

There has been no material change to the measures used to assess credit risk during the reporting period and the Company's exposure to credit risk, including counterparty risk, has remained relatively stable throughout the year.

The overall credit quality of the Company's financial investments is strong. At 31 December 2022, investment grade debt securities (external credit rating AAA to BBB) comprised 100% (*2021: 100%*) of total debt securities, with 63% of rating AA or above (*2021: 75%*). Reinsurance assets with external credit ratings of AA to A comprised 98% (*2021: 99%*) of total reinsurance assets.

C.3.2 Risk concentration

The Company's credit limit framework restricts investment in individual issuers, geographies, sectors, and asset classes to ensure the Company is not exposed to significant concentrations of credit risk.

The Company's main concentration of external credit risk arises from holding UK government debt securities. At 31 December 2022 the Company held £883m *(2021: £1,236m)* of UK government debt. The Company's biggest industry sector exposure is to worldwide bank debt securities (£567m *(2021: £394m)*). 93% *(2021: 90%*) of the Company's holding of bank debt securities are covered bonds or senior debt rated A or above.

Reinsurance

The Company's largest external reinsurance counterparty is Swiss Reinsurance Company Limited (including its affiliated companies). At 31 December 2022, the reinsurance asset recoverable, excluding the unearned premium provision, is £655m *(2021: £697m)*. This exposure is reduced by collateral comprising a portfolio of highly rated assets amounting to £349m *(2021: £349m)*.

The Company's largest intra-group reinsurance counterparty is AIIL. At 31 December 2022, the reinsurance asset recoverable from AIIL is £3,936m *(2021: £3,770m)*. Credit risk is mitigated by a funds withheld arrangement, whereby the Company holds a balance equal to the higher of IFRS or SII technical provisions of the reinsured business.

The Company has an inwards adverse reserve deterioration agreement with its subsidiary undertaking, Ocean Marine. This agreement provides Ocean Marine with an extra £1bn of reinsurance cover to protect against circumstances in which its reinsurance agreement with National Indemnity Company (NIC) is exhausted or otherwise fails to satisfy claims. Ocean Marine's reinsurance agreement with NIC provides substantial protection in excess of its current gross insurance liabilities. As at 31 December 2022, Ocean Marine's exposure to NIC was £283m *(2021: £310m)*.

The Company has an agreement with UKLAP, for the outwards reinsurance of its obligations in respect of PPO. At 31 December 2022, the reinsurance asset recoverable from UKLAP is £338m *(2021: £593m)*. The credit risk exposure is mitigated by a funds withheld arrangement. The Company retains legal title of the assets backing the reinsured liabilities whilst UKLAP retains beneficial ownership. The funds withheld are maintained quarterly to match the reinsurance asset.

Loans

The Company has a loan facility agreement with AGH, the Company's immediate parent. The loan, with a carrying balance of £500m at 31 December 2022 (*2021: £500m*), is secured solely on the UK Life operations.

The Company has a subordinated unsecured loan agreement with ACI. The loan, with a carrying balance of £214m *(2021: £204m)*, has a final maturity date of March 2045. In the event that ACI's minimum regulatory capital requirement falls below certain local trigger levels, ACI may redeem the loan in exchange for issuing equity whose aggregate value is equal to the principal amount outstanding on the loan.

In June 2016, the Company entered into a subordinated unsecured loan from AGH of CAD 480m. The loan has a carrying balance of £294m (*2021: £281m*). The Company used these proceeds to provide a subordinated unsecured loan to ACI of the same amount; both of these agreements have a final maturity date of June 2046.

C.3.3 Risk mitigation

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

As described in section C3.1 and C.3.2, the Company has in place a credit control framework to manage credit risk and uses techniques including collateralisation and funds withheld arrangements to mitigate unwanted credit risk.

In accordance with the requirements of the Group's RMF, the Company assesses and documents the effectiveness of arrangements to mitigate credit risk. On-going monitoring is carried out by reporting management information to the ALCO and the Board's Risk Committee, against pre-defined trigger points, to enable appropriate oversight and to prompt action if effectiveness deteriorates, as set out in the Company's event response plans.

C.3.4 Stress and scenario testing and sensitivity analysis

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

C.4 Liquidity Risk

C.4.1 Exposure

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

- Insurance underwriting (e.g. catastrophe claims arising from adverse weather events);
- Failure to receive payment from customers;
- Variances of actual operational cash flow from shorter-term forecasts; and
- Other cash flow volatility (e.g. derivative and collateral calls arising from the Company's risk mitigation activities).

The principal bases used to measure and assess the Company's exposure to liquidity risk are liquidity coverage ratios, absolute liquidity coverage relative to pre-defined liquidity risk appetites and the quantum of certain liquid assets. Liquidity coverage ratios measure the extent to which available liquidity is sufficient to meet expected liquidity requirements following an extreme liquidity-specific stress event over short-term and long-term stress scenarios. Liquidity is also monitored in the event of a stressed run-off of the Company's liabilities following closure to new business and is managed within the Company's Stressed Run-Off Liquidity (STROL) risk appetite.

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

The Company's liquidity profile was maintained within appetite on both absolute and stressed liquidity coverage ratio bases, over going concern short-term and long-term scenarios, and under stressed run-off basis throughout the year, and overall there continued to be significant headroom in the Company's liquidity position against its risk appetite.

C.4.2 Risk concentration

The credit limit framework described in section C.3.2 above also avoids concentrations of liquidity risk by preventing investment in a restricted number of issuers, asset classes and sectors. The diversity of sources of liquidity available to the Company averts concentration of liquidity risk.

C.4.3 Risk mitigation

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

- Daily monitoring of projected short-term cash flow needs;
- Setting an investment strategy which reflects liquidity requirements and the potential liquidity profile of liabilities;
- Setting liquidity risk appetites which require that sufficient liquid resources be maintained to cover net outflows in a stress scenario over a range of timeframes;
- Defining trigger levels that enable action to be taken before those levels are breached; and
- Maintaining a Capital and Liquidity Management Action Plan which details management actions to address liquidity funding requirements in a significant stress scenario.

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

- The internal controls, that enable effective liquidity risk management, are subject to assurance testing to ensure they operate effectively; and
- Actual and projected liquid resources, cash inflows and outflows, as well as maturity analyses on insurance liabilities and financial assets, in both normal and stressed scenarios, are regularly reported to and monitored by the ALCO and the Board's Risk Committee, against pre-defined trigger points to enable appropriate oversight and identify any appropriate actions.

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

The amount of EPIFP, calculated in accordance with Article 1 of the SII Regulations and included within the valuation of the Company's technical provisions at 31 December 2022, is £77m (*2021: £40m*). (See the Own Funds QRT S.23.01.01, Appendix F.1.6).

C.4.5 Stress and scenario testing and sensitivity analysis

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

C.5. Operational Risk

C.5.1 Exposure

The Company's exposure to operational risk arises in the UK, and through its principal subsidiaries in Ireland and Canada, from the risk of direct or indirect loss, caused by inadequate or failed internal processes, people and systems, or external events including changes in the regulatory environment. The Company has a limited appetite for operational risk and aims to reduce these risks as far as commercially sensible and has an Operational Risk Appetite measuring the risk and control environment.

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

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

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

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

The Company holds economic capital, based on the SII SCR, against residual operational risk, to the extent that it cannot be eliminated by management action. QRT S.25.02.21 (Appendix F.1.7) shows that the Company's undiversified SCR for operational risk is £380m *(2021: £400m)*. The Company also produces specific conduct risk management information used to measure and analyse its exposure to conduct risk.

C.5.2 Risk concentration

The Company's scale and business model as a multi-business line, multi-locational and multi-channel business, creates diversification of risks and generally helps to reduce concentrations of risks particularly when risks across the Company and its subsidiaries are aggregated. The Company also works with a wide range of outsourcers to support delivery of its services and products. Further information is provided in section B.7.

The Company's operations are spread across a number of office locations that are geographically well spread, which would help ensure continuity of service in the event of catastrophe. During the pandemic homeworking has become prevalent increasing the physical diversification of the Company's operations.

The majority of the Company's products are sold under the 'Aviva' brand, enabling leverage on the strength of the brand and supporting delivery of the Company's business strategy. The Company is therefore vulnerable to any operational failures that adversely impact public perception of the 'Aviva' brand.

C.5.3 Risk mitigation

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

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

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

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

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

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

C.5.4 Stress and scenario testing and sensitivity analysis

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

C.6 Other Material Risks

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

C.7 Any Other Information

C.7.1 Stress and scenario testing and sensitivity analysis

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

There are three main components of SST: (1) sensitivity analyses which consider single factor standalone impacts at a point in time to changes in economic and non-economic assumptions; (2) scenario analyses which consider impacts from specific potential events; and (3) the identification of plausible management actions.

The Company's stress and scenario methodology is based on the following stages:
- Identify existing and emerging risks;
- Measure resilience to stress events and scenarios;
- Monitor the impact of the potential stress events and scenarios on actual and projected capital and liquidity positions;
- Manage the potential stress events and scenarios by setting risk appetites and defining management actions; and
- Report, as required, to the ALCO, the Board's Risk Committee, the Board and the PRA.

C.7.1.1 Stress and scenario testing

At least annually, a broad range of Company risk specific stress and scenario tests are defined in consultation with key stakeholders to assess the impact of a range of potential events of differing levels of severity on the capital and liquidity positions of the Company. The stress and scenario tests performed by the Company, during 2022, included adverse economic conditions, inflationary scenarios, catastrophic events, reserve deterioration, counterparty default, operational failings and regulator defined tests.

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

The outcome of the Company's 2022 SST serves to illustrate that the Company is resilient to a wide range of potential events and that the Company has a range of plausible management actions that could be executed in a timely manner, to mitigate the potential impacts from Company-specific or market-wide events.

C.7.1.2 Sensitivity analysis

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

The sensitivity analysis performed by the Company includes consideration of the sensitivity of its SII cover ratio, determined according to the SII Regulations, to a range of assumption changes, including the impact on its underlying exposure to ACI and AIIDAC. The table below shows the absolute change in SII cover ratio, for each sensitivity, e.g. a 3% positive impact would result in an increase in the cover ratio by 3%.

Sensitivity to assumptions at 31 December 2022	Impact on cover ratio
Economic assumptions	
50bps increase in interest rates	**7%**
100bps increase in interest rates	**14%**
200bps increase in interest rates	**29%**
50bps decrease in interest rates	**-7%**
100bps decrease in interest rates	**-15%**
200bps decrease in interest rates	**-31%**
50bps increase in corporate bond spreads	**0%**
50bps decrease in corporate bond spreads	**0%**
50bps increase in sovereign bond spreads	**-5%**
50bps decrease in sovereign bond spreads	**6%**
50bps increase in long-term claims inflation	**-10%**
50bps decrease in long-term claims inflation	**9%**
20% decrease in property values	**-3%**
25% decrease in equity prices	**-4%**
Non-economic assumptions	
5% increase in gross loss ratios	**-17%**

Limitations of the sensitivity analyses

The table above demonstrates the effect of a change in a key assumption while other assumptions remain unchanged whereas in reality, sensitivities are dynamic in nature as they will vary in quantum due to interactions with other risks and changes in values of those risks.

