The Ocean Marine Insurance Company Limited

Registered in England No. 27204

Annual Report and Financial Statements 2021

Contents

Directors and officer

Directors

A M Wilkinson
P Senior
J C Poole

Officer – Company Secretary

Aviva Company Secretarial Services Limited
St Helen's
1 Undershaft
London
EC3P 3DQ

Independent Auditors

PricewaterhouseCoopers LLP
7 More London Riverside
London
SE1 2RT

Registered office

St Helen's
1 Undershaft
London
EC3P 3DQ

Company number

Registered in England no. 27204

Other information

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

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

Strategic report

The directors present their strategic report for the Company for the year ended 31 December 2021.

Review of the Company's business

Principal activities

The principal activity of the Company during the year continued to be managing existing liabilities through to run-off rather than writing new business.

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

Significant events

Despite 2021 being another COVID-19 impacted year, the impact on the Company is limited by the nature of the business historically underwritten by the Company. Furthermore, any residual impact is mitigated by the comprehensive reinsurance arrangements in place. The financial impact on the Company due to COVID-19 is therefore not material.

The Company continues to maintain strong solvency levels and expects to continue to meet its capital requirements.

Financial position and performance

The financial position of the Company at 31 December 2021 is shown in the statement of financial position on page 20, with the trading results shown in the income statement on page 18 and the statement of cash flows on page 21.

During the year the Company continued to manage the run-off of its insurance portfolio. The Company's profit before tax was £642 thousand (2020: £323 thousand).

Section 172 Statement

The Directors report here on how they have discharged their duties under Section 172 (s.172) of the Companies Act 2006.

S172 sets out the matters to which the directors must have regard to in performing their duty to promote the success of the Company for the benefit of its shareholders which includes having regard to other stakeholders. Where this statement draws upon information contained in other sections of the Strategic report, this is signposted accordingly.

The Board considers it crucial that the Company maintains a reputation for high standards of business conduct. The Board is responsible for monitoring and upholding the culture, values, standards, ethics, and reputation of the Company to ensure that the Directors' obligations to its shareholders, customers and other stakeholders are met. The Board monitors adherence to the Aviva Group business standards and compliance with local corporate governance requirements and is committed to acting if our businesses should fall short of the standards expected.

The Board will sometimes engage directly with certain stakeholders on certain issues, however due to the size and distribution of our stakeholders and of the Company, stakeholder engagement often takes place at an operational level. The Board considers and discusses information from the Company's management team to help it understand the stakeholder interests and to ensure they are carefully considered as part of the Board's decision-making process. Through review of reports relating to strategy, financial and operational performance, key risk and legal and regulatory compliance, the Board is able to maintain an overview of engagement with stakeholders and other relevant factors which enables the Directors to comply with their legal duty under S172.

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

The Company's culture

The Company's culture is shaped, in conjunction with its parent company, Aviva Insurance Limited and its ultimate shareholder Aviva plc by a clearly defined purpose - with you today for a better tomorrow. As the provider of financial services to millions of customers, Aviva seeks to earn their trust by acting with integrity and a sense of responsibility at all times. The Company looks to build relationships with all its stakeholders based on openness and transparency and by valuing diversity and inclusivity in the workplace and beyond.

Key strategic decisions in 2021

For each matter which comes before the Board, stakeholders who may be affected are identified and their interests are carefully considered as part of the Board's decision-making process.

The Board decided not to pay a dividend to its Parent in 2021. This decision will be revisited in 2022.

Stakeholder Engagement

The table below sets out the Board's approach to stakeholder engagement during 2021:

Strategic report (continued)

Stakeholders	Why are they important to Aviva?	What is our approach to engaging with them?
Employees	Our people's well-being and commitment to serving our customers is essential for our long-term success.	- The Company has no employees. The majority of staff engaged in the activities of the Company are employed by fellow subsidiary undertakings of Aviva plc. As part of the Aviva Group, these staff enjoy the benefit of the Aviva Group policies and benefits made available to them. - There are twice yearly steering groups between Aviva senior employees and their equivalents at Resolute Management Limited, claims administrators appointed by National Indemnity Company, where key stakeholder engagement takes place but there is continual engagement throughout the year. - The Company's people share in the businesses' success as shareholders through membership of the Group's global share plans. - The Company continued to support the safety and wellbeing of staff through provision of equipment to enable all employees to work from home throughout the COVID-19 pandemic as well as transitioning to a hybrid way of working in mid-2021.
Customers	Understanding what's important to our customers is key to our long-term success.	- The Company's claim trends and key conduct measures are reviewed and discussed at the Latents Claims Senior Leadership Team which is then presented to the Board on a quarterly basis. - The Aviva Supplier Assurance Team review Resolute Management Limited on an annual basis to check on compliance and customer best interest.
Suppliers	We operate in conjunction with a wide range of suppliers to deliver services to our customers. It is vital that we build strong working relationships with our intermediaries.	- The Company maintains oversight of the management of its most important suppliers and reviews reports on their performance. - All supplier related activity is managed in line with the Group's Procurement & Outsourcing Business Standard. This ensures that supply risk is managed appropriately including in relation to customer outcomes, data security, corporate responsibility, financial, operational, contractual and brand damage caused by inadequate oversight or supplier failure. - Claims audits also take place annually to review processes and the use of claims suppliers. In response to the COVID-19 pandemic, the Board supported the decision for the technical claims review of Resolute Management Limited claim handling to be conducted remotely in 2021.
Communities	We recognise the importance of contributing to our communities through volunteering, community investment, and long-term partnerships. As a major insurance company we are fully engaged in building resilience against the global impact of climate change.	- Recognising climate change presents risk and opportunities for customers, communities and business, Aviva is signed up to the United Nations Net-Zero Asset Owner Alliance commitment. As publicly announced by the Group on 1 March 2021, the Group is committed to the Group's long-term strategy to reach net zero by 2040, and to support achieving this target the Group has defined climate risk preferences and operating risk limits. The Board approved the adoption of the Climate Risk Appetite in December 2021, along with its 2022-2024 Plan which takes the new climate risk preferences into consideration.
Shareholders	Our retail and institutional shareholders are the ultimate owners of the Company.	- The Company's shareholder is Aviva Insurance Limited. Any matters requiring escalation are escalated by the Board through the Chair to its parent. The Company made 2 escalations to its parent during 2021.
Regulators	As an insurance company, we are subject to financial services regulations and approvals in all the markets we operate in.	- As a dual regulated entity under the Senior Manager's Certification Regime, the Company is required to produce a Management Responsibilities Map and this is shared with the Regulators on a quarterly basis. - The Board engages with the Regulators as appropriate.

Future outlook

The strategic direction of the Company is set by the directors of the Company. The directors expect that the nature of the Company's principal activity of general insurance business run-off will continue unchanged for the foreseeable future.

Principal risks and uncertainties

A description of the principal risks and uncertainties facing the Company and the Company's risk management policies are set out in notes 17 and 20 to the financial statements.

Risk factors beyond the Company's control that could cause actual results to differ materially from those estimated include, but are not limited to:

- General Insurance risk: including fluctuations in the timing, frequency and severity of claims and claims settlements relative to expectations when pricing and reserving.
- Market risk: the risk of loss or adverse change in the financial situation (including the value of assets, liabilities and income) resulting, directly or indirectly, from fluctuations in the level or the volatility of market variables, such as interest rates, foreign exchange rates, equity, property and commodity prices.
- Credit risk: the risk of adverse financial impact resulting from fluctuations in credit quality of third parties including default and rating transition; the Company's most significant exposure is to the National Indemnity Company ('NICO'), a AA rated reinsurance counterparty.

