The Ocean Marine Insurance Company Limited

Registered in England No. 27204

Annual Report and Financial Statements 2023

Contents

Directors and officer

Directors

M J Clements

N A Loughlin

W U Malik

J R Sturman

J C Poole – Resigned 9 April 2024
A M Wilkinson – Resigned 28 July 2023

Officer – Company Secretary

Aviva Company Secretarial Services Limited

80 Fenchurch Street

London

United Kingdom

EC3M 4AE

Independent Auditors

PricewaterhouseCoopers LLP

7 More London Riverside

London

SE1 2RT

Registered office

8 Surrey Street

Norwich

Norfolk, United Kingdom

NR1 3NG

Please note that the Registered office, and that of the Company Secretary, changed on 27 March 2024 and was previously:

St Helen's
Undershaft
London
EC3P 3DQ

Company number

Registered in England no. 27204

Other information

The Ocean Marine Insurance Company Limited ("the Company") is a member of the Association of British Insurers and covered by the Financial Ombudsman Service and is authorised and regulated by the Financial Conduct Authority ("FCA") and the Prudential Regulation Authority ("PRA").

The Company is a member of the Aviva plc group of companies ("the Group").

Strategic report

The directors present their strategic report for the Company for the year ended 31 December 2023.

Review of the Company's business

Principal activities

The Company is a limited company, incorporated under the laws of England and Wales. The principal activity of the Company during the year continued to be managing existing liabilities through to run-off rather than writing new business.

The Company ceased to accept business in the London Market in 1995 in its own name. Under a Part VII transfer in 2011, policies from a number of other Aviva entities were transferred into the Company, all of which incepted prior to 2001. All of the Company's business is reinsured through a reinsurance agreement entered into with the National Indemnity Company ("NICO"), a subsidiary of Berkshire Hathaway, in 2000. In addition, the Company has an Adverse Reserve Deterioration ("ARD") agreement with its parent company, Aviva Insurance Limited. This agreement provides an extra £1 billion of reinsurance cover to protect against circumstances in which the reinsurance with National Indemnity Company is exhausted or otherwise fails to satisfy claims. Together these arrangements provide substantial protection in excess of current gross liabilities.

Significant events

The company's financial results are affected by a number of external factors, including , trends in claims developments, general economic and market conditions, government policy and legislation and exchange rate fluctuations. The impact of these events on IFRS performance and Solvency II may differ due to their different measurement and recognition criteria.

Financial position and performance

The financial position of the Company at 31 December 2023 is shown in the statement of financial position on page 22, with the trading results shown in the income statement on page 20 and the statement of cash flows on page 23.

During the year the Company continued to manage the run-off of its insurance portfolio. The Company's profit before tax was £662 thousand (restated 2022: £1,778 thousand).

Section 172 Statement

We report here on how our Directors have performed their duties under Section 172(1) ('s172') of the Companies Act 2006.

S.172 sets out a series of matters which the directors must have regard to when performing their duty to promote the success of the Company for the benefit of its shareholders, including having regard to other stakeholders. Where this statement draws upon information contained in other sections of the Strategic report, this is signposted accordingly.

The Board considers it crucial that the Company maintains a reputation for high standards of business conduct. The Board is responsible for establishing, monitoring and upholding the culture, values, standards, ethics and reputation of the Company to ensure that our obligations to our stakeholders are met. The Board monitors adherence to our policies and compliance with local corporate governance requirements and is committed to acting where our business falls short of the standards we expect.

The Board is also focussed on the wider social context within which our businesses operate, including those issues related to climate change which are of fundamental importance to the planet's well-being.

Our culture

The Company's culture is shaped, in conjunction with its immediate parent company, Aviva Insurance Limited ("AIL") and its ultimate shareholder, Aviva plc, by our clearly defined purpose – with you today for a better tomorrow. As the provider of financial services to millions of customers, Aviva seeks to earn their trust by acting with integrity and a sense of responsibility at all times. We look to build relationships with all our stakeholders based on openness and transparency and we value diversity and inclusivity in our workforce and beyond.

Key strategic decisions in 2023

For each matter that comes before the Board, the Board considers the likely consequences of any decision in the long term, identifies stakeholders who may be affected, and carefully considers their interests and any potential impact as part of the decision-making process.

The Board decided not to pay a dividend to its Parent in 2023. This decision will be revisited in 2024.

Our Stakeholders

This section provides insight into how the Board engages with our stakeholders. The Board recognises that stakeholders have diverse interests and that these interests need to be heard. Engaging with our stakeholders is essential to understand what matters most to them and the likely impact of any key decisions. Our Section 172(1) Statement on page 4 sets out our approach on how our directors have performed their duty. The table below sets out the Board's approach to stakeholder engagement during 2023.

Strategic report (continued)

Our people
Our people's wellbeing and commitment to serving our customers are the foundations for our performance.

How we have engaged	Focus during the year
• The Company has no employees. The majority of staff engaged in the activities of the Company are employed by fellow subsidiary undertakings of Aviva plc. As part of the Aviva Group, these staff enjoy the benefit of the Aviva Group policies and benefits made available to them. • There are twice yearly steering groups between Aviva senior employees and their equivalents at Resolute Management Limited, claims administrators appointed by National Indemnity Company, where key stakeholder engagement takes place but there is continual engagement throughout the year.	• The Board always aims to provide an inclusive working environment where talent is developed, performance is rewarded, support is provided and our differences are valued. **Outcomes and actions during the year** • Our people have the opportunity to share in the business's success as shareholders through membership of our global share plans. All employees are eligible for our global share plans.

Customers
Understanding what's important to our customers is key to our long-term success.

How we have engaged	Outcomes and actions during the year
• The Company's claim trends and key conduct measures are reviewed and discussed at the Latents Claims Senior Leadership Team which is then presented to the Board on a quarterly basis.	• The Aviva Supplier Assurance Team review Resolute Management Limited on an annual basis to check on compliance and customer best interest.

Shareholders
Our retail and institutional shareholders are the owners of the Company.

How we have engaged	Focus during the year
• The Company's shareholder is Aviva Insurance Limited and there is ongoing communication and engagement with the Aviva Insurance Limited Board. Any matters requiring escalation are escalated by the Board through the Chair to its parent. Additionally, members of the Aviva plc board can attend the Company's Board meetings by invitation.	• Ensuring the Company's shareholder understood our strategy and business model.

Regulators
As an insurance company, we are subject to financial services regulation and approvals in all the markets we operate in.

How we have engaged	Focus during the year
• As a dual regulated entity under the Senior Manager's Certification Regime, the Company is required to produce a Management Responsibilities Map and this is shared with the Regulators on a quarterly basis. • The Board engages with the regulators as appropriate.	• The Company responds to requests for information when required, maintaining constructive and open relationships with the UK regulator. **Outcomes and actions during the year** • Regulatory priorities were regularly discussed at Board meetings.

Communities
We recognise the importance of contributing to our communities through volunteering, community investment, and long term partnerships.

How we have engaged	Focus during the year
• The Board supports the community activities of the Aviva Group including the wellbeing proposition for UK employees, the Aviva Communities to help drive greater diversity and inclusivity throughout the organisation and to support colleagues to volunteer in their communities.	• Recognising climate change presents risk and opportunities for customers, communities and business, Aviva is signed up to the United Nations Net-Zero Asset Owner Alliance commitment. As part of the Aviva Group, the Company is committed to Aviva's long-term strategy to reach net zero by 2040, and to support achieving this target the Aviva Group has defined climate risk preferences and operating risk limits. **Outcomes and actions during the year** • Employees across the Aviva Group were offered the opportunity to volunteer their time to support charities and organisations. • The Board continued to adopt the new climate risk preferences during the year, along with its 2024-2026 Plan which takes the Company's climate risk preferences into consideration.

Suppliers
We operate in conjunction with a wide range of suppliers to deliver services to our customers. It is vital that we build strong working relationships with our intermediaries.

How we have engaged	Focus during the year
• The Company maintains oversight of the management of its most important suppliers and reviews reports on their performance. • The Board normally delegates engagement with suppliers and oversight to senior management. • Claims audits also take place annually to review processes and the use of claims suppliers. • An important part of our culture is the promotion of high legal, ethical, environmental and employee related standards within our business and also among our suppliers. Before working with any new suppliers we provide them with the Aviva Supplier Code of Behaviour, and our interaction with them is guided by Aviva's Business Code of Ethics.	• Understanding and highlighting risk across whole supply chain. • All supplier related activity is managed in line with the Aviva Group's Procurement & Outsourcing Business Standard. This ensures that supply risk is managed appropriately including in relation to customer outcomes, data security, corporate responsibility, financial, operational, contractual and brand damage caused by inadequate oversight or supplier failure.

Strategic report (continued)

Future outlook

Strategies for the Group as a whole are determined by the Board of Aviva plc and these are shown in the Group 2023 Annual Report and Accounts. The Company will work with the Group to support the implementation of these strategies.

The strategic direction of the Company is set by the directors of the Company. The directors consider that the Company's principal activities will continue unchanged for the foreseeable future.

Principal risks and uncertainties

A description of the principal risks and uncertainties facing the Company and the Company's risk management policies are set out in note 21 to the financial statements.
Risk factors beyond the Company's control that could cause actual results to differ materially from those estimated include, but are not limited to:

- General insurance risk: including fluctuations in the timing, frequency and severity of claims and claims settlements relative to expectations when pricing and reserving.
- Market risk: the risk of loss or adverse outcomes due directly or indirectly to fluctuations in interest rates, inflation and foreign currency exchange rates.
- Credit risk: the risk of adverse financial impact resulting from fluctuations in credit quality of third parties including default, rating transition and credit spread movements.

Key performance indicators

The directors consider that the Company's key performance indicators (KPIs) that communicate the financial performance are as follows:

	2023	2022 restated
Capital Metrics		
Percentage reduction in insurance contract liabilities	**(5)%**	(15)%

In 2023 insurance contract liabilities decreased by 5% (2022 restated: reduction of 15%). 2022 saw a significant reduction in insurance contract liabilities as a result favourable economic impacts on discounting reducing insurance liabilities. 2023 has seen an adverse movements on yield curves in 2023 which is more than offset as claims are settled. It is expected that insurance contract liabilities should reduce over time in line with anticipated settlement of claims.

On behalf of the Board on 24 May 2024

james sturman
J R Sturman
Director

Directors' report

The directors submit their annual report and the audited financial statements for the Company for the year ended 31 December 2023.

Directors

The names of the current directors of the Company are shown on page 3.

Details of Board appointments and resignations during the year and since the year end are shown below:

A M Wilkinson resigned as a director of the Company on 28 July 2023

N A Loughlin was appointed as a director of the Company on 30 August 2023

M J Clements was appointed as a director of the Company on 19 January 2024

J C Poole resigned as a director of the Company on 9 April 2024

Company Secretary

The name of the company secretary of the Company is shown on page 3.

Future outlook

Likely future developments in the business of the Company are discussed in the strategic report on page 4.

Dividends

No interim dividends were paid during the year.

The directors do not recommend a final dividend on the Company's ordinary shares for the year ended 31 December 2023 *(2022: £nil)*.

Going concern

The Company is expected to generate positive cash flows on its own account, primarily from investment returns, for the foreseeable future. After making enquiries, the directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements.

Important events since the financial year end

Details of significant post balance sheet events that have occurred subsequent to 31 December 2023 are disclosed in note 23, of which there are none to report.

Employees

The Company has no employees. All staff are employed by a fellow subsidiary undertaking of Aviva plc, Aviva Employment Services Limited ("AES"). Disclosures relating to employees may be found in the Annual Report and Financial Statements of AES.

Climate risk

The Company continues to review and manage its exposure to climate risk. As the Company's insurance policies are in run off, and fully reinsured, with no new business being written, and in the light of its investment strategy, it has no material exposure or ability to impact exposure to climate risk, and therefore there is no separate disclosure of the impact of climate-related risks on the financial statements.

Disclosure of information to the auditors

In accordance with section 418 of the Companies Act 2006, the directors in office at the date of approval of this report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's External Auditors, PricewaterhouseCoopers LLP, are unaware and each director has taken all steps that ought to have been taken as a director in order to make themselves aware of any relevant audit information and to establish that PricewaterhouseCoopers LLP is aware of that information.

Independent auditors

Under the Competition and Markets Authority Regulations, the Company is required to tender for the provision of the external audit every 10 years. PwC was appointed for the first time for the 31 December 2012 financial year end and therefore a mandatory re-tender was required for the year ending 31 December 2022. The audit tender process was initiated during 2020 but COVID-19 restrictions caused delays and Aviva sought a two year extension from the Financial Reporting Council ("FRC") which was granted. Following a full and rigorous competitive tender process, which was overseen by the Group's Audit Committee, the selection of Ernst & Young LLP from the year ending 31 December 2024 was approved by the Aviva plc Board.

Qualifying indemnity provisions

In 2004, Aviva plc, the Company's ultimate parent, granted an indemnity to the directors against liability in respect of proceedings brought by third parties, subject to the conditions set out in the Companies Act 1985, which continue to apply in relation to any provision made before 1 October 2007. This indemnity is a "qualifying third party indemnity" for the purposes of section 309A to section 309C of the Companies Act 1985. These qualifying third party indemnity provisions remain in force as at the date of approving the directors' report by virtue of paragraph 15, Schedule 3 of The Companies Act 2006 (Commencement No. 3, Consequential Amendments, Transitional Provisions and Savings) Order 2007.