Other limitations in the sensitivity analyses include:
- The economic assumptions are hypothetical market movements selected to represent the Company's view of possible near-term market changes but which cannot be predicted with certainty;
- The sensitivities are non-linear, and larger or smaller impacts cannot be interpolated or extrapolated from the outcome; and
- The sensitivities assume that all interest and inflation rates move at the same rate at all durations.

C.7.2 Prudent Person Principle

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

Aviva Insurance Limited

Solvency and Financial Condition Report

2022

D. Valuation for Solvency Purposes

In this Chapter

D. Valuation for Solvency Purposes

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

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

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

- Under the SII Regulations cash flows relating to reinsurance premiums are included within Reinsurance Recoverables, and cash flows relating to premiums, and policyholder tax and profit share commissions are included within technical provisions. In the IFRS balance sheet these amounts are included within reinsurance payables, insurance and intermediaries receivables and other liabilities respectively.
- Loans and amounts receivable from, and payable to, Group companies under IFRS, are reclassified within the SII balance sheet to the relevant underlying nature of the balance. Material amounts have been reclassified as Loans and Deposits from reinsurers.
- Investments, including cash equivalents, are reclassified under SII. They also include accrued investment income which is classified within prepayments and accrued income under IFRS.

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

Where the valuation of assets and liabilities is the same under IFRS and SII, a description of the bases, methods and main assumptions can be found in the accounting policies and notes of the Company's financial statements. If the valuation is materially different, a description of the bases, methods and main assumptions used under SII is given in Sections D.1, D.2.1 and D.3 below. Where alternative methods of valuation have been used these are detailed in Section D.4.

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

The Company applied the following hierarchy of valuation approaches:

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

The Company considers markets to be active where transactions take place with sufficient frequency and volume for pricing information to be available on an ongoing basis. Where the Company has concluded that markets are not active, alternative methods for valuation are used. The assets classified as Level 1 and Level 2 under IFRS 13, are deemed as market consistent under SII. The assets classified as Level 3, for which there is no active market, are considered to use alternative valuation methods under SII.

In line with SII Regulations, the value of the Company's investments in its principal subsidiaries, ACI and AIIDAC, are included within participations in both the SII and IFRS balance sheets. The investments are not disaggregated into ACI and AIIDAC's underlying assets, technical provisions and other liabilities. However, when considering the Company's risks and calculating the Company's SCR (unaudited) the underlying risks of ACI and AIIDAC and the Company's other subsidiaries are taken into account.

Balance Sheet – IFRS and SII

As at 31 December 2022 £m	Note in financial statements	IFRS balance sheet classified according to financial statements (b)	Reclassification of IFRS balances to SII balance sheet categories (c)	Reclassified IFRS balance sheet (d) =(b)+(c))	SII balance sheet (e)	Valuation differences between SII and IFRS (f) =(e)-(d)
Goodwill	M & 9	—	—	—	—	—
Deferred acquisition costs	Y & 17	671	—	671	—	(671)
Prepayments and accrued income	17	229	(229)	—	—	—
Intangible assets	M & 9	77	31	108	—	(108)
Deferred tax assets	CC & 23	168	—	168	150	(18)
Current tax liabilities	CC & 23	32	(32)	—	—	—
Property, plant and equipment (own use)	N & 11	14	—	14	25	11
Property (other than own use)	O & 12	202	—	202	202	—
Participations	C&D & 10	1,726	442	2,168	1,618	(550)
Financial investments						
Equities	R & 15	111	(104)	7	7	—
Bonds	R & 15	2,770	29	2,799	2,799	—
Collective investment undertakings	R & 15	1,224	566	1,790	1,790	—
Derivatives	V & 15	563	31	594	594	—
Deposits other than cash equivalents	R & 15	—	98	98	98	—
Loans		—	1,008	1,008	1,008	—
Reinsurance recoverables	L & 22	5,645	(76)	5,569	4,383	(1,186)
Receivables						
Insurance and intermediaries	S & 16	1,763	(1,739)	24	24	—
Reinsurance	S & 16	85	61	146	146	—
Trade, not insurance	S & 16	12	389	401	401	—

Amounts due from Group companies	S & 16	261	(261)	—		—
Loans due from Group companies	S & 16	1,008	(1,008)	—		—
Group relief assets	S & 16	142	(142)	—		—
Cash and cash equivalents	Z & 30	1,127	(1,001)	126	126	—
Other assets	S & 16		49	49	49	—
Assets		**17,830**	**(1,888)**	**15,942**	**13,420**	**(2,522)**
Technical provisions	K & 21	(9,604)	1,538	(8,066)	(6,319)	1,747
Other provisions	BB & 24	(14)	9	(5)	(5)	—
Deferred tax liabilities	CC & 23			—	(5)	(5)
Payables and other financial liabilities						
Deposits from reinsurers	T & 26		(3,667)	(3,667)	(3,667)	—
Derivatives	V & 26	(396)	41	(355)	(355)	—
Debts owed to credit institutions	T & 26	(448)		(448)	(448)	—
Financial liabilities other than debts owed to credit institutions	T & 26	(169)		(169)	(169)	—
Insurance and intermediaries payable	T & 26	(171)		(171)	(171)	—
Reinsurance payables	T & 26	(209)	72	(137)	(137)	—
Payables (trade, not insurance)	T & 26	(22)	(254)	(276)	(276)	—
Other payables	T & 26	(42)	42	—		—
Amounts due to Group companies	T & 26	(3,805)	3,805	—		—
Subordinated liabilities	T & 26	(294)		(294)	(294)	—
Other liabilities	27	(853)	302	(551)	(183)	368
Liabilities		**(16,027)**	**1,888**	**(14,139)**	**(12,029)**	**2,110**
Excess of assets over liabilities		**1,803**	**—**	**1,803**	**1,391**	**(412)**

Accounting Policy F – 'Fair value measurement' and note 14 – 'Fair value methodology' in the Company's financial statements, provide additional information on the fair value of property (other than for own use), financial investments and receivables.

D.1 Assets

Assets have been valued according to the requirements of the SII Directive and related guidance; the basis of the SII valuation principle is the amount for which they could be exchanged between knowledgeable willing parties in an arm's length transaction. A description of the basis of valuation under SII along with valuation differences between the SII bases and the IFRS financial statements, by asset class, is provided below; if the valuation method has been described in the financial statements or is an alternative method of valuation detailed in Section D.4, it has not been included in this section.

D.1.1 Intangible assets

Intangible assets are valued at £nil (*2021: £nil)* under SII.

D.1.2 Deferred acquisition costs

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

D.1.3 Deferred tax assets and liabilities

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

Assets are recognised to the extent that it is probable that future taxable profits will be available against which they can be utilised. Future taxable profits include taxable liabilities and profits arising from new business. The release of the Risk Margin (unaudited) is not considered to be a source of future profits. Assets are recognised separately to the extent they cannot be offset against corresponding deferred tax liabilities.

The deferred tax asset arises on unused trading losses and other temporary differences. In addition, the Company has unrecognised gross tax losses (excluding capital losses) of £195m (*2021: £377m*) to carry forward against future taxable profits. These trading losses have no expiry date.

The Company also has unrecognised capital losses of £225m (*2021: £229m)*. These have no expiry date.

A deferred tax liability is recognised on the surplus on the London and Edinburgh Retirement and Death Plan, of which the Company is the principal sponsoring employer.

D.1.4 Property, plant and equipment (own use)

Under IFRS 16, lessees are required to recognise lease assets and liabilities on the statement of financial position for all leases, with the exception of short-term and low-value leases. Where the Company is the lessee, a lease liability equal to the present value of outstanding lease payments and a corresponding right-of-use asset equal to cost are initially recognised. The right-of-use asset is subsequently measured at amortised cost and depreciated on a straight-line basis over the length of the lease term. Depreciation on lease assets and interest on lease liabilities is recognised in the income statement.

Under SII, the leased asset is held at fair value which is deemed to be equal to the related lease liability for unimpaired assets, and equal to the IFRS asset value for impaired assets .

D.1.5 Property (other than own use)

Investment property held for long-term rental yields and not occupied by the Company is stated at its fair value under IFRS. There is no difference between IFRS and SII valuation basis. Further detail is provided in section D.4.

D.1.6 Participations

Under SII participations are valued, using the adjusted equity method, at the Company's share of the excess of assets over liabilities of each entity, valued on a look through basis to the SII value of the assets and liabilities of the entity. Further detail is provided in section D.4.

Under IFRS, subsidiaries are stated at cost less impairment.

The reduction in value of participations under SII predominantly relates to the Company's investments in ACI, AIIDAC and Aviva UK Digital Limited.

Associates relate to holdings in collective investment undertakings are carried at fair value, as detailed in section D.1.7.

D.1.7 Financial investments

All financial investments, primarily consisting of debt securities and unit trusts, are measured at fair value for both SII and IFRS purposes. Fair value is obtained from quoted market prices or, if these are not available, by using relevant valuation techniques. Further information on financial investments valued using an alternative method to either a quoted market price or a quoted market price for a similar asset is included in section D.4.

Listed equity securities, bonds and exchange traded derivatives in the IFRS financial statements are fair valued using quoted market prices. This methodology is consistent with SII. Unlisted equities are fair valued using a range of techniques details of which are outlined in section D.4.

Collective investment undertakings are carried at fair value using quoted unit prices which is consistent with SII. The SII valuation of deposits other than cash equivalents is in line with the IFRS treatment.

D.1.8 Reinsurance recoverables

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

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

Reinsurance recoverables, consistent with the calculation of technical provisions - best estimate liabilities, includes expected recoveries from pre-inception contracts where they occur within the premium or claims provisions.

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

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

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

The Company does not have any Special Purpose Vehicles.

D.1.9 Assets arising from leasing arrangements

The Company has a material leasing arrangement in respect of property occupied by the Group. Leasing arrangements are detailed in section A.4.2, with further information provided in note 13 to the financial statements.

D.1.10 Changes made to recognition and valuation bases and estimations during the reporting period

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

D.2 Technical Provisions

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

D.2.1 Valuation of Technical Provisions

Technical provisions which comprise Best Estimate Liabilities and a Risk Margin (unaudited) are summarised in the table below. Best estimate liabilities are gross of reinsurance. The figures are also detailed in the QRT S.17.01 (Non-life Technical Provisions) and S.12.01 (Life Technical Provisions), see Appendix F.1.3.