Strategic report (continued)

Key performance indicators

The directors consider that the Company's KPI that communicates the financial performance is the percentage change in gross outstanding claims.

	2021	2020
Capital Metrics		
Percentage (reduction)/increase in gross outstanding claims	(12)%	1 %

Gross outstanding claims increased last year as a result of a reduced level of discounting. In 2021 the undiscounted gross outstanding claims has reduced by 9% (2020: reduction of 5%).

The other key driver relates to the update of the reserve projections to reflect the latest model published by the Institute and Faculty of Actuaries UK Asbestos Working Party (AWP).The continued reduction in gross outstanding claims is in line with anticipated settlement of claims.

On behalf of the Board on 29 March 2022

P Senior
Director
4 April 2022

Directors' report

The directors submit their annual report and the audited financial statements for the Company for the year ended 31 December 2021.

Directors

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

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

T J Latter was appointed as a director of the Company on 22 March 2021 and resigned on 23 August 2021
A J Morrish resigned as a director of the Company on 16 April 2021
P Senior was appointed as a director of the Company on 25 May 2021
D J Lovely was appointed as a director of the Company on 27 July 2021 and resigned on 22 November 2021
J C Poole was appointed as a director of the Company on 23 August 2021

Company Secretary

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

Future outlook

Likely future developments in the business of the Company are discussed in the strategic report on page 5.

Dividends

No interim dividends were paid during the year.

The directors do not recommend a final dividend on the Company's ordinary shares for the year ended 31 December 2021 *(2020: £nil)*.

Going concern

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

Important events since the financial year end

Details of significant post balance sheet events that have occurred subsequent to 31 December 2021 are disclosed in note 22.

Financial instruments and financial risk management

The Company uses financial instruments to manage certain types of risks, including those relating to foreign currency exchange. Details of the objectives and management of these instruments are contained in note 20 on risk management.

Employees

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

Disclosure of information to the auditors

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

Independent auditors

Under the Competition and Markets Authority Regulations, the Company is required to tender for the provision of the external audit every 10 Years. PricewaterhouseCoopers LLP was appointed for the first time for the 31 December 2012 financial year end and therefore a mandatory re-tender was required for the year ending 31 December 2022. The audit tender process was initiated during 2020 but COVID-19 restrictions caused delays and Aviva sought a two year extension from the FRC which was granted. Following a full and rigorous competitive tender process, which was overseen by the Company's Audit Committee, the selection of Ernst & Young LLP from the year ending 31 December 2024 was approved by the Aviva plc Board. PricewaterhouseCoopers LLP will continue in its role and, subject to reappointment by the Company's shareholders at the 2022 and 2023 Annual General Meetings, will undertake the audit for the financial years ending 31 December 2022 and 2023.

Qualifying indemnity provisions

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

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

Directors' report (continued)

Statement of directors' responsibilities in respect of the financial statements

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

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

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

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

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

Directors' confirmations

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

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

On behalf of the Board on 29 March 2022

P Senior
Director
4 April 2022

Report on the audit of the financial statements

Opinion

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

- give a true and fair view of the state of the company's affairs as at 31 December 2021 and of its profit and cash flows for the year then ended;
- have been properly prepared in accordance with UK-adopted international accounting standards; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report and Financial Statements 2021 (the "Annual Report"), which comprise: the Statement of financial position as at 31 December 2021; the Income statement, the Statement of cash flows, the Statement of changes in equity for the year then ended; the Accounting policies; and the notes to the financial statements.

Our opinion is consistent with our reporting to the Directors.

Basis for opinion

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

Independence

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

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

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

Our audit approach

Overview

Audit scope

- Using the output of our risk assessment, we scoped our audit based on materiality over each financial statement line item.

Key audit matters

- Valuation of the provision for claims incurred but not reported ('IBNR') reserves and the associated reinsurers' share of the provision for claims IBNR reserves.

Materiality

- Overall materiality: £3,769,000 (2020: £4,195,000) based on 1% of total assets.
- Performance materiality: £2,826,750 (2020: £3,146,250).

The scope of our audit

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

Key audit matters

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

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

Covid-19, which was a key audit matter last year, is no longer included because of the reduction in uncertainty noted in relation to COVID-19 and its impact on the business compared with previous years. Otherwise, the key audit matters below are consistent with last year.

<table>
<tr><th>Key audit matter</th><th>How our audit addressed the key audit matter</th></tr>
<tr><td>Valuation of the provision for claims incurred but not reported ('IBNR') reserves and the associated reinsurers' share of the provision for claims IBNR reserves.

Valuation of the provision for claims incurred but not reported ('IBNR') reserves are based on an estimated ultimate cost of all claims incurred but not settled at 31 December 2021, whether reported or not, together with the related claims handling costs. An estimate is also made of the associated reinsurers' share of the provision for claims IBNR reserves. The valuation of the provision for claims incurred but not reported ('IBNR') reserves and the associated reinsurers' share of the provision for claims IBNR reserves is a significant accounting estimate in the financial statements and involves a significant degree of judgement.

The company has been in run-off for many years. Due to the historic nature of the liabilities, the directors monitor and understand movements or any emerging trends in key metrics, in total and for each class of business, such as prior year development, the IBNR to outstanding claims ratio, and the paid survival ratio.

A reinsurance agreement between the Company and a third party reinsurer reduces the risk that any gross deterioration would impact the net insurance liabilities as it provides substantial protection in excess of current booked gross liabilities.

Key areas of focus this year were:
• The use of appropriate reserving methodologies and assumptions and the consistency of their application from year to year.

Refer to Accounting policy B (page 15) and G (page 16) and Note 12 and 17 (page 25 and 29) for disclosure of related accounting policies, judgements and estimates.</td><td>In performing our audit over the provision for claims incurred but not reported ('IBNR') reserves and the associated reinsurers' share of the provision for claims IBNR reserves, we have used actuarial specialists as part of our team to conduct some of the testing. Our procedures included:
• For all classes of business, we tested the methodology and assumptions used by the directors to estimate the insurance liabilities and associated reinsurance assets.

In performing the above, we have also considered and tested the following:
• The internal control environment in place over insurance liabilities including:
  o Governance control activities; and
  o Control activities supporting key data used in the estimation process.
• The underlying relevant data (including but not limited to claims case estimates and paid claims) to relevant evidence.
• Examined prior year run-off of previous estimates.
• Examined third party reinsurance contracts and assessed the non-performance risk of the contracts and also considered the remaining 'headroom' in the contracts in developing our testing strategy.
• The director's assessment of estimation uncertainty.
• Considered whether any of our audit procedures gave rise to an indication of management bias in the estimates.

Based on the work performed and evidence obtained, we were satisfied with the insurance liabilities booked.</td></tr>
</table>

How we tailored the audit scope

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

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

Materiality

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

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

Overall company materiality	£3,769,000 (2020: £4,195,000).
How we determined it	1% of total assets
Rationale for benchmark applied	The principal activity of the Company is to run-off its existing book of business and it is 100% reinsured subject to a limit considerably in excess of stated reserves. Therefore total assets were considered to be the most relevant financial metric.

We use performance materiality to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds overall materiality. Specifically, we use performance materiality in determining the scope of our audit and the nature and extent of our testing of account balances, classes of transactions and disclosures, for example in determining sample sizes. Our performance materiality was 75% (2020: 75%) of overall materiality, amounting to £2,826,750 (2020: £3,146,250) for the company financial statements.

