Aviva Insurance Ireland Designated Activity Company

Solvency and Financial Condition Report

Year ended 31 December 2020

AVIVA

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Aviva Insurance Ireland Designated Activity Company

Solvency and Financial Condition Report

2020

Summary

The purpose of the Solvency and Financial Condition Report (SFCR) is to provide information required by the Solvency II (SII) regulatory framework and in particular the capital position of Aviva Insurance Ireland Designated Activity Company (the Company) at 31 December 2020. The report sets out different aspects of the Company's business and performance, system of governance, risk profile, valuation methods used for solvency purposes and its capital management practices.

Business and Performance

The Company is a limited company registered in the Republic of Ireland (Ireland) and a member of the Aviva plc group of companies. The principle activity of the Company is the transaction of general insurance business in Ireland. The major classes of business underwritten are personal lines (motor, home and other) and commercial lines (property, liability, motor and other).

The Company made an IFRS profit before tax of €2m in the year ended 31 December 2020 (2019: €6m). This comprised underwriting profit of €2m *(2019: €2m)*, net investment income of €0m *(2019: €1m)* less other costs of €0m *(2019: other income of €3m)*.

The Company has a quota share reinsurance arrangement with its parent company, Aviva Insurance Ltd (AIL) and ceded net underwriting profit of €16m (*2019: €33*m) to AIL during the year. This agreement provides proportional reinsurance to the Company as follows:

- 85% quota share arrangement in respect of general insurance risks arising in Ireland and European Mobile Device Insurance business; and
- 100% quota share arrangement covering all other business.

Underwriting profit in 2020 includes favourable prior year development and weather experience. This is offset by a reduction in underlying net earned premium and one-off expenses. Personal lines profitability has benefited from lower economic activity as a result of COVID-19 and favourable prior year development. Commercial lines profitability has deteriorated driven by the impact of COVID-19 on the commercial property and liability books.

COVID-19 has had no significant impact on the Company's profit before tax, with increases in claims incurred in certain business lines being offset by the favourable impact on claims experience of reduced economic activity in other lines.

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

System of Governance

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

Roles and responsibilities for risk management in the Company are based around the 'three lines of defence model' where ownership for risk is taken at all levels in the Company. Management is accountable for risk management, including the implementation of the Risk Management Framework and embedding of the risk culture.

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

- **Systems of Governance:** This includes risk policies and business standards, risk oversight committees and structures, and roles and responsibilities (including the three lines of defence model and key control functions);

- **Risk Management Processes:** This comprises the processes used to Identify, Measure, Manage, Monitor and Report (IMMMR) risks, including the use of stress and scenario testing (SST); and
- **Risk Appetite Frameworks:** This refers to the risks that are selected in pursuit of return, the risks accepted but sought to be minimised and the risks avoided or transferred, including quantitative expressions of the level of risk that can be supported.

There have been a number of knock-on impacts on the Company arising both directly and indirectly as a result of the COVID-19 pandemic. The system of governance has however responded well to the challenges posed by the pandemic. The Company successfully deployed its Business Continuity plans in March 2020, additional crisis management procedures were invoked during the year as necessary and a Customer Forum was established in April 2020 to provide oversight in respect of COVID-19 claims determinations. These arrangements have been effective in managing the Company's response to COVID-19 and will be sustained and flexed as needed.

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

Risk Profile

The types of risk to which the Company is exposed have not changed significantly over the year and remain credit, market, underwriting, liquidity and operational risks.

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

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

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

The Company performed an out-of-cycle Own Risk & Solvency Assessment (ORSA) during 2020 which concluded that the ORSA processes remain effective, that the Company's liquidity position remains strong and that the Company is projected to continue to have sufficient capital to meet its solvency needs over the business plan period.

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

Valuation for Solvency Purposes

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

At 31 December 2020, the Company's excess of assets over liabilities was €110m on a SII basis which is €114m lower than the value under IFRS. The difference is driven by the elimination of goodwill. Goodwill is valued at €nil under SII.

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

No material changes were made to the bases used to recognise and value the Company's assets, technical provisions and other liabilities, or to their estimations, during the year.

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

Capital Management

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

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

The Company manages its Own Funds in conjunction with its SCR and seeks, on a consistent basis, to:

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

In the calculation of the SCR, the Company uses the Standard Formula (SF) approach. At 31 December 2020, the total eligible Own Funds to meet the SCR was €110m (2019*: €111m)* all of which was represented by unrestricted tier 1 capital. The total eligible Own Funds to meet the MCR were €110m (2019: €*110m)*.

COVID-19 has had no significant impact on the Company's Own Funds, with increases in claims incurred in certain business lines being offset by the favourable impact on claims experience of reduced economic activity in other lines.

The Company's SCR, at 31 December 2020, was €74m (2019*: €74m)*. Its MCR was €18m (2019*: €18m)*.

The surplus of eligible Own Funds to SCR was €36m (2019*: €37m)* which translates to an SII Cover Ratio of 150% (2019*: 150%)*.

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

Aviva Insurance Ireland Designated Activity Company

Solvency and Financial Condition Report

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A. Business and Performance

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A. Business and Performance

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

A.1 Business

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

Qualifying holdings

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

Supervisor

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

Address	New Wapping Street, North Wall Quay, Dublin 1, D01 F7X3
Telephone number	+353 (0) 1 224 5800

External auditor

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

Address	One Spencer Dock, North Wall Quay, Dublin 1
Telephone number	+353 (0) 1 792 6000

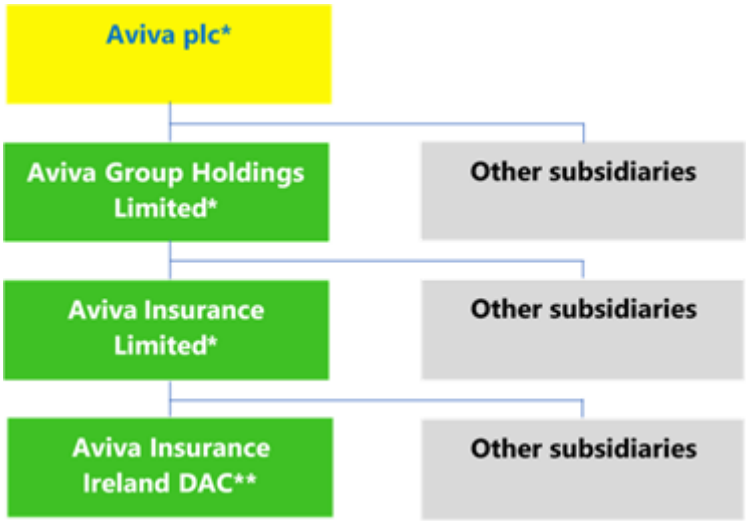
Financial statements

The Company's financial statements are available from the Company Secretary, Third Floor, One Park Place, Hatch Street, Dublin 2, Ireland

The SFCR is presented in euros rounded to the nearest million. The Quantitative Reporting Templates (QRT) are presented in euros rounded to the nearest thousand. Rounding differences of +/- one unit can occur.

A.1.1 Organisation

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



* Incorporated in the United Kingdom

** Incorporated in the Republic of Ireland

A.1.2 Business operations and events occurring in the year

Business operations

The principal activity of the Company is the transaction of general insurance business in Ireland. The major classes of business underwritten are personal lines (motor, home and other) and commercial lines (property, liability, motor and other).

Significant business and other events

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

The Company has been impacted by the COVID-19 pandemic through its operations, insurance products and asset holdings as well as ongoing difficult conditions in the global financial markets and the wider macroeconomic environment.

COVID-19 has had no significant impact on the Company's profit before tax, with increases in claims incurred in certain business lines being offset by the favourable impact on claims experience of reduced economic activity in other lines.

The Company is taking a cautious approach on capital given the uncertain economic outlook. The Company's balance sheet exposure and solvency position has been continually reviewed during the year and actions taken to protect the solvency position and further reduce the sensitivity to economic shocks. The Company's Solvency II capital surplus of €36 million (2019: €37 million) is a key metric for the Company and remains strong.

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

A.2 Underwriting Performance

A.2.1 Measurement of underwriting performance

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

A.2.2 Underwriting profit

The table below presents the underwriting profit for the Company for the year ended 31 December 2020, as well as the reconciliation of underwriting profit to the profit before tax. The profit before tax is as shown in the Company's financial statements.

Year ended 31 December	€m 2020	€m 2020	€m 2019	€m 2019
Gross written premiums		523		523
Premiums ceded to reinsurers		(455)		(1,379)
Premiums written net of reinsurance		68		(856)
Net change in provision for unearned premiums		3		235
Net earned premiums		71		(621)
Fee and commission income, net of reinsurance		74		75
Net investment income		0		1
Income		**145**		**(545)**
Claims paid net of recoveries from reinsurers		(38)		(38)
Change in insurance liabilities, net of reinsurance		(4)		723
Fee and commission expense, net of reinsurance		(90)		(128)
Other expenses, net of reinsurance		(11)		(6)
Profit for the year before tax		**2**		**6**
Less: Net investment income (above, see A.3)		0		(1)
Add back:				
Foreign exchange (gains) / losses	0		(2)	
Other	0		(1)	
Performance of other activities (see A.4)		0		(3)
Underwriting profit		**2**		**2**

On 1 February 2019 the Company entered into a quota share reinsurance arrangement with its parent company in consideration of a premium of €925m payable to the parent company. The impact this had on the eleven month 2019 comparatives for premiums ceded to reinsurers, the change in provision for unearned premiums and insurance liabilities, and fee and commission expense shown in the above table, is detailed below:

Year ended 31 December 2019	€m
Premiums ceded to reinsurers	(925)
Net change in provision for unearned premiums	228
Change in insurance liabilities, net of reinsurance	729
Fee and commission expense, net of reinsurance	(32)
Net impact	**-**

Underwriting profit

The Company's underwriting profit of €2m *(2019: €2m)* is net of underwriting profit ceded to the parent company during the year of €16m (2019: €33m) under the quota share arrangement.

The Company's underwriting profit arose predominantly in Ireland, with a small element arising in other European countries.

Underwriting profit in 2020 includes favourable prior year development and weather experience. This is offset by a reduction in underlying net earned premium and one-off expenses. Personal lines profitability has benefited from lower economic activity as a result of COVID-19 and favourable prior year development. Commercial lines profitability has deteriorated driven by the impact of COVID-19 on the commercial property and liability books.

A.2.3 Quantitative Reporting Templates S.05.01

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

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

€m	Motor vehicle liability insurance	Other motor insurance	Fire and other damage to property insurance	General liability insurance	Other SII lines of business	Total
Year ended 31 December 2020						
Gross written premium	187	47	187	96	6	523
Net earned premium	29	7	23	11	1	71
Gross claims incurred	(99)	(25)	(95)	(68)	(2)	(289)
Net claims incurred	(15)	(4)	(12)	(9)	—	(40)
Direct expenses incurred	(11)	(3)	(11)	(4)	—	(29)
Underwriting profit/(loss)	3	—	—	(2)	1	2
Year ended 31 December 2019						
Gross written premium	200	50	185	82	6	523
Net earned premium	(283)	(71)	(14)	(253)	—	(621)
Gross claims incurred	(121)	(30)	(61)	(58)	(1)	(271)
Net claims incurred	304	76	45	262	—	687
Direct expenses incurred	(20)	(5)	(29)	(10)	—	(64)
Underwriting profit/(loss)	1	—	2	(1)	—	2

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

Year ended 31 December	% 2020	% 2019
Motor vehicle liability insurance	**36%**	38%
Fire and other damage to property insurance	**36%**	35%
General liability insurance	**18%**	16%
Other motor insurance	**9%**	10%
Other SII lines of business	**1%**	1%
Total	**100%**	100%

A.3 Investment Performance

A.3.1 Measurement of investment performance

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

Net investment income analysed by asset class

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

Net investment income €m	Debt securities	Other financial investments	Total
Year ended 31 December 2020			
Interest income/(expense)	1	—	1
Unrealised gains/(losses)	1	(5)	(4)
Realised gains/(losses)	5	(2)	3
Other (incl. investment expenses)			—
	7	(7)	0
Year ended 31 December 2019			
Interest income/(expense)	—	—	—
Unrealised gains/(losses)	2	1	3
Realised gains/(losses)	1	(3)	(2)
Other (incl. investment expenses)			—
	3	(2)	1

Investment income mainly arose on debt securities but was offset by realised losses on other financial investments driven by underlying market performance and foreign exchange movements.