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

As at 31 December 2022 £m	Best Estimate Liabilities	Risk Margin (unaudited)	Technical Provisions
Motor vehicle liability	1,917	55	1,972
Other motor insurance	201	4	205
Fire and property damage	1,425	41	1,466
General liability insurance	1,950	42	1,992
Other	130	2	132
Non-life insurance obligations	**5,623**	**144**	**5,767**
Health (similar to non-life) insurance obligations	**97**	**3**	**100**
Annuities stemming from non-life insurance	434	18	452
Life insurance obligations	**434**	**18**	**452**
Total	**6,154**	**165**	**6,319**

D.2.1.1 Non-life and health (similar to non-life) Best Estimate Liabilities

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

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

The Company's Best Estimate Liabilities are valued based on the present value of future cash flows discounted using relevant risk-free interest rates adjusted for the PRA prescribed credit risk adjustment and Volatility Adjustment (see section D.2.4) at the valuation date. The cash flows that are considered when calculating the Best Estimate Liabilities derive from:

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

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

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

Claims costs

The ultimate cost of outstanding claims is estimated using a range of standard actuarial claims projection techniques. The main assumption underlying these techniques is that the Company's past claims experience can be used as a basis to project future claims. Therefore, these methods extrapolate the development of paid and incurred losses, average costs per claim and claim numbers based on the observed development of earlier years. The recent period of elevated claims inflation and supply chain disruption has distorted historic development patterns. The Company has developed bespoke inflation models to help quantify these impacts. Explicit overlays can then be made to the outputs from the standard reserving tools where necessary. The estimation of ultimate claims costs is done at the level of homogeneous risk groups. These groups are mapped to SII lines of business.

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

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

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

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

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

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

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

Future management actions
There are no future management actions assumed in the calculation of the Company’s gross of reinsurance Best Estimate Liabilities at 31 December 2022.

D.2.1.2 PPO Best Estimate Liabilities
The Company’s Best Estimate Liabilities for PPO, in common with non-life business, are valued based on the present value of future cash flows discounted using the relevant risk-free interest rate adjusted for the PRA prescribed credit risk adjustment and Volatility Adjustment at the valuation date. The cash flows that are considered when calculating the Best Estimate Liabilities for PPO derive from:

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

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

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

D.2.1.3 Risk Margin *(unaudited)*
The Risk Margin is an estimate of the amount, in addition to the Best Estimate Liability, that a third party would expect to receive in order to assume ownership of the Company’s insurance obligations. The Risk Margin is calculated using a cost of capital approach allowing for diversification between lines of business and is on a net-of-reinsurance basis. The calculation of the Risk Margin is defined as the present value of the cost of capital applied to the SCR (unaudited) in respect of non-hedgeable risks in each future year.

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

Discount rate

The rate used to discount the projected non-hedgeable SCR (unaudited) is the basic risk-free rate (including credit risk adjustment), with no allowance for volatility or matching adjustments, where applicable.

Non-hedgeable risk

The SCR (unaudited) in the Risk Margin calculation takes the following risks into account:
- Underwriting risks (non-life, health and life);
- Non hedgeable market risk (except interest rate risk), where it is material;
- Counterparty default risk with respect to reinsurance contracts; and
- Operational risk.

All market risks in respect of investment assets are considered hedgeable. Careful consideration has been given to the extent to which inflation risk in respect of the liabilities should be regarded as hedgeable, consistent with the risk categorisation within the IM. Any inflation risk other than traded price inflation (defined as RPI for UK business and Euro Harmonised Index of Consumer Prices for Irish business) is regarded as non-hedgeable. This includes the excess of claims inflation over traded price inflation, which is considered within the assessment of insurance risk. There is a deep, liquid and transparent market in the UK for instruments whose value is linked to price inflation and so price inflation risk on the opening Best Estimate Liabilities is considered hedgeable. The additional price inflation risk arising from variation from the Best Estimate Liabilities is not however considered hedgeable.

While reinsurance credit risk, and some underwriting risks, may be hedgeable in practice using credit default swaps etc., the Risk Margin calculation assumes that these risks are not hedged after the business is transferred to the third party.

Projection of the non-hedgeable risk SCR *(unaudited)*

In order to project the non-hedgeable SCR which underpins the Risk Margin, simplifications are selected from the hierarchy set out by the PRA to ensure that the Risk Margin calculation remains proportionate to the nature, scale and complexity of the business.

The projected risks are then aggregated using a correlation matrix approach at each future time period.

Loss absorbing capacity

The loss absorbing capacity of technical provisions assumed in the projection of the non-hedgeable risk SCR 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.

Allocation of the Risk Margin to SII line of business

The Risk Margin is allocated across lines of business using an approximation to the Euler allocation method for IM business units. For SF business units, one of the two prescribed methods is adopted:
- Allocation according to time zero non-hedgeable SCRs (unaudited); or
- Allocation according to present value of non-hedgeable SCRs (unaudited).

Methodology

In projecting the non-hedgeable risk SCR (unaudited), the Company has adopted an enhanced version of the second approach in the PRA hierarchy. The SCR (unaudited) is projected by model calculation class and risk category and allows for an increase in relative volatility as the risks run-off to reflect that smaller portfolios are inherently more volatile.

D.2.1.4 Simplifications

Best Estimate Liabilities

In some areas of the calculation of the SII Best Estimate Liabilities, simplified methods have been used. The simplifications used have been assessed and have no material impact on the value of SII Best Estimate Liabilities. Where simplified methods are used, these are documented and justified in the Company's reserving reports and documentation. The main simplifications within the calculation of SII Best Estimate Liabilities are:
- The majority of the Company's Best Estimate Liabilities are in sterling. As part of the calculation of technical provisions, the Company segments any material exposure to United States Dollars (USD) and Euro (EUR) currencies. On materiality grounds, exposure to currencies outside of sterling, USD and EUR are not separately segmented and are instead converted to sterling at prevailing exchange rates;
- Only material inwards reinsurance arrangements are separately modelled;
- The Company's Best Estimate Liabilities include a provision in relation to ENID. For the purposes of discounting cashflows, it is assumed that ENID have the same cashflow profile as other claims;
- Cashflows are modelled in monthly time intervals for the first 10 years and annually thereafter. For the purposes of discounting, all payments are assumed to occur mid-month or mid-year as dictated by the time intervals used;
- When calculating provisions for potential reinsurer default, reinsurance assets are grouped by reinsurer counterparty credit rating and within each credit rating the same probabilities of default are assumed;
- Gross premium debtors are split by class of business and payment date based on the split of written premium; and
- The volume of Legally Obliged Unincepted business has been estimated based on a proportion of January's planned written premium for most classes of business. For some commercial lines business, the volume has been estimated individually for each class in conjunction with the Group's underwriting teams to allow for business accepted under long-term agreements.

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

At 31 December 2022 profit commission accruals, other than overdue amounts, are reported within SII Best Estimate Liabilities. In previous reporting periods profit commission accruals related to historic exposure were reported within other liabilities.

D.2.2 Level of uncertainty

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

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

Specific areas of uncertainty are:

- In the course of conducting 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, environmental hazards and sporting injury. 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 and the availability of legacy reinsurance, the ultimate cost cannot be determined with certainty. Gross of reinsurance the level of uncertainty within the technical provisions for latent claims is high. The Company has extensive reinsurance in place against these claims so net of reinsurance the level of uncertainty is insignificant.
- PPO represent a material 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 PPO as opposed to lump sum awards. Gross of reinsurance the level of uncertainty within the technical provisions for PPO is very high. The Company purchases reinsurance to mitigate longevity risk in relation to these claims, which materially reduces the level of uncertainty.
- The COVID-19 pandemic and actions taken to mitigate it increase uncertainty. See section C.1 for further detail on the impact of COVID-19, including Business Interruption claims, on the underwriting risk profile of the Company.
- The Ogden discount rate used in setting the value of lump sum settlements for injury claims is subject to change and could lead to material changes in the reserves. A rate of -0.25% was announced by the Lord Chancellor in July 2019 and the next rate will be announced July 2024 at the latest. Increased volatility in the economic outlook adds to the uncertainty in expectations of the future rate.
- The wider economic environment has led to increasing inflationary pressure emerging during 2022 which is expected to persist in 2023 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.2.3 Material differences between the SII and IFRS valuation bases

The following table summarises gross of reinsurance SII technical provisions by material line of business and compares these to IFRS reclassified technical provisions. The information contained in this table is an extract from the SII Balance Sheet QRT S.02.01, presented in Appendix F.1.1.

Technical Provisions at 31 December 2022 £m	Best Estimate Liabilities	Risk Margin (unaudited)	Technical Provisions	IFRS reclassified Technical Provisions	Difference between SII and IFRS reclassified Technical Provisions
Non-life insurance obligations	**5,623**	**144**	**5,767**	**7,449**	**(1,682)**
– Motor vehicle liability	1,917	55	1,972	2,245	(273)
– Other motor insurance	201	4	205	326	(121)
– Fire and property damage	1,425	41	1,466	2,072	(606)
– General liability insurance	1,950	42	1,992	2,573	(581)
– Other	130	2	132	233	(101)
Health (similar to non-life) insurance obligations	**97**	**3**	**100**	**149**	**(49)**
Life insurance obligations	**434**	**18**	**452**	**468**	**(16)**
Total	**6,154**	**165**	**6,319**	**8,066**	**(1,747)**

On materiality grounds the Other Non-life row of this table groups together a number of the smaller non-life lines of business.

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

- SII technical provisions include the Risk Margin (unaudited), which is not included within IFRS Provisions, and which increases SII technical provisions compared to IFRS Provisions. This impacts on all lines of business, but has the greatest impact on the Life, Motor Vehicle Liability and General Liability insurance lines of business;
- An explicit margin for uncertainty is included within IFRS Provisions but removed under SII. This impacts all lines of business and reduces SII technical provisions compared to IFRS Provisions;
- Only long-tailed claims reserves (predominantly latent claims within General Liability insurance and PPO claims) are discounted within IFRS Provisions, whereas all cash flows are discounted under SII. This difference reduces SII technical provisions compared to IFRS Provisions and affects all lines of business, but with the most material impact on the Motor Vehicle Liability and General Liability

insurance lines of business given these classes typically contain longer duration cash flows which see relatively larger impacts from discounting under SII;

- The rate used to discount cash flows for PPO claims within IFRS Provisions is higher than that used under SII. This increases SII technical provisions compared to IFRS Provisions and impacts the Life line of business which contains the Company's PPO claims in payment, as well as the Motor Vehicle Liability and, to a lesser extent, General Liability insurance lines of business which include provisions for claims which are expected to settle as PPO claims in the future;
- The rate used to discount cash flows for latent claims within IFRS provisions is lower than that used under SII, which reduces SII technical provisions compared to IFRS provisions. This impacts the General Liability insurance line of business;
- The unearned premium reserve established under IFRS for all Non-life and Health lines of business is replaced with a Best Estimate premium provision which incorporates the expected cost of claims and expenses on the unearned periods of exposure. This typically leads to a lower premium provision under SII than the equivalent unearned premium reserves under IFRS. This difference impacts all non-life and health lines of business, but has proportionately larger impacts on the Fire and Property Damage and other non-life lines of business; and
- Under SII, provisions are established for Legally Obliged Unincepted Business, whereas these provisions are not included within the IFRS valuation basis. This difference impacts all Non-life and Health lines of business. This typically reduces SII technical provisions compared to IFRS provisions to the extent Legally Obliged Unincepted business is profitable.