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

We agreed with the Directors that we would report to them misstatements identified during our audit above £188,450 (2020: £209,750) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Conclusions relating to going concern

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

- Obtaining and assessing the reasonableness of the Directors' assessment, taking into consideration the Company's exposure to certain types of assets, cash flows and liquidity analysis and operational resilience;

- Considering management's assessment of the regulatory Solvency coverage and liquidity position; and
- Considering information obtained during the course of the audit and publicly available market information to identify any evidence that would contradict management's assessment of going concern (including the impacts of COVID-19).

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

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

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

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

Reporting on other information

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

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

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

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

Strategic report and Directors' report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic report and Directors' report for the year ended 31 December 2021 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

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

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

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

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

Auditors' responsibilities for the audit of the financial statements

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

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

Based on our understanding of the company and industry, we identified that the principal risks of non-compliance with laws and regulations related to breaches of UK regulatory principles, such as those governed by the Prudential Regulation Authority and the Financial Conduct Authority, and we considered the extent to which non-compliance might have a material effect on the financial statements. We also considered those laws and regulations that have a direct impact on the financial statements such as the Companies Act 2006. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to management bias in accounting estimates and judgemental areas of the financial statements as shown in our 'Key Audit Matters'. Audit procedures performed by the engagement team included:

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

- Discussions with the Board, management, internal audit, senior management involved in the Risk and Compliance functions and the Legal function, including consideration of known or suspected instances of non- compliance with laws and regulations and fraud;
- Making enquiries of the Group Investigations team who are responsible for independently reviewing fraudulent activity across the group, utilising activities including, but not limited to, whistle-blowing hotlines and data analytics;
- Testing the operating effectiveness and reviewing the results of management's internal controls designed to prevent and detect irregularities;
- Assessment of any matters reported on the Company's whistle-blowing hotline and fraud register and the results of management's investigation of such matters;
- Reading key correspondence with the Prudential Regulation Authority and the Financial Conduct Authority in relation to compliance with laws and regulations;
- Reviewing relevant meeting minutes including those of the Reserve and Projections Committee, and Board of Directors;
- Reviewing the company's register of litigation and claims, internal audit reports, compliance reports in so far as they related to non-compliance with laws and regulations and fraud;
- Procedures relating to the valuation of net insurance liabilities described in the related key audit matter below; and fraud;
- Identifying and testing journal entries, in particular journals that appear to be posted outside the normal patterns or parameters; and
- Designing audit procedures to incorporate unpredictability around the nature, timing or extent of our testing.

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

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

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

Use of this report

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

Other required reporting

Companies Act 2006 exception reporting

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

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

We have no exceptions to report arising from this responsibility.

Appointment

Following the recommendation of the Directors, we were appointed by the directors on 3 May 2012 to audit the financial statements for the year ended 31 December 2012 and subsequent financial periods. The period of total uninterrupted engagement is 10 years, covering the years ended 31 December 2012 to 31 December 2021.

MDNichols

Matthew Nichols (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
4 April 2022

Accounting policies

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

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

(A) Basis of preparation

The financial statements of the Company have been prepared and approved by the directors in accordance with UK -adopted international accounting standards in conformity with the requirements of the Companies Act 2006. On 31 December 2020, IFRS as adopted by the EU at that date was brought into UK law and became UK-adopted International Accounting Standards, with future changes being subject to endorsement by the UK Endorsement Board. The Group transitioned to UK adopted International Accounting Standards on 1 January 2021. This change constitutes a change in accounting framework. However, this had no impact on recognition, measurement or disclosure in the period as report as a result of the change in framework. The financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets and financial liabilities at fair value through profit or loss.

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

In accordance with *IFRS 4 Insurance Contracts*, the Company has applied existing accounting practices for insurance and participating investment contracts, modified as appropriate to comply with the IFRS framework and applicable standards. Further details are given in accounting policy C.

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

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

The Company has adopted the following amendment to standards which became effective for the annual reporting period beginning on 1 January 2021. The amendment has been issued and endorsed by the UK and does not have a significant impact on the Company's consolidated financial statements.

(i) Interest Rate Benchmark Reform Phase 2 : Amendments to IFRS 9, IAS 39 and IFRS 7, IFRS 4 and IFRS 16 (published by the IASB in August 2020).

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

The following new standards and amendments to existing standards have been issued, are not yet effective for the Company and have not been adopted early by the Company:

(i) IFRS 17, Insurance Contracts

In May 2017, the IASB published IFRS 17 *Insurance Contracts*, a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. Once effective, IFRS 17 will replace IFRS 4 that was issued in 2005. IFRS 17 applies to all types of insurance contracts. In contrast to the requirements in IFRS 4, which are largely based on grandfathering of previous local accounting policies, IFRS 17 provides a comprehensive and consistent approach to insurance contracts. The core of IFRS 17 is the general model, supplemented by a specific adaption for contracts with direct participation features (the variable fee approach) and a simplified approach (the premium allocation approach) mainly for short-duration contracts.

The main features of the new accounting model for insurance contracts are, as follows: the measurement of the present value of future cash flows incorporating an explicit risk adjustment and remeasured at each reporting period (the fulfilment cash flows); a contractual service margin that is equal and opposite to any day one gain in the fulfilment cash flows of a group of contracts, representing the unearned profit of the insurance contracts to be recognised in profit or loss over the service period (coverage period); the presentation of insurance revenue and insurance service expenses in the statement of comprehensive income based on the concept of insurance services provided during the period; and extensive disclosures to provide information on the recognised amounts from insurance contracts and the nature and extent of risks arising from these contracts.

On adoption IFRS 17 will significantly impact the measurement and presentation of insurance contracts. The measurement changes will be more significant for life insurance than general insurance contracts, however there will be significant changes to presentation and disclosures for all insurance contracts. [TBC: While implementation is well progressed, there are material judgements which we are working through including the approach to restating the opening balance sheet, which means we are unable to provide a reasonable estimate of the financial impacts at this stage.] Following amendments to the standard published in June 2020, it is now expected that the standard will apply to annual reporting periods beginning on or after 1 January 2023. The final standard remains subject to endorsement in the UK by the UK Endorsement Board. The UK endorsement process has commenced and is expected to complete in time for the 1 January 2023 effective date.

The following new standards and amendments to existing standards have been issued, are not yet effective and are not expected to have a significant impact on the Company's financial statements:

(ii) Amendments to IFRS 4, Insurance Contracts

In September 2016, the IASB published amendments to IFRS 4 Insurance Contracts that address the accounting consequences of the application of IFRS 9 to insurers prior to implementing the new accounting standard for insurance contracts, IFRS 17, which replaces IFRS 4. The amendments introduce two options for insurers: the deferral approach and the overlay approach. The deferral approach provides an entity, if eligible, with a temporary exemption from applying IFRS 9. The overlay approach allows an entity to remove from profit or loss the effects of some of the accounting mismatches that may occur before the new insurance contracts standard is applied. The Company is eligible to apply the deferral approach as its activities are predominantly connected with insurance, as defined by the amendments to IFRS 4. The Company has opted to apply this deferral from 2018.

In December 2020, the EU endorsed the IASB's *Amendments to IFRS 4 Insurance Contracts - deferral of IFRS 9*. This extends the fixed expiry date for the temporary exemption for insurers from applying IFRS 9 from 1 January 2021 until 1 January 2023, to align the effective dates of IFRS 9 *Financial Instruments* with IFRS 17 *Insurance contracts.*

The impact of the adoption of IFRS 9 on the Company's financial statements will, to an extent, have to take into account the interaction with the new insurance contracts standard IFRS 17. As such, it is not possible to fully assess the effect of the adoption of IFRS 9. IFRS 9 has been endorsed.