The directors also have the benefit of the indemnity provision contained in the Company's articles of association, subject to the conditions set out in the Companies Act 2006. This is a "qualifying third party indemnity" provision as defined by section 234 of the Companies Act 2006.

Directors' report (continued)

Statement of directors' responsibilities in respect of the financial statements

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulation.
Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the financial statements in accordance with UK-adopted international accounting standards.

Under company law, directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing the financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable UK-adopted international accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are also responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006.

In the case of each director in office at the date the directors' report is approved:

- so far as the director is aware, there is no relevant audit information of which the company's auditors are unaware; and
- they have taken all the steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the company's auditors are aware of that information.

On behalf of the Board on 24 May 2024

james sturman

J R Sturman
Director

Independent auditors' report to the members of The Ocean Marine Insurance Company Limited

Report on the audit of the financial statements

Opinion

In our opinion, The Ocean Marine Insurance Company Limited's financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2023 and of its profit and cash flows for the year then ended;
- have been properly prepared in accordance with UK-adopted international accounting standards; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report and Financial Statements 2023 (the "Annual Report"), which comprise: the Statement of financial position as at 31 December 2023; the Income statement, the Statement of cash flows, the Statement of changes in equity for the year then ended; the Accounting Policies; and the notes to the financial statements.

Our opinion is consistent with our reporting to the board of directors.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, as applicable to public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

To the best of our knowledge and belief, we declare that non-audit services prohibited by the FRC's Ethical Standard were not provided.

We have provided no non-audit services to the company in the period under audit.

Our audit approach

Overview

Audit scope

- Our audit scope has been determined to provide coverage of all material financial statement line items.

Key audit matters

- Valuation of insurance liabilities and reinsurance assets
- Implementation of IFRS 17 and restatement of comparatives

Materiality

- Overall materiality: £3,493 thousand (2022: £3,520 thousand) based on 1% of total assets.
- Performance materiality: £2,620 thousand (2022: £2,640 thousand).

The scope of our audit

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements.

Key audit matters

Key audit matters are those matters that, in the auditors' professional judgement, were of most significance in the audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by the auditors, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters, and any comments we make on the results of our procedures thereon, were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

This is not a complete list of all risks identified by our audit.

The key audit matter 'Valuation of insurance liabilities and reinsurance assets' has been updated from the previous year to reflect the impacts from the adoption of IFRS 17. This new standard changes the way in which general insurance contract liabilities are measured, introduces new concepts and language, and changes a range of judgements that insurers must make. Implementation of IFRS 17 and restatement of comparatives is a new key audit matter this year.

Independent auditors' report to the members of The Ocean Marine Insurance Company Limited (continued)

Key audit matter	How our audit addressed the key audit matter
Valuation of insurance liabilities and reinsurance assets Refer to item H in the Accounting policies and to note 14 to the Company's financial statements for disclosures of related policies and balances. Insurance contract liabilities and reinsurance assets are highly uncertain and require considerable judgement and interpretation relevant to the valuation of insurance contract liabilities and reinsurance assets. As at 31 December 2023, the value of the Company's insurance contract liabilities and reinsurance assets are £282,216 thousand and £282,112 thousand respectively. We focused on the following: ● The risk of inappropriate methodologies and assumptions being used to estimate the undiscounted best estimate liabilities for future claims cash flows, which now forms part of the liability for incurred claims ("LIC"), and the associated reinsurers' share, which form part of the assets for incurred claims ("AIC"); ● The determination of the bottom-up discount rates (including choice of illiquidity premium); ● The determination of payment patterns used to derive the cash flows for incurred claims; ● The appropriateness of methodologies and assumptions adopted to calculate the risk adjustment to reflect the entity's view of the compensation that it requires for bearing risk; ● The appropriateness of methodologies and assumptions adopted to value reinsurance assets, specifically the asset for remaining coverage ('ARC'), associated with Adverse Development Covers ("ADC") measured under the General Measurement Model ("GMM"); and ● The appropriateness of methodologies and assumptions adopted to value non-performance risk of reinsurance contracts.	We performed the following procedures to address the risks identified in relation to general insurance and reinsurance contracts: ● Understood and evaluated the process and the design and implementation of controls in place. This included testing the operating effectiveness of the relevant controls in place; ● For all classes of business, we tested the methodology and assumptions used by management to derive the undiscounted best estimate liabilities and assets (for the LIC and AIC respectively) and assessed whether these produced reasonable estimates based on the underlying facts and circumstances. In doing this we also verified the functional accuracy of the model by validating the calculations and independently reproducing key elements; ● Understood the actuarial assumptions impacting the forecast future claims cash flows and evaluated for reasonableness. This includes assumptions related to payment patterns and the rates used to discount future claims cash flows; ● Assessed the appropriateness of the methodology and assumptions applied to determine the risk adjustment and testing the calculation of the risk adjustment; ● Assessed the appropriateness of the methodology and assumptions involved in the recognition of reinsurance assets associated with the ADC contract by reviewing the inputs to, and outputs from management's model including assessing any manual adjustments made to the output of the model; and ● Assessed the appropriateness of the methodology and assumptions involved in the valuation of non-performance risk of reinsurance contracts. Based on the work performed and evidence obtained, we consider the methodology and assumptions used to value the general insurance liabilities and reinsurance assets to be appropriate.
Implementation of IFRS 17 and restatement of comparatives IFRS 17 became effective for periods beginning on or after 1 January 2023, replacing International Financial Reporting Standard 4, 'Insurance Contracts'. As a result, Ocean Marine has adopted IFRS 17 in these financial statements. The transition to IFRS 17 has introduced new financial statement line items and disclosures, requiring significant changes to the measurement of transactions and balances in the financial statements, including new areas of judgement and estimation. New systems, data flows, interfaces, processes and models have been developed and introduced, giving rise to increased risks of material misstatement. International Accounting Standard 8 'Accounting Policies, Changes in Accounting Estimates and Errors' ("IAS 8") requires that when the impact of adopting a new accounting standard is material to the financial statement comparatives, these comparatives should be restated. As a result, the 2022 opening balance sheet and the 2022 comparatives have been restated. In particular, we consider the key risks in relation to the adoption of IFRS 17 and restatement of comparatives to be as follows: ● The determination of the transition approach adopted for each group of insurance contracts; ● The judgments involved in the determination of the measurement model to apply under the standard;	In performing our audit work over the transition to IFRS 17, and restatement of comparative financial statements (including the opening balance sheet), the procedures we performed included the following: ● Assessed the design and tested the operating effectiveness of controls in place; ● Assessed the appropriateness of the transition approach adopted for each group of insurance and reinsurance contracts; ● Assessed whether the judgements, methodologies and assumptions applied by management in determining their accounting policies are in accordance with IFRS 17; ● Assessed key judgements and conclusions made within accounting policy papers as well as compliance of management's accounting principles with IFRS 17 to calculate the amount of risk adjustment; ● Assessed the appropriateness of the methodology to derive the discount rate; ● Performed validation of certain new models by evaluating the testing performed by management to assess their appropriateness and, where necessary, performing independent validation testing using sample scenarios and comparing the output between our calculations and those produced by management's models and relevant IT applications; ● Tested the mathematical accuracy and completeness of the supporting calculations and adjustments used to determine the 2022 comparatives; ● Performed testing over key data flows within the IFRS 17 business processes; and

Independent auditors' report to the members of The Ocean Marine Insurance Company Limited (continued)

● The methodology and assumptions in respect of determining the risk adjustment and discounting; ● The implementation of new models to produce the IFRS 17 results; ● The new data flow and interfaces arising from the implementation of IFRS 17 from new systems; and ● The presentation of new required financial statement disclosures, specifically in relation to analysis of movement of insurance and reinsurance contract assets and liabilities, the confidence level of determining the risk adjustment and sensitivities with regard to the assumptions.	● Tested the accuracy of new required financial statement disclosures, including their compliance with the requirements of IFRS 17. Based on the work performed and the evidence obtained, we consider the approaches adopted and resulting measurements and disclosures in the financial statements to be appropriate.

How we tailored the audit scope

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the structure of the company, the accounting processes and controls, and the industry in which it operates.

We performed a full scope audit of the complete financial information of the entity in accordance with our materiality and risk assessment. In doing so, we also considered qualitative and quantitative factors across all financial statement line items in the financial statements.

The impact of climate risk on our audit

As part of our audit we made enquiries of management to understand the extent of the potential impact of climate risk on the company's financial statements, and we remained alert when performing our audit procedures for any indicators of the impact of climate risk. Our procedures did not identify any material impact as a result of climate risk on the company's financial statements.

Materiality

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

Overall company materiality	£3,493 thousand (2022: £3,520 thousand).
How we determined it	1% of total assets
Rationale for benchmark applied	The principal activity of the Company is to run-off its existing book of business and it is 100% reinsured subject to a limit considerably in excess of stated reserves. Total assets was considered to be the most relevant financial metric.

We use performance materiality to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds overall materiality. Specifically, we use performance materiality in determining the scope of our audit and the nature and extent of our testing of account balances, classes of transactions and disclosures, for example in determining sample sizes. Our performance materiality was 75% (2022: 75%) of overall materiality, amounting to £2,620 thousand (2022: £2,640 thousand) for the company financial statements.

In determining the performance materiality, we considered a number of factors - the history of misstatements, risk assessment and aggregation risk and the effectiveness of controls - and concluded that an amount in the middle of our normal range was appropriate.

We agreed with the board of directors that we would report to them misstatements identified during our audit above £175 thousand (2022: £176 thousand) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

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;
- 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; and
- Considering information obtained during the course of the audit and publicly available market information to assess the recoverability of reinsurance assets.

Independent auditors' report to the members of The Ocean Marine Insurance Company Limited (continued)

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 when the financial statements are authorised for issue.

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements 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.

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements 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 based on these responsibilities.

With respect to the Strategic report and Directors' report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on our work undertaken in the course of the audit, the Companies Act 2006 requires us also to report certain opinions and matters as described below.

Strategic report and Directors' report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic report and Directors' report for the year ended 31 December 2023 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic report and Directors' report.

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Statement of directors' responsibilities in respect of the financial statements, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole 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 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 economic decisions of users taken on the basis of these financial statements.

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 and 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 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 financial statements. We also considered those laws and regulations that have a direct impact on the financial statements such as Companies Act 2006. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to management bias in accounting estimates and judgemental areas of the financial statements as shown in our Key Audit Matters. Audit procedures performed by the engagement team included:

- Discussions with those charged with governance, 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 regulations and fraud;
- Making enquiries of the Group Investigations team who are responsible for independently reviewing fraudulent activity across the group, performing activities including, but not limited to, whistle-blowing hotlines and data analytics;
- Testing the operating effectiveness and reviewing the results of management's internal controls designed to prevent and detect irregularities;
- Assessing any 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 Reserve and Projections 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;
- Performing procedures over our key audit matters as described above;
- Identifying and testing journal entries, in particular journals that appear to be posted outside the normal course of the Company's business; 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 financial statements. 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.

Our audit testing might include testing complete populations of certain transactions and balances, possibly using data auditing techniques. However, it typically involves selecting a limited number of items for testing, rather than testing complete populations. We will often seek to target particular items for testing based on their size or risk characteristics. In other cases, we will use audit sampling to enable us to draw a conclusion about the population from which the sample is selected.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Use of this report

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Other required reporting

Companies Act 2006 exception reporting

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not obtained all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the company, or returns adequate for our audit have not been received from branches not visited by us; or
- certain disclosures of directors' remuneration specified by law are not made; or
- the financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Appointment

Following the recommendation of the board of directors, we were appointed by the directors on 3 May 2012 to audit the financial statements for the year ended 31 December 2012 and subsequent financial periods. The period of total uninterrupted engagement is 12 years, covering the years ended 31 December 2012 to 31 December 2023.

Deepti Vohra (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
24 May 2024

Accounting policies

The Company is a private limited liability company incorporated and domiciled in the United Kingdom ("UK"). Its principal activity is the settlement of its existing general insurance liabilities, with the Company having ceased to accept business in the London Market in 1995.

The principal accounting policies adopted in the preparation of these financial statements are set out below. These policies have been consistently applied to all years presented, unless otherwise stated.

(A) Basis of preparation

The financial statements of the Company have been prepared and approved by the directors in accordance with UK-adopted international accounting standards and the legal requirements of the Companies Act 2006.

The financial statements have been prepared under the historical cost convention, as modified by the revaluation of land and buildings, investment property, available-for-sale financial assets, and financial assets and financial liabilities (including derivative instruments) at fair value through profit or loss.

The financial statements have been prepared on the going concern basis as explained in the Directors' report on page 7.

The Company's financial statements are stated in pounds sterling, which is the Company's functional and presentational currency. Unless otherwise noted, the amounts shown in these financial statements are in thousands of pounds sterling ("£'000").

