

14 April 2020
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**BRITISH AVIATION INSURANCE
COMPANY LIMITED**

**REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED
31 DECEMBER 2019**

Registered Number 00246018



BRITISH AVIATION INSURANCE COMPANY LIMITED

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BRITISH AVIATION INSURANCE COMPANY LIMITED

Directors

P Burgess
Chairman

G E Finney

A Wilson (appointed 15/1/19)

S Hunt (resigned 31/7/19)

E Sweeney (appointed 1/8/19)

Company Secretary

N Fernandes

Head Office
Fitzwilliam House
10 St Mary Axe
London EC3A 8EQ

Auditor
BDO LLP
London

BRITISH AVIATION INSURANCE COMPANY LIMITED

STRATEGIC REPORT

Principal Activity

The Company's principal activity is the carrying out of aviation insurance and reinsurance under a management agreement with Global Aerospace Underwriting Managers Limited. Up until 31 December 2000 the Company wrote an aviation insurance and reinsurance account in London and through its branch in Canada. From 1 January 1991 to 31 December 2000 the Company wrote aviation business as a member of the British Aviation Insurance Group pool. During 2001 the Company underwrote reinsurance of the Global Aerospace Underwriting Managers Pool, as well as a number of direct aviation risks. The Company went into run-off from 1 January 2002 and will continue to manage the run-off in the future. During 2011 the Company closed its Canadian branch.

Business Review and Key Performance Indicators

The strategy of the Company is to pursue a solvent run-off, settling the claims liabilities and maximizing the return to shareholders. The financial performance of the Company depends primarily on the performance of its investments and the run-off of its insurance business. During 2019, there was a return on investments of £1.6 million (2018: £0.3m charge) and a run-off loss on net technical provisions of £2.0 million (2018: £2.2m).

The Company is well capitalized with shareholders' funds of £14.2 million at 31 December 2019 (2018: £14.9m) compared with a regulatory capital requirement of £3.2 million (2018: £3.3m). After making enquiries, the directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the financial statements.

Principal Risks and Uncertainties

Risks are formally reviewed by the Board and processes are in place to monitor and mitigate them.

The key business risks affecting the Company are set out below:

Technical Provisions

The Company ceased writing business at the end of 2001. The principal risk is the potential deterioration of the technical provisions. The Company manages these liabilities through pro-active claims adjusting in order to mitigate potential future deterioration.

Investment Risk

The Company's performance is heavily dependent upon the performance of its investment portfolio.

The investment portfolio is exposed to market risks and changes in interest rates. These risks are monitored by the Investment Committee of the Board and managed in accordance with the investment policy set by the Board. Bond investments are in Corporates and are limited to investment grade quality.

Investments in fixed interest securities take account of currency and estimated maturity of the technical provisions.

BRITISH AVIATION INSURANCE COMPANY LIMITED

STRATEGIC REPORT

Currency Risk

The Company is exposed to the effects of movements in exchange rates on the value of its assets and liabilities.

This risk is monitored by the Investment Committee and mitigated by holding assets in the currencies of the Company's liabilities. *Currency exposure of assets matching Shareholders' equity is monitored and managed by the Investment Committee.*

Credit Risk

The Company is exposed to credit risk as a result of non-payment of debts, principally reinsurance debts. The Company actively manages its reinsurance asset and takes action, where appropriate, to protect it.

The Company has credit risk arising from its bank deposits but these are with high quality banks.

The Company has credit risk arising from its holdings of corporate bond investments but this is a highly diversified portfolio of mainly high quality bonds.


Future Development

The directors expect the run-off to continue satisfactorily in the future and to pay dividends to shareholders subject to solvency requirements.

After the year end, it was agreed in principle that Royal and Sun Alliance Insurance plc would sell all of its shares in the Company to National Indemnity Company, part of the Berkshire Hathaway group. This transaction is subject to contract and to approval from the Prudential Regulation Authority. When this transaction is completed the Company will become a wholly owned subsidiary of National Indemnity Company.

Brexit

The Company historically underwrote policies in EU countries on a 'Freedom of Services' basis and continues to handle claims from those policies on that basis. There remains only a handful of outstanding claims on such policies of immaterial value. The Company intends to honour its obligations under such policies after Brexit occurs.



N Fernandes
Company Secretary
9 April 2020

BRITISH AVIATION INSURANCE COMPANY LIMITED

DIRECTORS' REPORT

The directors present their report and the audited financial statements for the year ended 31 December 2019.

Results and Dividend

The loss on ordinary activities after taxation amounted to £0.7 million (2018: £3.0 million). This loss for the 2019 financial year has been transferred to reserves.

No dividends were paid in 2019 (2018: £4m).

In the opinion of the directors, the Company is satisfactorily capitalised.

Directors

The directors of the Company who were in office during the year and up to the date of signing the financial statements are shown on page 2.

Functional Currency

The directors have determined that Sterling is the functional currency because that is the currency of the economic environment in which the company operates and the greatest proportion of the Company's assets is denominated in that currency.

Statement of Disclosure of Information to the Auditor

Each of the directors confirms that:

- (a) so far as he is aware, there is no relevant audit information of which the Company's auditor is unaware: and
- (b) the director has taken all the steps that he ought to have taken as a director in order to make himself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

Donations

No charitable donations in the United Kingdom were made during the year (2018: £nil). No donations were made for political purposes (2018: £nil).

Statement of Directors' Responsibilities

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

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 FRS 101 and the Companies Act 2006. Under Company law the 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 year. In preparing these financial statements, the directors are required to:

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

BRITISH AVIATION INSURANCE COMPANY LIMITED

DIRECTORS' REPORT

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

Use and Risk of Financial Instruments

Investment risk is explained in the Strategic Report on page 3.