Accounting policies (continued)

The following new standards and amendments to existing standards have been issued, are not yet effective and are not expected to have a significant impact on the Company's financial statements:

(iii) *Annual Improvements to IFRSs 2018-2020 Cycle*

Published by the IASB in May 2020, these improvements consist of amendments to IFRS 1 First-time Adoption of International Financial Reporting Standards, IFRS 9 Financial Instruments, IFRS 16 Leases and IAS 41 Agriculture. These amendments are effective for annual reporting beginning on or after 1 January 2022 and have been endorsed by the UK

(iv) *Amendments to IAS 1 Presentation of Financial Statements: Disclosure of Accounting Policies*

Published by the IASB in January 2020. The amendments are effective for annual reporting beginning on or after 1 January 2023 and have yet to be endorsed by the UK.

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

Published by the IASB in February 2021. The amendments are effective for annual reporting beginning on or after 1 January 2023 and have yet to be endorsed by the UK.

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

Published by the IASB in May 2021. The amendments are effective for annual reporting beginning on or after 1 January 2023 and have yet to be endorsed by the UK.

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

Published by the IASB in February 2021. The amendments are effective for annual reporting beginning on or after 1 January 2024 and have yet to be endorsed by the UK.

(B) Critical accounting policies and the use of estimates

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

Critical accounting policies

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

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

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

Item	Critical accounting estimates	Accounting policy	Note
Measurement of insurance contract liabilities	Principal assumptions used in the calculation of general insurance liabilities include the discount rates used in determining latent claim liabilities, and the assumption that past claims experience can be used as a basis to project future claims (estimated using a range of standard actuarial claims projection techniques).	G	12
Contingent liabilities	When evaluating whether a contingent liability should be recognised the Company assesses the likelihood of a constructive or legal obligation to settle a past event and whether the amount can be reliably estimated. The amount of provision is determined based on the Company's estimation of the expenditure required to settle the obligation at the statement of financial position date.	M	17

During the year management reassessed the critical accounting policies estimates previously provided and, based on their assessment of qualitative and quantitative risk factors, resolved that no change was required.

(C) Foreign currency translation

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

(D) Product classifications

Insurance contracts are defined as those containing significant insurance risk if, and only if, an insured event could cause an insurer to make significant additional payments in any scenario, excluding scenarios that lack commercial substance, at the inception of the contract. Such contracts remain insurance contracts until all rights and obligations are extinguished or expire. Contracts can be reclassified as insurance contracts after inception if insurance risk becomes significant. Contracts that transfer financial risks, but not significant insurance risk are classified as investment contracts.

As noted in accounting policy A above, insurance contracts and participating investment contracts in general continue to be measured and accounted for under existing accounting practices at the date of transition to IFRS ("grandfathered") or the date of the acquisition of the entity, in accordance with IFRS 4. IFRS accounting for insurance contracts in UK companies was grandfathered at the date of transition to IFRS and determined in accordance with the Statement of Recommended Practice issued by the Association of British Insurers (subsequently withdrawn by the ABI in 2015).

The accounting policies or accounting estimates have been changed, as permitted by IFRS 4 and IAS 8 respectively, to remeasure designated insurance liabilities to reflect current market interest rates and changes to regulatory capital requirements. When accounting policies or accounting estimates have

Accounting policies (continued)

been changed and adjustments to the measurement basis have occurred then the financial statements of that year will have disclosed the impacts accordingly.

(E) Premiums

Premiums written include adjustments to premiums written in earlier periods.

(F) Net investment income

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

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

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

(G) Insurance contract liabilities

Claims

General insurance and health claims incurred include all losses occurring during the year, whether reported or not, related handling costs, a reduction for the value of salvage and other recoveries, and any adjustments to claims outstanding from previous years.

Claims handling costs include internal and external costs incurred in connection with the negotiation and settlement of claims. Internal costs include all direct expenses of the claims department and any part of the general administrative costs directly attributable to the claims function.

Outstanding claims provisions

General insurance and health outstanding claims provisions are based on the estimated ultimate cost of all claims incurred but not settled at the statement of financial position date, whether reported or not, together with related claims handling costs. Significant delays are experienced in the notification and settlement of certain types of general insurance claims, particularly in respect of liability business, including environmental and pollution exposures, the ultimate cost of which cannot be known with certainty at the statement of financial position date. As such, booked claim provisions for general insurance and health insurance are based on the best estimate of the cost of future claim payments plus an explicit allowance for risk and uncertainty. Any estimate represents a determination within a range of possible outcomes. Further details of estimation techniques are given in note 12.

Provisions for latent claims and claims that are settled on an annuity type basis such as structured settlements are discounted in the relevant currency at the reporting date, having regard to the expected settlement dates of the claims and the nature of the liabilities. The discount rate is set at the start of the accounting period with any change in rates between the start and end of the accounting period being reflected below as a change in insurance liabilities. The range of discount rates used is described in note 12.

Outstanding claims provisions are valued net of an allowance for expected future recoveries. Recoveries include non-insurance assets that have been acquired by exercising rights to salvage and subrogation under the terms of insurance contracts.

(H) Reinsurance

The Company cedes reinsurance in the normal course of business. The cost of reinsurance is earned over the risk profile underlying reinsured policies, using assumptions consistent with those used to account for these policies. Where insurance liabilities are discounted, any corresponding reinsurance assets are also discounted using consistent assumptions.

Reinsurance assets primarily include balances due from both insurance and reinsurance companies for ceded insurance. Amounts recoverable from reinsurers are estimated in a manner consistent with the underlying contract liabilities, outstanding claims provisions or settled claims associated with the reinsured policies and in accordance with the relevant reinsurance contract.

If a reinsurance asset is impaired, the Company reduces the carrying amount accordingly and recognises that impairment loss in the income statement. A reinsurance asset is impaired if there is objective evidence, as a result of an event that occurred after initial recognition of the reinsurance asset, that the Company may not receive all amounts due to it under the terms of the contract, and the event has an impact that can be reliably measured on the amounts that the Company will receive from the reinsurer.

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

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

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

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expires.

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

(J) Receivables

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

Accounting policies (continued)

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

(K) Payables and other financial liabilities

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

(L) Statement of cash flows

Cash and cash equivalents

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

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

Operating cash flows

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

(M) Contingent liabilities

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

(N) Income taxes

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

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

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

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

Deferred tax is provided on any temporary differences arising from investments in subsidiaries, associates and joint ventures, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the difference will not reverse in the foreseeable future.

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

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

(O) Share capital

Equity instruments

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

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

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

Dividends

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

Income statement
For the year ended 31 December 2021

	Note	2021 £'000	2020 £'000
Income			
Gross written premiums		**10**	21
Premiums ceded to reinsurers		**(10)**	(21)
Premiums written net of reinsurance		**–**	–
Net investment income	2	**668**	358
Total income		**668**	358
Expenses	3		
Other expenses, net of reinsurance		**(26)**	(35)
Total expenses		**(26)**	(35)
Profit for the year before tax		**642**	323
Tax credit	7	**–**	44
Profit for the year after tax		**642**	367

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

The accounting policies (identified alphabetically) on pages 14 to 17 and notes (identified numerically) on pages 22 to 35 are an integral part of the financial statements.