Items included in the financial statements of each of the Company's branches are measured in the currency of the primary economic environment in which that entity operates (the functional currency).

Comparative figures have been restated following the implementation of IFRS 17 Insurance Contracts and IFRS 9 Financial Instruments as detailed in note 1.

New standards, interpretations and amendments to published standards that have been adopted by the Company

The Company has applied IFRS 17 Insurance Contracts and IFRS 9 Financial Instruments retrospectively from 1 January 2023. As a result, the Company has restated certain comparative amounts. IFRS 17 significantly impacts the measurement and presentation of insurance contracts and reinsurance contracts. IFRS 9 has had no impact on the measurement of the Company's financial instruments, but introduces new disclosure requirements. The nature and effects of the transition to IFRS 17 and IFRS 9 are summarised in note 1, including the financial impacts on the statement of financial position as at 1 January 2022. The Company's revised accounting policies are set out in (E), (F), (H), (I) and (J) below.

In addition, the Company has adopted the following amendments to standards which became effective for the annual reporting period beginning on 1 January 2023. The amendments do not have a significant impact on the Company's financial statements.

(i) Amendments to IAS 1 Presentation of Financial Statements and IFRS Practice Statement 2: Disclosure of Accounting Policies

(ii) Amendments to IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors: Definition of Accounting Estimates

(iii) Amendments to IAS 12 Income Taxes: Deferred Tax related to Assets and Liabilities arising from a Single Transaction

(iv) Amendments to IAS 12 Income Taxes: International Tax Reform – Pillar Two Model Rules

Standards, interpretations and amendments to published standards that are not yet effective and have not been adopted early by the Company

The following new standards and amendments to existing standards have been issued, are not yet effective for the Company and have not been adopted early by the Company. None of the amendments are expected to have a significant impact on the Company's financial statements:

(i) Amendments to IAS 1 Presentation of Financial Statements: Classification of Liabilities as Current or Non-current

Published by the IASB in January 2020. The amendments are effective for annual reporting beginning on or after 1 January 2024 and have been endorsed by the UK.

(ii) Amendments to IAS 21 The Effects of Changes in Foreign Exchange Rates: Lack of Exchangeability

Published by the IASB in August 2023. The amendments are effective for annual reporting beginning on or after 1 January 2025 and have yet to be endorsed by the UK.

(iii) IFRS 18 Presentation and Disclosure of Financial Statements

Published by the IASB in April 2024. The amendments are effective for annual reporting beginning on or after 1 January 2027 and have yet to be endorsed by the UK.

(iv) IFRS 19 Subsidiaries without Public Accountability: Disclosures

Published by the IASB in May 2024. The amendments are effective for annual reporting beginning on or after 1 January 2027 and have yet to be endorsed by the UK.

(B) Critical accounting policies and the use of estimates

The preparation of financial statements requires the Company to select accounting policies and make estimates and assumptions that affect items reported in the income statement, statement of financial position, other primary statements and notes to the financial statements.

Critical accounting policies

The following accounting policies are those that have the most significant impact on the amounts recognised in the financial statements, including those judgements involving estimation.

All estimates are based on management's knowledge of current facts and circumstances, assumptions based on that knowledge and their predictions of future events and actions. Actual results may differ from those estimates, possibly significantly.

The table below sets out those estimates considered particularly susceptible to changes in assumptions, that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next financial year, and the relevant accounting policy and note disclosures.

Accounting policies

Item	Critical accounting estimates	Accounting policy	Note
Measurement of insurance contract liabilities and reinsurance contract assets	Principal assumptions used in the calculation of insurance liabilities and reinsurance contract assets include the allowance for illiquidity in the discount rates used to determine our latent claim liabilities, the assumption that past claims experience can be used as a basis to project future claims (estimated using a range of standard actuarial claims projection techniques) and the calibration of the risk adjustment.	H	14
Contingent liabilities	When evaluating whether a contingent liability should be recognised the Company assesses the likelihood of a constructive or legal obligation to settle a past event and whether the amount can be reliably estimated. The amount of provision is determined based on the Company's estimation of the expenditure required to settle the obligation at the statement of financial position date.	O	18

(C) Foreign currency translation

Foreign currency transactions are accounted for at the exchange rates prevailing at the date of the transactions. Gains and losses resulting from the settlement of such transactions, and from the translation of monetary assets and liabilities denominated in foreign currencies, are recognised in the income statement. Monetary assets and liabilities are translated at the year end exchange rate.

(D) Product classifications

Insurance contracts are defined as those containing significant insurance risk if, and only if, an insured event could cause an insurer to make significant additional payments in any scenario, excluding scenarios that lack commercial substance, at the inception of the contract. Such contracts remain insurance contracts until all rights and obligations are extinguished or expire. Contracts can be reclassified as insurance contracts after inception if insurance risk becomes significant.

(E) Insurance service result

The insurance service result represents the Company's profits recognised on insurance and reinsurance contracts (measured in accordance with policy H) in the period, excluding the impact of the time value of money and financial risks related to such contracts. The insurance service result contains three components:

i. Insurance revenue

For insurance contracts the Company applies the premium allocation approach (PAA) for measurement where insurance revenue is based upon the earning of expected premium receipts. Premium receipts are earned over the contract’s coverage period based upon the passage of time or, where there is evidence that the release of risk differs from the passage of time, on the basis of the expected timing of insurance service expenses. Insurance revenue includes adjustments to revenue related to contracts issued in earlier periods.

ii. Insurance service expenses

Insurance service expenses are comprised of actual claims and non-acquisition fulfilment expenses incurred. Insurance expense includes adjustments to acquisition cashflows related to contracts issued in earlier periods.

iii. Net income and expenses from reinsurance contracts

The Company's reinsurance contracts are adverse development covers, in these arrangements where the net cost of purchasing reinsurance contracts held relate to events that occurred prior to purchase is recognised. Net income/(expenses) from reinsurance contracts held is comprised of amounts recoverable from reinsurers, which is calculated using the same principles as used to calculate insurance service expense on insurance contracts and the effect of changes in the risk of reinsurer's non-performance.

(F) Insurance finance result

Insurance finance income/(expenses) are calculated on insurance and reinsurance contracts, comprising:

- The unwind of discounting on fulfilment cash flows and the risk adjustment; and
- The impact of financial assumption changes upon fulfilment cash flows and the risk adjustment.

The accounting policies used to calculate amounts within the insurance finance result are discussed in greater detail in policy H.

(G) Other investment income

Investment income consists of interest receivable and realised and unrealised gains and losses on investments classified as fair value through profit and loss. Interest income is recognised as it accrues, taking into account the effective yield on the investment.

A gain or loss on a financial investment is only realised on disposal or transfer, and is the difference between the proceeds received, net of transaction costs, and its original cost or amortised cost, as appropriate.

Unrealised gains and losses, arising on investments which have not been derecognised as a result of disposal or transfer, represent the difference between the carrying value at the year end and the carrying value at the previous year end or purchase value during the year, less the reversal of previously recognised unrealised gains and losses in respect of disposals made during the year.

(H) Insurance contract liabilities and reinsurance contract assets

Insurance and reinsurance contracts are accounted for in accordance with IFRS 17. The key measurement principles are outlined below.

(a) IFRS 17 measurement models

The Company applies two measurement models to its insurance and reinsurance contracts as follows:

Accounting policies

Model	Applicable business
PAA	• Short duration insurance contracts • Longer duration non-life insurance contracts which are eligible for PAA
GMM	• Reinsurance contracts held which reinsure the risk of the adverse development of incurred claims

The Company applies judgement when determining eligibility criteria for the PAA measurement models (see Accounting policy H section (b)).

Under each measurement model insurance contract liabilities are measured as the sum of the liability for remaining coverage (LRC) and the liability for incurred claims (LIC). The LRC represents the obligation under the insurance contract for insured events that have not yet occurred i.e. the obligation that relates to the unexpired portion of the coverage period, including the contractual service margin (CSM). The LIC reflects the obligation to investigate and pay valid claims for insured events that have already occurred, including events that have already occurred but for which claims have not been reported.

The key features of each measurement model are set out below.

i. General measurement model (GMM)

The GMM is the default IFRS 17 measurement model. The fulfilment cash flows comprise the present value of future cash flows within the boundary of the contract, discounted at current rates, and an explicit risk adjustment for non-financial risk.

At inception, a CSM liability is recognised for each new group of contracts which represents the unearned profit to be recognised over the coverage period of the contract. Except for reinsurance contracts held, losses on groups of contracts that are onerous at inception are recognised immediately.

The CSM is subsequently remeasured for changes in the fulfilment cash flows relating to non-financial risk, applying locked in financial assumptions. Interest is accreted on the CSM using the locked-in discount rate and the CSM is amortised over the coverage period of the contract. The coverage period is determined based on the service provided to customers including both insurance and investment services. Losses on groups of contracts that are profitable at inception but subsequently become onerous are recognised immediately.

In contrast to insurance contracts, the CSM for groups of reinsurance contracts held can be an asset or liability. If reinsurance is in place when underlying groups of insurance contracts become onerous, the reinsurance CSM recognised is adjusted to offset the gross losses arising. Where the net cost of purchasing reinsurance contracts held relates to events that occurred prior to purchase (for example adverse development cover) no CSM is recognised, and the net cost is recognised immediately in the income statement.

ii. Premium allocation approach (PAA)

The PAA is a simplified measurement model which can be applied to all short duration contracts and to longer duration contracts that meet PAA eligibility criteria.

The LRC is measured as the amount of premium received net of acquisition cash flows, less the amount of premiums and acquisition cash flows that have been recognised in profit or loss over the expired portion of the coverage period. Premium receipts and acquisition cash flows are recognised in profit or loss over the life of the contract, based on the expected timing of incurred claims. In almost all circumstances, the expected timing of incurred claims does not differ significantly from the passage of time and a straight-line earning pattern is being used.

If facts and circumstances indicate that a group of contracts may be onerous, the LRC is measured using GMM principles and losses for onerous contracts are recognised immediately in the income statement.

For most contracts applying PAA, the measurement of the LIC aligns to the GMM, with an explicit risk adjustment for non-financial risk, and discounting applied to expected future cash flows.

(b) Choice of measurement model

The Company's principal activity is managing the run-off of existing insurance liabilities and has ceased to accept new business since 1995. These contracts qualify for PAA as their LRC at the transition date is £nil under both GMM and PAA.

The Company holds two reinsurance contracts reinsuring against the risk of adverse development on incurred claims which apply the general measurement model. One is with NICO, a Berkshire Hathaway subsidiary, while the other is with the Company's parent company AIL. No CSM is recognised for either of these contracts, with the net cost of the contract recognised in the income statement immediately.

(c) Level of aggregation

The unit of account is a group of contracts, so insurance contracts are aggregated into groups for measurement purposes. Groups of insurance contracts have been determined by identifying portfolios of insurance contracts, comprising contracts subject to similar risks that are managed together, and dividing each portfolio into annual cohorts by year of issue. Each annual cohort is then further subdivided into three groups based on the profitability of contracts determined at initial recognition and comprising:

- contracts that are onerous;
- contracts that have no significant possibility of becoming onerous; (based on the probability that changes in assumptions would result in contracts becoming onerous); and
- all remaining contracts.

The Company has not identified any insurance contract groups that have no significant possibility of becoming onerous.

Reinsurance contracts held are also subdivided into three profitability groups, determined by reference to net gains/losses on initial recognition, and comprising:

- contracts that have a net gain at initial recognition;
- contracts that have no significant possibility of a net gain arising subsequently; and
- all remaining contracts.

The Company has not identified any reinsurance contract groups that have no significant possibility of a net gain arising subsequently.

The approach to profitability grouping makes use of sets. Where it can be demonstrated that all contracts within a set are sufficiently homogeneous, they are allocated to the same profitability group without performing an individual contract assessment.

Accounting policies

For contracts measured under the PAA, IFRS 17 permits a simplification whereby contract groups are assumed not to be onerous unless facts and circumstances indicate otherwise. The Company has used internal management information to identify facts and circumstances that may indicate that a group is onerous.

(d) Recognition and derecognition

An insurance contract issued by the Company is recognised from the earliest of:

- the beginning of its coverage period (i.e. the period during which the Company provides insurance contract services in respect of any premiums within the boundary of the contract);
- the date the first payment from the policyholder becomes due or, if there is no contractual due date, when it is received from the policyholder; and
- the date when facts and circumstances indicate that the contract is onerous.

Reinsurance contracts are recognised at the beginning of the coverage period of the group of reinsurance contracts. However, if the Company recognises an onerous group of underlying insurance contracts on an earlier date and the related reinsurance contract was entered into before that earlier date, then the group of reinsurance contracts is recognised on that earlier date.

An insurance or reinsurance contract acquired in a transfer of contracts or a business combination is recognised on the date of acquisition.

When the contract is recognised, it is added to an existing group of contracts or, if the contract does not qualify for inclusion in an existing group, it forms a new group to which future contracts are added. Groups of contracts are established on initial recognition and their composition is not revised once all contracts have been added to the group.

Insurance contracts are derecognised when the contract is extinguished, i.e. when the specified obligations expire, are discharged, or are cancelled. The Company also derecognises a contract if its terms are modified in a way that would have changed the accounting for the contract significantly had the new terms always existed, in which case a new contract based on the modified terms is recognised.