Covid-19

Subsequent to the year end, the Covid-19 pandemic has occurred. The Directors have considered the impact of this virus and concluded that there is no significant impact on the Company's future operations. The Company ceased underwriting in 2001 and is therefore not exposed to any claims arising from the Coronavirus. The Company is exposed to movements in both investment markets and foreign exchange rates. Through matching of the foreign currency liabilities with assets in the same currencies, the company mitigates the impact of volatility in exchange rates. Investments are held in a highly diversified portfolio of high quality corporate bonds and fixed interest securities which have been impacted post year end, although the Company's capital remains well in excess of its regulatory requirements. Due to investment market movements, investments have decreased in value by approximately £1.1 million since the year end, based on a rate of exchange of £1=\$1.2445 up to 31 March 2020. The Company's reinsurance counterparties are generally well rated and believed to be financially strong. The Directors have carried out stress testing including a reverse stress test on the Company's financial position. From an operational risk perspective the Company is continuing to operate satisfactorily during the current 'lock down' situation and the Directors have no reason to believe that this cannot continue for the foreseeable future.

On the basis of all of the above, the Directors have concluded that there is no impact on the going concern status of the Company. The Company remains well capitalised and the Directors have no reason to believe this will change in the coming year.

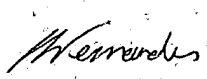
Section 172 Statement

The Company considers its key stakeholders to be its shareholders, policyholders and regulator. A primary strategic consideration is maintaining sufficient capital to meet obligations to all stakeholders. Policyholders are considered through settlement of claims on a timely basis and by maintaining a solvent position. The interest of both shareholders and the regulator are considered and safeguarded through maintenance of a strong solvency position.

Independent Auditor

The auditor, BDO LLP, has indicated its willingness to continue in office and a resolution that they be re-appointed will be proposed at the Annual General Meeting.

Approved and signed on behalf of the Board.



N Fernandes
Company Secretary
9 April 2020

BRITISH AVIATION INSURANCE COMPANY LIMITED

Independent Auditors Report to the Members of British Aviation Insurance Company Limited ("BAIC").

Opinion

We have audited the financial statements of British Aviation Insurance Company Limited (the 'Company') for the year ended 31 December 2019 which comprise the Income Statement, Statement of Comprehensive Income, Statement of Financial Position, Statement of Changes in Equity and the notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 101 *Reduced Disclosure Framework* (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2019 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

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

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our 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) we identified, 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. This matter was 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 this matter.

BRITISH AVIATION INSURANCE COMPANY LIMITED

Independent Auditors Report to the Members of British Aviation Insurance Company Limited ("BAIC").

Key Audit Matter	How our audit addressed the Key Audit Matter
<p>Valuation of Technical Provisions</p> <p>The Company technical provisions of £15.344m (notes 9 and 14) consists of two separately identifiable books of business:</p> <p>Pre 1991 – These years relate to risks that the Company underwrote itself and represent 63% of the total amounts held within these reserves. The risk exposure on these years is composed predominantly of APH (Asbestos, pollution and health).</p> <p>1991 – 2000 – During this period the Company participated on the Global Pools and the remaining 37% of the technical provisions are made up of the Company's share of these pool years.</p> <p>The valuation of technical provisions is dependent on the selection and application of a variety of complex estimation techniques as well as the expertise of the claims adjustors. As a result there is a significant risk that technical provisions are materially misstated and for that reason we considered this to be a Key Audit matter.</p>	<p>We engaged our actuarial experts to perform a review of the reserving exercise performed by management experts to check that appropriate models have been selected and applied correctly.</p> <p>Our actuarial experts assessed the methodology applied over the reserves was consistent with generally accepted actuarial techniques and appropriate for the risks held by the Company.</p> <p>In addition to the work performed by our actuarial experts, we have substantively tested the outstanding loss reserves and the claims payments in the year and at the beginning of the year by reference to supporting documentation. We reviewed commutations entered into in the year and have ensured that all balances have been properly accounted for post commutation.</p> <p>We have also considered the disclosures in note 14 relating to the inherent uncertainty that exists in a long tail liability book.</p> <p>Key observation:</p> <p>Based on the work performed, we noted no significant issues on the valuation of technical provisions.</p>

Our application of materiality

In planning and performing our audit we were influenced by our application of materiality. We set certain quantitative measures and thresholds for materiality, which together with other, qualitative, considerations, helped us to determine the scope of our audit and the nature, timing and extent of the procedures performed.

Based on our professional judgement, we determined materiality for the financial statements as whole to be £645,000. The principal determinant in this assessment was the Company's net assets, which we consider to be the most relevant benchmark, as due to the fact that the Company is in the advanced stages of run-off, the net assets and solvency of the Company are considered to be the most important measure. Our materiality represents approximately 4.5% of this number.

Performance materiality is the application of materiality at the individual account or balance level set at an amount to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality for the financial statements as a whole. Basic performance materiality was set at £484,000 which represents 75% of the above materiality levels. This was based on our overall assessment of the control environment and the low level of misstatements in the past.

BRITISH AVIATION INSURANCE COMPANY LIMITED

Independent Auditors Report to the Members of British Aviation Insurance Company Limited ("BAIC").

We agreed with the Audit Committee that we would report to them any misstatements in excess of £12,900 that we identified through the course of our audit, together with any qualitative matters that warrant reporting.

An overview of the scope of the audit

The scope of the audit for the financial statements has been determined by our application of our materiality to the financial statements in association to the risks of the Company when determining the level of work to be performed. All audit work was performed directly by the audit engagement team with the assistance of appointed experts. As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we looked at where the directors made subjective judgements, for example in respect of the valuation of technical provisions which are subject to management judgement and estimation.

Extent to which the audit is capable of detecting irregularities, including fraud

We gained an understanding of the legal and regulatory framework applicable to the Company and the industry in which it operates, and considered the risk of acts by the Company which were contrary to applicable laws and regulations, including fraud. These included but were not limited to compliance with Companies Act 2006, PRA and FCA rules, FRS 101. We obtained our understanding through internal and external training, the use of an appropriately qualified and experienced audit team who specialise in the insurance sector.

We designed audit procedures to respond to the risk, recognising that the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error.

We focused on laws and regulations that could give rise to a material misstatement in the Company financial statements. Our tests included, but were not limited to:

- Agreement of the financial statement disclosures to underlying supporting documentation;
- Enquiries of management;
- Review of minutes of board meetings throughout the period;
- Obtaining an understanding of the control environment in monitoring compliance with laws and regulations;
- Review of correspondence with the PRA and FCA; and
- Review of the Company's Own Risk and Solvency Assessment (ORSA).