Net investment income is stated after deduction of €0m *(2019: €0m)* of investment expenses.

A.3.2 Gains and losses recognised directly in equity

No gains or losses on investments have been recognised directly in equity (2019: €nil).

A.3.3 Investments in securitisation

The Company does not have any investments in securitisation.

A.4 Performance of Other Activities

A.4.1 Other income and expense

As described in section A.2.1, performance of other activities comprises those items of other income and expense, other than net investment return, excluded from underwriting result. The table in section A.2.2 summarises the result of €0m *(2019: gain of €3m)* that the Company sustained from its performance of other activities during the year.

A.4.2 Leasing arrangements

On 1 February 2019, certain Irish properties occupied by the Company were subleased from the parent company (as holder of the respective head leases) under operating lease arrangements. Each sublease is reflected on the IFRS balance sheet as a right-of-use asset and a lease liability.

The were no material amounts in respect of leased assets recognised in the Company's income statement.

A.5 Any Other Information

A.5.1 Any Other Information

The UK-EU Future Relationship Agreement came into effect on 1 January 2021, ending the Brexit transition period, for which the Company was fully prepared. It provides scope for managed policy divergence or maintaining alignment, if the UK chooses. The agreement will have evolving consequences in 2021 and beyond on future financial services and data regulation, UK-EU data transfers, EU market access and the UK economy which will require careful monitoring.

On 16 February, the Company allotted and issued an additional 7,650,000 Ordinary Shares of €1.00 each to AIL for the consideration of €7.65m bringing their total shareholdings in the Company to 37,650,000 Ordinary Shares of €1.00 each.

The Judicial Council met on 6 March 2021 and formally adopted a new set of 'Personal Injuries Guidelines' as prepared by the Personal Injuries Guidelines Committee. The Guidelines, which will replace the Book of Quantum, will come into effect once S.99 of the Judicial Council Act, 2019 (the "2019 Act") has been commenced – and at the latest by 01 August 2021. Management is currently assessing the new guidelines, both in terms of timing and potential impact on AIIDAC's claims provisions.

The Company has no other material information to disclose.

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B. System of Governance

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B. System of Governance

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

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

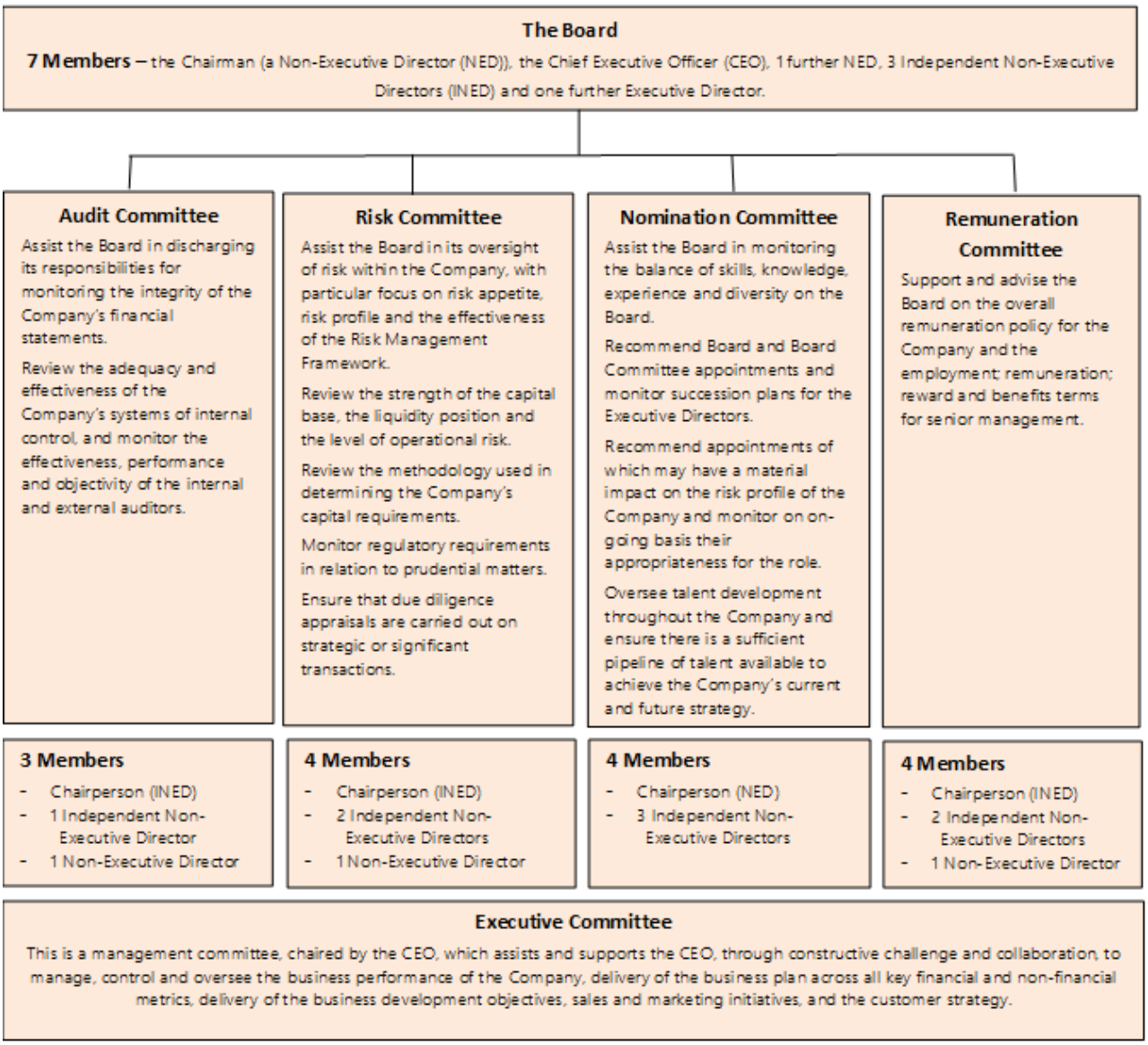
B.1 General Information on the System of Governance

B.1.1 Board structure

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

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

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



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

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

The first line

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

The second line

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

The third line

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

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

B.1.2 Material changes in the system of governance

In April 2020, a Customer Forum was established in order to support the oversight of COVID-19 claims determinations. The Crisis Management Team and the Crisis Action Leadership Team were also convened during 2020 to support the management of the operational and financial risks arising from the pandemic. These arrangements have been effective in managing the Company's response to COVID-19 and will be sustained and flexed as needed.

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

An assessment of the effectiveness of the Company's governance, internal control and risk management systems was conducted at the end of 2020 under the direction of the Board. Any material risks not previously identified, control weaknesses or non-compliance with the Company's risk policies and business standards or local delegations of authority are highlighted as part of this process. Details of key failings or weaknesses are reported to the Risk Committee and the Board. The Chief Risk Officer (CRO) provided his own certificate which states that the Risk Function has reviewed and challenged the process supporting the certification and is satisfied that it can provide reasonable assurance of the material accuracy and completeness of the assessment.

In addition to this annual assessment, the Risk Function continually reviews the effectiveness of the Company's governance framework. In conjunction with other activities across the Company, including Internal Audit reviews, this aims to provide assurance in relation to the effective operation of the system of governance.

B.1.4 Remuneration policy

The Company has no employees. The majority of employees engaged in the activities of the Company are employed by subsidiary undertakings of Aviva plc, Aviva Employment Services Limited and Aviva Group Services Ireland Limited. The Company is recharged with the costs of the staff provided by these companies, and they follow the Company's remuneration policy. The Company's reward principles and arrangements are designed to incentivise and reward employees for achieving stated business goals in a manner that is consistent with the Company's approach to sound and effective risk management. The Company's remuneration policy is aligned to its strategy, incentivises achievement of the Company's annual business plan and longer-term sustainable growth of the business, and differentiates reward outcomes based on performance and behaviour that is consistent with the Company's values.

B.1.4.1 Executive directors

The remuneration policy provides market competitive remuneration and incentivises Executive Directors (EDs) to achieve both the annual business plan and the longer-term strategic objectives of the Company. Significant levels of deferral and an aggregate shareholding requirement align EDs' interests with those of shareholders and aid retention of key personnel. As well as rewarding the achievement of objectives, variable remuneration can be zero if performance thresholds are not met.

Remuneration of EDs is split between the following components:

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

Variable components

The main forms of variable remuneration for EDs are:

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

All variable pay elements are subject to Aviva's 'Malus and Clawback' policy.
Base salaries are benchmarked externally to ensure there is not an overreliance on variable pay by any individual. Total remuneration is leveraged, with a suitable percentage of pay 'at risk' against the achievement of stretching goals, which is aligned with the Company's risk profile and employee behaviour.

B.1.4.2 NEDs

INEDs receive a basic annual fee in respect of their Board duties. Further fees are paid for membership and, where appropriate, chairing Board committees. The Chairman receives a fixed annual fee. Fees are reviewed annually taking into account market data and trends and the scope of specific Board duties.

The Chairman and INEDs do not participate in any incentive or performance plans or pension arrangements and do not receive an expense allowance.

INEDs are reimbursed for reasonable expenses, and any tax arising on those expenses is settled directly by the Company. On the limited occasions when it is appropriate for a INED's spouse or partner to attend a business event, the Company will meet these costs and any tax liabilities that may arise.

The NEDs are remunerated by fellow subsidiaries of Aviva plc for their services and executive employment with the Aviva Group. They are not remunerated for their service as board directors of the Company and the amount of time spent performing their duties is incidental to their roles across the Aviva Group.

B.1.4.3 Other Employees

Remuneration arrangements for employees that are not EDs take account of the seniority and nature of the role, individual performance and local market practice. The components and levels of remuneration for different employees may therefore differ from the policy for EDs. Any such elements are reviewed against market practice and approved in line with internal guidelines and frameworks.

Variable components are discretionary and fully flexible as opposed to a contractual entitlement, and there is a possibility of zero awards being made should the performance of the Company and/or individuals require this (other than where payments are required by law). Individual awards are based on an assessment of performance of individuals allowing for differentiation.

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

Shares in the ultimate parent company can be awarded to employees. These vest after three years, in some cases dependent on performance conditions over that period.

B.1.4.4 Pension and early retirement schemes

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

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

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

Key management personnel, being those having authority and responsibility for planning, directing and controlling the activities of the Company, including the directors, may from time to time purchase insurance, savings, asset management or annuity products marketed by Group companies on equivalent terms to all employees of the Group. In 2020, the total compensation to those employees classified as key management was €4m.

Information on the material transactions with the Company's shareholder is included within Note 31 – 'Related party transactions' of the Company's financial statements. This note covers the general insurance business transfer and quota share arrangement that are detailed in Sections A.1.2 and C.3.2. In addition to balances related to the quota share arrangement at 31 December 2020 the Company owed its parent company €27m (2019: €25m).

B.2 Fit and Proper Policy

The business has policies in place to ensure that individuals responsible for running the Company or responsible for key functions are both "fit" and "proper" in line with the CBI's Fit and Proper requirements for individuals. The CBI's Fitness and Probity Regime applies to persons in senior positions, known as Controlled Functions (CFs) and Pre-Approval Controlled Functions (PCFs), within Regulated Financial Service Providers. This means that, as part of recruitment and employee screening, an individual's career history will be assessed and validated to establish whether an individual's skills and knowledge are appropriately matched to the role. It also means that checks are in place to ensure that an individual is honest, of good reputation, has integrity and is financially sound.

The governance over the fitness and probity of individuals includes recruitment, performance management and training. However, to ensure that the Company protects itself against employing individuals who potentially could threaten its customers, properties, facilities or reputation, the majority of its fitness and probity processes take place at recruitment and more specifically at pre-employment screening. A minimum set of basic screening requirements has been agreed and implemented. Additional enhanced screening requirements are applied for individuals who will run the Company or become notified or approved senior managers. This enhanced due diligence is performed during both the internal and external recruitment process. Under the CBI requirements, before the Company can appoint a person to a PCF role, the CBI must have approved the appointment in writing. Annual recertification and due diligence checks are completed for all PCF role holders to ensure they remain fit and proper for the role.