(e) Estimate of future cash flows

The estimate of future cash flows is assessed at the level of profitability groups and represents the best estimate of the Company's cost to fulfil a contract incorporating current estimates of non-financial assumptions. The estimate allows for all the cash inflows and outflows expected to occur within the contract boundary. Cash flows are modelled separately for gross and reinsurance contracts.

i. Contract boundaries

Cash flows are within the contract boundary if they arise from substantive rights and obligations that exist during the reporting period in which the Company can compel the policyholder to pay premiums or has a substantive obligation to provide insurance contract services. A substantive obligation to provide services ends when the Company has the practical ability to reassess the risks (insurance and financial risks transferred from the policyholder, so excluding lapse and expense risks) and set a price or level of benefits that fully reflects those reassessed risks for either the particular policyholder or the portfolio that contains the contract.

Cash flows are within the contract boundary of a reinsurance contract held if they arise from substantive rights and obligations that exist during the reporting period in which the Company is compelled to pay amounts to the reinsurer or has a substantive right to receive services from the reinsurer.

The contract boundary is reassessed at each reporting date to include the effect of changes in circumstances on the Company substantive rights and obligations and, therefore, may change over time. Cash flows outside the contract boundary relate to future insurance contracts and are recognised when those contracts meet the recognition criteria.

ii. Principal non-financial assumptions

Principal non-financial assumptions used in the calculation of the insurance and reinsurance fulfilment cashflows use past claims experience to project future claims (estimated using a range of standard actuarial claims projection techniques). Expenses must be directly attributable to fulfilling insurance contracts, including an allocation of overheads to the extent that they can be allocated to groups of contracts in a systematic and rational way.

The estimate of future cash flows is assessed at the level of profitability groups and represents the best estimate of the Company's cost to fulfil a contract incorporating current estimates of non-financial assumptions. The estimate allows for all the cash inflows and outflows expected to occur within the contract boundary. Cash flows are modelled separately for gross and reinsurance contracts.

iii. Financial assumptions

Discount rates

Discounting is applied to the estimate of future cash flows. The Company uses a bottom-up discount rate for all insurance contracts.

Bottom-up discount rates

The discount rate is determined as the risk-free yield, adjusted for differences in liquidity characteristics between the financial assets used to derive the risk-free yield and the relevant liability cash flows (known as an 'illiquidity premium').

The illiquidity premium is determined as a percentage of the current spread over the risk-free yield on an index of covered bonds. The percentage applied reflects the liquidity characteristics of the liabilities including the propensity and ability of policyholders to lapse or surrender their contracts; for example, 100% for periodic payment orders with a lower percentage applied for other types of business that are considered partially liquid.

Presentation of financial assumption changes

The Company recognises the impact of financial assumption changes in the income statement.

(f) Risk Adjustment

The risk adjustment reflects the compensation required by the Company to accept the uncertainty about the amount and timing of future cash flows that arises from non-financial risk. The calculation of the risk adjustment is calibrated to the Company's pricing and capital allocation framework, leveraging the Solvency II view of non-financial risk, considering a lifetime view, and including diversification between risks.

Accounting policies

The change in risk adjustment relating to current or past service is recognised within insurance revenue in the income statement. The impact of discounting the risk adjustment for GMM and PAA contracts is disaggregated and recognised within net finance expenses from insurance contracts.

(g) CSM

The Company's reinsurance contracts are adverse development covers, in these arrangements where the net cost of purchasing reinsurance contracts held relate to events that occurred prior to purchase is recognised, and the net cost is recognised immediately in the income statement with no CSM recognised.

(I) Recognition and classification of financial assets

Financial assets are measured initially at fair value plus eligible transaction costs for financial assets held at amortised cost. Financial assets are subsequently measured at amortised cost or FVTPL based on a business model assessment and the extent to which the contractual cash flows associated with the financial assets are solely payments of principal and interest (SPPI). The Company measures financial assets at FVTPL if they do not meet the SPPI criteria or if they are held within a business model where they are managed and evaluated on a fair value basis resulting from the Company's management of capital on a regulatory basis. A financial asset is classified at amortised cost if it is held within a business model whose objective is to hold assets to collect contractual cash flows and its contractual terms give rise to cash flows that are SPPI on the principal amount outstanding.

Financial assets are not reclassified subsequent to their initial recognition unless the Company changes its objectives for managing those financial assets, in which case all affected financial assets are reclassified on the first day of the next reporting period.

(J) Impairment of financial assets

Financial assets held at amortised cost are in the scope of expected credit loss requirements under IFRS 9. This includes financial assets held at amortised cost such as loans to banks, other loans, and receivables.

Expected credit loss is an unbiased, probability-weighted estimate of credit losses. It considers all reasonable and supportable information, including forward looking economic assumptions and a range of possible outcomes.

Expected credit losses are calculated on either a 12-month or lifetime basis depending on the extent to which credit risk has increased significantly since initial recognition, except where the Company uses the simplified approach to apply lifetime expected credit losses to trade receivables that do not contain a significant financing component.

The gross carrying amount of a financial asset is written off to the extent that there is no reasonable expectation of recovery. Subsequent recoveries in excess of the financial asset’s written-down carrying value are credited to the income statement.

(K) Derecognition and offset of financial assets and financial liabilities

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised where:

- the rights to receive cash flows from the asset have expired;
- the Company retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a “pass-through” arrangement; or
- the Company has transferred its rights to receive cash flows from the asset and either transferred substantially all the risks and rewards of the asset, or has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

A financial liability is derecognised when the obligation under the liability is extinguished (that is when the obligation is discharged, or cancelled or expires). The difference between the carrying amount extinguished and the consideration paid is recognised in profit or loss.

If the terms of a financial asset or financial liability measured at amortised cost are substantially modified, then the contractual rights to cash flows from the original financial asset or financial liability are deemed to have expired or extinguished. The original financial asset or financial liability is derecognised and a new financial asset or financial liability is recognised at fair value.

A financial asset measured at amortised cost is not derecognised if the contractual terms are not substantially modified and a modification gain or loss is recognised in profit or loss.

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a currently enforceable legal right to set off the recognised amounts and there is the ability and intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

(L) Receivables

Receivables are recognised initially at cost, being fair value and are subsequently measured at amortised cost using the effective interest rate method, less provision for impairment.

To the extent that a receivable is considered to be uncollectable, it is written down as impaired through the Income Statement. Any subsequent recoveries are credited to the income statement.

(M) Payables and other financial liabilities

Payables and other financial liabilities, excluding derivatives, are recognised initially at cost, being fair value and are subsequently measured at amortised cost using the effective interest rate method.

(N) Statement of cash flows

Cash and cash equivalents

Cash and cash equivalents consist of cash at bank and in hand, deposits held at call with banks, treasury bills and other short-term highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in value. Such investments are those with less than three months’ maturity from the date of acquisition, or which are redeemable on demand with only an insignificant change in their fair values.

For the purposes of the statement of cash flows, cash and cash equivalents also include bank overdrafts, which are included in payables and other financial liabilities on the statement of financial position.

Accounting policies

Operating cash flows

Purchases and sales of loans and financial investments, and related investment income, are included within operating cash flows as the purchases are funded from cash flows associated with the origination of insurance contracts, net of payments of related claims.

(O) Contingent liabilities

Contingent liabilities are disclosed if there is a possible future obligation as a result of a past event, or if there is a present obligation as a result of a past event but either a payment is not probable or the amount cannot be reasonably estimated.

(P) Income taxes

The current tax expense is based on the taxable profits for the year, after any adjustments in respect of prior years. Tax, including tax relief for losses if applicable, is allocated over profits before taxation and amounts charged or credited to components of other comprehensive income and equity as appropriate.

Provision is made for deferred tax liabilities, or credit taken for deferred tax assets, using the liability method, on all material temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements.

The rates enacted or substantively enacted at the statement of financial position date are used to value the deferred tax assets and liabilities.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised. Where there is a history of tax losses, deferred tax assets are only recognised in excess of deferred tax liabilities if there is convincing evidence that future profits will be available.

Deferred taxes are not provided in respect of any temporary differences arising from the initial recognition of goodwill, or from the initial recognition of an asset or liability in a transaction which is not a business combination and affects neither accounting profit nor taxable profit or loss at the time of the transaction.

Current and deferred tax relating to items recognised in other comprehensive income and directly in equity are similarly recognised in other comprehensive income and directly in equity respectively, except for the tax consequences of distributions from certain equity instruments, to be recognised in the income statement. Deferred tax related to any fair value re-measurement of available for sale investments, owner-occupied properties, pensions and other post-retirement obligations and other amounts charged or credited directly to other comprehensive income is recognised in the statement of financial position as a deferred tax asset or liability.

(Q) Share capital

Equity instruments

An equity instrument is a contract that evidences a residual interest in the assets of an entity after deducting all its liabilities. Accordingly, a financial instrument is treated as equity if:

(i) there is no contractual obligation to deliver cash or other financial assets or to exchange financial assets or liabilities on terms that may be unfavourable; and

(ii) the instrument is a non-derivative that contains no contractual obligation to deliver a variable number of shares or is a derivative that will be settled only by the Company exchanging a fixed amount of cash or other assets for a fixed number of the Company's own equity instruments.

Dividends

Interim dividends on ordinary shares are recognised in equity in the period in which they are paid. Final dividends on these shares are recognised when they have been approved by shareholders.

Income Statement

For the year ended 31 December 2023

	Notes	2023 £'000	Restated[1] 2022 £'000
Insurance revenue	3	**46**	14
Insurance service income/(expense)	5	**14,703**	(9,881)
Net (expense)/income from reinsurance contracts	5	**(14,729)**	9,276
Insurance service result		**20**	(591)
Investment return	4	**815**	1,803
Net finance (expense)/income from insurance contracts	4	**(20,248)**	66,693
Net finance income/(expense) from reinsurance contracts	4	**20,075**	(66,127)
Net financial result	4	**642**	2,369
Profit/(loss) before tax		**662**	1,778
Tax charge	9	**—**	—
Profit/(loss) for the year after tax		**662**	1,778

1.The 2022 comparative results have been restated from those previously published following the adoption of IFRS 17, as described in note 1.

The Company has no recognised income and expenses other than that included in the results above and therefore a statement of comprehensive income has not been presented.

The accounting policies (identified alphabetically) on pages 14 to 19 and notes (identified numerically) on pages 24 to 41 are an integral part of the financial statements.

Statement of changes in equity

For the year ended 31 December 2023

	Notes	Ordinary Share Capital £'000	Capital reserve £'000	Retained earnings £'000	2023 Total equity £'000
Balance at 1 January		**1,000**	**28,078**	**39,150**	**68,228**
Profit for the year		**—**	**—**	**662**	**662**
Total comprehensive income for the year		**—**	**—**	**662**	**662**
Dividends paid	10	**—**	**—**	**—**	**—**
Balance at 31 December	12, 13	**1,000**	**28,078**	**39,812**	**68,890**

	Notes	Ordinary Share Capital £'000	Capital reserve £'000	Retained earnings £'000	Restated[1] 2022 Total equity £'000
Balance at 1 January		1,000	28,078	37,372	66,450
IFRS 17 transition impacts	1	—	—	—	—
Balance at 1 January - restated		1,000	28,078	37,372	66,450
Profit for the year		—	—	1,778	1,778
Total comprehensive income for the year		—	—	1,778	1,778
Dividends paid	10	—	—	—	—
Balance at 31 December	12, 13	1,000	28,078	39,150	68,228

1.The 2022 comparative results have been restated from those previously published following the adoption of IFRS 17 as described in note 1

The accounting policies (identified alphabetically) on pages 14 to 19 and notes (identified numerically) on pages 24 to 41 are an integral part of the financial statements.

Statement of Financial Position

As at 31 December 2023

	Notes	2023 £'000	Restated[1] 2022 £'000	Restated[1] 1 January 2022 £'000
Assets				
Reinsurance contract assets	14	**282,112**	298,301	352,089
Receivables	L & 11	**50,982**	50,402	49,792
Cash and cash equivalents	N & 19	**19,166**	19,005	17,829
Total assets		**352,260**	367,708	419,710
Equity				
Ordinary share capital	Q & 12	**1,000**	1,000	1,000
Capital reserves	13	**28,078**	28,078	28,078
Retained earnings		**39,812**	39,150	37,372
Total equity		**68,890**	68,228	66,450
Liabilities				
Insurance contract liabilities	H & 14	**282,216**	298,307	352,089
Payables and other financial liabilities	M & 16	**429**	429	429
Other liabilities	M & 17	**725**	744	742
Total liabilities		**283,370**	299,480	353,260
Total equity and liabilities		**352,260**	367,708	419,710

1.The 2022 comparative results have been restated from those previously published following the adoption of IFRS 17 as described in note 1

The above statement of financial position should be read in conjunction with the accounting policies and accompanying notes to the financial statements.

The financial statements on pages 14 to 41 were approved and signed on behalf of the Board of Directors on 24 May 2024 by:

james sturman

J R Sturman

Director

The accounting policies (identified alphabetically) on pages 14 to 19 and notes (identified numerically) on pages 24 to 41 are an integral part of the financial statements.