There are inherent limitations in the audit procedures described above and the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely, as auditor of the financial statements, we would become aware of it. As in all of our audits we also addressed the risk of management override of internal controls, including testing journals and evaluating whether there was evidence of bias by the directors that might reasonably represent a risk of material misstatement due to fraud.

Other information

The directors are responsible for the other information. The other information comprises the information included in the report and financial statements, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion 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

BRITISH AVIATION INSURANCE COMPANY LIMITED

Independent Auditors Report to the Members of British Aviation Insurance Company Limited ("BAIC").

identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in 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 in this regard.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- The information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- The strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or the directors' report.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

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

Responsibilities of directors

As explained more fully in the Statement of directors' responsibilities, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors 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.

Auditor's 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 auditor's 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.

BRITISH AVIATION INSURANCE COMPANY LIMITED

Independent Auditors Report to the Members of British Aviation Insurance Company Limited ("BAIC").

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

Other matters on which we are required to address


Following the recommendation of the audit committee, we were appointed by the directors on 5 August 2019 to audit the financial statements for the year ending 31 December 2019 and subsequent financial periods. The period of total uninterrupted engagement is 0 years.

The non-audit services prohibited by the FRC's Ethical Standard were not provided to the Company and we remain independent of the Company in conducting our audit.

Our audit opinion is consistent with the additional report to the Audit Committee.

Use of our report

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.



Thomas Reed
Senior Statutory Auditor

For and on behalf of
BDO LLP, Statutory Auditor
London, UK

Date 14 April 2020

BRITISH AVIATION INSURANCE COMPANY LIMITED

INCOME STATEMENT – TECHNICAL ACCOUNT
for the year ended 31 December 2019

	Notes	2019 £'000	2018 £'000
Gross premiums written	1	8	16
Outward reinsurance premiums		40	1
		<u>48</u>	<u>17</u>
Earned premiums, net of reinsurance		<u>48</u>	<u>17</u>
Total technical income		<u>48</u>	<u>17</u>
Claims Paid			
Gross amount	2	1,713	771
Reinsurers' share	2	(82)	(168)
Net of reinsurance		<u>1,631</u>	<u>603</u>
Change in the provision for claims			
Gross amount	2	250	1,161
Reinsurers' share	2	78	405
Net of reinsurance		<u>328</u>	<u>1,566</u>
Claims incurred net of reinsurance		1,959	2,169
Net operating expenses	3,4,5	461	464
Net foreign exchange (gain) / loss		(123)	71
Total expenses		<u>338</u>	<u>535</u>
Total technical loss net of reinsurance		<u>2,297</u>	<u>2,704</u>
Balance on the general business technical account		<u>(2,249)</u>	<u>(2,687)</u>

BRITISH AVIATION INSURANCE COMPANY LIMITED

INCOME STATEMENT – NON-TECHNICAL ACCOUNT
for the year ended 31 December 2019

	Notes	2019 £'000	2018 £'000
Balance on the general business technical account		(2,249)	(2,687)
Investment income / (charge)	6	1,557	(317)
Net foreign exchange profit		39	31
Loss before taxation		(653)	(2,973)
Tax on loss on ordinary activities	7	31	59
Loss on ordinary activities after taxation		(684)	(3,032)

STATEMENT OF COMPREHENSIVE INCOME
for the year ended 31 December 2019

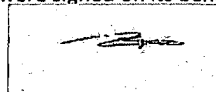
	Notes	2019 £'000	2018 £'000
Loss on ordinary activities after taxation		(684)	(3,032)
Foreign currency translation gain		-	-
Total comprehensive income for the year		(684)	(3,032)

BRITISH AVIATION INSURANCE COMPANY LIMITED


STATEMENT OF FINANCIAL POSITION
as at 31 December 2019

	Notes	2019 £'000	2018 £'000
ASSETS			
Investments			
Other financial investments	8	24,232	19,820
Reinsurers' share of technical provisions			
Claims outstanding	9	1,267	1,391
Debtors			
Debtors arising out of direct insurance operations		7	2
Debtors arising out of reinsurance operations		99	119
Deferred tax asset	7	-	31
Other debtors	10	37	28
		<u>143</u>	<u>180</u>
Other assets			
Cash at bank and in hand		4,779	9,878
Prepayments and accrued income			
Accrued interest		277	159
		<u>30,698</u>	<u>31,428</u>
Total assets			
EQUITY AND LIABILITIES			
Capital and reserves			
Called up share capital	11	1,993	1,993
Foreign currency translation reserve		8,402	8,402
Retained earnings		3,840	4,524
Total shareholders' funds		<u>14,235</u>	<u>14,919</u>
Technical provisions			
Claims outstanding	9	15,344	15,594
Creditors			
Creditors arising out of direct insurance operations		892	649
Creditors arising out of reinsurance operations		43	98
Other creditors including taxation		184	168
		<u>1,119</u>	<u>915</u>
		<u>30,698</u>	<u>31,428</u>
Total liabilities			

The financial statements on pages 12 to 32 were approved by the Board of Directors on 9 April 2020 and were signed on its behalf by:



P Burgess (Chairman)



G Finney (Director)

Registered Number 00246018

BRITISH AVIATION INSURANCE COMPANY LIMITED

STATEMENT OF CHANGES IN EQUITY
for the year ended 31 December 2019

	Called up Share capital £'000	Foreign currency translation reserve £'000	Retained earnings £'000	Total equity £'000
As at 1 January 2018	1,993	8,402	11,556	21,951
Retained profit or (loss) for the year			(3,032)	(3,032)
Foreign currency translation gain			-	-
Total comprehensive income for the year	-	-	(3,032)	(3,032)
Transactions with owners				
Dividend paid	-	-	(4,000)	(4,000)
As at 31 December 2018	1,993	8,402	4,524	14,919
As at 1 January 2019	1,993	8,402	4,524	14,919
Retained profit or (loss) for the year			(684)	(684)
Foreign currency translation gain			-	-
Total comprehensive income for the year	-	-	(684)	(684)
Transactions with owners				
Dividend paid	-	-	-	-
As at 31 December 2019	1,993	8,402	3,840	14,235

The foreign currency translation reserve arises from the retranslation of net assets from functional currency to presentational currency.

Called up share capital represents the amount of allotted, called up and fully paid ordinary shares of £1 each (see note 11).