D.2.4 Volatility Adjustment

The Volatility Adjustment removes temporary distortions in spreads caused by illiquidity in the market or extreme widening of credit spreads, in particular in relation to government bonds. The PRA has approved the Company's application to apply a Volatility Adjustment (PRA reference number: 2191473). The impact of the Volatility Adjustment on technical provisions, basic own funds, eligible own funds to meet the SCR, the SCR (unaudited), eligible own funds to meet the minimum Capital Requirement (MCR) and the MCR is detailed in the Long Term Guarantees and Transitional measures QRT S.22.01 (see Appendix F.1.5). The impact of removing the Volatility Adjustment from gross SII technical provisions would be to increase their value by £72m (*2021: £62m*).

D.2.5 Other reliefs

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

D.3 Other Liabilities

Other liabilities have been valued according to the requirements of the SII Directive and related guidance; the basis of the SII valuation principle is the amount for which they could be exchanged between knowledgeable willing parties in an arm's length transaction. A description of the basis of valuation under SII along with valuation differences between the SII bases and the IFRS financial statements, by material class, is provided below; if the valuation method has been described in the financial statements or is an alternative method of valuation detailed in Section D.4, it has not been included in this section.

The Company's financial statements provide information about contingent liabilities and other risk factors in note 28. The Company has no additional material contingent liabilities to recognise under SII.

D.3.1 Payables and other financial liabilities

Payables and other financial liabilities are recognised initially at their fair value and are subsequently measured at amortised cost using the effective interest rate method, under IFRS. There are no material differences between the IFRS value and fair value under SII.

D.3.2 Other liabilities

Reinsurers' share of deferred acquisition costs of £345m (*2021: £323m*)and deferred income of £22m (*2021: £22m*), included within other liabilities under IFRS, are not recognised and therefore valued at £nil in the SII Balance Sheet. The associated cash flows are included in the valuation of SII technical provisions.

Material differences in the valuation of technical provisions are explained in Section D.2.3.

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

D.3.3 Liabilities arising from leasing commitments

Leasing arrangements and the impact of adopting IFRS 16 are detailed in section A.4.2, with further information on future contractual aggregate minimum lease payment commitments under non-cancellable operating leases provided in note 13 to the financial statements.

D.3.4 Assumptions, judgements and uncertainty

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

D.3.5 Changes made to recognition and valuation bases and estimations during the reporting period

No material changes were made to the bases used to recognise and value other liabilities, or to their estimations, during the reporting period.

D.4 Alternative Methods of Valuation

The majority of the Company's assets and other liabilities are valued using quoted market information or observable market data. Maximum use has been made of market observable inputs when alternative methods of valuation have been adopted. The material assets and other liabilities, disclosed in the Balance Sheet QRT in Appendix F.1.1, that have alternative methods of valuation methods applied are as follows:

Participations

Participations of £1,176m (*2021: £1,339m)* are valued at the Company's proportionate equity share of the excess of assets over liabilities of each subsidiary, valued on a look through basis to the SII value of the assets and liabilities of the entity. This method is used because quoted prices from active markets in the equity of the subsidiaries are not available. The Company's investment in participations largely relates to its principal subsidiary ACI. Most of ACI's assets and liabilities are valued using quoted market information or observable market data. However, ACI values net Defined Benefit Obligations of £62m (*2021: £72m)* in accordance with the requirements of IAS19: Employee Benefits. The present value of future benefits is determined by projecting members' entitlements to the assumed retirement age. Expected payments are discounted to the valuation date reflecting future interest rates and mortality.

Property, plant and equipment (for own use)

Property held for own use includes leased assets that are measured at amortised cost and depreciated on a straight-line basis over the length of the lease term. Under SII, the leased asset is held at fair value which is deemed to be equal to the related lease liability for unimpaired assets and equal to the IFRS value for impaired assets. The lease liability is equal to the minimum lease payments, consisting of future expected cashflows discounted using the interest rate implicit in the lease. This approach means that the uncertainty relating to the valuation of property (other than own use) net of lease liabilities is immaterial.

Property (other than for own use)

Property (other than for own use) of £202m (*2021: £271m)* is recognised at its fair value as assessed by qualified external valuers using a discounted cash flow approach. The valuation uncertainty of investment property has been assessed by reference to a study of sales prices achieved in commercial real estate transactions against their previous valuations. This assessment indicates that the uncertainty relating to the valuation of property (other than own use) is immaterial.

Property funds

Collective investment undertakings include property funds of £126m (*2021: £95m*). The underlying properties are valued based on external valuation reports received from fund managers. As with directly held property, the underlying properties are valued by third party surveyors using a discounted cash flow approach. An assessment of the valuation uncertainty of property funds was completed reviewing secondary prices where available and reviewing the underlying property elsewhere, consistent with the assessment of directly held property. This indicated that the valuation uncertainty is immaterial.

Private equity funds

Holdings in private equity funds related to sustainable and fintech investments of £85m (*2021: £nil)*. The holdings are revalued each quarter based on the most recent fund net asset value report combining updated values from the previous quarter, with the impact of any further capital contributions since that date. An assessment is made to consider whether an adjustment to the valuation is required for latest market conditions. While the illiquid nature of these investments means that valuation uncertainty is higher in relative terms, the absolute uncertainty is not material due to the size of holdings.

Loans receivable

Loans receivable, of £1,008m (*2021: £985m)* under SII, comprises of the Company's loans to its immediate parent AGH of £500m (*2021: £500m)* and the subordinated loans to its subsidiary ACI of £214m (*2021: £204m)* and £294m (*2021: £281m)*. These loans are valued using an income approach, which reflects the present value of contractual cash flows using discount rates calibrated as far as possible to relevant market observable parameters and taking into account any embedded features of the loan. The valuation uncertainty associated with loans receivable is considered to be immaterial.

Subordinated loan payable

The subordinated loan payable to AGH is valued at £294m (*2021: £281m)* (translated from CAD480m at the year-end exchange rate) using an income approach which reflects the present value of contractual cash flows using discount rates calibrated as far as possible to relevant market observable parameters and taking into account any embedded features of the loan. In accordance with SII guidance, the discount rate is not adjusted for changes in credit risk of the borrower. The absolute valuation uncertainty associated with the subordinated loan payable is immaterial.

Derivatives

Derivative assets and liabilities, with SII values of £594m (*2021: £149m)* and £355m (*2021: £237m)* respectively, are stated at fair value under IFRS and SII but include accrued income under SII. This is classified separately under IFRS. The majority of derivatives are over-the-counter derivatives and are valued by the broker based on an income approach using either discounted cash flow models or option pricing models and applying market observable inputs. The valuations are validated against counterparty statements. The absolute valuation uncertainty associated with derivatives is immaterial.

Adequacy of 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 over-the-counter derivatives and publicly traded bonds), this involves comparing the primary valuation to a secondary independent source, investigating material differences and making a valuation adjustment where appropriate.

For asset classes where a secondary source is not available and there is no secondary trading activity (such as property (other than for own use) and private equity), the Company relies on the implementation of accepted valuation standards by parties independent of the Group (e.g. valuation of investment property in line with the methodologies described in the RICS "red book"). These are asset classes with considerable valuation uncertainty and 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 Information

D.5.1 Any Other Information

The Company is implementing IFRS 17 insurance contracts from 1 January 2023. The adoption of IFRS 17 significantly impacts the measurement and presentation of the contracts in scope of the standard as set out in detail on pages 17 to 20 of the Company's financial statements. However, the cash flows and underlying capital generation of the Company is unaffected by IFRS 17, and the standard will have no impact on Solvency II performance metrics.

The Company has no other material information to disclose.

Aviva Insurance Limited

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E. Capital Management

In this Chapter

E. Capital Management

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

E.1 Own Funds

E.1.1 Management of Own Funds

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

In managing its Own Funds the Company also seeks to:

- Match the profile of its assets and liabilities, taking account of the risks inherent in the business;
- Maintain sufficient, but not excessive, financial strength to support new business growth and satisfy the requirements of its policyholders and its regulator, the PRA;
- Retain financial flexibility by maintaining sufficient liquidity; and
- Allocate capital efficiently, applying it to support value-adding growth and repatriating excess capital to its shareholder through dividends.

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

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

E.1.2 Eligible Own Funds

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

Own Funds £m As at 31 December	Total 2022	Tier 1 (unrestricted) 2022	Tier 2 2022	Tier 3 2022	Total 2021	Tier 1 (unrestricted) 2021	Tier 2 2021	Tier 3 2021
Ordinary share capital	**204**	**204**	**—**	**—**	204	204	—	—
Reconciliation reserve	**1,037**	**1,037**	**—**	**—**	1,621	1,621	—	—
Subordinated loan	**294**	**—**	**294**	**—**	281	—	281	—
An amount equal to net deferred tax assets	**150**	**—**	**—**	**150**	120	—	—	120
Total Basic Own Funds	**1,685**	**1,241**	**294**	**150**	2,226	1,825	281	120

Tiering analysis

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

The Company's subordinated loan from AGH has the Tier 2 features of subordination and duration, as detailed below.

An amount equal to the value of net deferred tax assets is classified as Tier 3, as prescribed by the SII Regulations.

Subordinated loan

The Company has a subordinated unsecured loan arrangement from AGH of CAD 480m and matures in 2046. The interest rate payable on the loan was revised during year 2021, as a result of interest rate benchmark reform. The loan's CDOR reference rate component was transitioned to an equivalent CORRA rate plus a 49 basis points adjustment, to ensure the transition of the underlying risk free component is net neutral. Under the revised terms, the loan accrues interest at 6-month CORRA plus the 49 basis points adjustment plus a credit margin. The credit margin component is unchanged by the transition to CORRA and remains 474 basis points. The table below sets out the value of the subordinated loan:

As at 31 December	£m 2022	£m 2021
Unsecured loan arrangement from AGH	**294**	281
Total unsecured loans	**294**	281

Significant changes in Own Funds during the year

Tier 1 Own Funds of £1,241m (*2021: £1,825m*) decreased by £584m during the year. The decrease was mainly driven by dividends paid, partially offset by capital generated from the Company's operations and its subsidiary ACI.

In July 2022 the directors declared interim dividends of £329m that were paid in September 2022. In November and December 2022 the directors declared further interim dividends of £222m and £298m respectively. Both dividends were paid in the same month.

The Company did not issue or redeem any Own Fund items in the year.

Reconciliation reserve

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

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

As at 31 December	£m 2022	£m 2021
SII excess of assets over liabilities	**1,391**	1,945
Ordinary share capital	**(204)**	(204)
An amount equal to net deferred tax assets	**(150)**	(120)
Reconciliation reserve	**1,037**	1,621

Eligibility of tiered capital

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

At least 80% of the MCR must be covered by Tier 1 capital and Tier 3 capital is not eligible to cover the MCR at all. As a result eligible funds to meet the MCR are restricted, as shown in the table below.