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

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

B.3.1 Risk Management Framework

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

- **Systems of Governance:** This includes risk policies and business standards, risk oversight committees and structures, and roles and responsibilities (including the three lines of defence model and key control functions);
- **Risk Management Processes:** This comprises the processes used to Identify, Measure, Manage, Monitor and Report (IMMMR) risks, including the use of stress and scenario testing (SST); and
- **Risk Appetite Frameworks:** This refers to the risks that are selected in pursuit of return, the risks accepted but sought to be minimised and the risks avoided or transferred, including quantitative expressions of the level of risk that can be supported.

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

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

A regular top-down key risk identification and assessment process is carried out by the Risk Function. This includes the consideration of emerging risks and is supported by deeper thematic reviews. This, together with the risk and control self assessment (RCSA) process, are the main processes used to IMMMR risks. The RCSA process is run by the first line, with challenge by the Risk Function. It focuses on operational risks, which are recorded on 'iCARE', the Company's risk management system. The risk assessment processes are run separately but are complementary. They are used to generate risk reports which are shared with the relevant risk committees.

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

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

Board oversight of risk and risk management is maintained on a regular basis through the Risk Committee. The Board has overall responsibility for determining risk appetite, which is an expression of the risk the business is willing to take. There are qualitative and quantitative risk appetites in respect of the key risks while risk preferences specify where the Company takes risk and why. In addition, operating risk limits and tolerances exist below the overarching risk appetites.

SII capital risk targets are set for each risk type, calculated on the basis of the SII SCR. The Company's position against risk appetite is monitored and reported to the Board on a regular basis. Long-term sustainability depends upon the protection of franchise value and good customer relationships. As such, the Company has a risk preference that it will not accept risks that materially impair the reputation of the Company and requires that customers are always treated with integrity. The oversight of risk and risk management is supported by the Asset and Liability Committee (ALCO), which focuses on business and financial risks, and the Operational Risk and Conduct Committee, plus an Insurance Committee, a Reinsurance Committee, a Reserve Committee and an Executive Committee.

To further support the role of risk management in decision-making processes, the role of the 'first line' is critical as part of the three lines of defence model. The CEO is responsible for the implementation of the Company's strategies, plans and policies, the monitoring of operational and financial performance, the assessment and control of financial, business and operational risks and the maintenance and ongoing development of a robust control framework and environment in their areas of responsibility. During 2020, the ALCO, a management committee chaired by the CFO, assisted the CFO with the discharge of his responsibilities in relation to management of the Company's balance sheet within risk appetite and provided financial and insurance risk management oversight. The Operational Risk and Conduct Committee, a management committee chaired by the CRO, supported the owners of key operations and franchise risks in the discharge of their responsibilities in relation to operational risk management.

B.3.2 Risk Function

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

The Risk Function has authority to review all areas of the Company and has full, free and unrestricted access to all activities, records, property and personnel necessary to complete its work. The CRO has direct management accountability for the Risk Function. Appointment and removal of the CRO are matters reserved for the Board, on the recommendation of the Risk Committee, which supports the independence of the Risk Function.

B.3.3 Own Risk and Solvency Assessment

The Company defines its ORSA as all the processes and tools that underpin the consideration of risk and capital implications in key decisions, including business planning. It provides a continuous and forward-looking assessment of the short-term and long-term risks that the Company faces, or may face, and ensures that its capital requirements are met at all times. In this context, the Board has set an overarching capital risk appetite which aims to ensure that the Company maintains an appropriate level of capital strength above its regulatory capital requirement.

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

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

Review and approval

The outputs from the ORSA processes are reported to and reviewed by the Board and the Risk Committee regularly during the year. The Risk Committee sets the approach to the ORSA and, on behalf of the Board, oversees the ORSA processes including the identification of risk. The results of the Company's ORSA processes are considered by the Board when reviewing the Company's strategy and approving annually the business and capital plan.

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

The ORSA Report is produced by the CRO and approved by the Board annually, or in the event that ORSA triggers are met (per its ORSA policy). For example, an out of cycle ORSA update may be triggered (at the discretion of the Board), in the event of:

- A change to the business or investment strategies or other change to risk profile that is likely to increase the SCR by more than 20% or reduce solvency cover by more than 25% prior to the next regular report;
- A change to Own Funds due to a loss event (e.g. catastrophe, market loss) that reduces solvency cover by more than 25%.

The Report is shared with the CBI following approval by the Board.

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

In response to COVID-19 the Company performed an out-of-cycle ORSA during 2020 which concluded that the ORSA processes remain effective, that the Company's liquidity position remains strong and that the Company is projected to continue to have sufficient capital to meet its solvency needs over the business plan period.

B.4 Internal Control System

B.4.1 System of Internal Control

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

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

B.4.2 Compliance Function

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

- Conduct regulatory risk management (including monitoring regulatory developments), performed by the Compliance Function (complemented by the Financial Crime team) and including activities such as:
  - Setting the conduct and financial crime policy framework;
  - Providing advice, support, guidance and challenge on conduct and financial crime risk; and
  - Managing conduct and financial crime regulatory engagement.
- Prudential regulatory risk management (including monitoring regulatory developments), performed by the Risk Function and including activities such as:
  - Setting the prudential regulatory risk policy framework;
  - Providing advice, support, guidance and challenge on prudential regulatory risk; and
  - Managing prudential regulatory engagement.
- Legal developments (including those related to data protection) monitoring, performed by the legal and company secretarial function.

The Head of Compliance has responsibility for the conduct regulatory risk management and the CRO has responsibility for the prudential regulatory risk management, whilst the General Counsel is responsible for monitoring legal developments including data protection. Those carrying out compliance activities have authority to review all areas of the Company and have full, free and unrestricted access to all activities, records, property and personnel necessary to complete their work, where appropriate.

B.5 Internal Audit Function

The role of the Internal Audit Function is defined in the Internal Audit Charter. The Charter sets out the purpose, activities, scope and responsibilities of the function and the arrangements for the management of the function, including ensuring its independence from first and second line management.

The scope of Internal Audit assurance activities includes:

- Assessing and reporting on the effectiveness of the design and operation of the framework of controls which enable risk to be assessed and managed;
- Assessing and reporting on the effectiveness of management actions to address deficiencies in the framework of controls and risks that are out of tolerance;
- Assessing key corporate events such as acquisitions/divestments and outsourcing decisions to determine and report on whether key risks are being adequately addressed. Internal Audit may also assess relevant post-mortem or "lessons learned" analysis following significant adverse events at the organisation or in the industry.

Internal Audit also:

- Undertakes designated advisory projects for management, provided that they do not threaten Internal Audit's independence from management;
- Investigates and reports on cases of suspected or alleged instances of internal and non-customer malpractice or finance crime;
- Manages the relationship with Aviva's independent malpractice reporting service, 'Speak Up' in accordance with the Speak Up Charter.

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

The Audit Committee receives quarterly control reports from Internal Audit and challenges management on the actions being taken to evidence that the governance, risk management and controls remain effective; whether the overall level of operational risk remains within appetite and if not, to challenge management to address this within an acceptable timeframe.

Independence and objectivity

Internal Audit must be independent from management at all times in order to be effective in performing its activities. The Internal Audit Function maintains its independence and objectivity by having a direct reporting line to the Chair of the Company's Audit Committee and a functional reporting line to the Aviva Europe Audit Director who reports to the Group Chief Audit Officer.

The Chair of the Audit Committee is responsible for recommending the appointment or removal of the Head of Internal Audit to the Board and for participating, jointly with the Group Chief Audit Officer or designee, in the determination of the objectives of the Head of Internal Audit and the evaluation of their levels of achievement.

Internal Audit staff have no direct responsibility or authority over any operational activities reviewed and would not relieve others of such responsibilities. Internal auditors who worked previously in the Company but outside Internal Audit will not perform or manage reviews in the business area for which they were previously responsible for a period of at least one year after the end of their role within the business.

Internal Audit provides the Audit Committee with an annual confirmation of its independence, supported by an independence declaration form signed by all members of Internal Audit staff.

B.6 Actuarial Function

The Actuarial Function is accountable for actuarial methodologies, plus the resultant Best Estimate Liabilities and capital requirements. The Actuarial Function produces an annual report to the Board with its opinion on the adequacy of Technical Provisions, the Company's underwriting and reinsurance arrangements, and the ORSA processes.

The independence of the Actuarial Function is derived through its membership in the second line of defence. The Actuarial Function is led by the Head of Actuarial Function, who reports to the Company's CEO. The Head of Actuarial Function is subject to the Fit and Proper policy requirements to ensure they have the requisite skills and knowledge to complete their responsibilities. (Fit and Proper requirements are considered in section B.2.).

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

B.7 Outsourcing

Policy

The Company's Outsourcing Policy and Procurement and Outsourcing Business Standard contain information setting out the relevant governance, responsibilities, objectives, process, and monitoring arrangements to be applied in cases of outsourcing, all of which shall be consistent with the overall strategy. The requirements apply equally to any externally or internally (intra-group) outsourced activity. This Outsourcing Policy sets out the oversight and governance requirements AIIDAC must comply with to ensure adherence to local regulatory requirements and Aviva Group requirements, to the extent such requirements are consistent with and additional to local requirements. The objective of the Business Standard is to ensure that minimum control objectives and controls for supplier-related activities are followed by all elements of the business, to ensure that supply risk is managed effectively, customers are being treated fairly and continue to receive good outcomes, as well as mitigating potential financial, operational, contractual, and brand damage caused by inadequate management and oversight. The Outsourcing Policy aligns with regulatory expectations, and where appropriate, regulatory guidance will be applied as a requirement. The Policy and Business Standard apply to all staff involved in supplier-related activities and provides direction to staff on their roles and responsibilities in effectively managing supplier activity. They provides clarity on the definition of outsourcing, including where activity is delegated to an intermediary, and whether an outsourced function or activity is assessed as critical or important. All staff have a responsibility to comply with the Policy and the Business Standard if they are involved with supplier-related activity.

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

The Outsourcing Policy covers the following:

- Requirements and limitations on outsourcing pursuant to local regulations;
- Definitions and details on roles, responsibilities and escalation processes for outsourcing management and oversight,;
- Key outsourcing risk assessment activities and documentation requirements; and
- Supervisory notification requirements.

The Board has also approved the objectives and controls in the Business Standard which cover the following areas:

- Supply governance: business oversight of operational performance for sourcing and supply management activities;
- Sourcing: how a service provider of suitable quality is selected;
- Supplier contracting and approvals: financial, commercial and legal approval of contracts; and
- Supplier management and business continuity: risk-based approach to management of supply contracts.

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

Critical and important outsourced functions and activities

The Company outsources a range of activities consistent with its outsourcing strategy. These include elements of underwriting, customer contact, including claims handling, IT, accounting services, property services and investment management. The Company recognises that while it can outsource activities, it cannot outsource its statutory or regulatory obligations (prudential or conduct) and as such operates effective oversight arrangements for outsource providers.

Jurisdiction of service providers

Critical or important outsourced activities are carried out mostly in the UK or Ireland, with support functions in India, Sri Lanka and Romania:

- Capital management and actuarial – UK;
- Finance operations and accounting services – UK, India, Sri Lanka and Romania;
- IT – UK and India;
- Claims handling – UK and Ireland;
- Policy administration – India and Sri Lanka;
- Customer communications – UK; and
- Investment management – UK.

B.8 Any Other Information

B.8.1 Additional information on the COVID-19 global pandemic

There have been a number of knock-on impacts on the Company arising both directly and indirectly as a result of the COVID-19 pandemic. The system of governance has however responded well to the challenges posed by the pandemic. The Company successfully deployed its Business Continuity plans in March 2020, additional crisis management procedures were invoked during the year as necessary and a Customer Forum was established in April 2020 to provide oversight in respect of COVID-19 claims determinations. The Company also performed an out-of-cycle ORSA during 2020 which concluded that the ORSA processes remain effective, that the Company's liquidity position remains strong and that the Company is projected to continue to have sufficient capital to meet its solvency needs over the business plan period.

Aviva Insurance Ireland Designated Activity Company

Solvency and Financial Condition Report

2020

C. Risk Profile

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C. Risk Profile

The 'Risk Profile' section of this report provides information on the key risks encountered by the Company as well as the corresponding processes for monitoring the risk exposures and the techniques in place for mitigating these risks.

C.1 Underwriting Risk

C.1.1 Exposure

The Company's exposure to non-life insurance underwriting risk is predominantly in Ireland and arises from:

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

The Company does not underwrite life insurance business, or health products.