Retained earnings are the accumulated gains and losses of the Company.

STATEMENT OF ACCOUNTING POLICIES

Preparation of Financial Statements

The Financial Statements of British Aviation Insurance Company Limited, which is registered in the United Kingdom, have been prepared in accordance with Financial Reporting Standard 101 "Reduced Disclosure Framework" (FRS 101) applicable in the United Kingdom and Republic of Ireland and in accordance with the Companies Act 2006. The principal accounting policies are set out below and have been applied consistently throughout the year. The Financial Statements have been prepared on a going concern basis as explained in the Strategic Report on page 3.

The functional currency of the Company is considered to be Sterling because that is the currency of the primary economic environment in which the Company operates and the greatest proportion of the Company's assets is denominated in that currency. The Financial Statements are presented in Sterling, which is the presentational currency of the Parent Company.

FRS 101 requires the Company to follow the requirements of relevant International Financial Reporting Standards (IFRS) except that it permits a number of exemptions that would be required if the Company were to prepare accounts in compliance with IFRS.

The Company has taken advantage of the following disclosure exemptions under FRS 101:

- the requirements of paragraphs 10(f) and 134-136 of IAS 1 Presentation of Financial Statements;
- the requirements of IAS 7 Statement of Cash Flows;
- the requirements of paragraphs 30 and 31 of IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors;

Insurance Business

Insurance business is accounted for on an annual basis. Premiums written are adjustments to premium accounted for in earlier years.

Claims Provisions

Provision is made at the year end for the estimated cost of claims incurred but not settled at the balance sheet date, including the cost of claims incurred but not yet reported to the Company. The estimated cost of claims includes expenses to be incurred in settling claims. The Company takes all reasonable steps to ensure that it has appropriate information regarding its claims exposures. The Company uses independent consulting actuaries to advise on the appropriate level of provision. Given the uncertainty in establishing claims provisions, the final outcome however, may prove to be different from the original liability established.

The estimation of claims incurred but not reported ("IBNR") is generally subject to a greater degree of uncertainty than the estimation of the cost of settling claims already notified to the Company, where more information about the claim event is generally available. Claims IBNR may often not be apparent to the insured until many years after the event giving rise to the claims. In calculating the estimated cost of unpaid claims the Company uses a variety of estimation techniques, generally based upon statistical analyses of historical experience, which assumes that the development pattern of the current claims will be consistent with past experience. Allowance is made, however, for changes or uncertainties which may create distortions in the underlying statistics or which might cause the cost of unsettled claims to increase or reduce when compared with the cost of previously settled claims.

A component of these estimation techniques is usually the estimation of the cost of notified but not paid claims. In estimating the cost of these the Company has regard to the claim circumstance as reported, any information available from loss adjusters and information on the cost of settling claims with similar characteristics in previous years.

BRITISH AVIATION INSURANCE COMPANY LIMITED

STATEMENT OF ACCOUNTING POLICIES

Large claims impacting each relevant business class are generally assessed separately, being measured on a case by case basis or projected separately in order to allow for the possible distortive effect of the development and incidence of these large claims.

Where possible, multiple techniques are used to estimate the required level of provisions. This assists in giving greater understanding of the trends inherent in the data being projected. The projections given by the various methodologies also assist in setting the range of possible outcomes. The most appropriate estimation technique is selected taking into account the characteristics of the business class and the extent of the development of each accident year.

Provisions are calculated gross of any reinsurance recoveries. A separate estimate is made of the amounts that will be recoverable from reinsurers based upon the gross provisions and having due regard to collectability.

Claims estimates for the Company's liabilities other than pollution, asbestos and health hazard liabilities are derived from an estimate based upon actual claims experience.

The Company's liabilities include material amounts in respect of potential exposures to various environmental pollution and asbestos type liabilities, especially in the USA, commonly referred to as APH liabilities. There may be a long delay between the occurrence and notification of these types of claim. Their ultimate cost is less certain than with other lines of business. In estimating these liabilities the Company's approach includes consideration of the type of risks written historically that may give rise to exposure to these risks, notifications received from policyholders, the nature and extent of the cover provided, the current legal environment, changes in the effectiveness of clean up techniques and industry benchmarks of the typical cost of claims of this kind and of total expected insured losses.

Reinsurance Recoveries

Reinsurance recoveries in respect of estimated claims incurred but not reported are assumed to be consistent with the historical pattern of such recoveries, adjusted to reflect changes in the nature and extent of the Company's reinsurance programme over time. An assessment is also made of the recoverability of reinsurance and provisions made where appropriate.

Expenses

All expenses are charged against the revenue of the year to which they relate. Expenses include movements on the provision for bad and doubtful debts.

Foreign Currencies

Transactions in foreign currencies other than Sterling are converted at the rate of exchange prevailing on the dates of the transactions, or at the average rate where this is a reasonable approximation. Monetary assets and liabilities denominated in foreign currencies at the date of the statement of financial position are translated into Sterling at the rates of exchange prevailing at that date.

Non-monetary assets and liabilities denominated in foreign currencies at the reporting date are translated into Sterling at the historical rate pertaining on the date of the transaction.

Investments and Investment Return

Interest on fixed interest securities, loans and deposits is accounted for using the effective interest rate method. Dividends are accounted for when the underlying securities go ex-dividend. Dividend income from UK companies is accounted for net of related tax credits. Realised and unrealised gains and losses are taken to the income statement. Investment income on all financial assets are designated as fair value through profit or loss upon initial recognition.

BRITISH AVIATION INSURANCE COMPANY LIMITED

STATEMENT OF ACCOUNTING POLICIES

Financial investments are initially recognised at transaction price and transactions costs are recognised in profit and loss. Listed investments are stated in the balance sheet at fair value, using bid price valuations, with no adjustment in respect of costs to sell.

Dividends

Dividend distributions to the Company's shareholders are recognised in the Company's financial statements when no longer at the discretion of the Company, i.e. paid (interim) or approved by shareholders (final).

Taxation

The tax for the period comprises of current and deferred tax. Tax is recognised in the income statement, except to the extent that it relates to items recognised in other comprehensive income where it is recognised directly. Current tax is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date. Deferred tax is recognised on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Deferred Taxation

A deferred tax asset is recognised for the carry forward of unused tax losses to the extent that it is probable that future taxable profit will be available against which the unused tax losses can be utilised. Significant management judgment is applied to determine the deferred tax asset that can be recognised and is based on the probability of future taxable profits.