Statement of changes in equity

For the year ended 31 December 2021

					2021
	Note	Ordinary Share Capital	Capital reserve	Retained earnings	Total equity
		£'000	£'000	£'000	£'000
Balance at 1 January		**1,000**	**28,078**	**36,730**	**65,808**
Profit for the year		**—**	**—**	**642**	**642**
Total comprehensive income for the year		**—**	**—**	**642**	**642**
Dividends paid	8	**—**	**—**	**—**	**—**
Balance at 31 December	10, 11	**1,000**	**28,078**	**37,372**	**66,450**

					2020
	Note	Ordinary Share Capital	Capital reserve	Retained earnings	Total equity
		£'000	£'000	£'000	£'000
Balance at 1 January		1,000	28,078	61,363	90,441
Profit for the year		—	—	367	367
Total comprehensive income for the year		—	—	367	367
Dividends paid	8	—	—	(25,000)	(25,000)
Balance at 31 December	10, 11	1,000	28,078	36,730	65,808

The accounting policies (identified alphabetically) on pages 14 to 17 and notes (identified numerically) on pages 22 to 35 are an integral part of the financial statements.

Statement of financial position
As at 31 December 2021

	Note	2021 £'000	2020 £'000
Assets			
Reinsurance assets	13	**309,769**	352,981
Receivables	9	**49,792**	49,246
Cash and cash equivalents	18	**17,829**	17,743
Total assets		**377,390**	419,970
Equity			
Ordinary share capital	10	**1,000**	1,000
Capital reserve	11	**28,078**	28,078
Retained earnings		**37,372**	36,730
Total equity		**66,450**	65,808
Liabilities			
Gross insurance liabilities	12	**309,769**	352,981
Current tax liabilities	14	**—**	—
Payables and other financial liabilities	15	**429**	429
Other liabilities	16	**742**	752
Total liabilities		**310,940**	354,162
Total equity and liabilities		**377,390**	419,970

The financial statements on pages 14 to 35 were approved by the Board on 29 March 2022 and signed on its behalf by:

P Senior

Director

4 April 2022

The accounting policies (identified alphabetically) on pages 14 to 17 and notes (identified numerically) on pages 22 to 35 are an integral part of the financial statements.

Statement of cash flows
For the year ended 31 December 2021

	Note	2021 £'000	2020 £'000
Cash flows from operating activities			
Cash generated from/(used in) operating activities	18(a)	**86**	(237)
Total net cash generated from/(used in) operating activities		**86**	(237)
Total net increase/(decrease) in cash and cash equivalents		**86**	(237)
Cash and cash equivalents at 1 January		**17,743**	17,980
Cash and cash equivalents at 31 December	18(b)	**17,829**	17,743

The accounting policies (identified alphabetically) on pages 14 to 17 and notes (identified numerically) on pages 22 to 35 are an integral part of the financial statements.

Notes to the financial statements

1. Exchange rates

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

	2021	2020
Australian Dollar	**1.8629**	1.7714
Canadian Dollar	**1.7109**	1.7415
Euro	**1.1910**	1.1172
Japanese Yen	**155.9711**	141.1299
US Dollar	**1.3544**	1.3669

2. Net investment income

	2021 £'000	2020 £'000
Interest and dividend income		
Interest income including unrealised investment gains	**668**	358
	668	358

3. Details of expenses

	2021 £'000	2020 £'000
Claims & benefits paid		
Claims and benefits paid to policyholders	**15,329**	15,743
Less: Claim recoveries from reinsurers	**(15,329)**	(15,743)
Claims and benefits paid, net of recoveries from reinsurers	**—**	—
Change in insurance liabilities		
Change in insurance liabilities	**(44,744)**	8,580
Change in reinsurance asset for insurance provisions	**44,744**	(8,580)
Change in insurance liabilities, net of reinsurance	**—**	—
Fee and commission expense, net of reinsurance		
Commission expenses	**1**	—
Less: Fee and commission expense ceded to reinsurers	**(1)**	—
	—	—
Other expenses		
Other expenses	**26**	35
	26	35
Total expenses	**26**	35

4. Employee information

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

Notes to the financial statements (continued)

5. Directors' remuneration

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

During the year, two of the directors exercised share options (2020: four) and five of the directors received shares under long term incentive schemes (2020: four) in relation to shares of the Company's ultimate parent, Aviva plc.

6. Auditors' remuneration

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

	2021 £'000	2020 £'000
Fees payable to PricewaterhouseCoopers LLP for the statutory audit of the Company's financial statements	**55**	53
	55	53

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

7. Tax credit

(a) Total tax credited to the income statement

(i) The total tax credited comprises:

	2021 £'000	2020 £'000
Current tax		
Prior period adjustments	—	44
Total tax credited to the income statement	—	44

(b) Tax reconciliation

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

	Note	2021 £'000	2020 £'000
Total profit before tax		642	323
Tax calculated at standard UK corporation tax rate of 19.00% (2020: 19.00%)		(122)	(61)
Adjustment to tax credit in respect of prior years		—	44
Surrender of tax losses from Group undertakings for no charge		122	61
Tax credit for the year	7(a)(i)	—	44

During 2021 the UK Government enacted an increase in the UK corporation tax rate to 25%, from 1 April 2023. During 2020 the reduction in the UK corporation tax rate that was due to take effect was cancelled, and as a result, the rate remained at 19%.

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

8. Dividends

	2021 £'000	2020 £'000
Ordinary dividends declared and charged to equity in the year:		
Interim dividend – £625 per share, declared in July 2020	—	25,000
	—	25,000

Notes to the financial statements (continued)

9. Receivables

	Note	2021 £'000	2020 £'000
Amounts due from reinsurers		**13,718**	13,118
Amounts due from parent	21(b)	**36,073**	36,127
Other receivables		**1**	1
Total as at 31 December		**49,792**	49,246
Expected to be recovered in less than one year		**36,074**	36,128
Expected to be recovered in more than one year		**13,718**	13,118
		49,792	49,246

As set out in accounting policy A, the Company has chosen to defer application of IFRS 9 due to its activities being predominantly connected with insurance. To facilitate comparison with entities applying IFRS 9 in full, the table below analyses the Company's financial instruments as at the reporting date between those which are considered to have contractual terms which are solely payments of principal and interest (SPPI) on the principal amount outstanding (excluding instruments held for trading or managed and evaluated on a fair value basis), and all other instruments not falling into this category.

Instruments that do not meet the SPPI criteria include financial assets that meet the definition of held for trading, financial assets that are managed and evaluated on a fair value basis, and instruments with contractual terms that do not give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

	Note	2021 SPPI - Fair value £'000	2021 Non-SPPI - fair value £'000	2021 Total £'000	2020 SPPI - Fair value £'000	2020 Non-SPPI - fair value £'000	2020 Total £'000
Financial assets							
Receivables	**9**	**49,792**	**—**	**49,792**	49,246	—	49,246
Cash and cash equivalents	**18**	**8,429**	**9,400**	**17,829**	8,343	9,400	17,743
Total		**58,221**	**9,400**	**67,621**	57,589	9,400	66,989

The fair value of receivables and cash and cash equivalents is approximate to their carrying amounts. During 2021 there has been a £632 thousand increase (2020: £24,865 thousand decrease) in the fair value of SPPI instruments.