As at 31 December	£m 2022	£m 2021
Total eligible Own Funds to meet the SCR	**1,685**	2,226
Total eligible Own Funds to meet the MCR	**1,321**	1,903

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

As at 31 December	2022	2021
Ratio of eligible Own Funds to the SCR	**167 %**	209 %
Ratio of eligible Own Funds to the MCR	**326 %**	488 %

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

The Company's Own Funds are equal to the excess of assets over liabilities on a SII basis plus the subordinated loan as set out in the following table.

As at 31 December	£m 2022	*£m* *2021*
Excess of assets over liabilities on a SII basis	**1,391**	1,945
Subordinated loan	**294**	281
Own Funds	**1,685**	2,226

The Company's excess of assets over liabilities on a SII basis was £412m *(2021: £513m)* less than its total equity on an IFRS basis. The following table details the material differences between the excess of assets over liabilities on a SII basis and total equity on an IFRS basis.

As at 31 December 2022	£m	£m	See Section
Total equity on an IFRS basis		1,803	
Elimination of goodwill and other intangible assets	(108)		D.1.1
Elimination of deferred acquisition costs	(671)		D.1.2
Valuation adjustments to investments in participations	(550)		D.1.6
Valuation adjustments to property, plant and equipment (own use)	11		D.1.4
Valuation adjustments to reinsurance recoverables	(1,186)		D.1.8
Valuation adjustments to technical provisions	1,747		D.2.3
Valuation adjustments to other liabilities	368		D.3.2
Net deferred tax adjustments	(23)		D.1.3
		(412)	
Excess of assets over liabilities on a SII basis		**1,391**	

E.1.4 Transitional arrangements and restrictions

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

E.2 Solvency Capital Requirement *(unaudited)* and Minimum Capital Requirement

E.2.1 The amount of the SCR and MCR

The Company's SCR at 31 December 2022 was £1,008m *(2021: £1,065m)*. This is shown in the SCR QRT, S.25.02, see Appendix F.1.7.

The Company's MCR at 31 December 2022 was £405m *(2021: £390m)*. This is shown on the MCR QRT, S.28.01, see Appendix F.1.8.

The final amount of the SCR is subject to supervisory assessment and does not include any regulator-imposed capital add-ons.

E.2.2 The composition of the SCR

The Company determines its SCR using a PIM. The SCR of the IM component, the SF component and the diversification benefit between the two is shown below:

As at 31 December	£m 2022	£m 2021
IM component	**941**	1,002
SF component	**111**	105
Diversification between the IM and SF components	**(44)**	(42)
Total SCR	**1,008**	1,065

The SCR comprises the material risk categories shown in the following table. This combines the IM and SF components. Further detail is shown in the SCR QRT S.25.02.

Diversified SCR by material risk category (per the SCR QRT) **As at 31 December**	**£m** **2022**	**£m** **2021**
Market risk	**693**	681
Non-life underwriting risk	**590**	605
Operational risk	**380**	400
Counterparty risk	**71**	80
Other	**(30)**	—
Diversification between risk categories	**(696)**	(701)
Total SCR	**1,008**	1,065

Diversification benefits between risks are primarily driven by the relative size of risks and the correlations between them. For example, two risks diversify more if they are similarly sized and diversify less the more highly correlated they are. Diversification is also influenced by the shape of risk distributions, in that risks where extreme events are more likely tend to diversify better. The diversification benefit of £696m *(2021: £701m)* in the table above is the diversification between the risk categories listed in the table. In addition, each risk category includes the impact of diversification within that risk. For example, the non-life underwriting risk includes underwriting and reserve risk along with the diversification between them.

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

Where the SCR is calculated using the SF, the SII regulations specify 23 simplified calculations that may be used across all the SF risk modules except operational risk. The use of these simplifications is disclosed in QRT S.25.02.21 (Appendix F.1.7), where applicable. The Company has not used any of these simplified calculations to calculate the SCR at 31 December 2022.

Where the SCR is calculated using the SF, the SII Regulations specify certain undertaking-specific parameters that may be used in place of the standard parameters, subject to regulatory approval. These are available for non-life (including some health) premium and reserve risks. The use of these undertaking-specific parameters must be disclosed in QRT S.25.02.21 (Appendix F.1.7), where applicable. The Company has not used any undertaking-specific parameters to calculate the SCR at 31 December 2022.

E.2.4 MCR calculation

The Company's MCR is calculated by applying prescribed factors to its written premium and its net Best Estimate Liabilities. In accordance with the SII Regulations, premium and Best Estimate Liabilities of subsidiary companies are not included in the calculation. The MCR is subject to two further constraints: it must lie in the range of 25% to 45% of the Company's SCR; and it cannot be less than an absolute minimum of €4.0m, translated to £3.4m for the year ended 31 December 2022 *(2021: £3.1m)*. The Company's MCR currently lies within this range.

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

The Company does not use the duration-based equity risk sub-module in the calculation of the Company's SCR.

E.4 Differences between the Standard Formula and any Internal Model used *(unaudited)*

E.4.1 Key uses of the IM

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

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

The granular metrics produced by the IM are used in setting the Company’s strategy and support a series of other activities including:
- Business planning, capital allocation, measurement of the risk-adjusted return and setting risk appetites;
- Improving pricing and product design by assessing the level of capital required to support different types of product;
- Assessing the appropriateness of potential acquisitions or business investments through the impact on surplus capital;
- Identifying the need for targeted reinsurance contracts to mitigate undesirable risk exposures, through modelling potential adverse scenarios; and
- Measuring the impact of market changes on assets and liabilities to drive investment strategy.

E.4.2 Scope of the IM and integration into the SF to derive the PIM

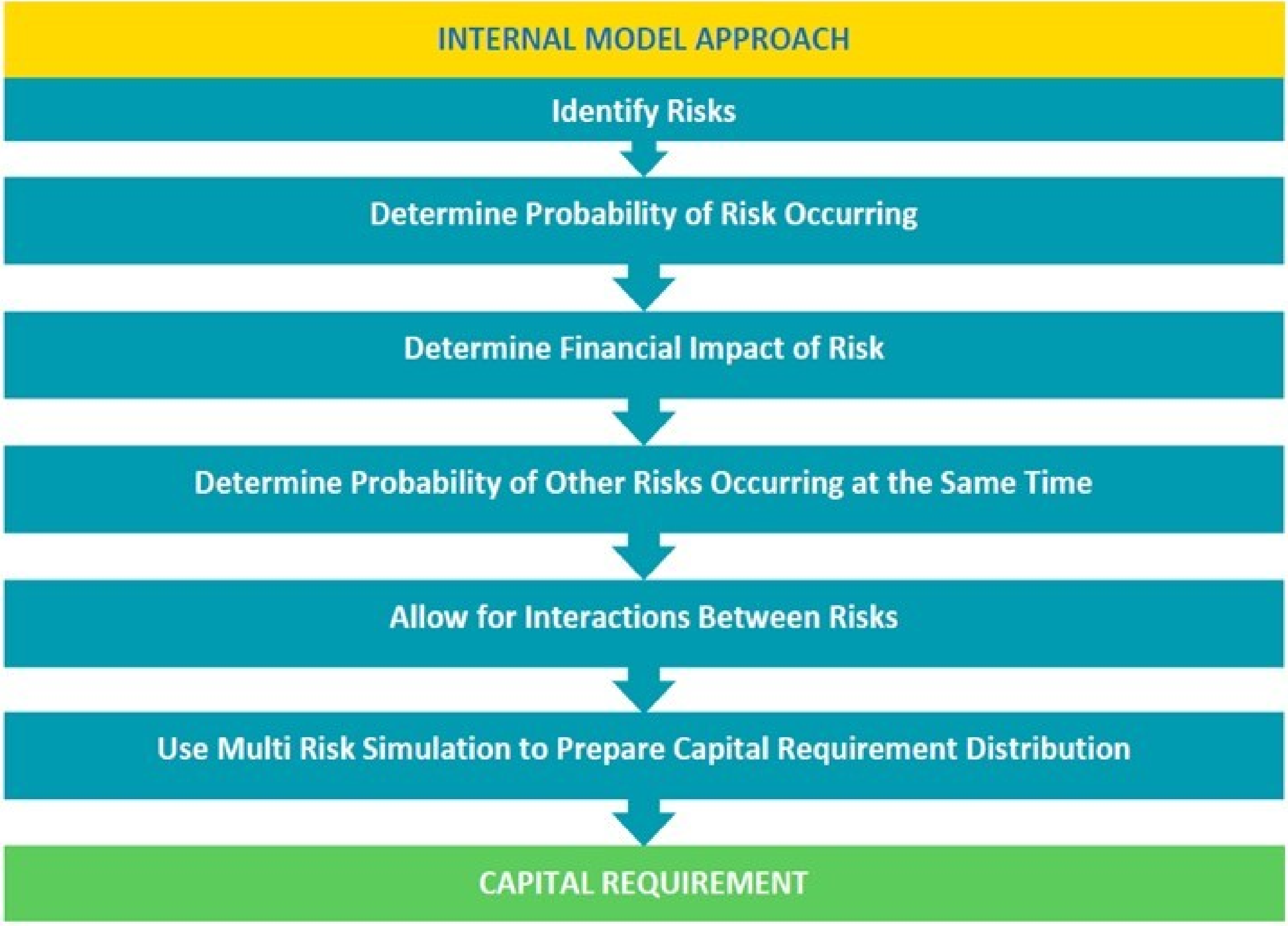
The Company uses a PIM to calculate its SCR (unaudited). The IM component covers all of the Company’s risk categories and takes into account the underlying risks of the Company’s subsidiaries, subject to the exclusions detailed below.

The SCR is calculated using SF for the following elements of the Company’s business:
- Private medical insurance business;
- ACI’s staff pension fund;
- Some of the Company’s non-insurance participations; and
- Business underwritten by the Company’s subsidiaries, AIIDAC and Gresham, to the extent it has not been reinsured to the Company.

The Company has chosen to use Integration Technique 2 within Method 2 as detailed in Annex XVIII of the SII Delegated Regulations, to combine the results of its IM and SF calculations. This technique requires specifying 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.

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

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



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

For the market risk factors standard statistical distributions are used which are fitted via the standard risk factor calibration process. However, for other risk types, such as non-life underwriting and operational risk, distributions are derived from further modelling processes. This approach is appropriate given both the materiality of these risk types and the desire to ensure the risk's behaviour is adequately captured.

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

Risk measure and time period used in the IM

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

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

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

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

Market risk

- The Company's IM includes the risk on sovereign bonds, which is not included in SF; and
- In the Company's IM interest rates are modelled in more detail to ensure changes in the slope and shape of the yield curve are captured. SF only considers the change in the level of interest rates.