Fair Value Estimation

Financial instruments measured at fair value are valued according to the following fair value measurement hierarchy:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

The Company's financial instruments at fair value through profit or loss are categorised as level 1. Further details can be found in Note 8 on page 24.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. These are initially recognised at cost, which is the fair value of the consideration paid for the acquisition of the investment and transaction costs directly attributable to the acquisition of the investment; and subsequently measured at amortised cost using the effective interest rate method with gains and losses recognised in profit or loss, when the asset or liability is derecognised or impaired.

STATEMENT OF ACCOUNTING POLICIES

IFRS 9 deferral

IFRS 9 is effective for annual periods beginning on or after 1 January 2018, however, the amendments to IFRS 4 'Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts' permits entities which meet certain requirements to defer the implementation of IFRS 9 until the effective date of IFRS 17. On 14 November 2018, it was proposed by the IASB to extend the effective date of IFRS 17 to 1 January 2022, at the same time the fixed expiry date for the optional temporary exemption from applying IFRS 9 granted to insurers, was also deferred by one year to 2022. The proposal is due to go through a public consultation process, whereby an exposure draft will be released for comment by a set date. It is expected that the one year extension to 2022 will be enacted.

The Company is eligible for the temporary exemption and has opted to defer the implementation of IFRS 9. The eligibility conclusion is based on an analysis of the percentage of the total carrying amount of liabilities connected with insurance activities relative to the total carrying amount of all liabilities, which indicates the Company's activities are predominately connected with insurance. Consequently, the Company has decided to defer the implementation of IFRS 9 until the effective date of the new insurance contracts standard.

The Company has no financial assets which are held solely for the collection of principal and interest. The fair value of other financial assets held is shown in note 8 and the change in fair value is shown in note 6. Accordingly, additional disclosures relating to the SPPI test and to the credit quality of financial instruments that pass the SPPI test are not applicable to the Company.

Critical accounting judgements and key sources of estimation uncertainty

In applying the Company's accounting policies, the directors are required to make judgements, estimates and assumptions in determining the carrying amounts of assets and liabilities. The directors' judgements, estimates and assumptions are based on the best and most reliable evidence available at the time when the decisions are made, and are based on historical experience and other factors that are considered to be applicable. Due to the inherent subjectivity involved in making such judgements, estimates and assumptions, the actual results and outcomes may differ.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the year in which the estimate is revised, if the revision affects only that year, or in the year of the revision and future years, if the revision affects both current and future years.

Critical judgements in applying the Company's accounting policies

The critical judgements that the directors have made in the process of applying the Company's accounting policies and that have the most significant effect on the amounts recognised in the statutory financial statements are discussed below.

(i) Assessing indicators of impairment

In assessing whether there have been any indicators of impairment of assets, the directors have considered both external and internal sources of information such as market conditions, counterparty credit ratings and experience of recoverability. There have been no indicators of impairments identified during the current financial year.

(ii) Assessing the functional currency

The directors are required to identify the functional currency of the Company. Where the functional currency is not clearly identifiable, the directors use judgement to determine which currency most faithfully represents the economic effects of the underlying transactions, events and conditions.

Key sources of estimation uncertainty

The key assumptions concerning the future, and other key sources of estimation uncertainty, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are considered to be in respect of claims provisions and deferred tax. These issues are discussed in the statement of accounting policies on pages 16 and 18 respectively.

BRITISH AVIATION INSURANCE COMPANY LIMITED

Notes to the financial statements
for the year ended 31 December 2019

1 PARTICULARS OF BUSINESS WRITTEN

(a) Analysis by class of business

	2019	2018
	£'000	£'000
Marine, Aviation and Transport - Gross premiums written	8	16
- Gross claims incurred	1,963	1,932
- Gross operating expenses	461	464

(b) Analysis by geographic area

	2019	2018
	£'000	£'000
Gross written premiums from contracts concluded in:-		
United Kingdom	8	16

2 LOSS DEVELOPMENT TABLE

As the Company has been in run off since 2002, reported incurred claims represent adjustments to previous claim estimates.

	2019	2018	2017	2016	2015
	£'000	£'000	£'000	£'000	£'000
Gross					
Paid claims	1,713	771	1,731	529	2,618
Opening balance	15,594	13,638	14,696	13,484	13,853
Exchange movement	(500)	795	(1,161)	2,236	656
Opening balance (revalued)	15,094	14,433	13,535	15,720	14,509
Closing balance	15,344	15,594	13,638	14,696	13,484
Movement in outstanding claims	250	1,161	103	(1,024)	(1,025)
Claims incurred in year	1,963	1,932	1,834	(495)	1,593
Reinsurance					
Paid claims	82	168	1,140	189	264
Opening balance	1,391	1,713	1,774	1,898	1,633
Exchange movement	(46)	83	(149)	314	89
Opening balance (revalued)	1,345	1,796	1,625	2,212	1,722
Closing balance	1,267	1,391	1,713	1,774	1,898
Movement in outstanding claims	(78)	(405)	88	(438)	176
Claims incurred in year	4	(237)	1,228	(249)	440

BRITISH AVIATION INSURANCE COMPANY LIMITED

**Notes to the financial statements
for the year ended 31 December 2019**

Net

Paid claims	1,631	603	591	340	2,354
Opening balance	14,203	11,925	12,922	11,586	12,220
Exchange movement	(454)	712	(1,012)	1,922	567
Opening balance (revalued)	13,749	12,637	11,910	13,508	12,787
Closing balance	14,077	14,203	11,925	12,922	11,586
Movement in outstanding claims	328	1,566	15	(586)	(1,201)
Claims incurred in year	1,959	2,169	606	(246)	1,153

3 NET OPERATING EXPENSES

	2019 £'000	2018 £'000
Administrative expenses	461	464
	<u>461</u>	<u>464</u>

4 AUDITOR'S REMUNERATION

During the year the Company obtained the following services from the Company's auditor and its associates at costs detailed below:

	2019 £'000	2018 £'000
Audit services		
Fees payable to the Company's auditor for the audit of the Company		
Audit	45	30
Audit related services	-	-
	<u>45</u>	<u>50</u>

BRITISH AVIATION INSURANCE COMPANY LIMITED

**Notes to the financial statements
for the year ended 31 December 2019**

5 DIRECTORS' EMOLUMENTS AND STAFF COSTS

The directors are employed and paid by the shareholding companies of British Aviation Insurance Company and their directorships are held as part of that employment. It is not deemed practical to allocate a share of their remuneration to British Aviation Insurance Company.