Statement of cash flows

For the year ended 31 December 2023

	Notes	2023 £'000	2022 £'000
Cash flows from operating activities			
Cash generated from operating activities	N & 19(a)	**161**	1,176
Total net cash generated from operating activities		**161**	1,176
Total net increase in cash and cash equivalents		**161**	1,176
Cash and cash equivalents at 1 January		**19,005**	17,829
Cash and cash equivalents at 31 December	N &19(b)	**19,166**	19,005

The accounting policies (identified alphabetically) on pages 14 to 19 and notes (identified numerically) on pages 24 to 41 are an integral part of the financial statements.

1. Changes to comparative amounts on transition to IFRS 9 and IFRS 17

The Company has adopted IFRS 17 Insurance Contracts from 1 January 2023 and comparatives have been retrospectively restated from the transition date of 1 January 2022. A restated opening statement of financial position has been produced as at that date.

IFRS 17 Insurance Contracts provides a comprehensive and consistent approach to accounting for insurance contracts. It replaces IFRS 4, which was issued in 2005 and was largely based on grandfathering of previous local accounting policies.

The Company has also adopted IFRS 9 Financial Instruments from 1 January 2023 and comparatives have been retrospectively restated. IFRS 9 incorporates new classification and measurement requirements for financial assets, introduces a new expected credit loss impairment model to replace the IAS 39 incurred loss model and new hedge accounting requirements. The Company had previously deferred the application of IFRS 9 to align with the implementation of IFRS 17. IFRS 9 has not resulted in any measurement differences on adoption by the Company, but does impact the disclosure of financial instruments as described in note 1(b).

Accounting policies that have been revised as a result of adoption of IFRS 17 and IFRS 9 are presented in Accounting Policies. Significant methods, judgements and assumptions applied in measurement of insurance contracts are set out in note 14(d). This note focuses on the changes made on transition to IFRS 17 and IFRS 9.

(a) IFRS 17 Insurance Contracts

(i)Transition to IFRS 17

IFRS 17 establishes principles for the recognition, measurement, presentation and disclosure of insurance contracts and reinsurance contracts. It introduces a model that measures groups of contracts based on the present value of future cash flows with an explicit risk adjustment for non-financial risk (the fulfilment cash flows) and a contractual service margin (CSM), representing the unearned profit to be recognised in profit or loss over the service period (coverage period).

Losses on contracts that are onerous at inception are recognised immediately. The core of IFRS 17 is the general measurement model (GMM), supplemented by the variable fee approach (VFA) which is a specific adaptation for contracts with direct participation features, and the premium allocation approach (PAA) which is a simplified model for short duration contracts. The Company’s only insurance liabilities are historical claims within the liability for incurred claims, for which the requirements of the different measurement models are substantially the same. The Company also holds reinsurance contracts reinsuring the risk of adverse development on incurred claims (“adverse development cover"), which apply the GMM.

The application of IFRS 17 significantly impacts the measurement and presentation of the Company's insurance and reinsurance contracts. The financial impact of measurement changes is more significant for life insurance than non-life insurance contracts, however, there are significant changes to presentation and disclosures for all insurance contracts.

Under IFRS 17 the presentation of insurance revenue and insurance service expenses in the income statement is based on the concept of insurance services provided during the period. Extensive disclosures provide information on the recognised amounts from insurance and reinsurance contracts and the nature and extent of risks arising from these contracts. The Company's disclosures will be disaggregated between insurance and reinsurance contracts.

Further details of these groupings are provided in note 14.

Changes in accounting policies resulting from the implementation of IFRS 17 have been applied in accordance with the transitional provisions of the standard. The fully retrospective approach ("FRA") has been used to measure the liability for incurred claims (LIC) on insurance contracts issued. Adverse development cover reinsurance contracts have applied the fair value approach ("FVA"); however, there is no CSM on these contracts as the net cost is recognised in the income statement immediately.

(ii) Financial impacts on transition to IFRS 17

There has been no impact to the Company's equity upon adoption of IFRS 17, and this remained at £66,450 thousand at the transition date of 1 January 2022 as changes to insurance contract liabilities as a result of IFRS 17 are offset by equal and opposite changes to reinsurance contract assets as result of the 100% reinsurance arrangement in place.

The impacts (reclassifications only) on transition to IFRS 17 are summarised in the table below, which sets out the restated condensed statement of financial position on the transition date:

Notes to the financial statements

1. Changes to comparative amounts on transition to IFRS 17 and IFRS 9 continued

	31 December 2021 As previously reported	IFRS17 Reclassifications	Total change	1 January 2022 Restated
	£'000	£'000	£'000	£'000
Assets				
Reinsurance contract assets	309,769	42,320	42,320	352,089
Receivables	49,792	—	—	49,792
Cash and cash equivalents	17,829	—	—	17,829
Total assets	377,390	42,320	42,320	419,710
Equity				
Ordinary share capital	1,000	—	—	1,000
Capital reserve	28,078	—	—	28,078
Retained earnings	37,372	—	—	37,372
Total equity	66,450	—	—	66,450
Liabilities				
Insurance contract liabilities	309,769	42,320	42,320	352,089
Payables and other financial liabilities	429	—	—	429
Other liabilities	742	—	—	742
Total liabilities	310,940	42,320	42,320	353,260
Total equity and liabilities	377,390	42,320	42,320	419,710

The company's IFRS profit for the year ending 31 December 2022 is unchanged as a result of transition from IFRS 4 to IFRS 17 due to the 100% reinsurance arrangement.

(b) IFRS 9 Financial Instruments

IFRS 9 introduces new classification and measurement requirements for financial assets, resulting in the Company's financial assets being measured at FVTPL or amortised cost. The basis of classification depends on the business model for managing the cash flows from these assets and their contractual cash flow characteristics. The IFRS 9 expected credit loss model for impairment is applied to any financial assets held at amortised cost. The outcome for financial liabilities remains unchanged as the Company has elected to recognise fair value changes attributable to own credit risk in the income statement for financial liabilities designated at FVTPL. The Company's only balances within scope of IFRS 9 are cash and cash equivalents and receivables, for which there is no measurement impact.

2. Exchange rates

Assets and liabilities have been translated at the following year end rates:

	2023	2022
Australian Dollar	**1.8690**	1.7743
Canadian Dollar	**1.6871**	1.6386
Euro	**1.1532**	1.1298
Japanese Yen	**179.5480**	158.5890
US Dollar	**1.2731**	1.2097

3. Insurance revenue

	2023	2022
	£'000	£'000
Contracts measured under the PAA	**46**	14
Total insurance revenue	**46**	14

Notes to the financial statements (continued)

4. Net financial results

The following table analyses the companies net financial results in profit or loss.

	2023 £'000	Restated[1] 2022 £'000
Interest and similar income	**647**	140
From financial assets designated at FVTPL on inception	**168**	1,663
Total investment return	**815**	1,803
Interest accreted	**(14,935)**	(2,380)
Effect of, and changes in, interest rates and other financial assumptions	**(5,313)**	69,073
Total net finance (expense)/income from insurance contracts	**(20,248)**	66,693
Interest accreted	**14,810**	2,366
Effect of, and changes in, interest rates and other financial assumptions	**5,265**	(68,493)
Net finance income/(expense) from reinsurance contracts	**20,075**	(66,127)
Net financial result	**642**	2,369

1.The 2022 comparative results have been restated from those previously published following the adoption of IFRS 17 and remeasurement of the acquisition balance sheet, as described in note 1.

5. Details of expenses

	2023 £'000	Restated[1] 2022 £'000
Claims and benefits incurred		
Claims and benefits incurred	**(14,703)**	9,881
Claim recoveries from reinsurers	**(18,372)**	(69,343)
Claims and benefits incurred, net of recoveries from reinsurers	**(33,075)**	(59,462)
Total expenses	**(33,075)**	(59,462)
Represented by (expense)/income included within the income statement:		
Insurance service income/(expense)	**(14,703)**	9,881
Expense recovery from reinsurance contracts	**(18,372)**	(69,343)
Total expenses	**(33,075)**	(59,462)

1.The 2022 comparative results have been restated from those previously published following the adoption of IFRS 17 and remeasurement of the acquisition balance sheet, as described in note 1.

Expense recovery from reinsurance contracts is presented in the income statement within net expense from reinsurance contracts, which comprises of reinsurance revenue of £(33,101) thousand (*2022 restated: £(60,068) thousand*) and amounts recovered from reinsurers of £18,372 thousand (*2022 restated: £69,343 thousand*).

6. Employee information

All staff are employed by a fellow subsidiary undertaking of Aviva plc, Aviva Employment Services Limited. Disclosures relating to employees may be found in the annual report and financial statements of Aviva Employment Services Limited.

7. Directors' remuneration

The directors were remunerated during the year for their roles as employees across the Group. They were not remunerated directly for their services as directors of this Company and no cost is borne by the Company for these services.

During the year, two of the directors exercised share options (2022: one) and four of the directors were granted shares under long term incentive schemes (2022: three) in relation to shares of the Company's ultimate parent, Aviva plc.

8. Auditors' remuneration

The total remuneration payable by the Company, excluding VAT, to its auditors, PricewaterhouseCoopers LLP is as follows:

	2023 £'000	2022 £'000
Fees payable to PricewaterhouseCoopers LLP for the statutory audit of the Company's financial statements	**64**	60
	64	60

Audit fees are payable by Aviva Central Services UK Limited, a fellow Group company, and recharged as appropriate to the Company and fellow Group companies.

Notes to the financial statements (continued)

9. Tax charge

(a) Total tax charged to the income statement

There was no tax charged/credited to the income statement in 2023 or 2022.

(b) Tax reconciliation

The tax on the Company's profit before tax differs from the theoretical amount that would arise using the tax rate of the United Kingdom as follows:

	Note	**2023**	2022
		£'000	£'000
Total profit before tax		**662**	1,778
Tax calculated at standard UK corporation tax rate of 23.50% (2022: 19.00%)		**(156)**	(338)
Surrender of tax losses from Group undertakings for no charge		**156**	338
Tax charge for the year	9(a)	**—**	—

The UK Government has enacted an increase in the UK corporation tax rate to 25% to take effect from 1 April 2023.

As the Company has no deferred tax assets or liabilities at the year end, there is no impact on the Company's net assets as a consequence of the amendments in the tax rates.

During 2023, legislation on The Organisation for Economic Co-operation and Development proposals to reform the international tax system and introduce a global minimum effective rate of corporation tax of 15% was enacted in the UK, effective from 31 December 2023. The Company (as part of the Aviva Group) has assessed its potential exposure, based on the available information, and does not anticipate any exposure to additional tax under these provisions.

10. Dividends

	2023	2022
	£'000	£'000
Ordinary dividends declared and charged to equity in the year	**—**	—

11. Receivables

	Note	**2023**	2022
		£'000	£'000
Amounts due from reinsurers		**60**	14,360
Amounts due from parent	22(b)	**50,856**	36,016
Other receivables		**66**	26
Total as at 31 December		**50,982**	50,402
Expected to be recovered in less than one year		**50,982**	50,402
Expected to be recovered in more than one year		**—**	—
		50,982	50,402

Notes to the financial statements (continued)

12. Ordinary share capital

	2023 £'000	2022 £'000
Allotted, called up and fully paid		
40,000 (2022: 40,000) ordinary shares of £25 each	**1,000**	1,000

Ordinary shares in issue in the Company rank pari passu. All the ordinary shares in issue carry the same right to receive all dividends and other distributions declared, made or paid by the Company.

13. Capital reserve

	2023 £'000	2022 £'000
Capital reserve	**28,078**	28,078

The capital reserve arose as a result of an insurance business transfer in June 2011.

14. Insurance and reinsurance contracts

The Company has presented the information about insurance contracts which include policies relating to London Market business and which are measured using PAA in a single product group. Reinsurance contracts which include insurance contracts ceded to NICO and are measured under GMM, are presented as a separate product group.

The Company holds two reinsurance contracts reinsuring against the risk of adverse development on incurred claims which apply the general measurement model. One is with NICO, a Berkshire Hathaway subsidiary, while the other is with the Company's parent company AIL. No CSM is recognised for either of these contracts, with the net cost of the contract recognised in the income statement immediately. These are presented as a single product group.

The following reconciliations show how the carrying amounts of insurance and reinsurance contracts changed during the year as a result of cash flows and amounts recognised in the income statement.

A subsequent table is presented that separately analyses movements in the liabilities for remaining coverage and movements in the liabilities for incurred claims and reconciles these movements to the line items in the income statement.

A second reconciliation is presented for reinsurance contracts, which are measured under the GMM, which separately analyses changes in the estimates of the present value of future cash flows and the risk adjustment for non-financial risk.

(a) Carrying amount

Insurance contracts at 31 December comprised:

	2023 £'000	Restated[1] 2022 £'000
Insurance contracts		
Insurance contract balances	**(282,216)**	(298,307)
Total insurance contract liabilities	**(282,216)**	(298,307)

Reinsurance contracts at 31 December comprised:

	2023 £'000	Restated[1] 2022 £'000
Reinsurance Contracts		
Reinsurance contract assets	**282,112**	298,301

1.The 2022 comparative results have been restated from those previously published following the adoption of IFRS 17, as described in note 1(a).

