The Ocean Marine Insurance Company Limited

Solvency and Financial Condition Report

Year ended 31 December 2016

AVIVA

Contents

The Ocean Marine Insurance Company Limited

Solvency and Financial Condition Report

2016

Summary

The purpose of the Solvency and Financial Condition Report (SFCR) is to provide information about the capital position of the Company at 31 December 2016 based on the Solvency II (SII) requirements.

The report sets out different aspects of the Company's business and performance, system of governance, risk profile, valuation methods used for solvency purposes and its capital management practices.

Business and Performance

The Company is a limited company registered in England and Wales and member of the Aviva plc group of companies (the Group). The principal activity of the Company during the year continued to be the run-off of general insurance claims. The Company ceased to accept business in the London Market in 1995.

All business is wholly reinsured through reinsurance agreements entered into with National Indemnity Company (NICo) in 2000. The Company has an Adverse Reserve Deterioration (ARD) agreement with its parent company, Aviva Insurance Limited (AIL). This agreement provides an extra £1 billion of reinsurance cover to protect against circumstances in which the reinsurance with NICo is exhausted or otherwise fails to satisfy claims. Together these arrangements provide substantial protection in excess of current gross liabilities.

The Company's profit before tax for the year ended 31 December 2016 of £2m comprises an underwriting result of £nil, net investment income of £2m and other costs of £nil. The underwriting result is £nil due to the Company's reinsurance arrangements. Net investment income comprises interest income on cash and deposit accounts and unrealised exchange rate gains on cash and deposits denominated in US dollars (USD).

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

System of Governance

The Board's responsibilities include ensuring that an appropriate system of governance is in place throughout the Company. To discharge this responsibility, the Board has established frameworks for risk management and internal control using a 'three lines of defence' model. However, the Board sets the Company's risk appetite itself. A strong system of governance throughout the Company aids effective decision-making and supports the achievement of the Company's objectives for the benefit of customers, shareholders and regulators. Key features of the Company's System of Governance are as follows:

- The roles and responsibilities of the Board are well defined;
- The Company's Board has delegated responsibilities to management within the Group to assist in its oversight of risk management and the approach to internal controls;
- The Company has implemented four key control functions – Risk, Actuarial, Compliance and Internal Audit;
- The Company has in place a remuneration policy, skills requirements and procedures for assessing the fitness and propriety of senior management and key function holders;
- The Company's risk strategy, appetite and framework, its approach to its Own Risk and Solvency Assessment (ORSA), and its governance over the use of its Internal Model (IM) are set out in its Risk Management Framework policy and its risk policies and business standards;
- The Company's outsourcing strategy is supported by its Procurement and Outsourcing Business Standard.

Risk Profile

The Company's business is about protecting its policyholders from risk. As an insurer, the Company accepted the risks inherent to its core business line of non-life insurance.

The Company received premiums which are invested in order to maximise risk-adjusted returns, so that the Company can fulfil its promises to customers while providing a return to its shareholder. In doing so, the Company has a preference for retaining those risks which it believes it is capable of managing to generate a return.

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

For those risk types managed through the holding of capital, the Company measures and monitors its risk profile on the basis of the SII Capital Requirement (SCR). Some categories of risk are not measured and managed solely by holding capital, principally liquidity risk, which is measured through absolute liquidity coverage relative to pre-defined appetites and the quantum of certain liquid assets.

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

Valuation for Solvency Purposes

Assets, Technical Provisions and other liabilities are valued in the Company's SII Balance Sheet according to the SII regulations. The basis of the valuation principle that underlies the methodology for SII purposes is the amount for which they could be exchanged, transferred or settled by knowledgeable and willing third parties in an arm's length transaction. The value of Technical Provisions under SII is equal to the sum of a Best Estimate Liability and a Risk Margin.

At 31 December 2016, the Company's excess of assets over liabilities was £114m on a SII basis which is £1m lower than the value under IFRS.

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

Capital Management

The Company manages its Own Funds in conjunction with solvency capital requirements. In the calculation of the SCR, the Company has chosen to implement an IM to calculate solvency capital requirements for its business.