The Company had no staff during the year and no employment costs as Global Aerospace Underwriting Managers Limited provides management services to the Company.

6 INVESTMENT INCOME / (CHARGES)

	2019 £'000	2018 £'000
Investment Income		
- Interest income	546	637
- Dividend income	147	282
- Other investment income	-	-
Total investment income	<u>693</u>	<u>919</u>
 Realised investment gains	 <u>1,867</u>	 <u>479</u>
	2,560	1,398
 Unrealised investment loss	 (1,003)	 (1,715)
 Investment result	 <u>1,557</u>	 <u>(317)</u>

Investment income arises on financial assets which are designated as fair value through profit or loss upon initial recognition.

BRITISH AVIATION INSURANCE COMPANY LIMITED

**Notes to the financial statements
for the year ended 31 December 2019**

7 TAX ON PROFIT ON ORDINARY ACTIVITIES

	2019 £'000	2018 £'000
Current tax		
UK corporation tax at 19.00% (2018: 19.00%)	-	-
Adjustments in respect of prior years	-	-
Total current tax	-	-
Deferred tax	31	59
Tax on ordinary activities	31	59

Corporation tax is calculated at 19.00% (2018: 19.00%) being the rate prevailing in the UK for the year ended 31 December 2019. The differences are explained below:

	2019 £'000	2018 £'000
Other factors affecting the tax charge for this year		
Non-technical account		
(Loss)/profit on ordinary activities before tax	(628)	(2,973)
(Loss)/profit on ordinary activities multiplied by the standard rate of corporation tax in the UK of 19.00% (2018: 19.00%)	(119)	(565)
Investment income not taxable	(28)	(54)
Deferred tax not recognised	178	681
Adjustments in respect of changes in rates on recognised deferred tax	-	(3)
Tax charge for the year	31	59

Deferred taxation provided for at the prevailing tax rates in the financial statements is set out below:

	2019 £'000	2018 £'000
Deferred tax asset		
As at 1 January 2019	31	90
Movement in year	(31)	(59)
As at 31 December 2019	-	31

No Deferred Tax Asset has been recognized this year as determining the probability of future taxable profits is difficult due to the uncertainty involved in the settlement of the remaining claims outstanding. The unrelieved losses at year end are £9,658k (2018: £8,708k) which can be carried forward indefinitely.

BRITISH AVIATION INSURANCE COMPANY LIMITED

Notes to the financial statements
for the year ended 31 December 2019

8 OTHER FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2019	2018
	£'000	£'000
Financial assets		
Fair value		
Listed equity shares	-	5,362
Listed Government fixed interest	-	14,458
Corporate Bonds	24,232	-
	<u>24,232</u>	<u>19,820</u>
Historical cost		
Listed equity shares	-	4,049
Listed Government fixed interest	-	14,915
Corporate Bonds	24,376	-
	<u>24,376</u>	<u>18,964</u>

9 CLAIMS OUTSTANDING

Claims outstanding contain material amounts in respect of the Company's potential exposures to various environmental type liabilities, especially in the USA, commonly referred to as APH liabilities. Their ultimate cost is less certain than with other lines of business. Whilst the directors, in conjunction with consulting actuaries, have reviewed the Company's technical provisions at 31 December 2019 for such claims and consider that on the basis of the information currently available the gross provisions for these claims and related reinsurance recoveries are fairly stated, the ultimate liability may vary as a result of subsequent information and events and could result in adjustments to the amounts provided. Adjustments to the provisions are reflected in the financial statements for the year in which the adjustments are made.

No note on changes in prior years' claims provisions has been presented. This is because as the Company has not written any new business since 2001, information on movement in prior years' claims provisions is presented in the technical account for the Company shown on page 12.

10 OTHER DEBTORS

	2019	2018
	£'000	£'000
Other debtors include:		
Corporation tax	-	-
Other debtors	<u>37</u>	<u>28</u>
	<u>37</u>	<u>28</u>

BRITISH AVIATION INSURANCE COMPANY LIMITED

**Notes to the financial statements
for the year ended 31 December 2019**

11 CALLED UP SHARE CAPITAL

Authorised Shares		
2,000,000 (2018: 2,000,000)		
	2019	2018
	£'000	£'000
Ordinary shares of £1 each : Allotted, called up and fully paid		
1,993,000 (2018: 1,993,000)	1,993	1,993

12 ULTIMATE PARENT COMPANY

The immediate parent undertaking during the year was Royal and Sun Alliance Insurance plc.

The ultimate parent undertaking and controlling party was RSA Insurance Group plc, which is the parent undertaking of the smallest and largest group to consolidate these financial statements. Copies of RSA Insurance Group plc's consolidated financial statements can be obtained from the Company Secretary at the address shown on page 2. As noted in the Strategic Report, Royal and Sun Alliance Insurance plc have agreed in principle to sell its shares in the Company to National Indemnity Company after year end, subject to contract and to approval by the Prudential Regulation Authority.

13 RELATED PARTY TRANSACTIONS

Prior to 31 December 2001 the Company was reinsured by and ceded business to member companies of the RSA Insurance Group plc which included Royal & Sun Alliance Insurance plc, a shareholder of the Company. RSA Insurance Group plc has provided tax compliance advice to the Company during 2019. The financial statements include the following related party transactions:

	2019	2018
	£'000	£'000
Income Statement		
Gross paid claims	-	143
Reinsurers' share of paid claims	11	7
Expenses	3	3
Balance Sheet		
Gross claims outstanding	41	384
Debtors arising out of reinsurance operations	17	3
Reinsurers' share of claims outstanding	111	123

From 1991 until 2000 both the Company and its parent RSA Insurance Group plc were both members of the British Aviation Insurance Group pool. It was common practice for members of that pool to front for each other and it is this fronting that has given rise to the majority of the above related party transactions.