At 31 December 2023, the maximum exposure to credit risk from insurance contracts is £nil (2022: £nil), and the maximum exposure to credit risk from reinsurance contracts is £282,112 thousand (2022: £298,301 thousand).

Notes to the financial statements (continued)

14. Insurance and reinsurance contracts continued

(b) Movements in insurance and reinsurance contract balances

The following movements have occurred in the carrying amount for gross insurance contract balances in the period

	2023 £'000	Restated[1] 2022 £'000
Carrying amount at 1 January	**298,307**	352,089
Insurance revenue	**(46)**	(14)
Insurance service (income)/expense	**(14,703)**	9,881
Insurance finance expense/(income)	**20,248**	(66,693)
Movements in exchange rates and other changes	**(5,897)**	17,076
Premiums received	**46**	14
Claims and expenses paid	**(15,739)**	(14,046)
Carrying amount at 31 December	**282,216**	298,307

1.The 2022 comparative results have been restated from those previously published following the adoption of IFRS 17, as described in note 1(a).

The carrying amount for reinsurance contracts are recognised separately from insurance contract balances. Detailed movements on both are included in following tables.

The following summarises movements in the gross risk adjustment that have occurred during the period:

	2023 £'000	Restated[1] 2022 £'000
Risk adjustment in respect of insurance contracts		
At 1 January	**(39,640)**	(46,748)
Change in risk adjustment for risk expired	**—**	—
Other movements in risk adjustment	**20,882**	7,108
Gross risk adjustment at 31 December	**(18,758)**	(39,640)

1.The 2022 comparative results have been restated from those previously published following the adoption of IFRS 17, as described in note 1(a).

The following summarises movements in the reinsurance risk adjustment that have occurred during the period:

	2023 £'000	Restated[1] 2022 £'000
Risk adjustment in respect of reinsurance contracts		
At 1 January	**39,639**	46,135
Change in risk adjustment for risk expired	**(5,505)**	(9,710)
Other movements in risk adjustment	**(15,376)**	3,216
Reinsurance risk adjustment at 31 December	**18,758**	39,640

1.The 2022 comparative results have been restated from those previously published following the adoption of IFRS 17, as described in note 1(a).

Notes to the financial statements (continued)

14. Insurance and reinsurance contracts continued

The following reconciliations show how the net carrying amounts of insurance and reinsurance contracts changed during the year as a result of cash flows and amounts recognised in the income statement.

(i) Insurance contracts

The following table shows insurance contracts analysed by remaining coverage and incurred claims (all measured under the PAA):

			Liabilities for incurred claims		
		Liabilities for remaining coverage	**Estimates of present value of future cash flows**	**Risk adjustment for non-financial risk**	**Total**
2023	**Note**	**£'000**	**£'000**	**£'000**	**£'000**
Carrying amount at 1 January		**—**	**258,667**	**39,640**	**298,307**
Changes in comprehensive income					
Insurance revenue	3	**(46)**	**—**	**—**	**(46)**
Insurance service (income)/expense	5	**—**	**8,503**	**(23,206)**	**(14,703)**
Incurred claims and other insurance service expenses		**—**	**—**	**—**	**—**
Adjustments to liabilities for incurred claims		**—**	**8,503**	**(23,206)**	**(14,703)**
Insurance service result		**(46)**	**8,503**	**(23,206)**	**(14,749)**
Net finance expenses from insurance contracts	4	**—**	**17,924**	**2,324**	**20,248**
Effect of movements in exchange rates		**—**	**(5,897)**	**—**	**(5,897)**
Total changes in comprehensive income		**(46)**	**20,530**	**(20,882)**	**(398)**
Cash flows					
Premiums received		**46**	**—**	**—**	**46**
Claims and other insurance service expenses paid		**—**	**(15,739)**	**—**	**(15,739)**
Total cash flows		**46**	**(15,739)**	**—**	**(15,693)**
Carrying amount at 31 December		**—**	**263,458**	**18,758**	**282,216**

			Liabilities for incurred claims		
Restated[1]		Liabilities for remaining coverage	Estimates of present value of future cash flows	Risk adjustment for non-financial risk	Total
2022	Note	£'000	£'000	£'000	£'000
Carrying amount at 1 January		—	305,341	46,748	352,089
Changes in comprehensive income					
Insurance revenue	3	(14)	—	—	(14)
Insurance service expenses	5	—	8,191	1,690	9,881
Incurred claims and other insurance service expenses		—	4,336	—	4,336
Adjustments to liabilities for incurred claims		—	3,855	1,690	5,545
Insurance service result		(14)	8,191	1,690	9,867
Net finance income from insurance contracts	4	—	(57,895)	(8,798)	(66,693)
Effect of movements in exchange rates		—	17,076	—	17,076
Total changes in comprehensive income		(14)	(32,628)	(7,108)	(39,750)
Cash flows					
Premiums received		14	—	—	14
Claims and other insurance service expenses paid		—	(14,046)	—	(14,046)
Total cash flows		14	(14,046)	—	(14,032)
Carrying amount at 31 December		—	258,667	39,640	298,307

1.The 2022 comparative results have been restated from those previously published following the adoption of IFRS 17, as described in note 1(a).

Notes to the financial statements (continued)

14. Insurance and reinsurance contracts continued

(ii) Reinsurance contracts

The following table shows reinsurance contracts analysed by remaining coverage and incurred claims (all measured under the GMM):

				2023			Restated[1] 2022
		Assets for remaining coverage[2]	**Assets for incurred claims**	**Total**	Assets for remaining coverage[2]	Assets for incurred claims	Total
	Note	**£'000**	**£'000**	**£'000**	£'000	£'000	£'000
Opening assets at 1 January		**298,301**	**—**	**298,301**	352,089	—	352,089
Changes in the income statement							
Amounts recoverable from reinsurers		**(30,282)**	**15,553**	**(14,729)**	(6,777)	14,012	7,235
Allocation of reinsurance premiums paid		**(41,314)**	**—**	**(41,314)**	(79,545)	—	(79,545)
Recoveries of incurred claims and other insurance service expenses		**11,032**	**15,553**	**26,585**	72,768	14,012	86,780
Net expenses/(income) from reinsurance contracts		**(30,282)**	**15,553**	**(14,729)**	(6,777)	14,012	7,235
Net finance (income)/expense from reinsurance contracts	4	**20,075**	**—**	**20,075**	(66,127)	—	(66,127)
Effect of movements in exchange rates		**(5,980)**	**—**	**(5,980)**	19,116	—	19,116
Total changes in the income statement		**(16,188)**	**15,553**	**(635)**	(53,788)	14,012	(39,776)
Cash flows							
Amounts received		**—**	**(15,553)**	**(15,553)**	—	(14,012)	(14,012)
Total cash flows		**—**	**(15,553)**	**(15,553)**	—	(14,012)	(14,012)
Closing assets at 31 December		**282,112**	**—**	**282,112**	298,301	—	298,301

1.The 2022 comparative results have been restated from those previously published following the adoption of IFRS 17, as described in note 1(a).

2. The asset for remaining coverage balances and the changes during 2023 and 2022, presented in the table above, include loss component values of £nil.

The following table shows the Company's reinsurance contracts reinsuring against the risk of adverse development on incurred claims analysed by measurement component:

				2023			Restated[1] 2022
		Estimates of present value of future cash flows	**Risk adjustment for non-financial risk**	**Total**	Estimates of present value of future cash flows	Risk adjustment for non-financial risk	Total
	Note	**£'000**	**£'000**	**£'000**	£'000	£'000	£'000
Opening assets at 1 January		**258,662**	**39,639**	**298,301**	305,954	46,135	352,089
Changes in comprehensive income							
Change in risk adjustment for non-financial risk for risk expired		**—**	**(5,505)**	**(5,505)**	—	(9,710)	(9,710)
Experience adjustments		**7,679**	**(16,904)**	**(9,225)**	7,586	9,359	16,945
Effect of changes in non-performance risk of reinsurers		**—**	**—**	**—**	—	—	—
Net expenses/(income) from reinsurance contracts		**7,679**	**(22,409)**	**(14,730)**	7,586	(351)	7,235
Net finance expense/(income) from reinsurance contracts	4	**17,777**	**2,298**	**20,075**	(57,428)	(8,699)	(66,127)
Effect of movements in exchange rates		**(5,211)**	**(770)**	**(5,981)**	16,562	2,554	19,116
Total changes in comprehensive income		**20,245**	**(20,881)**	**(636)**	(33,280)	(6,496)	(39,776)
Cash flows		**(15,553)**	**—**	**(15,553)**	(14,012)	—	(14,012)
Closing assets at 31 December		**263,354**	**18,758**	**282,112**	258,662	39,639	298,301

1.The 2022 comparative results have been restated from those previously published following the adoption of IFRS 17, as described in note 1(a).

Notes to the financial statements (continued)

14. Insurance and reinsurance contracts continued

(c) Claims development

The Company ceased to write business in the London Market in 1995.

	Gross 2009 and prior years	Net of reinsurance 2009 and prior years
	£'000	£'000
Estimates of undiscounted cumulative claims	(350,836)	(137)
Effect of discounting	87,378	33
Effect of the risk adjustment for non-financial risk	**(18,758)**	**—**
Net liabilities for incurred claims included in the statement of financial position	**(282,216)**	**(104)**

(d) Significant accounting judgments and estimates

This note gives details of the significant judgements made in applying IFRS 17, explaining the inputs, assumptions, methods and estimation techniques used to measure insurance and reinsurance contracts.

(i) Fulfilment cash flows

Fulfilment cash flows comprise:

- estimates of future cash flows;
- an adjustment (discount rate) to reflect the time value of money and the financial risks related to future cash flows, to the extent that the financial risks are not included in the estimates of future cash flows; and
- a risk adjustment.

Estimates of future cash flows

In estimating future cash flows, the Company incorporates, in an unbiased way, all reasonable and supportable information that is available without undue cost or effort at the reporting date. This information includes both internal and external historical data about claims and other experience, updated to reflect current expectations of future events.

The estimates of future cash flows reflect the Company's view of current conditions at the reporting date, using market variables consistent with observable market prices, where applicable.

When estimating future cash flows, the Company takes into account current expectations of future events that might affect those cash flows. However, expectations of future changes in legislation that would change or discharge a present obligation or create new obligations under existing contracts are not taken into account until the change in legislation is substantively enacted.

Cash flows within the boundary of a contract relate directly to the fulfilment of the contract, including those for which the Company has discretion over the amount or timing. These include payments to (or on behalf of) policyholders, insurance acquisition cash flows and other costs that are incurred in fulfilling contracts. Other costs that are incurred in fulfilling the contracts include claims associated costs and administration costs.

Contract boundaries

The assessment of the contract boundary, which defines which future cash flows are included in the measurement of a contract, requires judgement and consideration of the Company's substantive rights and obligations under the contract.

Reinsurance contracts

Adverse development cover - the Company's adverse development cover treaties are deemed to expire when all uncertainty associated with the ceded claims liabilities has expired. The contract boundary is based upon the best estimate of when all obligations associated with the liabilities will be extinguished.

Claims

The Company establishes reserves for claim events that occurred before the valuation date, whether reported or not. When calculating claim costs, the Company takes into account estimated future recoveries from salvage and subrogation.

The undiscounted ultimate cost of outstanding claims is estimated by using a range of standard actuarial claims projection techniques, such using industry-wide asbestos run-off patterns that are provided by the IFoA UK asbestos working party, survival ratio modelling and outstanding to case estimate methods. Historical claims development is mainly analysed by accident period, although underwriting or notification period is also used where this is considered appropriate.

The assumptions used in most actuarial projection techniques, including future rates of claims inflation, are implicit in the historical claims development data on which the projections are based. Additional qualitative judgement is used to assess the extent to which past trends may not apply in the future in order to arrive at a point estimate for the ultimate cost of claims that represents the expected outcome. The ultimate cost of outstanding claims includes provision for expenses associated with handling claims.

UK mesothelioma claims and US pollution and health hazards

The level of uncertainty associated with latent claims is considerable due to the relatively small number of claims and the long-tail nature of the liabilities. UK mesothelioma claims and US pollution and health hazards account for a large proportion of the Company's latent claims. The key assumptions underlying the estimation of these claims include claim numbers, the base average cost per claim for UK mesothelioma claims, case specific knowledge, future inflation in the average cost of claims and legal fees. The best estimate of the liabilities considers the latest available market information and studies and how these might impact the Company's liabilities.

Notes to the financial statements (continued)

14. Insurance and reinsurance contracts continued

Discount rates

All cash flows are discounted using risk-free yield curves adjusted to reflect the characteristics of the cash flows and the liquidity of the insurance contracts. For the risk-free yield curves, the Company generally uses the risk-free interest rate curves published by the PRA and and the European Insurance Occupational Pensions Authority ("EIOPA") for regulatory reporting.

The Company uses a bottom-up discount rate for all insurance contracts.

Under the bottom-up approach, the discount rate is determined as the risk-free yield, adjusted for differences in liquidity characteristics between the financial assets used to derive the risk-free yield and the relevant liability cash flows (known as an 'illiquidity premium').