Non-life underwriting risk
- Risks relating to latent claims and PPO are included in the IM using the Company's specific risk distributions. As SF does not explicitly address latent claims and PPO, a company using SF would need to devise undertaking specific parameters;
- Man made catastrophes are allowed for in the IM as an ENID, using Company-specific parameters and taking into account diversification benefits. SF computes the impact of man made catastrophes formulaically;
- In SF the impact of inflation is implicitly captured in the calibration of the premium and reserve risks. The Company's IM separately identifies and calibrates RPI movements that can be traded;
- The Company's IM employs a finer level of granularity for material lines of business which allows for more distinction between material product types and in particular between commercial and personal lines which are grouped in SF; and
- The Company's IM captures risks where the probability of extreme values is higher than normal, for example, PPO related to large personal injury claims. SF would not adequately capture the impact of these elements for the Company.

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

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

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

E.4.5 Data used in the IM
The data used in the Company's IM includes:
- Accounting data, computed on an IFRS basis, which is used in the valuation of assets and liabilities;
- Policy data from both policies in force and past policies that includes premium data, historic data on claims and exposure data covering potential catastrophic events such as on geographical concentrations;
- Operational risk data obtained from an external database covering industry operational risk losses, which is obtained from the Operational Risk Insurance Consortium;
- Financial market data, including asset data externally obtained such as from FTSE 100 index;
- Asset data including the market value of assets, most often derived from the accounting data; and
- Other data including numerical, census or classification information, but excluding qualitative information.

The SII Data Governance Group 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 the SCR calculation.

E.5 Non-Compliance with the Minimum Capital Requirement and Non-Compliance with the Solvency Capital Requirement *(unaudited)*
The Company has complied continuously with both the MCR and the SCR (unaudited) throughout the reporting period.

E.6 Any Other Information
E.6.1 Any Other Information
The Company has no other material information to disclose.

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F. Appendices

In this Section

F.0 Cautionary Statement

This announcement contains, and we may make other verbal or written 'forward-looking statements' with respect to certain of the Company's plans and current goals and expectations relating to future financial condition, performance, results, strategic initiatives and objectives (including, without limitation, climate-related plans and goals). Statements containing the words 'believes', 'intends', 'expects', 'projects', 'plans', 'will', 'seeks', 'aims', 'may', 'could', 'outlook', 'likely', 'target', 'goal', 'guidance', 'trends', 'future', 'estimates', 'potential' 'objective', 'predicts', 'ambition' and 'anticipates', and words of similar meaning, are forward-looking. By their nature, all forward-looking statements involve risk and uncertainty. Accordingly, there are or will be important factors that could cause actual results to differ materially from those indicated in these statements.

The Company believes factors that could cause actual results to differ materially from those indicated in forward-looking statements in the announcement include, but are not limited to: the impact of ongoing uncertain conditions in the global financial markets and the national 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 our investments; reduce the value or yield of our investment portfolio and impact our asset and liability matching; the impact of changes in short or long-term inflation; the impact of changes in equity or property prices on our investment portfolio; fluctuations in currency exchange rates; the effect of market fluctuations on the value of the assets backing reserves; the amount of allowances and impairments taken on our investments; the effect of adverse capital and credit market conditions on our ability to meet liquidity needs and our access to capital; changes in, or restrictions on, our ability to initiate capital management initiatives; changes in or inaccuracy of assumptions in pricing and reserving for insurance business (particularly with regard to mortality and morbidity trends, lapse rates and policy renewal rates), a cyclical downturn of the insurance industry; the impact of natural and man-made catastrophic events (including the longer-term impact of COVID-19) on our business activities and results of operations; the transitional and physical risks associated with climate change; failure to understand and respond effectively to the risks associated with environmental, social or governance ('ESG') factors; our reliance on information and technology and third-party service providers for our operations and systems; the inability of reinsurers to meet obligations or unavailability of reinsurance coverage; increased competition in the UK and in other countries where we have significant operations; the impact of actual experience differing from estimates used in valuing and amortising deferred acquisition costs ('DAC'); the impact of recognising an impairment of our goodwill or intangibles with indefinite lives; changes in valuation methodologies, estimates and assumptions used in the valuation of investment securities; the effect of legal proceedings and regulatory investigations; the impact of operational risks, including inadequate or failed internal and external processes, systems and human error or from external events and malicious acts (including cyber attack and theft, loss or misuse of customer data); risks associated with arrangements with third parties; our reliance on third-party distribution channels to deliver our products; funding risks associated with our participation in defined benefit staff pension schemes; the failure to attract or retain the necessary key personnel; the effect of a decline in any of our ratings by rating agencies on our standing among customers, broker-dealers, agents, wholesalers and other distributors of our products and services; changes to our brand and reputation; changes in 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 our intellectual property; the policies, decisions and actions of government or regulatory authorities in the UK, the European Union, the US or elsewhere, including the implementation of key legislation and regulation (for example, FCA Consumer Duty and Solvency II). For a more detailed description of these risks, uncertainties and other factors, please see the Aviva plc Annual report and accounts.

The Company undertakes no obligation to update the forward-looking statements in this announcement or any other forward-looking statements it may make. Forward-looking statements in this report are current only as of the date on which such statements are made. Any climate metrics used in this document should be treated with special caution, as they are more uncertain than, for example, historical financial information and given the wider uncertainty around the evolution and impact of climate change. Climate metrics include estimates of historical emissions and historical climate change and forward-looking climate metrics (such as ambitions, targets, climate scenarios and climate projections and forecasts). Our understanding of climate change and its impact continue to evolve. Accordingly, both historical and forward-looking climate metrics are inherently uncertain and, therefore, less decision-useful than metrics based on historical financial statements.

This Solvency and Financial Condition Report has been published for information only, it is based on our understanding as at 4 April 2023 and does not provide financial or legal advice. Other than as set out in section F.3 (Directors Statement), the Company, its directors, employees, agents or advisers do not accept or assume responsibility to any person to who this document is shown or into whose hands it may come, and any such responsibility or liability is expressly disclaimed.

Annex I
S.02.01.02
Balance Sheet
Amounts in 000s

		Solvency II Value
		C0010
Assets		
Intangible assets	R0030	0
Deferred tax assets	R0040	149,755
Pension benefit surplus	R0050	
Property, plant & equipment held for own use	R0060	25,385
Investments (other than assets held for index-linked and unit-linked contracts)	R0070	7,107,033
Property (other than for own use)	R0080	201,890
Holdings in related undertakings, including participations	R0090	1,618,084
Equities	R0100	6,766
- Equities - Listed	R0110	
- Equities - Unlisted	R0120	6,766
Bonds	R0130	2,798,669
- Government Bonds	R0140	1,414,298
- Corporate Bonds	R0150	1,384,372
- Structured Notes	R0160	
- Collateralised securities	R0170	
Collective Investments Undertakings	R0180	1,789,888
Derivatives	R0190	593,922
Deposits other than cash equivalents	R0200	97,814
Other investments	R0210	
Assets held for index-linked and unit-linked contracts	R0220	
Loans & mortgages	R0230	1,008,118
- Loans on policies	R0240	
- Loans & mortgages to individuals	R0250	
- Other loans & mortgages	R0260	1,008,118
Reinsurance recoverables from:	R0270	4,382,837
- Reinsurance recoverables - Non-life and health similiar to non-life	R0280	4,016,914
- Reinsurance recoverables - Non-life excluding health	R0290	3,859,137
- Reinsurance recoverables - Health similar to non-life	R0300	157,777
- Reinsurance recoverables - Life and health similar to life, excluding health and index-linked and unit-linked	R0310	365,924
- Reinsurance recoverables - Health similar to life	R0320	
- Reinsurance recoverables - Life excluding health and index-linked and unit-linked	R0330	365,924
- Reinsurance recoverables - Life index-linked and unit-linked	R0340	
Deposits to cedants	R0350	
Insurance & intermediaries receivables	R0360	24,016
Reinsurance receivables	R0370	146,002
Receivables (trade, not insurance)	R0380	401,432
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	126,718
Any other assets, not elsewhere shown	R0420	48,888
Total assets	R0500	13,420,184
Liabilities		
Technical provisions - Non-life	R0510	5,866,468
- Technical provisions - Non-life (excluding health)	R0520	5,766,396
- TP calculated as a whole - Non-life (excluding health)	R0530	
- Best Estimate - Non-life (excluding health)	R0540	5,623,303
- Risk margin - Non-life (excluding health)	R0550	143,093
- Technical provisions - Health (similar to non-life)	R0560	100,072
- TP calculated as a whole - Health (similar to non-life)	R0570	
- Best Estimate - Health (similar to non-life)	R0580	97,477
- Risk margin - Health (similar to non-life)	R0590	2,596
Technical provisions - Life (excluding index-linked and unit linked)	R0600	452,067
- Technical provisions - Health (similar to life)	R0610	
- TP calculated as a whole - Health (similar to life)	R0620	
- Best Estimate - Health (similar to life)	R0630	
- Risk margin - Health (similar to life)	R0640	
- Technical provisions - Life (excluding health and index-linked and unit-linked)	R0650	452,067
- 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	434,233
- Risk margin - Life (excl health, index-linked and unit-linked)	R0680	17,834
Technical provisions - Index-linked and unit-linked	R0690	
- TP calculated as a whole - Index-linked and unit-linked	R0700	
- Best Estimate - Index-linked and unit-linked	R0710	
- Risk margin - Index-linked and unit-linked	R0720	
Contingent liabilities	R0740	
Provisions other than technical provisions	R0750	4,705
Pension benefit obligations	R0760	
Deposits from reinsurers	R0770	3,666,804
Deferred tax liabilities	R0780	4,655
Derivatives	R0790	354,925
Debts owed to credit institutions	R0800	448,372
Financial liabilities other than debts owed to credit institutions	R0810	169,469
Insurance & intermediaries payables	R0820	171,248
Reinsurance payables	R0830	136,859
Payables (trade, not insurance)	R0840	276,444
Subordinated liabilities	R0850	293,851
- Subordinated liabilities not in BOF	R0860	
- Subordinated liabilities in BOF	R0870	293,851
Any other liabilities, not elsewhere shown	R0880	183,644
Total liabilities	R0900	12,029,511
Excess of assets over liabilities	R1000	1,390,673

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		
		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	Total
		C0210	C0220	C0230	C0240	C0250	C0260	C0270	C0280	C0300
Premiums written										
Gross - Direct Business	R1410									
Reinsurers' share	R1420									
Net	R1500									
Premiums earned										
Gross - Direct Business	R1510									
Reinsurers' share	R1520									
Net	R1600									
Claims incurred										
Gross - Direct Business	R1610						-342,205			-342,205
Reinsurers' share	R1620						-290,914			-290,914
Net	R1700						-51,290			-51,290
Changes in other technical provisions										
Gross - Direct Business	R1710									
Reinsurers' share	R1720									
Net	R1800									
Expenses incurred	R1900									
Other expenses	R2500									
Total expenses	R2600									