BRITISH AVIATION INSURANCE COMPANY LIMITED

**Notes to the financial statements
for the year ended 31 December 2019**

The Company, as a member of the British Aviation Insurance Group pools ceded business to Cologne Re who were subsequently purchased by General Re Corporation. General Re Corporation shares the same ultimate parent Company as National Indemnity Company, a shareholder of the Company. The financial statements include the following related party transactions:

	2019	2018
	£'000	£'000
Income Statement		
Reinsurers' share of paid claims	-	4
Balance Sheet		
Creditors arising out of reinsurance operations	2	-
Reinsurers' share of claims outstanding	24	36

The Company, as a member of the British Aviation Insurance Group pools assumed business from and ceded business to Lloyds Syndicate 340 (J P Tilling). The assets and liabilities of Lloyds Syndicate 340 were subsequently transferred to Lloyds Syndicate 435 whose sole capital provider is Faraday Capital Limited. Faraday Capital Limited shares the same ultimate parent Company as National Indemnity Company, a shareholder of the Company. The financial statements include the following related party transactions:

	2019	2018
	£'000	£'000
Income Statement		
Gross paid claims	40	-
Reinsurers' share of paid claims	13	1
Balance Sheet		
Creditors arising out of reinsurance operations	5	-
Gross claims outstanding	268	22
Reinsurers' share of claims outstanding	2	26
Secured Asset		
Letter of credit (see Note 17)	-	200

BRITISH AVIATION INSURANCE COMPANY LIMITED

**Notes to the financial statements
for the year ended 31 December 2019**

The Company, as a member of the British Aviation Insurance Group pools assumed business from and ceded business to Aviation and General Insurance Company. The majority of the insurance liabilities of Aviation & General Insurance Company were subsequently transferred to Tenecom Limited. Tenecom Limited is owned by National Indemnity Company, a shareholder of the Company. The financial statements include the following related party transactions:

	2019 £'000	2018 £'000
Income Statement		
Reinsurers' share of paid claims	1	-
Balance Sheet		
Gross claims outstanding	4	4
Reinsurers' share of claims outstanding	1	2

From 1954 to 1980 and in 1998, as a member of the British Aviation Insurance Group pools, the Company reinsured United States Aviation Insurance Group, a US insurance pool (USAIG pool). General Re and Columbia Insurance Company, which share the same ultimate parent company as National Indemnity Company, a shareholder of the Company, have at various times, been members of the USAIG pool. The financial statements include the following related party transactions (100% USAIG pool amounts):

	2019 £'000	2018 £'000
Income Statement		
Gross paid claims	155	161
Balance Sheet		
Gross claims outstanding	456	126
Creditors arising out of direct insurance operations	588	557
Secured Asset		
Letter of credit (see Note 17)	130	245

14 RISK MANAGEMENT

This note summarises the key risks to the Company and the steps taken to manage them.

For the purpose of managing its risk the Company classifies risks into the following categories:

- Insurance Risk
- Credit Risk
- Market Risk
- Liquidity Risk
- Operational Risk

**Notes to the financial statements
for the year ended 31 December 2019**

Insurance Risk

The Company has been in run-off since 2001. Therefore the Company's insurance risk relates exclusively to the risk that claims ultimately paid may exceed the amounts currently provided.

In selecting its outstanding claims provisions, the Company is advised by consulting actuaries Milliman and PwC on different sub-sections of its reserves. Milliman advise on the 1991 to 2001 years and PwC on the business written prior to 1991.

The directors are satisfied that both actuarial firms' estimates are reasonable and have used them unadjusted apart from an allowance for potential bad debts.

The Company considers that no new catastrophe losses are likely to occur as the risk period of all of the policies that the Company wrote has expired.

The Company considers that another asbestos type cause of loss is highly unlikely to occur. Asbestos was widely used throughout many industries and asbestosis affected a large number of individuals.

Currently the Company has no evidence in its claims records that another asbestos type cause of loss will occur.

The risk under any one insurance contract is the possibility that the insured event occurs and the uncertainty of the amount of the resulting claim. By the very nature of an insurance contract, the risk is unpredictable.

Reinsurance is used to manage insurance risk, as the Company is in run-off there is no active policy in respect of underwriting reinsurance contracts. The Company's existing reinsurance is a legacy from prior underwriting years.

For a portfolio of insurance contracts where the theory of probability is applied to pricing and provisioning, the principal risk that the Company faces under its insurance contracts is that the actual claims and benefit payments exceed the carrying amount of the liabilities. This could occur because the frequency or severity of claims and benefits are greater than estimated.

The concentration risk is increased because all of the Company's liabilities are aviation or aviation related and as noted on page 17 they include significant amounts of US APH liabilities.

APH is the most volatile risk for the Company. APH claims reserves equal £10.8m (2018: £10.7m) net of reinsurance, and are highly sensitive to the assumptions used in the projection methodology regarding claims emergence and the development of paid and incurred claims positions in respect of existing and new claims in the future. The key drivers of the actual claims emergence, and hence the ultimate liability figure, are the number and timing of underlying claims made against individual assureds, the dismissal rate of these claims, the average cost of settlement and the inflation associated with these settlements.

BRITISH AVIATION INSURANCE COMPANY LIMITED

**Notes to the financial statements
for the year ended 31 December 2019**

Credit Risk

Credit risk arises on deposits with financial institutions and is managed by restricting such deposits to highly rated institutions only. Credit risk also arises as debtors could default on their obligation to pay monies due to the Company. Insurance debtors are not rated in the table below as they are considered to be immaterial.

	AAA £'000	AA+/AA/AA- £'000	A+/A/A- £'000	BBB+/BBB/BBB- £'000	Total £'000
2019					
Cash at bank and in hand	1,297		3,482		4,779
Corporate Bonds	338	3,481	11,935	8,478	24,232
2018					
Cash at bank and in hand	7,098		2,780		9,878
Sovereign debt		14,458			14,458

Credit risk also arises on reinsurers' share of technical provisions and debtors arising out of reinsurance operations of £1.4m (2018: £1.5m), of which over 90% was rated as BBB+ or better.

The maximum exposure at the end of the reporting period is the carrying amount of the assets.