Notes to the financial statements (continued)

10. Ordinary share capital

	2021	2020
	£'000	£'000
Allotted, called up and fully paid		
40,000 (2020: 40,000) ordinary shares of £25 each	**1,000**	1,000

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

11. Capital reserve

	2021	2020
	£'000	£'000
Capital reserve	**28,078**	28,078

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

12. Insurance liabilities

(a) Carrying amount:

(i) Insurance liabilities (gross of reinsurance) at 31 December comprised:

	2021	2020
	£'000	£'000
Outstanding claims provisions	**170,741**	179,805
Provision for claims incurred but not reported	**139,028**	173,176
Total	**309,769**	352,981

(b) General insurance and health liabilities

(i) Provisions for outstanding claims

Delays occur in the notification and settlement of claims and a substantial measure of experience and judgement is involved in assessing outstanding liabilities, the ultimate cost of which cannot be known with certainty at the statement of financial position date. The reserves are based on information currently available. However, it is inherent in the nature of the business written that the ultimate liabilities may vary as a result of subsequent developments.

Provisions for outstanding claims are established to cover the outstanding expected ultimate liability for losses and loss adjustment expenses (LAE) in respect of all claims that have already occurred. The provisions established cover reported claims and associated LAE, as well as claims incurred but not yet reported and associated LAE.

The impact of COVID-19 on the Company's insurance liabilities is not considered to be significant given the nature of the business historically underwritten by the Company.

(ii) Discounting

Outstanding claims provisions are based on undiscounted estimates of future claim payments, except for the following classes of business for which discounted provisions are held:

Class	Discount rate		Mean term of liabilities	
	2021	2020	2021	2020
Latent claims (£)	**0.74% to 1.08%**	0.00% to 0.59%	**8.8 years**	9.4 years
Latent claims (US$)	**0.54% to 1.79%**	0.19% to 1.45%	**10.0 years**	10.3 years

The gross outstanding claims provision before discounting was £339,969 thousand (2020: £373,781 thousand). The period of time which will elapse before the liabilities are settled has been estimated by modelling the settlement patterns of the underlying claims.

(c) Discount rate

The discount rate that has been applied to latent claims reserves is based on the relevant swap rate, in the relevant currency, having regard to the expected settlement dates of the claims. The range of discount rates used depends on the duration of the claims and is given in the table in section (b). The duration of the claims spans 46 years. Any change in discount rates between the start and the end of the accounting year is reflected as an economic assumption change.

(d) Assumptions

Outstanding claims provisions are estimated based on known facts at the date of estimation. Case estimates are set by skilled claims technicians and established case setting procedures. Claims technicians apply their experience and knowledge to the circumstances of individual claims. They take into account all available information and correspondence regarding the circumstances of the claim, such as medical reports, investigations and inspections.

Notes to the financial statements (continued)

Claims technicians set case estimates according to documented claims department policies and specialise in setting estimates for certain lines of business or types of claim. Claims above certain limits are referred to senior claims handlers for estimate authorisation.

No adjustments are made to the claims technicians' case estimates included in booked claim provisions, except for rare occasions when the estimated ultimate cost of individual large or unusual claims may be adjusted, subject to internal reserve committee approval, to allow for uncertainty regarding, for example, the outcome of a court case. The ultimate cost of outstanding claims is then estimated by using a range of standard actuarial claims projection techniques, such as the Chain Ladder and Bornhuetter-Ferguson methods. The main assumption underlying these techniques is that a company's past claims development experience can be used to project future claims development and hence ultimate claims costs. As such, 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 and expected loss ratios. Historical claims development is mainly analysed by accident period, although underwriting or notification period is also used where this is considered appropriate.

Claims development is separately analysed for each geographic area, as well as each line of business. Certain lines of business are also further analysed by claim type or type of coverage. In addition, large claims are usually separately assessed, either by being reserved at the face value of loss adjuster estimates, or separately projected in order to reflect their future development.

The assumptions used in most non-life actuarial projection techniques, including future rates of claims inflation or loss ratio assumptions, are implicit in the historical claims development data on which the projections are based. Additional qualitative judgement is used to assess the extent to which past trends may not apply in the future, for example, to reflect one-off occurrences, changes in external or market 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 in order to arrive at a point estimate for the ultimate cost of claims that represents the likely outcome, from a range of possible outcomes, taking account of all the uncertainties involved. The range of possible outcomes does not, however, result in the quantification of a reserve range. The following explicit assumptions are made which could materially impact the level of booked net reserves:

UK mesothelioma claims

The level of uncertainty associated with latent claims is considerable due to the relatively small number of claims and the long-tail nature of the liabilities. Claims related to asbestos production and handling account for a large proportion of the Company's latent claims. The key assumptions underlying the estimation of these claims include claim numbers, the base average cost per claim, future inflation in the average cost of claims and legal fees.

In part these costs are estimated with consideration of market information published by the Institute and Faculty of Actuaries 'Asbestos Working Party', on which a preliminary update was provided in January 2021. However, on the basis of current information, and having regard to the level of provisions made for general insurance claims and substantial reinsurance cover now in place, management consider that any changes in costs arising are not likely to have a material impact on the financial position of the Company.

(e) Movements

The following movements have occurred in the claims provisions during the year:

	Note	2021	2020
		£'000	£'000
Carrying amount at 1 January		**352,981**	350,348
Impact of changes in assumptions		**(12,000)**	19,300
(Decrease)/increase in estimated claims losses and expenses incurred in prior periods		**(17,415)**	5,023
Incurred claims losses and expenses		**(29,415)**	24,323
Less:			
Payments made on claims incurred in the prior year		**(15,329)**	(15,743)
Claims payments made in the year	3	**(15,329)**	(15,743)
Unwind of discount		**800**	1,300
Changes in claims reserve recognition as (income)/expense		**(43,944)**	9,880
Foreign exchange rate movements		**732**	(7,247)
Carrying amount at 31 December		**309,769**	352,981

Notes to the financial statements (continued)

(f) Loss development tables

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

	Gross 2009 and prior years	Net of reinsurance 2009 and prior years
	£'000	£'000
Outstanding claims provisions (undiscounted)	**339,969**	—
Effect of discounting	**(30,200)**	—
Present value recognised in the statement of financial position	**309,769**	—

The loss development tables above include information on asbestos, environmental pollution and health hazard claims provision from business. The gross claims provision in respect of this business at 31 December 2021 were £230,900 thousand (2020: £259,021 thousand). The net claims provisions in this respect are £nil *(2020: £nil)*.

13. Reinsurance assets

(a) Carrying amounts

The reinsurance assets at 31 December comprised:

			2021			2020
	Gross insurance liabilities	Reinsurance assets	Net insurance liabilities	Gross insurance liabilities	Reinsurance assets	Net insurance liabilities
	£'000	£'000	£'000	£'000	£'000	£'000
Outstanding claims provisions	**170,741**	**170,741**	—	179,805	179,805	—
Provision for claims incurred but not reported	**139,028**	**139,028**	—	173,176	173,176	—
Total at 31 December	**309,769**	**309,769**	—	352,981	352,981	—
Expected to be recovered in less than one year		**54,182**			39,122	
Expected to be recovered in more than one year		**255,587**			313,859	
		309,769			352,981	

The reinsurers' share of outstanding claims provisions and provisions for claims incurred but not reported is reduced by £30,200 thousand (2020: £20,800 thousand) as a result of the discounting of latent claims.

In 2000 all the Company's business was reinsured with the National Indemnity Company.

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

The impact of COVID-19 on the Company's reinsurance assets is not considered to be significant given the nature of the business historically underwritten by the Company.

(b) Assumptions

The assumptions, including discount rates, used for reinsurance contracts follow those used for insurance contracts shown in note 12.

Reinsurance assets are valued net of an allowance for their recoverability.