The illiquidity premium is determined as a percentage of the current spread over the risk-free yield on an index of covered bonds which represents the additional return above the risk free rate that could be generated by investing in illiquid assets.

Different percentages are applied to classes of claims liability based upon their liquidity characteristics, including the ability of claimants to expedite the claims process and realise their benefits. For example, 100% is applied to periodic payment orders as these are ordered by a court and it is impossible for claimants to realise the remaining value of their claim through a lump sum settlement. Lower factors are applied to latent claims and other claims liabilities based upon their liquidity characteristics.

The tables below set out the yield curves used to discount the cash flows of insurance contracts for major currencies:

						2023						2022
	1 year	**5 years**	**10 years**	**15 years**	**20 years**	**40 years**	1 year	5 years	10 years	15 years	20 years	40 years
Latent claims												
GBP	5.21 %	3.83 %	3.76 %	3.87 %	3.91 %	3.64 %	5.21 %	4.81 %	4.46 %	4.37 %	4.29 %	3.90 %
USD	5.13 %	3.87 %	3.82 %	3.86 %	3.83 %	3.51 %	5.47 %	4.35 %	4.15 %	4.11 %	4.03 %	3.53 %

Risk adjustment for non-financial risk

Risk adjustments for non-financial risk reflects the compensation required by the Company to accept the uncertainty about the amount and timing of future cash flows that arises from non-financial risk. The calculation of the risk adjustment is calibrated with reference to the Company's pricing and capital allocation framework. The calibration leverages the Solvency II view of non-financial risk, considering a lifetime view, and includes diversification between risks within the Company. The risk adjustment includes diversification between different portfolios of insurance contracts, financial and non-financial risks using correlation matrix techniques. The diversification benefit includes diversification between different portfolios of insurance contract groups, expired and unexpired insurance risks portfolios using correlation matrix techniques.

The risk adjustment is allocated to the individual group of contract level based upon their capital intensity, with a greater amount allocated to contract groups with greater valuation uncertainty.

Initially, the Company applies these techniques on a net of reinsurance basis before calculating gross up factors for each group of contracts and calculating the reinsurance risk adjustment as the difference between the gross and net.

The risk adjustment for non-financial risk corresponds to a 99th percentile (2022: 99th percentile) confidence level, net of reinsurance. The Company benefits from very extensive reinsurance under which the ultimate cost of claims is nil in all but the most extreme 1% of scenarios. The risk adjustment for non-financial risk is also £nil (2022: £nil) and the Company's confidence that the value of the liability for incurred claims, including the risk adjustment, is sufficient to meet the ultimate cost of claims therefore corresponds with up to a 99th percentile (2022: 99th percentile) level. Since the risk adjustment for non-financial risk is £nil, it remains unaffected by variations in the confidence level up to the 99th percentile. The percentile is an estimate made as of 31 December which could reasonably change within 12 months, including due to changes in the Company's risk profile or quantification thereof.

Notes to the financial statements (continued)

15. Tax assets and liabilities

(a) Current tax

Tax assets recoverable and liabilities payable in more than one year are £nil and £nil (*2022*: £nil and £nil) respectively.

(b) Deferred tax

There are no provided or unprovided deferred tax assets and liabilities at the year end (2022: £nil).

16. Payables and other financial liabilities

	2023	2022
	£'000	£'000
Other financial liabilities	**429**	429
Expected to be settled within one year	**429**	429
Total as at 31 December	**429**	429

All payables and other financial liabilities are carried at amortised cost, which approximates to fair value.

17. Other liabilities

	2023	2022
	£'000	£'000
Other liabilities	**725**	744
Expected to be settled within one year	**11**	8
Expected to be settled in more than one year	**714**	736
Total as at 31 December	**725**	744

18. Contingent liabilities and other risk factors

(a) Uncertainty over claims provisions

Note 14 gives details of the estimation techniques used in determining the general business outstanding claims provisions.

These approaches are designed to allow for a degree of prudence, to give a result within the normal range of outcomes. However, the actual cost of settling these liabilities may differ, for example because experience may be worse than that assumed, or future general insurance business claims inflation may differ from that expected, and hence there is uncertainty in respect of these liabilities.

(b) Regulatory compliance

The FCA and the PRA regulate and authorise the Company's UK business and in addition monitor the financial resources and organisation of the Company as a whole. The PRA and FCA have broad powers including the authority to grant, vary the terms of, or cancel a regulated firm's authorisation; to investigate marketing and sales practices; and to require the maintenance of adequate financial resources. The Company's regulators outside the UK typically have similar powers, but in some cases they also operate a system of 'prior product approval'.

The directors believe that the Company dedicates appropriate resources to its compliance programme, endeavours to respond to regulatory enquiries in a constructive way, and takes corrective action when warranted. However, all regulated financial services companies face the risk that the regulator could find that they have failed to comply with applicable regulations or have not undertaken corrective action as required.

The impact of any such finding could have a negative impact on the Company's reported results or on its relations with current or potential customers. Regulatory action against the Company could result in adverse publicity for, or negative perceptions regarding, the Company, or could have a material adverse effect on the business of the Company, its results of operations and/or financial condition and divert management's attention from the day-to-day management of the business.

(c) Other

In the course of conducting insurance and investment business, the Company receives liability claims, and becomes involved in actual or threatened related litigation. In the opinion of the directors, adequate provisions have been established for such claims and no material loss will arise in this respect.

The Company pays contributions to levy schemes in several countries in which it operates. Given the economic environment, there is a heightened risk that the levy contributions will need to be increased to protect policyholders if an insurance company falls into financial difficulties. The directors continue to monitor the situation but are not aware of any need to increase provisions at the statement of financial position date.

Notes to the financial statements (continued)

19. Statement of cash flows

(a) The reconciliation of profit before tax to the net cash inflow from operating activities is:

	2023	2022
	£'000	£'000
Profit before tax	**662**	1,778
Adjustments for:		
Change in economic assumptions on non-claims	**655**	627
	655	627
Changes in working capital:		
Decrease in reinsurance assets	**16,189**	53,788
Decrease in insurance liabilities	**(16,091)**	(53,782)
Decrease in other assets and liabilities	**(1,254)**	(1,235)
	(1,156)	(1,229)
Total cash generated from operating activities	**161**	1,176

(b) Cash and cash equivalents in the statement of cash flows at 31 December comprise:

	2023	2022
	£'000	£'000
Cash at bank and in hand	**5,166**	9,505
Cash equivalents	**14,000**	9,500
Cash and cash equivalents	**19,166**	19,005

Notes to the financial statements (continued)

20. Capital structure

The Company maintains an efficient capital structure from equity shareholders' funds, consistent with the Company's overall risk profile and the regulatory and market requirements of the business. This note describes the way the Company manages capital and shows how this is structured.

(a) General

IFRS underpins the Company's capital structure and accordingly the capital structure is analysed on this basis. The Company measures its capital requirements under the Solvency II regime.

(b) Capital management

In managing its capital, the Company seeks to:

(i) match the profile of its assets and liabilities, taking account of the risks inherent in the business;
(ii) maintain financial strength to support new business growth and satisfy the requirements of its policyholders and regulators;
(iii) retain financial flexibility by maintaining strong liquidity; and
(iv) allocate capital efficiently to support growth and repatriate excess capital where appropriate.

The Company considers not only traditional sources of capital funding but alternative sources of capital including reinsurance, as appropriate, when assessing its deployment and usage of capital.

(c) Different measures of capital

The Company measures its capital on a number of different bases. These include measures which comply with the regulatory regime within which the Company operates and those which the directors consider appropriate for the management of the business. The measures which the Company uses are:

(i) Accounting basis

The Company is required to report its results on an IFRS basis.

(ii) Regulatory basis

Relevant capital and solvency regulations are used to measure and report the Company's financial strength. These measures are based on the regulatory requirements under Solvency II. The regulatory capital tests verify that the Company retains an excess of solvency capital above the required minimum level based on Minimum Capital Requirement (MCR). The risk management note (note 21) gives further details.

Solvency II "own funds" represents the amount of regulatory capital resources that are available to meet regulatory capital requirements under the Solvency II regime, and is a closely monitored metric. At 31 December 2023 the Company's estimated own funds under Solvency II were £68,269 thousand (unaudited) (2022: £67,203 thousand (unaudited)). The Company's own funds are sufficient to meets its capital requirements under Solvency II based on MCR of £3,495 thousand (unaudited) (2022 based on Solvency Capital Requirement (SCR): £3,445 thousand (unaudited)). The Company fully complied with the relevant regulatory requirements during the year.

(d) Company capital structure

	2023 £'000	Restated[1] 2022 £'000
Equity shareholders' funds	**68,890**	68,228
Total capital	**68,890**	68,228

1.The 2022 comparative results have been restated from those previously published following the adoption of IFRS 17, as described in note 1(a).

Notes to the financial statements (continued)

21. Risk management

Risk Environment

During the year, the global economy has continued to experience elevated inflation and interest rates coupled with low levels of economic growth. Market expectations for 2024 are that monetary policy will begin to be cautiously eased as central banks look to protect economic growth with inflation declining and the softening of the labour market, albeit remaining tight by historical standards. Economist forecasts for growth have been revised upwards and inflation is expected to continue a gradual downwards trend, although this is likely to be highly dependent on the outcome of heightened geo-political tensions and the potential for further disruption to supply chains and energy supplies. Further, the potential for material levels of regime and/or policy change across the globe are an additional source of uncertainty for financial and commodity markets. Notwithstanding this, given the Company's limited investment portfolio and business model, any impacts on its solvency and liquidity positions are anticipated to be immaterial.

The Company continues to maintain strong solvency and liquidity positions and is resilient to a range of Stress and Scenario Tests (SST) to which the Company could become exposed to and maintains a set of plausible and timely management actions which include retention of dividends and capital injections from AIL (immediate parent Company) or Aviva plc (ultimate parent Company).

An increased threat of malware/ransomware attacks continues to be seen across the world. With the Company's operations outsourced to Resolute Management Limited (RM), the Company continues to provide strong oversight thereof, with no material concerns identified.

The Company continues to review and manage its exposure to climate risk. As the Company's insurance policies are in run off, and fully reinsured, with no new business being written, and in the light of its investment strategy, it has no material exposure or ability to impact exposure to climate risk, and therefore there is no separate disclosure of the impact of climate-related risks on the financial statements. The Group remains committed to supporting a low carbon economy that will improve the resilience of our economy, society and the financial system in line with the 2015 Paris Agreement target on climate change. In March 2021, the Group set an ambition to become a Net Zero carbon company by 2040 and actions continue to be taken to mitigate and manage the impact of climate change on the business. The Group calculates a Climate VaR against Intergovernmental Panel on Climate Change scenarios to assess the climate-related risks and opportunities under different emission projections and associated temperature pathways. A range of different financial indicators at the AIL/ UKGI Business Unit level (of which the Company is a part) are used to assess the impact on the Company's investments, noting exposure may arise indirectly through its reinsurers assets and liabilities.

(a) Risk management framework (RMF)

The Company's RMF has a key role in supporting the business to deliver its purpose for our customers, our people and our shareholders, helping the business discover, predict, understand and manage our risks, thereby maintaining a safe risk environment. The RMF comprises the system of governance, including Risk Policies and Business Standards, risk management processes, Risk Appetite Framework (RAF), risk oversight committees (both Board and Management) and clearly defined roles and responsibilities along with the processes the Company uses to Identify, Measure, Manage, Monitor and Report (IMMMR) risks, including the use of risk models and SST.

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:

a. Risk preferences: qualitative statements that express where the business prefers to take risk (or else accept or avoid) and why, applied to individual key risk types (e.g. GI Reserving and Inflation).
b. Risk appetites: overarching statements, metrics and thresholds that express the level of risk the business is willing to accept. The Company has risk appetites for Solvency, Liquidity, Operational, Climate and Conduct (albeit the latter two are reported at an AIL / UKGI Business Unit level (of which the Company is a part). Risk appetites are reviewed and approved annually by the Board and monitored at least quarterly by relevant management committees.
c. Risk limits: quantify more granular limits for specific defined risk exposure (e.g. maximum credit exposure limits to particular counterparties). These are also reported at an AIL / UKGI Business Unit level.

Board oversight of risk and risk management across the Company is maintained on a regular basis. The Board has overall responsibility for setting the Company's risk preferences and risk appetites, which are an expression of the risk the business is willing to take.

To promote a consistent and rigorous approach to risk management across the business, the Company has adopted a number of Risk Policies and Business Standards. The Risk Policies set out the Board's risk strategy appetite for risk and its expectations in respect of the management of risk while the Business Standards set out the mandated controls which together with any local controls aim to keep key operational risks within tolerance. The immediate parent company's Chief Executive Officer (CEO) makes an annual attestation that the system of governance and internal controls are effective and fit for purpose for the Company throughout the year and this declaration is supported by an opinion from the immediate parent company's Chief Risk Officer (CRO).