The Company has a preference for general insurance risk in measured amounts for explicit reward, in line with its core skills in underwriting and pricing.

On 1 February 2019, the Company entered into a quota share reinsurance arrangement with its parent company. This agreement provides proportional reinsurance to the Company as follows:

- 85% quota share arrangement in respect of general insurance risks arising in Ireland and European Mobile Device Insurance business; and
- 100% quota share arrangement covering all other business.

The Company's underlying exposure to underwriting risk has remained relatively stable and consistent with new business written in the year.

The Company's overall exposure to underwriting risk is measured using the SCR. QRT S.25.02 (Appendix F.1.6) shows that the Company's undiversified SCR for underwriting risk is €43m (2019: €42m). Underwriting risk is also measured and monitored in terms of best estimate liabilities, total sum insured and estimated maximum loss. Estimated maximum loss is an estimation of the maximum loss that could be reasonably sustained as a result of a single incident considered to be within the realms of probability. These measures were introduced following the business transfer and there has been no material change to the measures used to assess underwriting risk since that date.

The Company's claims reserves includes claims directly related to the impact of COVID-19 and come from a range of different product coverages. These claims are treated no differently under Standard Formula SCR, and the additional exposure contributes c€0.2m to the overall Underwriting Risk capital requirement in 2020.

C.1.2 Risk concentration

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

The Company's general insurance risk is located predominantly in Ireland. The Company's most concentrated non-life underwriting peril is North European Windstorm.

C.1.3 Risk mitigation

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

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

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

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

- Catastrophe reinsurance providing protection against the risk of natural hazard events (e.g. flood, windstorm);
- The 85 - 100% quota share reinsurance agreement with the parent company. Further details are provided in section A.1.2 and section C.1.1;
- Casualty excess of loss reinsurance providing protection against the risk of large losses arising from motor liability or general liability insurance; and
- Property excess of loss reinsurance providing protection against the risk of large losses arising from property insurance.

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

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

C.1.4 Stress and scenario testing and sensitivity analysis

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

C.1.5 Special purpose vehicles

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

C.2 Market Risk

C.2.1 Exposure

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

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

The Company's exposure to foreign currency risk arises primarily from investments in non-domestic currency denominated investments held to drive enhanced investment returns and provide diversification. The Company seeks to mitigate foreign currency risk on non-domestic denominated investments by the use of currency derivatives.

The Company's market risk exposure reflects the transfer of investment assets from the parent company to support the insurance portfolio transfer on 1 February 2019, and the subsequent implementation of the Company's investment strategy.

The Company's overall exposure to market risk is measured using the SCR. QRT S.25.02 (Appendix F.1.6) shows that the Company's undiversified SCR for market risk is €2m (2019: €3m). This includes credit risk in respect of the Company's bond holdings whose risk profile and management is described in section C.3. In addition to the SCR, a number of risk-specific metrics are used to monitor market risk at a granular level:

- Key interest rate and currency related parameters; and
- Changes in the price level of individual assets or specific asset classes.

These measures have been in place since the business transfer on 1 February 2019 and continue to be monitored.

In response to the uncertainty associated with COVID-19, the Company de-risked the asset portfolio in 2020 to reduce balance sheet sensitivity to corporate and sovereign credit spreads. In addition, the Company continued to hedge its interest rate and FX exposure through 2020.

C.2.2 Risk concentration

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

The valuation of assets and liabilities are materially impacted by movements in market-implied interest rates with this risk being managed within pre-defined risk appetite using a combination of asset-liability matching and derivatives.

C.2.3 Risk mitigation

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

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

In accordance with the requirements of its Financial Risk Mitigation Business Standard, the Company assesses and documents the effectiveness of arrangements to mitigate market risk. This assessment is initially undertaken prior to deciding whether or not to enter into an arrangement, and considers the impact of the proposed arrangement on key metrics including:

- Risk measures, including economic capital; and
- Financial measures, including cash flow, IFRS operating profit, liquidity and expenses.

If the initial assessment indicates that the impact on key metrics is material, further assessments are carried out at regular intervals throughout the duration of the arrangement. These assessments typically include stress testing and sensitivity analysis.

The Company conducts on-going monitoring of the effectiveness of market risk mitigation techniques by reporting management information and analysis to the ALCO. Appropriateness of asset allocation is reviewed by Board annually and regular monitoring against these agreed targets is reported to ALCO. Investment performance analysis including actual returns against expected are also reported to the ALCO and Board. Processes are also in place to monitor key economic data against pre-defined trigger points to enable appropriate oversight and actions to take place if economic conditions deteriorate, as set out in the Company's pre-prepared Recovery Plan.

C.2.4 Stress and scenario testing and sensitivity analysis

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

C.3 Credit Risk

C.3.1 Exposure

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

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

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

The principal basis used to measure the Company's exposure to counterparty risk is the SCR. QRT S.25.02 (Appendix F.1.6) shows that the Company's undiversified SCR for counterparty risk is €21m (2019: €21m). Counterparty risk relates to the risk associated with reinsurers and insurance debtors. The Company is additionally exposed to the credit risk associated with investment bond holdings included in the market risk SCR reported in the QRT as described in section C.2.1. The following metrics are also used by the Company when measuring and assessing its credit risk exposure and to support risk management actions and investment decisions:

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

The Company's additional claims reserve for COVID-19 will increase the exposure to its parent company through the Quota Share reinsurance arrangement. The additional exposure contributes c€0.3m to the overall Credit Risk capital requirement in 2020.

C.3.2 Risk concentration

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

The Company's largest reinsurance counterparty is the parent company. At 31 December 2020, the reinsurance asset recoverable from the parent company is €799m (2019: €754m). The parent company has a strong credit rating (AA), in addition, credit risk is further mitigated by a floating charge over the Sovereigns, Supranationals, or Sub-sovereigns debt holdings of the parent company.

The overall credit quality of the Company's financial investments is strong. At 31 December 2020, investment grade debt securities (external credit rating AAA to BBB) comprised 100% (2019: 93%) of total debt securities, with 98.15% rated AAA and 1.85% rated AA.

The Company's main concentration of external credit risk arising from investment bond holdings is worldwide government debt securities. At 31 December 2020 the Company held €135m (2019: €136m) of worldwide government debt (including Supranationals, Sub-Sovereigns and Agencies (SSAs)). In addition, the company holds €45m (2019: €47m) of covered bonds.

C.3.3 Risk mitigation

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

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

On-going monitoring is carried out by reporting management information to the ALCO, against pre-defined trigger points, to enable appropriate oversight and to prompt action if effectiveness deteriorates, as set out in the Company's pre-prepared response plans.

C.3.4 Stress and scenario testing and sensitivity analysis

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

C.4 Liquidity Risk

C.4.1 Exposure

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

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

The principal bases used to measure and assess the Company's exposure to liquidity risk are liquidity coverage ratios, which measure absolute liquidity coverage relative to pre-defined liquidity risk appetites, and the quantum of certain liquid assets. Liquidity coverage ratios measure the extent to which available liquidity is sufficient to meet expected liquidity requirements following an extreme liquidity-specific stress event over short-term and long-term stress scenarios.

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

The Company's liquidity profile was maintained within appetite on both absolute and stressed liquidity coverage ratio bases, over going concern short-term and long-term scenarios, and overall there was no material movement in the Company's liquidity position against its risk appetite.

The Company does not have any additional liquidity risk exposure as a result of COVID-19.

C.4.2 Risk concentration

The credit limit framework described in section C.3.2 above also avoids concentrations of liquidity risk by preventing investment in a restricted number of issuers, asset classes and sectors. The Company has set its investment strategy to ensure it has sufficient liquid funds to meet its expected obligations as they fall due. The diversity of sources of liquidity available to the Company averts concentration of liquidity risk.

C.4.3 Risk mitigation

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

- Daily monitoring of projected cash flow needs;
- Setting an investment strategy which reflects liquidity requirements and the potential liquidity profile of liabilities;
- Setting liquidity risk appetites which require that sufficient liquid resources be maintained to cover net outflows in a stress scenario over a range of timeframes;
- Setting minimum cash reserves to be held at all times; and,
- Maintaining a Recovery Plan which detail management actions to address liquidity funding requirements in a significant stress scenario.

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

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

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

The amount of EPIFP, calculated in accordance with Article 1 of the SII Regulations and included within the valuation of the Company's Technical Provisions as at 31 December 2020, is €9.0m. (See the Own Funds QRT S.23.01.01, Appendix F.1.6).

C.4.5 Stress and scenario testing and sensitivity analysis

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

C.5. Operational Risk

C.5.1 Exposure

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

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

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

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

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

The Company holds economic capital, based on the SII SF approach, against operational risk. QRT S.25.02.21 (Appendix F.1.6) shows that the Company's SCR for operational risk is €17m (2019 €17m). The Company also produces specific conduct risk management information used to measure and analyse its exposure to conduct risk.

The operational risk framework has responded well to the challenges posed by COVID-19. The Company successfully deployed its Business Continuity plans in March 2020, and additional crisis management procedures were invoked during the year as necessary. The operational risk profile remains within appetite.

C.5.2 Risk concentration

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

The Company's operations (excluding outsourced functions) are carried out in three office locations in Dublin, Cork and Galway. This limits concentration risk, and it is further mitigated through the Company's Business Continuity Plan (BCP) which ensures continuity of service in the event of catastrophe. The BCP includes an external site where the Company can relocate in the event that its office or computer systems become unusable for a period. During the current pandemic homeworking has become prevalent increasing the physical diversification of the Company's operations.

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

C.5.3 Risk mitigation

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

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

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

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

Outsourcing, including through intra-group contracts, is strategically and operationally important for the Company. Risks arise from the ineffective design or operation of oversight controls and/or the failure or non-compliance of outsource providers, therefore the Company has established an outsourcing subcommittee of the Executive Committee. This Committee is responsible for ensuring that an up-to-date register of outsourcers is maintained and that the Outsourcing Risk Management Framework operates effectively. In addition, the Company

is putting together exit plans for outsourcing providers and disaster recovery plans in the event of IT failure. These plans would be reviewed at least annually.

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

C.5.4 Stress and scenario testing and sensitivity analysis

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

C.6 Other Material Risks

The Company has identified other material risks which are regularly assessed and reported to management and the Board in order to appropriately steer risk-taking activities and to evaluate ways of mitigating or managing these risks.

- **Strategic Risk:** This is the risk of loss from the pursuit of an unsuccessful business plan. It might arise from making poor business decisions, from the substandard execution of decisions, from inadequate resource allocation, or from a failure to respond well to changes in the business environment. The Company does not have a separate Strategic/Planning risks policy as these are treated either as causes of other risks (e.g. inappropriate distribution planning could cause increased claims) or as operational risks.
  The Board is responsible for promoting the long-term success of the Company and for setting its strategy. It sets the risk appetites and satisfies itself that financial controls and risk management systems are robust. A strong system of governance throughout the entity aids effective decision-making and supports the achievement of the Company's objectives for the benefit of policyholders and the shareholder. The ORSA processes are an integral part of the business strategy and are taken into account on an ongoing basis when making strategic decisions. Similarly, the ORCM framework acts as a key enabler of the Company's strategic ambitions.
  The Company itself was established as an Irish subsidiary of the parent company as part of Aviva plc's 'Brexit' Strategy. This strategy transferred a subset of the general insurance business of the parent company to the Company to ensure continued legal servicing of these policies regardless of the outcome of the Brexit negotiations.

- **Emerging Risks:** Risk identification is forward-looking to allow management to take proactive action. The Company's Top Down Risk Assessment is a continuous process that is designed to capture strategic and emerging risks, which includes external risks that can arise from events and trends that are beyond the Company's control. The risks are recorded on a risk spectrum and monitored and discussed on a regular basis by senior management. Management actions in anticipation of the risks crystallising may be contingent or pre-emptive.
  The Company continues to respond to relevant EU legislation, in particular General Data Protection Regulation. The Data Protection Officer reports to the Risk Committee on a regular basis in order to keep the most senior levels of the organisation informed of the regulation and the results of monitoring of compliance. The impact of Brexit on data transfer between Ireland and the UK led to an Aviva Group programme to amend contracts covering this data to ensure they remain legal.
  The Company recognises that it is directly impacted by the effects of climate change and that unmitigated climate-related risks present a systemic threat to financial stability over the coming decades. The ways the insurance sector could be impacted by climate change are diverse and the Company considers this risk though looking at transition, physical and litigation risk factors and opportunities.
  Emerging technology is changing consumer expectations and requirements, and increasing the threat of non-traditional insurers entering the market. It is generally accepted that traditional insurers that are highly agile, able to execute managed risk-taking activities, quick to make major decisions and capable of forming strategic partnerships will be best placed to withstand any threats and to benefit from new opportunities. The Company will continue to monitor developments in this area with a view to i) developing insurance-based products and services that effectively utilise emerging technologies and ii) digitising operating models to automate operations and achieve cost efficiencies.