Notes to the financial statements (continued)

(c) Movements

The following movements have occurred in the reinsurance share of claims during the year:

	Note	2021 £'000	2020 £'000
Carrying amount at 1 January		**352,981**	350,348
Impact of changes in economic assumptions		**(12,000)**	19,300
Reinsurers' share of claims losses and expenses incurred in prior years		**(17,415)**	5,023
Reinsurers' share of incurred claim losses and expenses		**(29,415)**	24,323
Less:			
Reinsurance recoveries received on claims incurred in prior years		**(15,329)**	(15,743)
Reinsurance recoveries received in the year	3	**(15,329)**	(15,743)
Unwind of discount		**800**	1,300
Change in reinsurance asset recognised as (expense)/income		**(43,944)**	9,880
Foreign exchange rate movements		**732**	(7,247)
Carrying amount at 31 December		**309,769**	352,981

14. Tax assets and liabilities

(a) Current tax

The Company has no current tax assets or liabilities at the year end (*2020*: £nil).

(b) Deferred tax

There are no provided or unprovided deferred tax assets and liabilities at the year end *(2020: £nil)*.

15. Payables and other financial liabilities

	2021 £'000	2020 £'000
Other financial liabilities	**429**	429
Expected to be settled within one year	**429**	429
Total as at 31 December	**429**	429

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

16. Other liabilities

	2021 £'000	2020 £'000
Other liabilities	**742**	752
Expected to be settled within one year	**6**	16
Expected to be settled in more than one year	**736**	736
Total as at 31 December	**742**	752

Notes to the financial statements (continued)

17. Contingent liabilities and other risk factors

(a) Uncertainty over claims provisions

Note 12 gives details of the estimation techniques used in determining the general business outstanding claims provisions.

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

(b) Regulatory compliance

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

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

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

(c) Other

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

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

Notes to the financial statements (continued)

18. Statement of cash flows

(a) The reconciliation of profit before tax to the net cash in/(out) flow from operating activities is:

	2021 £'000	2020 £'000
Profit before tax	**642**	323
Adjustments for:		
Change in economic assumptions on non-claims	**(600)**	(574)
	(600)	(574)
Changes in working capital:		
Decrease in reinsurance assets	**32,744**	10,720
Decrease in insurance liabilities	**(32,744)**	(10,720)
Increase in other assets and liabilities	**44**	14
	44	14
Total cash generated from/(used in) operating activities	**86**	(237)

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

	2021 £'000	2020 £'000
Cash at bank and in hand	**8,429**	8,343
Cash equivalents	**9,400**	9,400
Cash and cash equivalents	**17,829**	17,743

19. Capital structure

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

(a) General

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

(b) Capital management

In managing its capital, the Company seeks to:

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

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

(c) Different measures of capital

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

(i) Accounting basis

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

(ii) Regulatory basis

Relevant capital and solvency regulations are used to measure and report the Company's financial strength. These measures are based on the regulatory requirements under Solvency II. The regulatory capital tests verify that the Company retains an excess of solvency capital above the required minimum level calculated using a risk-based capital model. The risk management note (note 20) gives further details.

Solvency II "own funds" represents the amount of regulatory capital resources that are available to meet regulatory capital requirements under the Solvency II regime, and is a closely monitored metric. At 31 December 2021 the Company's estimated own funds under Solvency II were £66,030 thousand (unaudited) (2020: £65,388 thousand (unaudited)). The Company's own funds are sufficient to meets its capital requirements under Solvency II of £5,081 thousand (unaudited) (2020: £5,117 thousand). The Company fully complied with the relevant regulatory requirements during the year.

Notes to the financial statements (continued)

(d) Company capital structure

	2021 £'000	2020 £'000
Equity shareholders' funds	**66,450**	65,808
Total capital	**66,450**	65,808

20. Risk management

(a) Risk management framework (RMF)

The Company operates a RMF that forms an integral part of the management and Board processes and decision-making framework, and is aligned to the Group's RMF. The key elements of the RMF comprises risk appetites, risk governance, including risk policies and business standards, risk oversight committees and roles and responsibilities; and the processes the Company uses to Identify, Measure, Manage, Monitor and Report (IMMMR) risks, including the use of risk models and Stress and Scenario Testing (SST).

For the purposes of risk identification and measurement, and aligned to the Company's risk policies, risks are usually grouped by risk type: credit, market, liquidity, general insurance and operational (including conduct) risk. Risks falling within these types may affect a number of metrics including those relating to the statement of financial position strength, liquidity and profit. They may also affect the performance of the products the Company delivers to its customers and the service to its 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 across the business, the Company has adopted a number of risk policies and business standards which set out the risk strategy, appetite, framework and minimum requirements for the Company's operations. The parent company's Chief Executive Officer makes an annual declaration that the system of governance and internal controls was effective and fit for purpose for the Company throughout the year; this declaration is supported by an opinion from the parent company's Chief Risk Officer.

A regular top-down risk identification and assessment process is carried out by the Risk Management Function. This includes the consideration of emerging risks and is supported by deeper thematic reviews. The Company also operates a risk and control self-assessment process. These risk assessment processes are used to generate risk reports which are submitted to the Board.

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

Roles and responsibilities for risk management in the Company are based around the 'three lines of defence model' where all employees are involved in the management and mitigation of risk. Line management in the business is accountable for risk management, including the implementation of the RMF and embedding of the risk culture. The Risk Management Function is responsible for quantitative and qualitative oversight and challenge of the IMMMR processes and for developing the RMF. Internal Audit provides an independent assessment of the RMF and internal control processes.

Board oversight of risk and risk management across the Company is maintained on a regular basis. The Board has overall responsibility for determining risk appetites, which are an expression of the risk the business is willing to take. Risk appetites are set for capital, liquidity and operational risk, and from 1 January 2022, risk appetites have been set for climate risk and conduct risk.

The Company's position against its risk appetites 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 no appetite for risk of poor customer outcomes, market abuse or activities which might impact market stability and/or, integrity of fair competition and takes all reasonable steps to comply with all conduct regulations and deliver good customer outcomes.

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

(b) Credit risk

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

The Company's approach to managing credit risk recognises that there is a risk of adverse financial impact resulting from fluctuations in credit quality of third parties including default, rating transition and credit spread movements. The Company's credit risks arise principally through exposures to reinsurance counterparties, cash and cash equivalents, and other receivables.

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

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

(i) Financial exposures by credit ratings

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

Notes to the financial statements (continued)

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

	AAA	AA	A	BBB	Below BBB	Not-rated	Carrying value
31 December 2021	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Reinsurance assets	—	**309,769**	—	—	—	—	**309,769**
Amounts due from reinsurers	—	**13,718**	—	—	—	—	**13,718**
Total	—	**323,487**	—	—	—	—	**323,487**

	AAA	AA	A	BBB	Below BBB	Not-rated	Carrying value
31 December 2020	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Reinsurance assets	—	352,981	—	—	—	—	352,981
Amounts due from reinsurers	—	13,118	—	—	—	—	13,118
Total	—	366,099	—	—	—	—	366,099

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

SPPI financial exposure by credit ratings

	AAA	AA	A	BBB	Below BBB	Not-rated	Carrying value
31 December 2021	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Receivables	—	**49,792**	—	—	—	—	**49,792**

	AAA	AA	A	BBB	Below BBB	Not-rated	Carrying value
31 December 2020	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Receivables	—	49,246	—	—	—	—	49,246

Of the Company's receivables of £49,792 thousand (2020: £49,246 thousand), £36,073 thousand (2020: £36,127 thousand) is due from other Group companies and details are set out in note 21.