A variety of tools and processes are available to support risk identification; both bottom up and top down, and while run separately these are designed to complement each other and used to generate risk reports which are shared with the relevant Boards. The Top-Down Risk Assessment (TDRA) process which is facilitated by the Risk Function, with input from Management, focuses on identifying both proximate and emerging risks from events outside the Company and which are primarily beyond its influence and control. Conversely, the bottom up Risk and Control Self Assessment (RCSA) which is owned by Management with challenge from the Risk Function focuses on operational risks, that arise from within internal processes, systems or people and which might prevent the business from achieving its objectives.

Risk models are an important tool in the measurement of risks and are used to support the monitoring and reporting of the risk profile with consideration to the risk management actions available. A range of stress tests (where one risk factor, such as a downgrade in reinsurer credit rating, is assumed to vary) are undertaken to evaluate their impact on the business and the management actions available to respond to the conditions envisaged. For those risk types managed through the holding of capital, being the Company's principal risk types except for liquidity risk, the Company measures and monitors its risk profile on the basis of the Solvency II Solvency Capital Requirement (SCR).

Notes to the financial statements (continued)

21. Risk management continued

Aviva staff on behalf 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 the Aviva Group (as required by the RMF policy). First line (the Business) is accountable for the management of all risks relevant to the business of the Company, including the implementation of the RMF and embedding of the risk culture. Second line (Risk Function) is responsible for providing independent objective quantitative and qualitative oversight and challenge of the IMMMR processes and for developing the RMF. The third line (Internal Audit) provides an independent assessment of the RMF and internal control processes

Further information on the types and management of specific risk types is given in sections (b) to (h) below.

(b) Credit risk

Credit risk is the risk of loss or adverse outcomes due to a third-party default or a change to a third-party credit standing.

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 through exposures to reinsurance counterparties, cash and cash equivalents, and other receivables.

The Company's approach to managing credit risk management processes (including limits frameworks) complies with the Aviva Group credit limit framework. The AIL Asset & Liability Committee (ALCO) oversees financial risks including credit risk, and ensures detailed reporting and monitoring of exposures against pre-established risk criteria. Any material updates are provided to the Board for decision.

(i) Financial exposures by credit ratings

Financial assets are graded according to current external credit ratings issued. AAA is the highest possible rating. Investment grade financial assets are classified within the range of AAA to BBB ratings. Financial assets which fall outside this range are classified as sub-investment grade. "Not rated" assets capture assets not rated by external ratings agencies.

The table below provides information regarding the aggregated credit risk exposure of the Company, excluding intra-group transactions and cash and cash equivalents. Cash and cash equivalents are held with highly-rated banking institutions or liquidity funds.

31 December 2023	**AAA £'000**	**AA £'000**	**A £'000**	**BBB £'000**	**Below BBB £'000**	**Not-rated £'000**	**Carrying value £'000**
Reinsurance assets	—	**282,112**	—	—	—	—	**282,112**
Amounts due from reinsurers	—	**60**	—	—	—	—	**60**
Total	—	**282,172**	—	—	—	—	**282,172**

31 December 2022	AAA £'000	AA £'000	A £'000	BBB £'000	Below BBB £'000	Not-rated £'000	Carrying value £'000
Reinsurance assets	—	298,301	—	—	—	—	298,301
Amounts due from reinsurers	—	14,360	—	—	—	—	14,360
Total	—	312,661	—	—	—	—	312,661

The table below provides information regarding the aggregated credit risk exposure of the Company's financial assets that are considered to have contractual terms which are Solely Payments of Principal and Interest (SPPI), excluding amounts due from reinsurers, which are included above, and cash and cash equivalents.

SPPI financial exposure by credit ratings

31 December 2023	**AAA £'000**	**AA £'000**	**A £'000**	**BBB £'000**	**Below BBB £'000**	**Not-rated £'000**	**Carrying value £'000**
Receivables	—	**50,982**	—	—	—	—	**50,982**

31 December 2022	AAA £'000	AA £'000	A £'000	BBB £'000	Below BBB £'000	Not-rated £'000	Carrying value £'000
Receivables	—	50,402	—	—	—	—	50,402

Of the Company's receivables of £50,982 thousand (2022: £50,402 thousand), £50,856 thousand (2022: £36,016 thousand) is due from other Group companies and details are set out in note 22.

The Company's maximum exposure to credit risk of financial assets, without taking collateral, is represented by the carrying value of the financial instruments in the statement of financial position. These comprise reinsurance assets and receivables. The carrying values of these assets are disclosed in the relevant notes: reinsurance assets (note 14), receivables (note 11).

(ii) Credit concentration risk

The Company has a significant exposure to the National Indemnity Company amounting to £282,112 thousand (2022: £298,301 thousand) in respect of reinsurance assets and £60 thousand (2022: £14,360 thousand) in respect of amounts due from reinsurers.

(iii) Impairment of financial assets

At 31 December 2023 and 31 December 2022 no financial assets are impaired or overdue.

Notes to the financial statements (continued)

21. Risk management (continued)

(c) Market risk

Market risk is the risk of loss or adverse outcomes due directly or indirectly to fluctuations in interest rates, inflation and foreign currency exchange rates. Market risk arises due to fluctuations in both the value of liabilities and the value of investments held. The Company seeks some market risks as part of its investment strategy. However, it has limited appetite for interest rate risk because it does not believe interest rate risk is adequately rewarded.

The Company manages market risk using its market risk framework and within regulatory constraints. Market risk is managed in line with established Group policy, including established criteria for matching assets and liabilities to limit the impact of mismatches due to market movements.

The Company has assets and claims liabilities in foreign currency, principally United States dollars, and so has exposure to foreign exchange rates. However, there is no material net exposure to exchange rate fluctuations due to the reinsurance that has been put in place.

Oversight of market risk for the Company is undertaken by the Board.

(d) Liquidity risk

Liquidity risk is the risk of not being able to make payments as they become due because there are insufficient assets in cash form either in normal and stressed conditions.

The Company seeks to ensure that it maintains sufficient financial resources to meet its obligations as they fall due through the application of a financial Risk Policy and a Liquidity Risk Business Standard. The Company monitors its position relative to its agreed liquidity risk appetite.

Maturity analyses

The following tables show the maturities of the Company’s insurance liabilities and payables and other financial liabilities.

(i) Analysis of maturity of financial liabilities and insurance contract liabilities

For insurance contract liabilities, including reinsurance contract liabilities, the following table shows the estimates of the present value of future cash flows at 31 December 2023 and 2022 analysed by estimated timing

The following table shows the Company's insurance liabilities and payables and other financial liabilities analysed by duration:

					2023
	Total	On demand or within 1 year	1-5 years	5-15 years	Over 15 years
	£'000	£'000	£'000	£'000	£'000
Insurance contract liabilities	**282,216**	**37,965**	**104,658**	**107,933**	**31,660**
Payables and other financial liabilities	**429**	**429**	**—**	**—**	**—**
Total	**282,645**	**38,394**	**104,658**	**107,933**	**31,660**

					Restated[1] 2022
	Total	On demand or within 1 year	1-5 years	5-15 years	Over 15 years
	£'000	£'000	£'000	£'000	£'000
Insurance contract liabilities	298,307	40,128	110,626	114,087	33,466
Payables and other financial liabilities	429	429	—	—	—
Total	298,736	40,557	110,626	114,087	33,466

1.The 2022 comparative results have been restated from those previously published following the adoption of IFRS 17, as described in note 1(a).

Financial assets and Liabilities

(ii) Analysis of maturity of financial assets

The following table provides an analysis, by maturity date of the principal, of the carrying value of financial assets which are available to fund the repayment of liabilities as they crystallise.

Notes to the financial statements (continued)

21. Risk management continued

					2023
	Total	**On demand or within 1 year**	**1-5 years**	**5-15 years**	**Over 15 years**
	£'000	**£'000**	**£'000**	**£'000**	**£'000**
Reinsurance assets	**282,112**	**37,950**	**104,620**	**107,893**	**31,649**
Receivables	**50,982**	**50,982**	**—**	**—**	**—**
Cash and cash equivalents	**19,166**	**19,166**	**—**	**—**	**—**
Total financial assets	**352,260**	**108,098**	**104,620**	**107,893**	**31,649**

					Restated[1] 2022
	Total	On demand or within 1 year	1-5 years	5-15 years	Over 15 years
	£'000	£'000	£'000	£'000	£'000
Reinsurance assets	298,301	40,128	110,623	114,085	33,465
Receivables	50,402	50,402	—	—	—
Cash and cash equivalents	19,005	19,005	—	—	—
Total financial assets	367,708	109,535	110,623	114,085	33,465

1.The 2022 comparative results have been restated from those previously published following the adoption of IFRS 17, as described in note 1(a).

The reinsurance assets above are analysed using the estimated timing of expected cash flows. The other assets are analysed in accordance with the earliest possible redemption date of the instrument at the initiation of the Company.

Oversight of liquidity risk for the Company is undertaken by the Board.

(e) General insurance risk

The Company is not currently seeking or accepting new business and considers insurance risk within its general insurance activity to be the management of claims and the adequacy of reserving.

All business is reinsured as the Company is party to a reinsurance agreement entered into with National Indemnity Company in 2000, which provides substantial protection in excess of current gross liabilities.

The Company has an Adverse Reserve Deterioration (ARD) agreement with its immediate parent company, AIL. This agreement provides an extra £1 billion of reinsurance cover to protect against circumstances in which the reinsurance with National Indemnity Company is exhausted or otherwise fails to satisfy claims.

The adequacy of the Company's general insurance gross and net claims provisions is overseen by AIL's Reserve & Projections Committee. Actuarial claims reserving is the responsibility of the Company's actuaries, although draws heavily on the gross reserving work carried out by Resolute Management Limited.

Oversight of insurance risks for the Company is undertaken by the Board.

(f) Operational risk

Operational risk is the risk of direct or indirect loss, arising from inadequate or failed internal processes, people and systems, or external events including changes in the regulatory environment. The Company has a very low appetite for operational risks which could result in material losses (direct or indirect), a financial misstatement or have a material negative impact on reputation, customers, employees or other stakeholders.

The Company's Operational Risk and Control Management Framework (ORCM) 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 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. Management use key indicator data to help monitor the status of the risk and control environment. They also identify and capture loss events, taking appropriate action to address actual control breakdowns and promote internal learning.

In addition, specifically with respect to conduct risks, the Company has very low appetite for poor customer outcomes and seeks to avoid customer harms across all its business activities. Further it seeks to avoid market abuse or activities which might impact market stability, integrity for fair competition and takes reasonable steps to comply with all conduct regulations and deliver positive customer outcomes.

Oversight of operational risks for the Company is undertaken by the Board.

(g) Risk and capital management

The Company uses a number of sensitivity test-based risk management tools to understand the volatility of capital requirements and to manage its capital more efficiently.

Risk-based capital models are used to support the quantification of risk under the Solvency II framework, supported by stress tests to inform risk management. Management undertakes a quarterly review of risk, the output from which is a key input into the risk-based capital assessments. Sensitivities are produced annually to inform the Company's decision making and planning processes, and as part of the framework for identifying and quantifying the risks to which the Company is exposed.

Notes to the financial statements (continued)

21. Risk management continued

(h) Climate Change

The Company considers climate change to be a potential long-term risk. Global average temperatures over the last five years have been the hottest on record. Despite the United Nations Framework Convention on Climate Change Paris agreement, the current trend of increasing CO2 emissions is expected to continue and in the absence of radical action by governments, global temperatures are likely to exceed pre-industrial levels by at least 2°C and weather events (floods, droughts and windstorms) increase both in frequency and severity. Disclosure of potential impacts against various climate scenarios and time horizons will become increasingly common for all companies. The Aviva Plc Climate-related Financial Disclosure sets out how Aviva incorporates climate-related risks and opportunities into governance, strategy, risk management, metrics (e.g. Climate Value-at-Risk) and targets.

22. Related party transactions

The Company has the following transactions with related parties which include parent companies, subsidiaries, associates and fellow subsidiaries in the normal course of business.

(a) Adverse reserve deterioration agreement

The Company has an ARD agreement with its parent company, AIL. This agreement provides an extra £1 billion of reinsurance cover to protect against circumstances in which the reinsurance with National Indemnity Company is exhausted or otherwise fails to satisfy claims.

(b) Other transactions

Services provided to, and by related parties

		2023		2022
	Payable at year end	**Receivable at year end**	Payable at year end	Receivable at year end
	£'000	**£'000**	£'000	£'000
Parent	**—**	**50,856**	—	36,016
Fellow subsidiaries	**(429)**	**—**	(429)	—
	(429)	**50,856**	(429)	36,016

The receivable due from the parent is callable on demand.

(c) Key management compensation

The key management of the Company are considered to be the statutory directors of the Company. Details of directors' emoluments are given in note 7.

(d) Immediate parent entity

The immediate parent undertaking is Aviva Insurance Limited, registered in Scotland.

(e) Ultimate controlling entity

The ultimate controlling entity, and parent of the largest and smallest groups which consolidate the results of the Company, is Aviva plc. Its Group Financial Statements are available on application to the Group Company Secretary, Aviva plc, 80 Fenchurch Street, London, EC3M 4AE, and on the Aviva plc website at www.aviva.com.

23. Subsequent events

Management has evaluated subsequent events for the period from 31 December 2023 to the date of these financial statements, and there has been no material subsequent events during that period.