- **Group Risk:** There are many benefits of being part of a wider Group, but it also brings some risk. It could result in, for example, operational or financial dependence on other entities in the Group, the pursuit of Group-wide strategies that are inappropriate for the Company, or contagion within the Group, including impacts to reputation. This risk is identified and assessed through the ORSA processes, including stress testing of arrangements (e.g. reinsurance) with other Group companies.

C.7 Any Other Information

C.7.1 Stress and scenario testing and sensitivity analysis

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

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

The Company's stress and scenario methodology is based on the following stages:

- Identify existing and emerging risks;
- Measure resilience to stress events and scenarios;
- Monitor the impact of the potential stress events and scenarios on actual and projected capital and liquidity positions;
- Manage the potential stress events and scenarios by setting risk appetites and defining management actions; and
- Report, as required, to the ALCO, the Board and the CBI.

C.7.1.1 Stress and scenario testing

At least annually, a broad range of Company risk specific stress and scenario tests are defined in consultation with key stakeholders to assess the impact of a range of potential events of differing levels of severity on the capital and liquidity positions of the Company. The stress and scenario tests performed by the Company, during 2020, included adverse economic conditions, catastrophic events, reserve deterioration, counterparty default, operational failings and Regulator defined tests.

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

The outcome of the Company's 2020 SST serves to illustrate that the Company is resilient to a wide range of potential events and that the Company has a range of plausible management actions that could be executed in a timely manner, to mitigate the potential impacts from Company-specific or market-wide events.

C.7.1.2 Sensitivity analysis

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

The SCR is the primary basis used by the Company to measure and assess its risks. The sensitivity analysis performed by the Company includes consideration of the sensitivity of its SCR cover ratio, determined according to the SII Regulations, to a range of economic assumptions.

The table below shows the absolute change in cover ratio, for each sensitivity, e.g. a 3% positive impact would result in an increase in the cover ratio by 3%.

Sensitivity to assumptions as at 31 December 2020	Impact on cover ratio
Economic assumptions	
100bps increase in interest rates	**3%**
50bps decrease in interest rates	**-2%**
50bps increase in corporate bond spreads	**-1%**
50bps decrease in corporate bond spreads	**1%**
50bps increase in sovereign bond spreads	**-1%**
50bps decrease in sovereign bond spreads	**1%**
Non-economic assumptions	
5% increase in gross loss ratios	**-5%**

Limitations of the sensitivity analyses

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

Other limitations in the sensitivity analyses include:

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

C.7.2 Prudent Person Principle

The Company ensures that its assets are invested in accordance with the Prudent Person Principle as set out in Article 132 (Directive 2009/138/EC) through the collective application of its risk policies and business standards. These ensure that the Company invests in assets whose risks it can properly identify, measure, monitor, manage, control and report, and appropriately take into account in the assessment of its overall solvency needs having regard to the term and nature of its liabilities. The Company's Asset Liability Management Business Standard and certain provisions of the Investment Management Business Standard contain mandatory requirements to ensure that the

Company develops its own set of key risk indicators and takes into account the risks associated with its investments without relying only on the risk being adequately captured by the capital requirements. Risk appetites by risk type are also set and monitored by the Company. Other business standards set requirements for the quality of investment assets (including setting risk limits to control the market and credit risk within a portfolio), matching of assets to liabilities, diversification of invested assets and use of derivatives.

Aviva Insurance Ireland Designated Activity Company

Solvency and Financial Condition Report

2020

D. Valuation for Solvency Purposes

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D. Valuation for Solvency Purposes

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

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

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

- Under the SII Regulations cash flows relating to reinsurance premiums are included within Reinsurance Recoverables, and cash flows relating to premiums and policyholder tax are included within Technical Provisions. In the IFRS balance sheet these amounts are included within reinsurance payables, insurance and intermediaries receivables and other liabilities respectively.
- Amounts receivable from, and payable to, Group companies under IFRS, are reclassified within the SII balance sheet to the relevant underlying nature of the balance.
- Investments, including cash equivalents, are reclassified under SII. They also include accrued investment income which is classified within prepayments and accrued income under IFRS.

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

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

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

The Company applied the following hierarchy of valuation approaches:

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

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

Balance Sheet – IFRS and SII

As at 31 December 2020 €m	Note in financial statements (a)	IFRS balance sheet classified according to financial statements (b)	Reclassification of IFRS balances to SII balance sheet categories (c)	Reclassified IFRS balance sheet (d) =(b)+(c))	SII balance sheet (e)	Valuation differences between SII and IFRS (f) =(e)-(d)
Goodwill	K & 10	110	—	110	—	(110)
Deferred acquisition costs	S & 15	42	—	42	—	(42)
Prepayments and accrued income	15	—	—	—	—	—
Property (own use)	U & 11	3	—	3	3	—
Financial investments						
Bonds	N & 13	176	1	177	177	—
Collective investment undertakings	N & 13	—	88	88	88	—
Derivatives	Q & 30	5	(1)	4	4	—
Deposits other than cash equivalents		—	8	8	8	—
Reinsurance recoverables	J & 20	1,017	(1)	1,016	914	(102)
Receivables						
Insurance and intermediaries	O & 14	77	(77)	—	—	—
Reinsurance	O & 14	3	5	8	8	—
Trade, not insurance		—	42	42	42	—
Amounts due from Group companies				—		—
Cash and cash equivalents	T & 27	105	(96)	9	9	—
Other assets	W & 21	29	(16)	13	13	—
Assets		**1,567**	**(47)**	**1,520**	**1,266**	**(254)**
Technical provisions	I & 19	(1,188)	69	(1,119)	(1,015)	104
Other provisions	V	—	(5)	(5)	(5)	—
Payables and other financial liabilities						
Derivatives	Q & 30	—	(3)	(3)	(3)	—
Debts owed to credit institutions	P & 24	—	(3)	(3)	(3)	—
Financial liabilities other than debts owed to credit institutions		—	(3)	(3)	(3)	—
Insurance and intermediaries payable	P & 24	(8)	5	(3)	(3)	—
Reinsurance payables	P & 24	(27)	(4)	(31)	(31)	—
Payables (trade, not insurance)	P & 24	(8)	(47)	(55)	(55)	—
Other payables	P & 24	(5)	5	—	—	—
Amounts due to Group companies	P & 24	(26)	26	—	—	—
Other liabilities	25	(81)	7	(74)	(38)	36
Liabilities		**(1,343)**	**47**	**(1,296)**	**(1,156)**	**140**
Excess of assets over liabilities		**224**	**—**	**224**	**110**	**(114)**

Accounting Policy D – 'Fair value measurement' and Note 12 – 'Fair value methodology' in the Company's financial statements, provide additional information on the fair value of property (other than for own use), financial investments and receivables.

D.1 Assets

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

D.1.1 Goodwill

Goodwill is valued at €nil under SII. The goodwill recognised in the IFRS balance sheet represents the excess of the cost of an acquisition over the fair value of the share of the net assets of the acquired business at the date of acquisition by the parent company. This was subsequently transferred to the Company in 2019.

D.1.2 Deferred acquisition costs

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

D.1.3 Deferred tax assets and liabilities

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

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

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

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

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

D.1.5 Financial investments

All financial investments, primarily consisting of debt securities and unit trusts, are measured at fair value for both SII and IFRS purposes. Fair value is obtained from quoted market prices or, if these are not available, by using relevant valuation techniques.

Bonds and exchange traded derivatives in the IFRS financial statements are fair valued using quoted market prices. This methodology is consistent with SII.

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

D.1.6 Reinsurance recoverables

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

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

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

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

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

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

The Company does not have any Special Purpose Vehicles.

D.1.7 Assets arising from leasing arrangements

The Company's property leases are detailed in section A.4.2. The asset arising from these leases is detailed in section D.1.4.

D.1.8 Changes made to recognition and valuation bases and estimations during the reporting period

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

D.2 Technical Provisions

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

D.2.1 Valuation of Technical Provisions

Technical provisions which comprise Best Estimate Liabilities and a Risk Margin are summarised in the table below. They are also detailed in the QRT S.17.01 (Non-life Technical Provisions) see Appendix F.1.3.

As at 31 December 2020 €m	Best Estimate Liabilities	Risk Margin (unaudited)	Technical Provisions
Motor vehicle liability	508	4	512
Other motor insurance	11	—	11
Fire and property damage	106	5	111
General liability insurance	375	4	379
Other lines of business	—	—	—
Total Non-life (excluding health)	1,000	13	1,013
Health (similar to non-life) insurance obligations	2	—	2
Total	**1,002**	**13**	**1,015**

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

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

- A Best Estimate is one that represents the expected result from the range of possible outcomes for the future;
- A consistent approach has been applied across all non-life and health (similar to non-life) business;
- The calculation of Technical Provisions is performed on a going concern basis. This means that it can be assumed that contracts run to their conclusion and the management costs of servicing the run-off of all claims in respect of this is included as part of the technical provisions.

The Company's Best Estimate Liabilities are valued based on the present value of future cash flows discounted using relevant risk-free interest rates adjusted for the EIOPA prescribed credit risk adjustment at the valuation date. The cash flows that are considered when calculating the Best Estimate Liabilities derive from:

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

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

When modelling these cash flows the inflows are considered separately from the outflows. Claims costs take into account recoveries from salvage and subrogation and the full management cost of servicing the provisions.

Claims costs

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

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

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

Premium provisions

Premium provisions are estimated by selecting an exposure measure and using that to establish the unearned and pre-inception exposure. Claims cost projections are set for each future period using trends in historic claims data adjusted for known anomalies in the data that are

not expected to be repeated in the future, changes in mix and volume of business and to allow for the impact of projected claims inflation. These cost projections are then applied to the predicted exposure to determine the cash flows.

Expenses

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

Events Not in Data (ENID)

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

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

Discounting

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

Future management actions

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

D.2.1.2 Risk Margin

The Risk Margin is an estimate of the amount, in addition to the Best Estimate Liability, that a third party would expect to receive in order to assume ownership of the Company's insurance obligations. The Risk Margin is calculated using a cost of capital approach. The calculation of the Risk Margin is defined as the present value of the cost of capital applied to the SCR in respect of non-hedgeable risks in each future year.

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

Discount rate

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

Non-hedgeable risk

The SCR in the Risk Margin calculation takes the following risks into account:

- Underwriting risks (non-life);
- Counterparty default risk with respect to reinsurance contracts; and
- Operational risk.

Note that all market risks in respect of investment assets are considered hedgeable.

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

Projection of the non-hedgeable risk SCR

The non-hedgeable SCR which underpins the Risk Margin is projected in line with the technical provision cashflows as a percentage of those technical provisions but reflecting the reduced diversification in the SCR in the future.

Loss absorbing capacity

The loss absorbing capacity of Technical Provisions assumed in the projection of the non-hedgeable risk SCR is consistent with the loss absorbing capacity of Technical Provisions assumed in the calculation of the SCR. No allowance for the loss absorbency of deferred taxes is included in the Risk Margin.

Allocation of the Risk Margin to SII line of business

The Risk Margin is allocated across lines of business based on the time zero non-hedgeable SCR.

D.2.1.3 Simplifications

Best Estimate Liabilities

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

- The majority of the Company's Best Estimate Liabilities are in Euro. As part of the calculation of Technical Provisions, the Company segments any material exposure to Sterling (GBP) and Euro (EUR) currencies. On materiality grounds, exposure to currencies outside of sterling and EUR are not separately segmented and are instead converted to Euro at prevailing exchange rates.
- The Company's Best Estimate Liabilities include a provision in relation to ENID. For the purposes of discounting cashflows, it is assumed that ENID have the same cashflow profile as other claims.
- Cashflows are modelled in monthly time intervals for the first 10 years and annually thereafter. For the purposes of discounting, all payments are assumed to occur mid-month or mid-year as dictated by the time intervals used.
- When calculating provisions for potential reinsurer default, reinsurance assets are grouped by reinsurer counterparty credit rating and within each credit rating the same probabilities of default are assumed.
- Gross premium debtors are split by class of business and payment date based on the split of written premium.
- The volume of Legally Obliged Unincepted business has been estimated based on a proportion of January's planned written premium for most classes of business. For corporate and speciality type business, the volume has been estimated individually for each class in conjunction with the Group's underwriting teams to allow for business accepted under long-term agreements.