The Company's maximum exposure to credit risk of financial assets, without taking collateral, is represented by the carrying value of the financial instruments in the statement of financial position. These comprise reinsurance assets and receivables. The carrying values of these assets are disclosed in the relevant notes: reinsurance assets (note 13), receivables (note 9).

(ii) *Credit concentration risk*

The Company has a significant exposure to the National Indemnity Company amounting to £309,769 thousand (2020: £352,981 thousand) in respect of reinsurance assets and £13,718 thousand (2020: £13,118 thousand) in respect of amounts due from reinsurers.

(iii) *Impairment of financial assets*

At 31 December 2021 and 31 December 2020 no financial assets are impaired or overdue.

(c) Market risk

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

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

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

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

Notes to the financial statements (continued)

(d) Liquidity risk

Liquidity risk is the risk of loss or adverse outcomes due to being unable to generate sufficient cash resources at efficient cost to meet financial obligations as they fall due in normal and stressed conditions.

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

Maturity analyses

The following tables show the maturities of the Company's insurance liabilities, payables and other financial liabilities, derivative liabilities and accruals. Contractual obligations under operating capital commitments are given in note 17.

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

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

					2021
	Total £'000	On demand or within 1 year £'000	1-5 years £'000	5-15 years £'000	Over 15 years £'000
Insurance liabilities	**309,769**	**54,182**	**96,477**	**112,787**	**46,323**
Payables and other financial liabilities	**429**	**429**	—	—	—
Total	**310,198**	**54,611**	**96,477**	**112,787**	**46,323**

					2020
	Total £'000	On demand or within 1 year £'000	1-5 years £'000	5-15 years £'000	Over 15 years £'000
Insurance liabilities	352,981	39,122	118,361	131,738	63,760
Payables and other financial liabilities	429	429	—	—	—
Total	353,410	39,551	118,361	131,738	63,760

(ii) Analysis of maturity of financial assets and reinsurance assets

The following table provides an analysis, by maturity date of the principal, of the carrying value of financial assets which are available to fund the repayment of liabilities as they crystallise. The table also includes the maturity of deposits received from reinsurers that represent the reinsurers' interest in the Company's financial assets / reinsurance assets (excluding reinsurers' share of provision for unearned premium).

						2021
	Total £'000	On demand or within 1 year £'000	1-5 years £'000	5-15 years £'000	Over 15 years £'000	No fixed term £'000
Reinsurance assets	**309,769**	**54,182**	**96,477**	**112,787**	**46,323**	—
Receivables	**49,792**	**36,074**	**13,718**	—	—	—
Cash and cash equivalents	**17,829**	**17,829**	—	—	—	—
Total financial assets	**377,390**	**108,085**	**110,195**	**112,787**	**46,323**	—

						2020
	Total £'000	On demand or within 1 year £'000	1-5 years £'000	5-15 years £'000	Over 15 years £'000	No fixed term £'000
Reinsurance assets	352,981	39,122	118,361	131,738	63,760	—
Receivables	49,246	36,128	13,118	—	—	—
Cash and cash equivalents	17,743	17,743	—	—	—	—
Total financial assets	419,970	92,993	131,479	131,738	63,760	—

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

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

Notes to the financial statements (continued)

(e) General insurance risk

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

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

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

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

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

(f) Operational risk

Operational risk is the risk of loss or adverse outcomes due to inadequate or failed internal processes, people and systems, or from external events (e.g. business resilience, financial crime, external reporting). The Company has a very low appetite for operational risks which could result in material losses (direct or indirect), a financial misstatement or have a material negative impact on reputation, customers, employees or other stakeholders.

The Company's Operational Risk and Control Management (ORCM) Framework integrates the results of the risk identification and assurance activities carried out across the Company's three lines of defence. Operational risks are initially identified and assessed against implemented controls. Residual risk outside tolerance is given prioritised management action to reduce it within tolerance.

Operational risk is quantitatively assessed on the basis of financial loss and misstatement. Potential reputational and conduct impacts are qualitatively assessed. Management use key indicator data to help monitor the status of the risk and control environment. They also identify and capture loss events, taking appropriate action to address actual control breakdowns and promote internal learning.

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

(g) Risk and capital management

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

Risk-based capital models are used to support the quantification of risk under the Solvency II framework. Management undertakes a quarterly review of risk, the output from which is a key input into the risk-based capital assessments. Primarily, a risk-based capital model and scenario tests are used. Sensitivities to economic and operating experience are regularly produced on financial performance measurements to inform the Company's decision making and planning processes, and as part of the framework for identifying and quantifying the risks to which the Company is exposed.

(h) Coronavirus

Despite 2021 being another COVID-19 impacted year, the impact on the Company is limited by the nature of the business historically underwritten by the Company. Furthermore, any residual impact is mitigated by the comprehensive reinsurance arrangements in place. The financial impact on the Company is therefore not material.

The Company's overarching risk management and internal control system continues to respond to COVID-19 developments and remains intact through focusing on ensuring that the control environment remains robust in the current operating environment.

(i) Conflict in Ukraine

On 24 February 2022, on-going tensions between Russia and Ukraine developed into full-scale armed conflict between the two countries. Western countries have responded with severe economic sanctions on Russia and Belarus and connected companies and individuals. There is considerable uncertainty over how the conflict might develop, including the possibility of the conflict spreading to neighbouring countries, some of which are members of the North Atlantic Treaty Organisation (NATO). The conflict has resulted in a significant increase in volatility in equity, credit, currency and commodity markets. In particular, the prices of oil, gas, wheat and other commodities have increased significantly since the conflict began and have heightened inflation expectations, which is likely to adversely impact disposable incomes and economic growth. There remains considerable uncertainty over the monetary policy response of central banks to the crisis, with the possible tightening of monetary policy to counteract inflation tempered by concerns over economic growth.

The Company does not conduct operations in the affected region, and does not have material direct underwriting exposure or investment holdings there. However the Company may be adversely impacted by the effects of higher inflation as well as lower investment valuations and gross domestic product in the UK and Ireland, due to the conflict. As a result of the escalation in the conflict on 24 February 2022, the Company's crisis management framework was invoked with the meeting of the Crisis Action Leadership Team in order to assess the Company's response, provide strategic direction and manage communications. The Company regularly carries out a range of stress and scenario tests to evaluate their impact on the business and the management actions available to respond to adverse conditions. The capital position of the Company is monitored on an ongoing basis and the Company continues to maintain strong solvency levels and expects to continue to meet its solvency capital requirements.

21. Related party transactions

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

(a) Adverse reserve deterioration agreement

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

Notes to the financial statements (continued)

(b) Other transactions

Services provided to, and by related parties

	2021				2020			
	Income earned in the year	Expenses incurred in the year	Payable at year end	Receivable at year end	Income earned in the year	Expenses incurred in the year	Payable at year end	Receivable at year end
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Parent	—	—	—	**36,073**	—	—	—	36,127
Fellow subsidiaries	—	—	**429**	—	—	—	429	—
	—	—	**429**	**36,073**	—	—	429	36,127

(c) Key management compensation

The key management of the Company are considered to be the statutory directors of the Company. Details of directors' emoluments are given in note 5.

(d) Immediate parent entity

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

(e) Ultimate controlling entity

The ultimate controlling entity, and parent of the largest and smallest groups which consolidate the results of the Company, is Aviva plc. Its Group Financial Statements are available on application to the Group Company Secretary, Aviva plc, St Helen's, 1 Undershaft, London EC3P 3DQ, and on the Aviva plc website at www.aviva.com.

22. Subsequent events

Management has evaluated subsequent events for the period from 31 December 2021 to the date of these financial statements, and there has been no material subsequent events during that period.