In managing capital, the Company seeks, on a consistent basis, to:

- Match the profile of its assets and liabilities, taking into account the risks inherent in the business;
- Maintain sufficient, but not excessive, financial strength in accordance with risk appetite, to satisfy the requirements of the Company's regulators and other stakeholders, giving the Company's policyholders assurance of its financial strength;
- Retain financial flexibility by maintaining strong liquidity; and
- Allocate capital rigorously to repatriate excess capital where appropriate.

At 31 December 2016, the total eligible Own Funds to meet the SCR was £114m, all of which was represented by unrestricted tier 1 capital. The Company's SCR, at 31 December 2016, was £5m. The overall surplus position was £99m which translates to a regulatory cover ratio of 2,282%.

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

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2016

A. Business and Performance

In this Chapter

A. Business and Performance

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

A.1 Business

The Ocean Marine Insurance Company Limited is a limited company, registered in England and Wales, and is a member of the Aviva plc group of companies.

Qualifying holdings

The Company's shares and the associated voting rights are wholly owned by AIL, being a qualifying holding in the Company.

Supervisor

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

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

External auditor

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

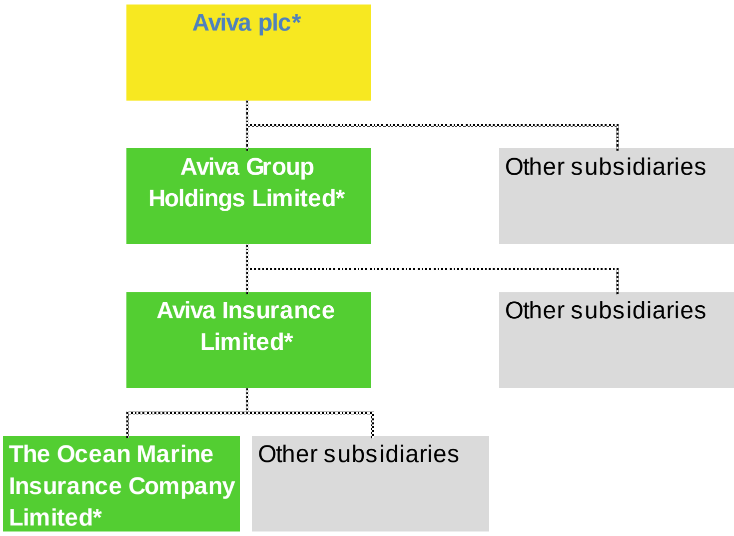
Address	7 More London Riverside, London, SE1 2RT
Telephone number	+44 (0) 20 7583 5000

Financial statements

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

A.1.1 Organisation

The following chart shows, in simplified form, the Company's position within the structure of the Group as at 31 December 2016:



* Incorporated in the United Kingdom

AIL is the immediate parent entity of the Company and is registered in Scotland, and Aviva plc is the ultimate controlling parent entity, registered in England and Wales.

A.1.2 Business operations and events occurring in the year

Business operations

The principal activity of the Company during the year continued to be the run-off of general insurance claims. The Company ceased to accept business in the London Market in 1995. All business is wholly reinsured through reinsurance agreements entered into with NICo in 2000.

The Company has an ARD agreement with its parent company, AIL. This agreement provides an extra £1bn of reinsurance cover to protect against circumstances in which the reinsurance with NICo is exhausted or otherwise fails to satisfy claims. Together these arrangements provide substantial protection in excess of current gross liabilities.

Significant business and other events

The SII regime came into effect from 1 January 2016. The Company has adopted an IM approach to calculating its SCR.

A.2 Underwriting Performance

The table below summarises the information presented in the premium, claims and expenses Quantitative Reporting Template (QRT) S.05.01, see Appendix F.1.2.