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

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

D.2.2 Level of uncertainty

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

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

Specific areas of uncertainty are:

- In conducting its insurance business, the Company receives general insurance liability claims, and becomes involved in actual or threatened litigation arising therefrom, including claims in respect of pollution and other environmental hazards. Given the significant delays that are experienced in the notification of these claims, the potential number of incidents which they cover, and the uncertainties associated with establishing liability, the ultimate cost cannot be determined with certainty. Gross of reinsurance the level of uncertainty within the Technical Provisions for latent claims is high. The Company has extensive reinsurance in place against these claims so net of reinsurance the level of uncertainty is reduced.
- For large injury claims, one of the key uncertainties relates to a change in the discount rate used to set lump sum awards. The discount rate currently in force is 1% for cost of care and 1.5% for other heads of damage.
- The Civil Liability (Amendment) Act 2017 completed its passage through the Courts during 2018, marking the formal introduction of PPOs in Ireland. Whilst there are currently no PPOs in the Company, this remains an area of uncertainty.
- The uncertainty and impact of further potential lockdowns and evolving strains of the COVID-19 virus may introduce some variability around the frequency and severity of claims for multiple lines of business.

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

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

Technical Provisions as at 31 December 2020 €m	Best Estimate Liabilities	Risk Margin (unaudited)	Technical Provisions	IFRS reclassified Technical Provisions	Difference between SII and IFRS reclassified Technical Provisions
Non-life insurance obligations	**1,000**	**13**	**1,013**	**1,101**	**(88)**
– Motor vehicle liability	508	4	512	564	(52)
– Other motor insurance	11	—	11	13	(2)
– Fire and property damage	106	5	111	122	(11)
– General liability insurance	375	4	379	398	(19)
– Other	—	—	—	4	(4)
Health (similar to non-life) insurance obligations	**2**	**—**	**2**	**18**	**(16)**
Total	**1,002**	**13**	**1,015**	**1,119**	**(104)**

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

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

- SII Technical Provisions include the Risk Margin, which is not included within IFRS Provisions, and which increases SII Technical Provisions compared to IFRS Provisions. This impacts on all lines of business, but has the greatest impact on the Motor Vehicle Liability and General Liability insurance lines of business;
- An explicit margin for uncertainty is included within IFRS Provisions but removed under SII. This impacts all lines of business and reduces SII Technical Provisions compared to IFRS Provisions;
- Only long-tailed claims reserves (predominantly latent claims within General Liability insurance) are discounted within IFRS Provisions, whereas all cash flows are discounted under SII. This difference affects all lines of business, but with the most material impact on the Motor Vehicle Liability and General Liability insurance lines of business given these classes typically contain longer duration cash flows which see relatively larger impacts from discounting under SII. Currently, since the Euro discount rate is so low the difference is small.
- The rate used to discount cash flows for latent claims within IFRS provisions is lower than that used under SII, which reduces SII Technical Provisions compared to IFRS provisions. This impacts the General Liability insurance line of business;
- The unearned premium reserve established under IFRS for all Non-life lines of business is replaced with a Best Estimate premium provision which incorporates the expected cost of claims and expenses on the unearned periods of exposure. This typically leads to a lower premium provision under SII than the equivalent unearned premium reserves under IFRS. This difference impacts all non-life lines of business.
- Under SII, provisions are established for Legally Obliged Unincepted Business, whereas these provisions are not included within the IFRS valuation basis. This difference impacts all Non-life lines of business. This will reduce SII Technical Provisions compared to IFRS Provisions.

D.2.4 Other reliefs

No transitional provisions have been applied in the calculation of SII Technical Provisions. The Company does not use volatility or matching adjustments.

D.3 Other Liabilities

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

The Company's financial statements provide information about contingent liabilities and other risk factors in note 26. The Company has no additional material contingent liabilities to recognise under SII.

D.3.1 Payables and other financial liabilities

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

D.3.2 Other liabilities

Reinsurers' share of deferred acquisition costs of €37m, included within other liabilities under IFRS, is not recognised and therefore valued at €nil in the SII Balance Sheet.

Material differences in the valuation of Technical Provisions are explained in Section D.2.3.

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

D.3.3 Assumptions, judgements and uncertainty

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

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

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

D.4 Alternative Methods of Valuation

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

Property (own use)

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

Derivatives

Derivative assets and liabilities, with SII values of €4m and €3m respectively, are stated at fair value under IFRS and SII but include accrued income under SII. This is classified separately under IFRS. The majority of derivatives are over-the-counter derivatives and are valued by the broker based on an income approach using either discounted cash flow models or option pricing models and applying market observable inputs. The valuations are validated against counterparty statements. The absolute valuation uncertainty associated with derivatives is immaterial.

Adequacy of valuation compared to experience

The Company operates independent price verification (IPV) controls across all assets. For asset types where a secondary source is available (such as over-the-counter derivatives), this involves comparing the primary valuation to a secondary independent source, investigating material differences and making a valuation adjustment where appropriate.

For asset classes where a secondary source is not available and there is no secondary trading activity, the Company relies on the implementation of accepted valuation standards by parties independent of the Group.

D.5 Any Other Information

D.5.1 Any Other Information

The Judicial Council met on 6 March 2021 and formally adopted a new set of 'Personal Injuries Guidelines' as prepared by the Personal Injuries Guidelines Committee. The Guidelines, which will replace the Book of Quantum, will come into effect once S.99 of the Judicial Council Act, 2019 (the "2019 Act") has been commenced – and at the latest by 01 August 2021. Management is currently assessing the new guidelines, both in terms of timing and potential impact on AIIDAC's claims provisions.

The Company and its ultimate holding company, Aviva plc, have considerable financial resources together with a diversified business model, with a spread of businesses and geographical reach. The directors believe that the Company is well placed to manage its business risks successfully.

After making enquiries, the directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for a period of at least twelve months from the date of approval of its financial statements. For this reason, they continue to adopt, and to consider appropriate, the going concern basis in preparing its financial statements.

The Company has no other material information to disclose.

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E. Capital Management

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E. Capital Management

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

E.1 Own Funds

E.1.1 Management of Own Funds

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

In managing its Own Funds the Company also seeks to:

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

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

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

E.1.2 Eligible Own Funds

An analysis of the Company's Own Funds by tier is presented in the Own Funds QRT S.23.01.01, (see Appendix F.1.5), and summarised below.

Own Funds €m As at 31 December	Total 2020	Tier 1 (unrestricted) 2020	Tier 2 2020	Tier 3 2020	Total 2019	Tier 1 (unrestricted) 2019	Tier 2 2019	Tier 3 2019
Ordinary share capital	**30**	**30**	**—**	**—**	30	30	—	—
Reconciliation reserve	**(108)**	**(108)**	**—**	**—**	(107)	(107)	—	—
Capital contribution reserve	**188**	**188**	**—**	**—**	188	188	—	—
Total Basic Own Funds	**110**	**110**	**—**	**—**	111	111	—	—

Tiering analysis

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

Significant changes in Own Funds during the year

Own Funds have not significantly changed in the year.

COVID-19 has had no significant impact on the Company's Own Funds, with increases in claims incurred in certain business lines being offset by the favourable impact on claims experience of reduced economic activity in other lines.

Reconciliation reserve

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

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

As at 31 December	€m 2020	€m 2019
SII excess of assets over liabilities	**110**	111
Ordinary share capital	**(30)**	(30)
Capital contribution reserve	**(188)**	(188)
Reconciliation reserve	**(108)**	(107)

Eligibility of tiered capital

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

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

As at 31 December	€m 2020	€m 2019
Total eligible Own Funds to meet the SCR	**110**	111
Total eligible Own Funds to meet the MCR	**110**	110

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

As at 31 December	2020	2019
Ratio of eligible Own Funds to the SCR	**150 %**	150 %
Ratio of eligible Own Funds to the MCR	**600 %**	600 %

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

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

As at 31 December	€m 2020	€m 2019
Excess of assets over liabilities on a SII basis	**110**	111
Own Funds	**110**	111

The Company's excess of assets over liabilities on a SII basis was €114m less than its total equity on an IFRS basis. The following table details the material differences between the excess of assets over liabilities on a SII basis and total equity on an IFRS basis.

As at 31 December 2020	€m	€m	See Section
Total equity on an IFRS basis		224	
Elimination of goodwill	(110)		D.1.1
Elimination of deferred acquisition costs	(42)		D.1.2
Valuation adjustments to reinsurance recoverables	(102)		D.1.6
Valuation adjustments to Technical Provisions	104		D.2.3
Valuation adjustments to other liabilities	36		D.3.2
Net deferred tax adjustments	—		D.1.3
		(114)	
Excess of assets over liabilities on a SII basis		**110**	

E.1.4 Transitional arrangements and restrictions

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

E.2 Solvency Capital Requirement and Minimum Capital Requirement

E.2.1 The amount of the SCR and MCR

The Company's SCR as at 31 December 2020 was €74m *(2019: €74m)*. This is shown in the SCR QRT, S.25.02, see Appendix F.1.7.

The Company's MCR as at 31 December 2020 was €18m *(2019: €18m)*. This is shown on the MCR QRT, S.28.01, see Appendix F.1.8.

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

E.2.2 The composition of the SCR

The Company determines its SCR using a SF approach. Material risk modules are shown below. Further detail is shown in the SCR QRT S.25.01, see Appendix F.1.6.

Diversified SCR by material risk category (per the SCR QRT) As at 31 December	€m 2020	€m 2019
Market risk	**2**	3
Non-life underwriting risk	**43**	42
Operational risk	**17**	17
Counterparty risk	**21**	21
Other	**—**	2
Diversification between risk categories	**(9)**	(11)
Total SCR	**74**	74

Each risk module includes the impact of diversification within that module. The diversification benefit presented in the table above of €9m therefore only includes the benefit of diversification between risk modules.

Non-life underwriting risk remains the largest component of the SCR, mainly driven by premium and reserve risk. Counterparty risk also contributed significantly to the SCR, reflecting external reinsurance and the quota share reinsurance arrangement with the parent company. The other material component of the SCR was Operational Risk, which is based on 30% of the Basic SCR as defined under SF regulations.

E.2.3 Simplifications, undertaking specific parameters and matching adjustment

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

E.2.4 MCR calculation

The Company's MCR is calculated by applying prescribed factors to its written premium and its net Best Estimate Liabilities. The MCR is subject to two further constraints: it must lie in the range of 25% to 45% of the Company's SCR; and it cannot be less than an absolute minimum of €3.7m. The MCR was €18m equivalent to the lower bound of 25% of SCR.

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

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

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

The company uses the standard formula to calculate its SCR.

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

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

E.6 Any Other Information

E.6.1 Any Other Information

On 16 February, the Company allotted and issued an additional 7,650,000 Ordinary Shares of €1.00 each to AIL for the consideration of €7.65 million bringing their total shareholdings in the Company to 37,650,000 Ordinary Shares of €1.00 each.

The Company has no other material information to disclose.