Market Risk

The Company's market risk is principally derived from the currency and term of the fixed interest investments and the Company's insurance liabilities.

The Company's net assets at the year end are as follows:

	GBP £'000	USD \$'000	CAD \$'000	EUR €'000	Total £'000
Assets	16,083	14,261	11	343	
Liabilities	(1,812)	(14,651)	-	-	
Net assets	14,271	(390)	11	343	
Converted to GBP at year end rates	1.00000	1.32100	1.72021	1.17648	14,235

Sensitivity analysis in respect of interest rate risk is included in the Stress Testing section below.

BRITISH AVIATION INSURANCE COMPANY LIMITED

**Notes to the financial statements
for the year ended 31 December 2019**

Liquidity Risk

Liquidity risk is the risk that the Company may be unable to pay its obligations when due as a result of assets not being available in a form that can be easily converted into cash. The Company's portfolio is kept in highly liquid marketable securities sufficient to meet its liabilities as they fall due.

The table below analyses the maturity of the Company's financial assets and financial liabilities based on the remaining period at the balance sheet date to the contractual maturity date.

	Less than 1 year £'000	1-2 years £'000	3-5 years £'000	Over 5 years £'000	Equities £'000	Total £'000
2019						
Financial assets						
Listed equity shares					-	-
Corporate Bonds	1,230	1,218	6,388	15,396		24,232
Cash at bank and in hand	4,779					4,779
Total financial assets	6,009	1,218	6,388	15,396	-	29,011

	Under 1 year £'000	1-2 years £'000	3-5 years £'000	Over 5 years £'000	Equities £'000	Total £'000
2018						
Financial assets						
Listed equity shares					5,362	5,362
Debt Securities	4,845		6,720	2,893		14,458
Cash at bank and in hand	9,878					9,878
Total financial assets	14,723		6,720	2,893	5,362	29,698

	Less than 1 year £'000	1-5 years £'000	Over 5 years £'000	Total £'000
2019				
Financial liabilities				
Claims outstanding (note 9)		2,009	4,879	15,344
Direct insurance operations		892		892
Reinsurance operations		43		43
Other liabilities		184		184
Total financial liabilities	3,128	4,879	8,456	16,463

	Under 1 year £'000	1-5 years £'000	Over 5 years £'000	Total £'000
2018				
Financial liabilities				
Claims outstanding (note 9)	2,096	5,121	8,377	15,594
Direct insurance operations	649			649
Reinsurance operations	98			98
Other liabilities	167			167
Total financial liabilities	3,010	5,121	8,377	16,508

BRITISH AVIATION INSURANCE COMPANY LIMITED

**Notes to the financial statements
for the year ended 31 December 2019**

Operational Risk

Operational Risk arises from human, systems or process error or from external events. The Company has a robust risk management framework in place, including documented key controls, the performance of which are attested to by Company officers and Global Aerospace employees and are from time to time verified by the Global Aerospace Risk Management function.

Stress Testing

The Company has considered the impact on the Income Statement and Shareholders' funds in presentational currency of various scenarios. Other than where stated otherwise the impact on the Income Statement and Shareholders' Equity is equal.

	2019	2018
	£'000	£'000
Impact on fixed interest securities of increase in interest rates of 1%	(1,287)	(302)
Fall in equity values of 10%	-	(536)
Strengthening of 5% in Sterling against US Dollar		
Income statement	186	378
Shareholders' equity	186	378
Weakening of 5% in Sterling against US Dollar		
Income statement	(174)	(417)
Shareholders' equity	(174)	(423)
Maximum probable loss due to operational risk	426	425

15 PROVISION FOR FUTURE ADMINISTRATIVE EXPENSES

No provision has been made for future administrative expenses of the run off because expected future investment income is expected to cover future administrative expenses.

Claims are projected to run off over approximately 40 years. It is not considered practical to forecast expenses over that period of time. Forecast administrative expenses for the next five years are £2.3m (2018: £2.5m), which is expected to be fully covered by future investment return over the same period.

BRITISH AVIATION INSURANCE COMPANY LIMITED

**Notes to the financial statements
for the year ended 31 December 2019**

16 CAPITAL MANAGEMENT

The Company last underwrote business in 2001 and is now an insurer in run-off. It manages a portfolio of open claims which it seeks to adjust in a professional manner.

At the end of the year, British Aviation Insurance Company Limited was 57% owned by Royal and Sun Alliance Insurance plc and 43% by National Indemnity Company. The capital comprises ordinary shares and retained profits. The Company does not currently anticipate issuing other types of capital.

It is policy to maintain sufficient capital such that the potential for corporate failure is remote. It is intended that this approach gives an appropriate degree of comfort to the policyholders with regard to the Company's capital position.

The Company intends to maintain its capital at a level which is the higher of the Company's Solvency Capital Requirement (SCR) and its Own Economic Capital Assessment (OECA) identified in the Company's Own Risk and Solvency Assessment (ORSA) and approved by the board.

From 1 January 2016, the Company is subject to Solvency II regulations. Solvency II is a risk-based solvency framework required under the European Solvency II Directive as implemented by the PRA in the UK. The Company has used the standard formula approach for the purposes of measuring regulatory capital under Solvency II and has embedded in its processes the necessary tests to ensure full compliance with Solvency II regulations.

The Company manages its Solvency II own funds as its measure of capital. The prime objective of the Company's capital management policy is to ensure that the Company operates in the most efficient way from a capital point of view, with the minimum capital necessary to cover its regulatory requirements. When the capital in excess of the regulatory requirement is significant the Company would seek to extract it via a dividend payment or a capital reduction.

The Company solvency capital requirement has been met during 2019. At 31 December 2019 estimated Solvency II own funds were £13.5m (2018: £13.6m) which exceeds the Solvency Capital Requirement by £9.1m (2018: £8.2m).

17 SECURED ASSETS

Certain assets are secured for a number of third parties, both in the US and the UK. The total of these secured assets was £0.5 million (2018: £4.8 million).

18 POST BALANCE SHEET EVENTS

Subsequent to the year end a large claim was settled on favourable terms resulting in a saving to the Company of £2.4m at year end rates of exchange. The impact of the Covid-19 pandemic which occurred after the year end is set out in the Directors' report.