For the year ended 31 December 2016 £m	Marine, aviation and transport insurance	General liability insurance	Non-Prop Reinsurance	**Total**
Premiums written				
Gross Written Premium	-	-	-	**-**
Claims incurred				
Gross - Direct Business	(4)	(17)	-	**(21)**
Gross - Proportional reinsurance accepted	(1)	(4)	-	**(5)**
Gross - Non-proportional reinsurance accepted	-	-	(8)	**(8)**
Net	-	-	-	**-**
Expenses incurred	-	-	-	**-**

The Company's profit before tax is £2m. The Company's underwriting result for the year, net of reinsurance, is £nil. Items which comprise the Company's net investment income (£2m) and other costs (£nil), are excluded from the underwriting result, and detailed in sections A.3 and A.4 respectively.

The Company's net claims incurred in the year are £nil due to the reinsurance arrangements. Gross claims incurred in the year of £34m relate to movement on actuarial estimates of claims provisions and paid claims.

A.3 Investment Performance

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

Investment income **£m**	2016
Interest income and unrealised foreign exchange gains	2

Interest income was primarily driven by foreign exchange gains from USD interest bearing assets.

A.4 Performance of Other Activities

As described in section A.2, performance of other activities comprises those items of other income and expense, other than net investment return, excluded from underwriting result.

Adverse economic assumption changes, gross of reinsurance, of £8m arose during the year. These are covered by the Company's reinsurance arrangements and therefore the impact, net of reinsurance, is £nil. These changes arise in relation to latent claim reserves, due to a reduction in the discount rates used to assess the discounted value of claims liabilities.

In addition unrealised foreign exchange losses, gross of reinsurance, of £38m arose during the year on claims provisions held in USD. These foreign exchange losses are covered by the Company's reinsurance arrangements and therefore the impact, net of reinsurance, is £nil.

A.5 Any Other Information

There is no other material information to report regarding the Company's Business and Performance.

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B. System of Governance

In this Chapter

B. System of Governance

This section of the report sets out information regarding the 'System of Governance' in place within the Company. Details of the structure of the undertaking's 'administrative, management or supervisory body' (defined as the Board) are provided. The roles, responsibilities and governance of key functions (defined as the Risk, Compliance, Internal Audit and Actuarial Functions) are also provided. Other components of the system of governance are also outlined, including the risk management system and internal control system implemented across the business.

B.1 General Information on the System of Governance

B.1.1 Board structure

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

The duties of the Company's Board are set out in its terms of reference. The terms of reference lists both those items that are specifically reserved for decision by the Board and those matters that must be reported to the Board. The Company's Board is composed of senior management from within the Group.

The Company's Board has delegated responsibilities to management within the Group to assist in its oversight of risk management and the approach to internal controls.

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

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

The first line

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

The second line

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

The third line

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

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

B.1.2 Material changes in the system of governance

There have been no material changes in the system of governance during the year.

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

An assessment of the effectiveness of the governance, internal control and risk management systems of the parent company and several of its subsidiaries, including the Company, was conducted half-yearly in 2016, leading to the parent company's Chief Executive Officer (CEO) certifying that:

- There are sound risk management and internal control systems that are effective and fit for purpose in place across the business;
- Material existing or emerging risks within the business have been identified and assessed; and
- The business operates in a manner which conforms to the minimum requirements outlined in the Company's risk policies and business standards.

The parent company's Chief Risk Officer (CRO) provided his own certificate which states that:

- The Risk Function has reviewed and challenged the process supporting the CEO's certification and is satisfied that it can provide reasonable assurance of the material accuracy and completeness of the CEO's assessment; and
- No material gaps exist in the Risk Management Framework.

Any material risks not previously identified, control weaknesses or non-compliance with the Company's risk policies and business standards or local delegations of authority are highlighted as part of this process. The results of the certification process and details of key failings or weaknesses are reported to the Board to enable them to carry out an effectiveness assessment. The Board last carried out a full review of the effectiveness of the Company's systems of internal control and risk management in March 2017.