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F. Appendices

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F.0 Cautionary Statement

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

The Company believes factors that could cause actual results to differ materially from those indicated in forward-looking statements in the announcement include, but are not limited to: the impact of ongoing difficult conditions in the global financial markets and the economy generally; the impact of simplifying our operating structure and activities; the impact of various local and international political, regulatory and economic conditions; market developments and government actions (including those arising from the evolving relationship between the UK and the EU); the effect of credit spread volatility on the net unrealised value of the investment portfolio; the effect of losses due to defaults by counterparties, including potential sovereign debt defaults or restructurings, on the value of our investments; changes in interest rates that may reduce the value of our portfolio; the impact of changes in short or long-term inflation; the impact of changes in equity or property prices on our investment portfolio; fluctuations in currency exchange rates; the effect of market fluctuations on the value of the assets backing reserves; the amount of allowances and impairments taken on our investments; the effect of adverse capital and credit market conditions on our ability to meet liquidity needs and our access to capital; changes in, or restrictions on, our ability to initiate capital management initiatives; changes in or inaccuracy of assumptions in pricing and reserving for insurance business (particularly with regard to policy renewal rates), a cyclical downturn of the insurance industry; the impact of natural and man-made catastrophic events (including the impact of COVID-19) on our business activities and results of operations; the transitional and physical risks associated with climate change; our reliance on information and technology and third-party service providers for our operations and systems; the inability of reinsurers to meet obligations or unavailability of reinsurance coverage; increased competition in Ireland, the UK and in other countries where we have significant operations; the impact of actual experience differing from estimates used in valuing and amortising deferred acquisition costs ('DAC'); the impact of recognising an impairment of our goodwill or intangibles with indefinite lives; changes in valuation methodologies, estimates and assumptions used in the valuation of investment securities; the effect of legal proceedings and regulatory investigations; the impact of operational risks, including inadequate or failed internal and external processes, systems and human error or from external events (including cyber attack); risks associated with arrangements with third parties; our reliance on third-party distribution channels to deliver our products; funding risks associated with our participation in defined benefit staff pension schemes; the failure to attract or retain the necessary key personnel; the effect of fluctuations in share price as a result of general market conditions or otherwise; the effect of simplifying our operating structure and activities; the effect of a decline in any of our ratings by rating agencies on our standing among customers, broker-dealers, agents, wholesalers and other distributors of our products and services; changes to our brand and reputation; changes in government regulations or tax laws in jurisdictions where we conduct business; the inability to protect our intellectual property; the policies, decisions and actions of government or regulatory authorities in Ireland, the UK, the European Union, the US or elsewhere, including the implementation of key legislation and regulation. For a more detailed description of these risks, uncertainties and other factors, please see the Aviva plc Annual report and accounts.

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

This Solvency and Financial Condition Report has been published for information only, it is based on our understanding as at 8 April 2021 and does not provide financial or legal advice. The Company, its directors, employees, agents or advisers do not accept or assume responsibility to any person to who this document is shown or into whose hands it may come, and any such responsibility or liability is expressly disclaimed.

F.1 Public Disclosure Quantitative Reporting Templates

The Quantitative Reporting Templates on the following pages are presented in euros rounded to the nearest thousand. Rounding differences of +/- one unit can occur.

Annex I
S.02.01.02
Balance Sheet
Amounts in 000s

		Solvency II Value
		C0010
Assets		
Intangible assets	R0030	
Deferred tax assets	R0040	561
Pension benefit surplus	R0050	
Property, plant & equipment held for own use	R0060	2,732
Investments (other than assets held for index-linked and unit-linked contracts)	R0070	277,703
Property (other than for own use)	R0080	
Holdings in related undertakings, including participations	R0090	
Equities	R0100	
- Equities - Listed	R0110	
- Equities - Unlisted	R0120	
Bonds	R0130	177,198
- Government Bonds	R0140	128,679
- Corporate Bonds	R0150	48,518
- Structured Notes	R0160	
- Collateralised securities	R0170	
Collective Investments Undertakings	R0180	88,192
Derivatives	R0190	4,470
Deposits other than cash equivalents	R0200	7,843
Other investments	R0210	
Assets held for index-linked and unit-linked contracts	R0220	
Loans & mortgages	R0230	
- Loans on policies	R0240	
- Loans & mortgages to individuals	R0250	
- Other loans & mortgages	R0260	
Reinsurance recoverables from:	R0270	914,235
- Reinsurance recoverables - Non-life and health similiar to non-life	R0280	914,235
- Reinsurance recoverables - Non-life excluding health	R0290	911,667
- Reinsurance recoverables - Health similar to non-life	R0300	2,569
- Reinsurance recoverables - Life and health similar to life, excluding health and index-linked and unit-linked	R0310	
- Reinsurance recoverables - Health similar to life	R0320	
- Reinsurance recoverables - Life excluding health and index-linked and unit-linked	R0330	
- Reinsurance recoverables - Life index-linked and unit-linked	R0340	
Deposits to cedants	R0350	
Insurance & intermediaries receivables	R0360	
Reinsurance receivables	R0370	8,072
Receivables (trade, not insurance)	R0380	41,865
Own Shares (held directly)	R0390	
Amounts due in respect of own fund items or initial fund called up but not yet paid in	R0400	
Cash and cash equivalents	R0410	9,025
Any other assets, not elsewhere shown	R0420	12,318
Total assets	R0500	1,266,510
Liabilities		
Technical provisions - Non-life	R0510	1,015,411
- Technical provisions - Non-life (excluding health)	R0520	1,013,290
- TP calculated as a whole - Non-life (excluding health)	R0530	
- Best Estimate - Non-life (excluding health)	R0540	1,000,280
- Risk margin - Non-life (excluding health)	R0550	13,010
- Technical provisions - Health (similar to non-life)	R0560	2,121
- TP calculated as a whole - Health (similar to non-life)	R0570	
- Best Estimate - Health (similar to non-life)	R0580	2,121
- Risk margin - Health (similar to non-life)	R0590	
Technical provisions - Life (excluding index-linked and unit linked)	R0600	
- Technical provisions - Health (similar to life)	R0610	
- TP calculated as a whole - Health (similar to life)	R0620	
- Best Estimate - Health (similar to life)	R0630	
- Risk margin - Health (similar to life)	R0640	
- Technical provisions - Life (excluding health and index-linked and unit-linked)	R0650	
- TP calculated as a whole - Life (excl health, index-linked and unit-linked)	R0660	
- Best Estimate - Life (excl health, index-linked and unit-linked)	R0670	
- Risk margin - Life (excl health, index-linked and unit-linked)	R0680	
Technical provisions - Index-linked and unit-linked	R0690	
- TP calculated as a whole - Index-linked and unit-linked	R0700	
- Best Estimate - Index-linked and unit-linked	R0710	
- Risk margin - Index-linked and unit-linked	R0720	
Contingent liabilities	R0740	
Provisions other than technical provisions	R0750	4,844
Pension benefit obligations	R0760	
Deposits from reinsurers	R0770	
Deferred tax liabilities	R0780	0
Derivatives	R0790	2,610
Debts owed to credit institutions	R0800	3,219
Financial liabilities other than debts owed to credit institutions	R0810	2,880
Insurance & intermediaries payables	R0820	3,056
Reinsurance payables	R0830	30,788
Payables (trade, not insurance)	R0840	55,391
Subordinated liabilities	R0850	
- Subordinated liabilities not in BOF	R0860	
- Subordinated liabilities in BOF	R0870	
Any other liabilities, not elsewhere shown	R0880	38,085
Total liabilities	R0900	1,156,284
Excess of assets over liabilities	R1000	110,226

Annex I

S.05.01.02

Premiums, claims and expenses by line of business

Amounts in 000s

		Line of Business for: non-life insurance and reinsurance obligations (direct business and accepted proportional reinsurance)											
		Medical expense insurance [direct business]	Income protection insurance [direct business]	Workers' compensation insurance [direct business]	Motor vehicle liability insurance [direct business]	Other motor insurance [direct business]	Marine, aviation and transport insurance [direct business]	Fire and other damage to property insurance [direct business]	General liability insurance [direct business]	Credit and suretyship insurance [direct business]	Legal expenses insurance [direct business]	Assistance [direct business]	Miscellaneous financial loss [direct business]
		C0010	C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0090	C0100	C0110	C0120
Premiums written													
Gross - Direct Business	R0110		1,585		187,201	46,800	238	186,853	95,716	1,972			2,851
Gross - Proportional reinsurance accepted	R0120												
Gross - Non-proportional reinsurance accepted	R0130												
Reinsurers' share	R0140		1,585		160,189	40,047	238	164,069	84,704	1,972			2,851
Net	R0200		0		27,012	6,753	0	22,784	11,011	0			0
Premiums earned													
Gross - Direct Business	R0210		1,535		202,578	50,645	-12	186,590	93,572	1,513			796
Gross - Proportional reinsurance accepted	R0220												
Gross - Non-proportional reinsurance accepted	R0230												
Reinsurers' share	R0240		1,535		173,225	43,306	-12	163,586	82,287	1,513			796
Net	R0300		0		29,354	7,338	0	23,004	11,285	0			0
Claims incurred													
Gross - Direct Business	R0310		2,005		99,358	24,839	191	95,129	67,617	0			37
Gross - Proportional reinsurance accepted	R0320							0	0				
Gross - Non-proportional reinsurance accepted	R0330												
Reinsurers' share	R0340		2,005		83,990	20,998	191	83,399	58,613	0			37
Net	R0400		0		15,367	3,842	0	11,730	9,004	0			0
Changes in other technical provisions													
Gross - Direct Business	R0410												
Gross - Proportional reinsurance accepted	R0420												
Gross - Non-proportional reinsurance accepted	R0430												
Reinsurers' share	R0440												
Net	R0500												
Expenses incurred	R0550		0		10,733	2,683	0	11,789	4,181	0			0
Other expenses	R1200												
Total expenses	R1300												

		Line of Business for: accepted non proportional reinsurance				Total
		Non-proportional health reinsurance	Non-proportional casualty reinsurance	Non-proportional marine, aviation and transport reinsurance	Non-proportional property reinsurance	
		C0130	C0140	C0150	C0160	C0200
Premiums written						
Gross - Direct Business	R0110					523,217
Gross - Proportional reinsurance accepted	R0120					
Gross - Non-proportional reinsurance accepted	R0130					
Reinsurers' share	R0140					455,657
Net	R0200					67,560
Premiums earned						
Gross - Direct Business	R0210					537,217
Gross - Proportional reinsurance accepted	R0220					
Gross - Non-proportional reinsurance accepted	R0230					
Reinsurers' share	R0240					466,236
Net	R0300					70,981
Claims incurred						
Gross - Direct Business	R0310					289,176
Gross - Proportional reinsurance accepted	R0320					0
Gross - Non-proportional reinsurance accepted	R0330					
Reinsurers' share	R0340					249,233
Net	R0400					39,943
Changes in other technical provisions						
Gross - Direct Business	R0410					
Gross - Proportional reinsurance accepted	R0420					
Gross - Non-proportional reinsurance accepted	R0430					
Reinsurers' share	R0440					
Net	R0500					
Expenses incurred	R0550					29,386
Other expenses	R1200					67
Total expenses	R1300					29,453

Annex I

S.05.02.01

Premiums, claims and expenses by Country

Amounts in 000s

		Home Country	Top 5 countries (by amount of gross premium written) - non-life obligations					Total Top 5 and home country
		C0010	C0020	C0030	C0040	C0050	C0060	C0070
	R0010		GB					
		C0080	C0090	C0100	C0110	C0120	C0130	C0080
Premiums written								
Gross - Direct Business	R0110	469,693	28,849					498,542
Gross - Proportional reinsurance accepted	R0120							
Gross - Non-proportional reinsurance accepted	R0130							
Reinsurers' share	R0140	404,216	28,830					433,045
Net	R0200	65,477	20					65,497
Premiums earned								
Gross - Direct Business	R0210	489,888	23,141					513,029
Gross - Proportional reinsurance accepted	R0220							
Gross - Non-proportional reinsurance accepted	R0230							
Reinsurers' share	R0240	420,774	23,442					444,216
Net	R0300	69,114	-301					68,813
Claims incurred								
Gross - Direct Business	R0310	259,451	12,076					271,527
Gross - Proportional reinsurance accepted	R0320							
Gross - Non-proportional reinsurance accepted	R0330							
Reinsurers' share	R0340	219,952	12,547					232,499
Net	R0400	39,499	-471					39,028
Changes in other technical provisions								
Gross - Direct Business	R0410							
Gross - Proportional reinsurance accepted	R0420							
Gross - Non-proportional reinsurance accepted	R0430							
Reinsurers' share	R0440							
Net	R0500							
Expenses incurred	R0550	27,969	-52					27,917
Other expenses	R1200							67
Total expenses	R1300							27,984