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	653,035	43,505		1,351,083	337,771	70,458	2,137,819	592,434	28,211		50,769	50,060
Gross - Proportional reinsurance accepted	R0120		4,578		88,827	22,207	12,371	523,380	153,422	1,180			9,010
Gross - Non-proportional reinsurance accepted	R0130												
Reinsurers' share	R0140	326,517	24,752		734,936	183,734	47,101	1,538,267	398,896	19,227		25,385	36,368
Net	R0200	326,517	23,331		704,975	176,244	35,728	1,122,931	346,960	10,164		25,385	22,702
Premiums earned													
Gross - Direct Business	R0210	629,415	42,399		1,330,513	332,628	63,222	2,006,827	583,821	27,740		50,022	43,393
Gross - Proportional reinsurance accepted	R0220		4,696		100,321	25,080	12,037	523,518	156,263	1,519			2,893
Gross - Non-proportional reinsurance accepted	R0230												
Reinsurers' share	R0240	314,707	24,261		731,515	182,879	42,735	1,459,851	398,601	20,056		25,011	29,544
Net	R0300	314,707	22,833		699,319	174,830	32,524	1,070,494	341,483	9,203		25,011	16,742
Claims incurred													
Gross - Direct Business	R0310	407,063	22,156		853,268	213,317	26,057	1,048,505	358,213	13,623		38,514	13,228
Gross - Proportional reinsurance accepted	R0320		-3,717		54,068	13,517	4,836	316,946	96,258	93			-436
Gross - Non-proportional reinsurance accepted	R0330												
Reinsurers' share	R0340	203,468	8,731		458,760	114,690	16,616	761,997	227,495	10,715		19,257	6,375
Net	R0400	203,594	9,708		448,576	112,144	14,277	603,453	226,976	3,002		19,257	6,417
Changes in other technical provisions													
Gross - Direct Business	R0410		744										744
Gross - Proportional reinsurance accepted	R0420												
Gross - Non-proportional reinsurance accepted	R0430												
Reinsurers' share	R0440		372										372
Net	R0500		372										372
Expenses incurred	R0550	78,643	5,953		180,996	45,249	11,383	489,491	107,157	5,221		5,186	5,670
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
Premiums written						
Gross - Direct Business	R0110					5,315,146
Gross - Proportional reinsurance accepted	R0120					814,974
Gross - Non-proportional reinsurance accepted	R0130					
Reinsurers' share	R0140					3,335,184
Net	R0200					2,794,936
Premiums earned						
Gross - Direct Business	R0210					5,109,980
Gross - Proportional reinsurance accepted	R0220					826,326
Gross - Non-proportional reinsurance accepted	R0230					
Reinsurers' share	R0240					3,229,160
Net	R0300					2,707,146
Claims incurred						
Gross - Direct Business	R0310					2,993,944
Gross - Proportional reinsurance accepted	R0320					481,564
Gross - Non-proportional reinsurance accepted	R0330					
Reinsurers' share	R0340					1,828,104
Net	R0400					1,647,404
Changes in other technical provisions						
Gross - Direct Business	R0410					1,488
Gross - Proportional reinsurance accepted	R0420					
Gross - Non-proportional reinsurance accepted	R0430					
Reinsurers' share	R0440					744
Net	R0500					744
Expenses incurred	R0550					934,952
Other expenses	R1200					375
Total expenses	R1300					935,327

Annex I
S.12.01.02
Life and Health SLT Technical Provisions
Amounts in 000s

		Insurance with profit participation	Unit-linked or index-linked insurance			Other life insurance			Annuities stemming from non-life insurance contracts and relating to insurance obligations other than health insuranc	Accepted reinsurance	Total (Life other than health insurance, incl. Unit-Linked)
				Contracts without options and guarantees	Contracts with options or guarantees		Contracts without options and guarantees	Contracts with options or guarantees			
		C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0090	C0100	C0150
Technical provisions calculated as a whole	R0010										
Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default associated to TP as a whole	R0020										
Technical provisions calculated as a sum of BE and RM											
Best Estimate											
Gross Best Estimate	R0030								433,777	455	434,233
Total Recoverables from reinsurance and SPV after the adjustment for expected losses due to counterparty default	R0080								365,924		365,924
Best estimate minus recoverables from reinsurance and SPV - Total	R0090								67,854	455	68,309
Risk Margin	R0100								17,774	60	17,834
Amount of the transitional on Technical Provisions											
Technical Provisions calculated as a whole	R0110										
Best estimate	R0120										
Risk margin	R0130										
Technical provisions - Total	R0200								451,551	516	452,067

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

Annex I

S.17.01.02

Non-Life Technical Provisions

Amounts in 000s

		Direct business and accepted proportional reinsurance											
		Medical expense insurance [direct business]	**Income protection insurance [direct business]**	**Workers' compensation insurance [direct business]**	**Motor vehicle liability insurance [direct business]**	**Other motor insurance [direct business]**	**Marine, aviation and transport insurance [direct business]**	**Fire and other damage to property insurance [direct business]**	**General liability insurance [direct business]**	**Credit and suretyship insurance [direct business]**	**Legal expenses insurance [direct business]**	**Assistance [direct business]**	**Miscellaneous financial loss [direct business]**
		C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0090	C0100	C0110	C0120	C0130
Technical provisions calculated as a whole	R0010												
Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default associated to TP as a whole	R0050												
Technical provisions calculated as a sum of BE and RM													
Best estimate													
Premium provisions													
Gross	R0060	20,766	4,030		175,880	116,978	260	67,368	-11,488	-6,092		11,588	-3,126
Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	R0140	111,118	8,115		185,565	127,613	6,493	254,183	52,606	10,429		3,653	1,816
Net Best Estimate of Premium Provisions	R0150	-90,352	-4,084		-9,684	-10,635	-6,233	-186,815	-64,094	-16,521		7,935	-4,942
Claims provisions													
Gross	R0160	51,270	21,410		1,741,335	84,159	52,650	1,357,434	1,961,310	37,075		31,067	6,261
Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	R0240	25,635	12,909		881,510	49,442	34,591	900,509	1,307,468	23,920		15,537	3,481
Net Best Estimate of Claims Provisions	R0250	25,635	8,501		859,825	34,717	18,058	456,925	653,842	13,155		15,530	2,780
Total Best estimate - Gross	R0260	72,036	25,440		1,917,215	201,137	52,909	1,424,802	1,949,822	30,983		42,655	3,135
Total Best estimate - Net	R0270	-64,717	4,417		850,141	24,082	11,825	270,111	589,748	-3,366		23,465	-2,161
Risk margin	R0280	2,088	508		54,665	3,944	539	41,027	41,880	595		251	170
Amount of the transitional on Technical Provisions													
Technical Provisions calculated as a whole	R0290												
Best estimate	R0300												
Risk margin	R0310												
Technical provisions - Total													
Technical provisions - Total	R0320	74,124	25,948		1,971,880	205,081	53,448	1,465,829	1,991,702	31,578		42,905	3,305
Recoverable from reinsurance contract/SPV and Finite Re after the adjustment for expected losses due to counterparty default - Total	R0330	136,753	21,024		1,067,075	177,055	41,084	1,154,692	1,360,074	34,349		19,190	5,296
Technical provisions minus recoverables from reinsurance/SPV and Finite Re - Total	R0340	-62,629	4,925		904,805	28,026	12,364	311,138	631,628	-2,771		23,716	-1,991

		Accepted non-proportional reinsurance				
		Health [accepted non-proportional reinsurance]	**Casualty [accepted non-proportional reinsurance]**	**Marine, aviation, transport [accepted non-proportional reinsurance]**	**Property [accepted non-proportional reinsurance]**	**Total Non-Life obligation**
		C0140	C0150	C0160	C0170	C0180
Technical provisions calculated as a whole	R0010					
Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default associated to TP as a whole	R0050					
Technical provisions calculated as a sum of BE and RM						
Best estimate						
Premium provisions						
Gross	R0060					376,164
Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	R0140					761,589
Net Best Estimate of Premium Provisions	R0150					-385,425
Claims provisions						
Gross	R0160		644	1		5,344,615
Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	R0240		322	0		3,255,324
Net Best Estimate of Claims Provisions	R0250		322	0		2,089,291
Total Best estimate - Gross	R0260		644	1		5,720,780
Total Best estimate - Net	R0270		322	0		1,703,866
Risk margin	R0280		22	0		145,688
Amount of the transitional on Technical Provisions						
Technical Provisions calculated as a whole	R0290					
Best estimate	R0300					
Risk margin	R0310					
Technical provisions - Total						
Technical provisions - Total	R0320		666	1		5,866,468
Recoverable from reinsurance contract/SPV and Finite Re after the adjustment for expected losses due to counterparty default - Total	R0330		322	0		4,016,914
Technical provisions minus recoverables from reinsurance/SPV and Finite Re - Total	R0340		344	0		1,849,555

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													
		0	**1**	**2**	**3**	**4**	**5**	**6**	**7**	**8**	**9**	**10&+**		**In Current year**	**Sum of years (cumulative)**
		C0010	C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0090	C0100	C0110		C0170	C0180
Prior	R0100											55,254	R0100	55,254	55,254
R0160	R0160	1,348,084	600,884	202,293	137,278	126,169	105,993	49,785	22,489	16,386	6,617		R0160	6,617	2,615,978
R0170	R0170	1,364,366	577,635	193,591	136,764	158,758	98,624	59,144	19,792	7,077			R0170	7,077	2,615,751
R0180	R0180	1,398,134	690,848	254,010	158,390	117,039	99,121	44,032	30,851				R0180	30,851	2,792,425
R0190	R0190	1,456,571	655,622	208,369	161,654	121,357	99,268	74,052					R0190	74,052	2,776,891
R0200	R0200	1,506,342	601,051	210,968	159,366	140,562	85,233						R0200	85,233	2,703,523
R0210	R0210	1,634,316	656,370	204,413	159,872	178,370							R0210	178,370	2,833,341
R0220	R0220	1,657,369	618,612	214,822	184,644								R0220	184,644	2,675,446
R0230	R0230	1,353,177	709,589	243,575									R0230	243,575	2,306,341
R0240	R0240	1,307,995	662,444										R0240	662,444	1,970,439
R0250	R0250	1,602,836											R0250	1,602,836	1,602,836
												Total	R0260	3,130,953	24,948,225

Gross undiscounted Best Estimate Claims Provisions
(absolute amount)

		Development Year													
		0	**1**	**2**	**3**	**4**	**5**	**6**	**7**	**8**	**9**	**10&+**		**Year end (discounted data)**
		C0200	C0210	C0220	C0230	C0240	C0250	C0260	C0270	C0280	C0290	C0300		C0360
Prior	R0100											1,066,763	R0100	749,327
R0160	R0160				397,811	236,746	106,330	72,468	48,707	33,308	20,837		R0160	21,438
R0170	R0170			544,353	395,057	208,947	124,818	65,628	40,549	28,815			R0170	24,726
R0180	R0180		853,211	547,806	318,227	255,206	150,664	84,999	62,109				R0180	54,055
R0190	R0190	1,395,569	809,248	522,785	444,675	340,009	229,932	146,429					R0190	134,293
R0200	R0200	1,263,566	640,737	566,998	417,542	260,332	164,645						R0200	153,166
R0210	R0210	1,247,863	843,438	661,708	525,491	322,617							R0210	301,749
R0220	R0220	1,490,239	923,003	713,021	518,269								R0220	483,297
R0230	R0230	1,643,509	1,144,216	898,399									R0230	836,526
R0240	R0240	1,561,363	1,014,020										R0240	933,369
R0250	R0250	1,778,568											R0250	1,652,671
												Total	R0260	5,344,615