B.1.4 Remuneration policy and practices

All Aviva staff acting on behalf of the Company are employed by a fellow subsidiary of Aviva plc, Aviva Employment Services Limited. All Aviva staff acting on behalf of the Company are subject to Aviva's remuneration policy designed to incentivise and reward employees for achieving business goals in a manner that is consistent with Aviva's strategy, business plans, values and behaviours, sound and effective risk management and good governance.

The directors of the Company receive no remuneration from the Company.

Executive directors

Aviva's remuneration policy provides market competitive remuneration. Remuneration of executive directors includes a basic salary, variable components, pension contributions and benefits including relocation and mobility. This incentivises executive directors to achieve both the annual business plan and, through significant levels of deferral, the longer-term strategic objectives of the businesses for which they are responsible. As well as rewarding the achievement of objectives, variable remuneration can be zero if performance thresholds are not met.

Employees

Remuneration arrangements for Aviva employees that are not executive directors take account of the seniority and nature of the role, and individual performance. The aim is to provide employees with remuneration packages that are clear and simple to understand, transparent, consistent and fair. Remuneration includes a basic salary, variable components and pension contributions.

The variable components are discretionary and fully flexible as opposed to a contractual entitlement, and there is a possibility of zero awards being made should the performance of the relevant businesses or individuals require this. Individual awards are based on a calibrated assessment of performance of individuals relative to peers.

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

Performance criteria for share awards

Shares in Aviva plc can be awarded to both executive directors and employees. These vest after three years, in some cases dependent on performance conditions. Current performance targets are based on two measures. The first measures return on equity and is set as a percentage. The second compares total shareholder return to other similar companies. Half of the Long Term Incentive Plan vests if return on equity exceeds 30% over the three-year performance period. The other half vests if the total shareholder return is in the upper quintile when compared to the other companies over the three year period.

Pension and early retirement schemes

There were no enhanced pension arrangements or early retirement schemes for members of the Board or key function holders in place during 2016.

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

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

B.2 Fit and Proper Policy

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

The membership of the Board is designed to provide skills necessary to manage the Company's underlying business activities and key risks. Specific skills considered within Board appointments include knowledge and experience in respect of:

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

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

B.2.2 Process assessing fitness and propriety

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

The governance over the fitness and propriety of individuals includes recruitment, performance management and training. To ensure that the Company protects itself against employing individuals who potentially could threaten its customers, properties, facilities or reputation, the majority of its fitness and propriety processes take place at recruitment and more specifically at pre-employment screening. A minimum set of basic screening requirements has been agreed and implemented. Additional enhanced screening requirements are applied for individuals who will run the Company or become key function holders.

Compliance with the initial and ongoing fitness and propriety minimum requirements was reported half-yearly to the Board in 2016.

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

B.3.1 Risk Management Framework

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

- Risk appetite;
- Risk governance, including risk policies and business standards and roles and responsibilities; and
- The processes used to identify, measure, manage, monitor and report risks (IMMMR), including the use of risk models and stress and scenario testing.

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

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

A regular top-down key risk identification and assessment process is carried out by the Risk Function. This includes the consideration of emerging risks and is supported by deeper thematic reviews. The risk assessment processes are used to generate risk reports which are shared with 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 interest rates, is assumed to vary) and scenario (where combinations of risk factors are assumed to vary) tests are undertaken to evaluate their impact on the business and the management actions available to respond to the conditions envisaged.

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

Board oversight of risk and risk management across the Company is maintained on a regular basis. The Board has overall responsibility for determining risk appetite, which is an expression of the risk the business is willing to take. Risk appetites are set relative to capital and liquidity.

The Company's position against risk appetite is monitored and reported to the Board on a regular basis. Long-term sustainability depends upon the protection of franchise value and good customer relationships. As such, the Company has a risk preference that it will not accept risks that materially impair the reputation of the Company and requires that customers are always treated with integrity. The oversight of risk and risk management is supported by two management committees, the Asset and Liability Committee (ALCO), which focuses on insurance and financial risks, and the Operational Risk Committee, which focuses on operational and reputational risks.