Annex I

S.17.01.02

Non-Life Technical Provisions

Amounts in 000s

		Direct business and accepted proportional reinsurance											
		Medical expense insurance [direct business]	**Income protection insurance [direct business]**	**Workers' compensation insurance [direct business]**	**Motor vehicle liability insurance [direct business]**	**Other motor insurance [direct business]**	**Marine, aviation and transport insurance [direct business]**	**Fire and other damage to property insurance [direct business]**	**General liability insurance [direct business]**	**Credit and suretyship insurance [direct business]**	**Legal expenses insurance [direct business]**	**Assistance [direct business]**	**Miscellaneous financial loss [direct business]**
		C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0090	C0100	C0110	C0120	C0130
Technical provisions calculated as a whole	R0010												
Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default associated to TP as a whole	R0050												
Technical provisions calculated as a sum of BE and RM													
Best estimate													
Premium provisions													
Gross	R0060		237		37,106	8,013	22	37,744	19,621				-1,048
Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	R0140		653		52,139	11,067	100	49,725	25,261				0
Net Best Estimate of Premium Provisions	R0150		-416		-15,033	-3,053	-78	-11,981	-5,639				-1,048
Claims provisions													
Gross	R0160		1,884		471,140	2,380	333	68,411	355,383				1,174
Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	R0240		1,916		403,377	2,564	338	61,167	304,833				1,096
Net Best Estimate of Claims Provisions	R0250		-31		67,763	-184	-5	7,244	50,550				78
Total Best estimate - Gross	R0260		2,121		508,246	10,393	355	106,155	375,004				127
Total Best estimate - Net	R0270		-447		52,730	-3,238	-83	-4,737	44,911				-969
Risk margin	R0280				4,137	145		4,927	3,801				
Amount of the transitional on Technical Provisions													
Technical Provisions calculated as a whole	R0290												
Best estimate	R0300												
Risk margin	R0310												
Technical provisions - Total													
Technical provisions - Total	R0320		2,121		512,383	10,538	355	111,082	378,806				127
Recoverable from reinsurance contract/SPV and Finite Re after the adjustment for expected losses due to counterparty default - Total	R0330		2,569		455,516	13,631	438	110,892	330,093				1,096
Technical provisions minus recoverables from reinsurance/SPV and Finite Re - Total	R0340		-447		56,867	-3,093	-83	190	48,712				-969

		Accepted non-proportional reinsurance				
		Health [accepted non-proportional reinsurance]	**Casualty [accepted non-proportional reinsurance]**	**Marine, aviation, transport [accepted non-proportional reinsurance]**	**Property [accepted non-proportional reinsurance]**	**Total Non-Life obligation**
		C0140	C0150	C0160	C0170	C0180
Technical provisions calculated as a whole	R0010					
Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default associated to TP as a whole	R0050					
Technical provisions calculated as a sum of BE and RM						
Best estimate						
Premium provisions						
Gross	R0060					101,696
Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	R0140					138,945
Net Best Estimate of Premium Provisions	R0150					-37,249
Claims provisions						
Gross	R0160					900,706
Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	R0240					775,291
Net Best Estimate of Claims Provisions	R0250					125,415
Total Best estimate - Gross	R0260					1,002,401
Total Best estimate - Net	R0270					88,166
Risk margin	R0280					13,010
Amount of the transitional on Technical Provisions						
Technical Provisions calculated as a whole	R0290					
Best estimate	R0300					
Risk margin	R0310					
Technical provisions - Total						
Technical provisions - Total	R0320					1,015,411
Recoverable from reinsurance contract/SPV and Finite Re after the adjustment for expected losses due to counterparty default - Total	R0330					914,235
Technical provisions minus recoverables from reinsurance/SPV and Finite Re - Total	R0340					101,176

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

Total Non-Life Business

Accident year / Underwriting year	**Z0020**	AY

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

		Development Year													
		0	**1**	**2**	**3**	**4**	**5**	**6**	**7**	**8**	**9**	**10&+**		**In Current year**	**Sum of years (cumulative)**
		C0010	C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0090	C0100	C0110		C0170	C0180
Prior	R0100											5,956	R0100	5,956	5,956
R0160	R0160	86,227	58,785	30,983	31,023	29,515	18,898	20,510	10,860	4,610	3,304		R0160	3,304	294,715
R0170	R0170	82,267	49,999	38,515	36,390	27,498	17,005	9,262	8,032	5,939			R0170	5,939	274,908
R0180	R0180	74,956	48,396	30,055	27,606	23,388	18,858	9,211	6,636				R0180	6,636	239,106
R0190	R0190	84,960	42,832	26,624	35,743	18,003	14,580	6,073					R0190	6,073	228,815
R0200	R0200	71,643	53,715	28,433	27,305	17,775	17,535						R0200	17,535	216,405
R0210	R0210	74,485	38,237	30,709	27,984	20,181							R0210	20,181	191,595
R0220	R0220	73,717	50,780	31,677	26,742								R0220	26,742	182,915
R0230	R0230	88,785	48,844	29,209									R0230	29,209	166,838
R0240	R0240	97,498	44,537										R0240	44,537	142,036
R0250	R0250	81,755											R0250	81,755	81,755
												Total	R0260	247,866	2,025,044

Gross undiscounted Best Estimate Claims Provisions
(absolute amount)

		Development Year												
		0	**1**	**2**	**3**	**4**	**5**	**6**	**7**	**8**	**9**	**10&+**		**Year end (discounted data)**
		C0200	C0210	C0220	C0230	C0240	C0250	C0260	C0270	C0280	C0290	C0300		C0360
Prior	R0100											27,404	R0100	28,116
R0160	R0160						52,247	38,228	23,145	14,064	8,388		R0160	8,537
R0170	R0170					62,763	40,237	32,469	27,009	18,302			R0170	18,608
R0180	R0180				77,397	60,072	36,266	27,631	21,002				R0180	21,283
R0190	R0190			101,061	69,094	48,438	33,320	23,005					R0190	23,290
R0200	R0200		132,717	105,647	77,926	69,045	46,870						R0200	47,421
R0210	R0210	187,999	146,088	127,356	104,960	85,083							R0210	86,013
R0220	R0220	205,712	150,408	135,224	103,495								R0220	104,634
R0230	R0230	206,761	164,675	153,504									R0230	155,399
R0240	R0240	203,048	164,628										R0240	166,841
R0250	R0250	237,672											R0250	240,562
												Total	R0260	900,706

Annex I
S.23.01.01
Own Funds
Amounts in 000s

		Total	Tier 1 Unrestricted	Tier 1 Restricted	Tier 2	Tier 3
		C0010	C0020	C0030	C0040	C0050
Basic own funds before deduction for participations in other financial sector as foreseen in article 68 of Delegated Regulation 2015/35						
Ordinary share capital (gross of own shares)	R0010	30,000	30,000			
Share premium account related to ordinary share capital	R0030					
Initial funds, members' contributions or the equivalent basic own fund item for mutual and mutual-type undertakings	R0040					
Subordinated mutual member accounts	R0050					
Surplus funds	R0070					
Preference shares	R0090					
Share premium account related to preference shares	R0110					
Reconciliation reserve	R0130	-108,334	-108,334			
Subordinated liabilities	R0140					
An amount equal to the value of net deferred tax assets	R0160	561				561
Other own fund items approved by the supervisory authority as basic own funds not specified above	R0180	188,000	188,000			
Own funds from the financial statements that should not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds						
Own funds from the financial statements that should not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds	R0220					
Deductions						
Deductions for participations in financial and credit institutions	R0230					
Total basic own funds after deductions	R0290	**110,226**	**109,666**			**561**
Ancillary own funds						
Unpaid and uncalled ordinary share capital callable on demand	R0300					
Unpaid and uncalled initial funds, members' contributions or the equivalent basic own fund item for mutual and mutual-type undertakings, callable on demand	R0310					
Unpaid and uncalled preference shares callable on demand	R0320					
A legally binding commitment to subscribe and pay for subordinated liabilities on demand	R0330					
Letters of credit and guarantees under Article 96(2) of the Directive 2009/138/EC	R0340					
Letters of credit and guarantees other than under Article 96(2) of the Directive 2009/138/EC	R0350					
Supplementary members calls under first subparagraph of Article 96(3) of the Directive 2009/138/EC	R0360					
Supplementary members calls other than under first subparagraph of Article 96(3) of the Directive 2009/138/EC	R0370					
Other ancillary own funds	R0390					
Total ancillary own funds - Solo	R0400					
Available and eligible own funds						
Total available own funds to meet the SCR	R0500	110,226	109,666			561
Total available own funds to meet the MCR	R0510	109,666	109,666			
Total eligible own funds to meet the SCR	R0540	110,226	109,666			561
Total eligible own funds to meet the MCR	R0550	109,666	109,666			
SCR	R0580	**73,602**				
MCR	R0600	**18,401**				
Ratio of eligible own funds to SCR	R0620	**1.4976**				
Ratio of eligible own funds to MCR	R0640	**5.9599**				

		C0060
Reconciliation Reserve		
Excess of assets over liabilities	R0700	110,226
Own shares (held directly and indirectly)	R0710	
Foreseeable dividends, distributions and charges	R0720	
Other basic own fund items	R0730	218,561
Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced funds	R0740	
Reconciliation reserve	R0760	**-108,334**
Expected profits		
Expected profits included in future premiums (EPIFP) - Life business	R0770	
Expected profits included in future premiums (EPIFP) - Non-Life business	R0780	9,026
Total expected profits included in future premiums (EPIFP)	R0790	**9,026**

Annex I

S.25.01.21

Solvency Capital Requirement - For undertakings on Standard Formula

Amounts in 000s

		Gross solvency capital requirement	USP	Simplifications	LAC DT
		C0110	C0090	C0120	C0130
Market risk	R0010	2,075		None	
Counterparty default risk	R0020	20,712			
Life underwriting risk	R0030		None	None	
Health underwriting risk	R0040		None	None	
Non-life underwriting risk	R0050	42,688	None	None	
Diversification	R0060	-8,858			
Intangible asset risk	R0070				
Basic Solvency Capital Requirement	R0100	56,617			

Calculation of Solvency capital Requirement		C0100
Operational risk	R0130	16,985
Loss-absorbing capacity of technical provisions	R0140	
Loss-absorbing capacity of deferred taxes	R0150	
Capital requirement for business operated in accordance with Art. 4 of Directive 2003/41/EC	R0160	
Solvency Capital Requirement excluding capital add-on	R0200	73,602
Capital add-ons already set	R0210	
Solvency capital requirement for undertakings under consolidated method	R0220	73,602
Other information on SCR		
Capital requirement for duration-based equity risk sub-module	R0400	
Total amount of Notional Solvency Capital Requirements for remaining part	R0410	
Total amount of Notional Solvency Capital Requirements for ring fenced funds	R0420	
Total amount of Notional Solvency Capital Requirements for matching adjustment portfolios	R0430	
Diversification effects due to RFF nSCR aggregation for article 304	R0440	

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

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

Annex I

S.28.01.01

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

Amounts in 000s

Linear formula component for non-life insurance and reinsurance obligations

		C0010
MCRNL Result	R0010	15,303

		Net (of reinsurance/SPV) best estimate and TP calculated as a whole	Net (of reinsurance) written premiums in the last 12 months
		C0020	C0030
Medical expense insurance and proportional reinsurance	R0020		
Income protection insurance and proportional reinsurance	R0030		
Workers' compensation insurance and proportional reinsurance	R0040		
Motor vehicle liability insurance and proportional reinsurance	R0050	52,730	27,012
Other motor insurance and proportional reinsurance	R0060		6,753
Marine, aviation and transport insurance and proportional reinsurance	R0070		
Fire and other damage to property insurance and proportional reinsurance	R0080		22,761
General liability insurance and proportional reinsurance	R0090	44,911	11,011
Credit and suretyship insurance and proportional reinsurance	R0100		
Legal expenses insurance and proportional reinsurance	R0110		
Assistance and proportional reinsurance	R0120		
Miscellaneous financial loss insurance and proportional reinsurance	R0130		
Non-proportional health reinsurance	R0140		
Non-proportional casualty reinsurance	R0150		
Non-proportional marine, aviation and transport reinsurance	R0160		
Non-proportional property reinsurance	R0170		

Linear formula component for life insurance and reinsurance obligations

		C0040
MCRL Result	R0200	

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

Overall MCR calculation

		C0070
Linear MCR	R0300	15,303
SCR	R0310	73,602
MCR cap	R0320	33,121
MCR floor	R0330	18,401
Combined MCR	R0340	18,401
Absolute floor of the MCR	R0350	3,700
		C0070
Minimum Capital Requirement	R0400	18,401

F.2 Glossary of Abbreviations and Definitions

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