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	6,318,535			71,946	
Basic Own Funds	R0020	1,684,524			-19,586	
Eligible own funds to meet Solvency Capital Requirement	R0050	1,684,524	0	0	-19,586	0
Solvency Capital Requirement	R0090	1,008,428			15,768	
Eligible own funds to meet Minimum Capital Requirement	R0100	1,322,003	0		-19,301	0
Minimum Capital Requirement	R0110	405,423			1,424	

Annex I
S.23.01.01
Own Funds
Amounts in 000s

		Total	Tier 1 Unrestricted	Tier 1 Restricted	Tier 2	Tier 3
		C0010	C0020	C0030	C0040	C0050
Basic own funds before deduction for participations in other financial sector as foreseen in article 68 of Delegated Regulation 2015/35						
Ordinary share capital (gross of own shares)	R0010	203,640	203,640			
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	1,037,278	1,037,278			
Subordinated liabilities	R0140	293,851			293,851	
An amount equal to the value of net deferred tax assets	R0160	149,755				149,755
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	**1,684,524**	**1,240,918**		**293,851**	**149,755**
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	1,684,524	1,240,918		293,851	149,755
Total available own funds to meet the MCR	R0510	1,534,769	1,240,918		293,851	
Total eligible own funds to meet the SCR	R0540	1,684,524	1,240,918		293,851	149,755
Total eligible own funds to meet the MCR	R0550	1,322,003	1,240,918		81,085	
SCR	R0580	**1,008,428**				
MCR	R0600	**405,423**				
Ratio of eligible own funds to SCR	R0620	**1.6704**				
Ratio of eligible own funds to MCR	R0640	**3.2608**				

		C0060
Reconciliation Reserve		
Excess of assets over liabilities	R0700	1,390,673
Own shares (held directly and indirectly)	R0710	
Foreseeable dividends, distributions and charges	R0720	
Other basic own fund items	R0730	353,395
Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced funds	R0740	
Reconciliation reserve	R0760	**1,037,278**
Expected profits		
Expected profits included in future premiums (EPIFP) - Life business	R0770	
Expected profits included in future premiums (EPIFP) - Non-Life business	R0780	76,863
Total expected profits included in future premiums (EPIFP)	R0790	**76,863**

Annex I
S.25.02.21
Solvency Capital Requirement - For undertakings using the standard formula and partial internal mode
Amounts in 000s

Unique number of component	Component Description	Calculation of the Solvency Capital Requirement	Amount modelled	USP	Simplifications	LAC DT
C0010	C0020	C0030	C0070	C0090	C0120	C0130
100000	Market Risk	693,079	626,289	None	None	
200000	Counterparty Risk	70,697	66,189	None	None	
300000	Life underwriting risk			None	None	
400000	Health underwriting risk	49,976		None	None	
500000	Non-life underwriting risk	589,838	589,838	None	None	
701000	Operational risk	380,440	363,769	None	None	
801000	Other risks					
802000	Loss-absorbing capacity of technical provisions					
803000	Loss-absorbing capacity of deferred tax	-61,398	-61,398	None	None	
804000	Other adjustments	-18,456	-18,456	None	None	

Calculation of Solvency Capital Requirement		C0100
Total undiversified components	R0110	**1,704,176**
Diversification	R0060	-695,747
Capital requirement for business operated in accordance with Art. 4 of Directive 2003/41/EC	R0160	
Solvency Capital Requirement excluding capital add-on	R0200	**1,008,428**
Capital add-ons already set	R0210	
Solvency capital requirement	R0220	**1,008,428**
Other information on SCR		
Amount/Estimate of the overall loss-absorbing capacity of technical provisions	R0300	
Amount/Estimate of the overall loss-absorbing capacity of deferred taxes	R0310	-61,398
Capital requirement for duration-based equity risk sub-module	R0400	
Total amount of Notional Solvency Capital Requirements for remaining part	R0410	1,009,030
Total amount of Notional Solvency Capital Requirements for ring fenced funds	R0420	
Total amount of Notional Solvency Capital Requirements for matching adjustment portfolios	R0430	
Diversification effects due to RFF nSCR aggregation for article 304	R0440	

			Approach based on average tax rate
	Approach to tax rate		C0109
SCRB2B-305	Approach based on average tax rate	R0590	

	Calculation of loss absorbing capacity of deferred taxes		LAC DT
SCRB2B-4T2	**LAC DT**	R0640	**-61,398**
SCRB2B-420	LAC DT justified by reversion of deferred tax liabilities	R0650	-4,568
SCRB2B-425	LAC DT justified by reference to probable future taxable profit	R0660	-56,830
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	-188,842

Annex I

S.28.01.01

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

Amounts in 000s

Linear formula component for non-life insurance and reinsurance obligations

		C0010
MCRNL Result	R0010	403,988

		Net (of reinsurance/SPV) best estimate and TP calculated as a whole	Net (of reinsurance) written premiums in the last 12 months
		C0020	C0030
Medical expense insurance and proportional reinsurance	R0020		326,517
Income protection insurance and proportional reinsurance	R0030	4,417	23,331
Workers' compensation insurance and proportional reinsurance	R0040		
Motor vehicle liability insurance and proportional reinsurance	R0050	850,141	704,975
Other motor insurance and proportional reinsurance	R0060	24,082	176,244
Marine, aviation and transport insurance and proportional reinsurance	R0070	11,825	35,728
Fire and other damage to property insurance and proportional reinsurance	R0080	270,111	1,122,931
General liability insurance and proportional reinsurance	R0090	589,748	346,960
Credit and suretyship insurance and proportional reinsurance	R0100		10,164
Legal expenses insurance and proportional reinsurance	R0110		
Assistance and proportional reinsurance	R0120	23,465	25,385
Miscellaneous financial loss insurance and proportional reinsurance	R0130		22,702
Non-proportional health reinsurance	R0140		
Non-proportional casualty reinsurance	R0150	322	
Non-proportional marine, aviation and transport reinsurance	R0160	0	
Non-proportional property reinsurance	R0170		

Linear formula component for life insurance and reinsurance obligations

		C0040
MCRL Result	R0200	1,434

		Net (of reinsurance/SPV) best estimate and TP calculated as a whole	Net (of reinsurance/SPV) total capital at risk
		C0050	C0060
Obligations with profit participation - Guaranteed benefits	R0210		
Obligations with profit participation - Future discretionary benefits	R0220		
Index-linked and unit-linked insurance obligations	R0230		
Other life (re)insurance and health (re)insurance obligations	R0240	68,309	
Total capital at risk for all life (re)insurance obligations	R0250		

Overall MCR calculation

		C0070
Linear MCR	R0300	405,423
SCR	R0310	1,008,428
MCR cap	R0320	453,793
MCR floor	R0330	252,107
Combined MCR	R0340	405,423
Absolute floor of the MCR	R0350	3,445
		C0070
Minimum Capital Requirement	R0400	405,423

F.2 Glossary of Abbreviations and Definitions

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

F.3 Directors' Statement

We acknowledge our responsibility for preparing the Solvency and Financial Condition Report of Aviva Insurance Limited at 31 December 2022 in all material respects in accordance with the PRA Rules and the Solvency II Regulations.

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

(a) throughout the financial year to 31 December 2022, the Company has complied in all material respects with the requirements of the PRA rules and Solvency II Regulations as applicable to the Company; and

(b) it is reasonable to believe that in respect of the period from 31 December 2022 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 2023.

J Poole

Director

6 April 2023

F.4 Auditors Report

Report of the external independent auditors to the Directors of Aviva plc ('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 Group Solvency and Financial Condition Report

Opinion

Except as stated below, we have audited the following documents prepared by the Company at 31 December 2022:

- The 'Valuation for solvency purposes' and 'Capital Management' sections of the Solvency and Financial Condition Report of the Company at 31 December 2022, ('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;
- 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 at 31 December 2022 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 supplemented by supervisory approvals.

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 and assessing the reasonableness of the Directors' assessment, taking into consideration the Company's year-end investment portfolio and its exposure to certain types of assets, cash flows and liquidity analysis and operational resilience;
- Considering management's assessment of the regulatory Solvency coverage and liquidity position; and
- 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.

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' and 'Capital Management' sections 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 supplemented by the approvals made by the PRA under section 138A of FSMA, the PRA Rules and Solvency II regulations on which they are based, as detailed below:

- Approval to use the volatility adjustment in the calculation of technical provisions; and
- Approval to use a partial internal model and the approval of subsequent major changes thereto.

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 UK regulatory principles, such as those governed by the Prudential Regulation Authority and the Financial Conduct Authority, 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 such as Solvency II Regulations 2015. 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 judgmental areas of the SFCR. Audit procedures performed included:

- Discussions with the Audit Commitee, management, internal audit, senior management involved in the Risk and Compliance functions and the Legal function, including consideration of known or suspected instances of non-compliance with laws and regulation and fraud;
- Making enquiries of the Group Investigations team who are responsible for independently reviewing fraudulent activity across the group, utilising activities including, but not limited to, whistle blowing hotlines and data analytics;
- Assessment of matters reported on the Company's whistle-blowing hotline and fraud register and the results of management's investigation of such matters;
- Reading key correspondence with the Prudential Regulation Authority and the Financial Conduct Authority in relation to compliance with laws and regulations;
- Reviewing relevant meeting minutes including those of the Risk Committee, Aviva UKGI Reserve and Projection Committee and Board of Directors;
- Reviewing the company's register of litigation and claims, internal audit reports, compliance reports in so far as they related to non-compliance with laws and regulations and fraud;
- Testing and challenging, where appropriate, the assumptions and judgements made by management in their significant accounting estimates, particularly in relation to the estimation of technical provisions;
- Identifying and testing journal entries, in particular journals that appear to be posted outside the normal patterns or parameters; and
- Designing audit procedures to incorporate unpredictability around the nature, timing or extent of our testing.

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. 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 Deepti Vohra.

PricewaterhouseCoopers LLP

Chartered Accountants

7 More London Riverside

6 April 2023

Appendix – relevant elements of the Group 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
- The following elements of template S.17.01.02
  - Row R0280: Technical provisions calculated as a sum of BE and RM - Risk margin
- The following elements of template S.22.01.21
  - 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 / S.28.02.01]
  - Row R0310: SCR
- Elements of the Narrative Disclosures subject to audit identified as 'unaudited'.