B.3.2 Risk Function

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

The Risk Function has authority to review all areas of the Company and has full, free and unrestricted access to all activities, records, property and personnel necessary to complete its work. The CRO has direct management accountability for the Risk Function.

B.3.3 ORSA

The Company considers that its ORSA comprises all the processes and tools that underpin the consideration of risk and capital implications in key decisions, including business planning. It provides a continuous and forward-looking assessment of the short-term and long-term risks that the Company faces, or may face, and ensures that its capital requirements are met at all times.

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

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

Review and approval

The outputs from the ORSA processes are reported to and reviewed by the Board regularly during the year. The Board sets the approach to the ORSA and oversees the ORSA processes including the identification of risk, the methodology and assumptions used in the IM, and the results of the IM validation exercise. The results of the Company's ORSA processes are considered by the Board when reviewing the Company's strategy and plans.

The annual ORSA Report brings together and summarises a high level description of the key components of ORSA, together with key developments and outcomes during the year. This is submitted to the Board, and subject to its approval, shared with the PRA.

The Board has decided that the SII risk appetite should be expressed as a fixed capital buffer above the SII SCR to ensure appropriate protection of policyholders noting the long term risks to which the Company is exposed.

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

B.3.4 Governance of the IM

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

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

The Board is responsible for approving any IM changes before submission to the College of Supervisors for approval. The quarterly model change reports and supporting evidence provide the required information to support Board and the College of Supervisors' approval.

There has been no material change to the governance of the IM during 2016.

Validation process

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

The Internal Model Independent Validation Business Standard defines the scope and the approach to each independent validation exercise is approved by the Board. The Enterprise Risk Director reviews the findings of the exercise and provides an opinion to the Board as to whether the IM is suitably accurate and fit for purpose, and determines whether it can be recommended for approval by the Board.

B.4 Internal Control System

B.4.1 System of Internal Control

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

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

B.4.2 Compliance Function

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

- Conduct regulatory risk management (including monitoring regulatory developments), performed by the Compliance Function and including activities such as:
  - Setting conduct and financial crime policy framework;
  - Providing advice, support, guidance and challenge on conduct and financial crime risk; and
  - Managing conduct and financial crime regulatory engagement.

- Prudential regulatory risk management (including monitoring regulatory developments), performed by the Risk Function and including activities such as:
  - Setting prudential regulatory risk policy framework;
  - Providing advice, support, guidance and challenge on prudential regulatory risk; and
  - Managing prudential regulatory engagement.
- Legal developments monitoring, performed by the Legal and Company Secretarial Function

Through these processes the Compliance, Risk and Legal Functions also take responsibility for reporting information to the Board. The Board receives a report from the CRO annually which covers any material concerns regarding conduct risk and the treatment of customers generally, along with details and an assessment of the adequacy of management's response.

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

B.5 Internal Audit Function

The Company's Internal Audit Function is led by the Internal Audit Director who reports directly to the Group Chief Audit Officer and to the Chairman of the parent company's Audit Committee.

The Internal Audit Function provides reports to the Company's Board on the robustness of the Company's Risk Management Framework and the appropriateness and effectiveness of the system of internal control. In doing this it considers the adequacy of the Company's system of internal control to manage its business risk and to safeguard its assets and resources. It also considers the effectiveness of any actions put in place by management to address any deficiencies that might exist in the system of internal control.

The Internal Audit Function investigates and reports on cases of suspected financial crime and employee fraud and malpractice, and undertakes designated advisory projects for management.

Independence and objectivity

The Internal Audit Function maintains its independence and objectivity by reporting directly to the Group Chief Audit Officer and the Chairman of the parent company's Audit Committee. The parent company's Audit Committee has a duty to recommend the appointment or dismissal of the Internal Audit Director to the parent company's Board and to participate, jointly with the Group Chief Audit Officer or designee, in the determination of the objectives of the Internal Audit Director and the evaluation of his levels of achievement, including consultation with the CEO.

The Internal Audit Director proposes a budget which ensures that Internal Audit has sufficient skills and resources to discharge its responsibilities. The Internal Audit Function is authorised to review all areas of the Company and has full, free, and unrestricted access to all activities, records, property, and personnel necessary to complete its work.

Internal Audit Function staff have no direct responsibility for any operational activities. There is a formal policy of rotating staff to ensure that independence is maintained. There is also a restriction on the audits that staff who have previously worked elsewhere in the Company can perform. The Internal Audit Function cannot perform any projects for management that will threaten its actual or perceived independence and objectivity.

An annual declaration of independence is signed by all members of the Internal Audit Function's staff.

B.6 Actuarial Function

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

The independence of the Actuarial Function is derived through its membership in the wider Risk Function. The Actuarial Function is led by the Chief Risk Actuary, who reports to the Company's CRO. All persons employed by the Actuarial Function in a defined actuarial role are subject to the Fit and Proper policy requirements to ensure they have the requisite skills and knowledge to complete their responsibilities. (Fit and Proper requirements are considered in section B.2.)

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

B.7 Outsourcing

Policy

The Procurement and Outsourcing Business Standard contains information on the Company's outsourcing policy, setting out the relevant responsibilities, objectives, process, and monitoring arrangements to be applied in cases of outsourcing, all of which shall be consistent with the overall strategy. The standard applies equally to any externally or internally (intra-group) outsourced activity. The objective of this standard is to ensure that minimum control objectives and controls for supplier related activities are followed by all elements of the business, to ensure that supply risk is managed effectively, customers are being treated fairly and continue to receive good outcomes, as well as mitigating potential financial, operational, contractual, and brand damage caused by inadequate management.

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

The objectives and controls in the Business Standard cover the following areas:

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

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

Critical and important outsourced functions and activities

The Company receives a wide range of services from within the Group. Claims handling activities are outsourced to companies outside the Group.

Jurisdiction of service providers

Services provided from within the Group are carried out in the UK. Claims handling is carried out in the UK and overseas, most notably in the United States.

B.8 Any Other Information

The Company has no other material information to disclose.

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C. Risk Profile

In this Chapter

C. Risk Profile

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

C.1 Underwriting Risk

C.1.1 Exposure

The Company no longer underwrites new business and is managing its liabilities to conclusion. The Company therefore considers underwriting risk within its general insurance activity to be the management of claims and the adequacy of reserves.

All business is reinsured as the Company is party to a reinsurance agreement entered into with NICo in 2000, which provides substantial protection in excess of current gross liabilities. In addition, the Company has an ARD agreement with its parent company, AIL. This agreement provides an extra £1bn of reinsurance cover to protect against circumstances in which the reinsurance with NICo is exhausted or otherwise fails to satisfy claims. Together these arrangements provide substantial protection in excess of current gross liabilities.

There were no material changes in net underwriting risk over 2016.

The Company's overall exposure to underwriting risk is measured and assessed using the SCR. QRT S.25.03 (Appendix F.1.7) shows that the Company's undiversified SCR for net underwriting risk is immaterial. Underwriting risk is also measured and monitored in terms of Best Estimate Liabilities.

C.1.2. Risk concentration

The Company's largest gross exposure is to UK and US Asbestos and Deafness claims. However, net concentrations to insurance risks are immaterial due to the reinsurance with NICo and AIL as captured within the Company's SCR.

C.1.3 Risk mitigation

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

- Claims reserving that is undertaken by outsourced functions and reviewed semi-annually by local actuaries, with periodic independent external reviews by consulting actuaries;
- Governance of outsourced functions performing claims management and reserving on behalf of the Company; and
- Documented claims management philosophies and procedures.

The primary technique used to mitigate underwriting risk is reinsurance, in particular the reinsurance and ARD agreements purchased with NICo and AIL, respectively. The management of insurance risk is overseen by specific senior management committees, namely the London Market Reserving Committee and the Latents Senior Leadership Team (LSLT). The on-going effectiveness of the reinsurance arrangements is reviewed annually by the Company's Actuarial Function and presented to the Board.

C.1.4 Stress and scenario testing and sensitivity analysis

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

C.1.5 Special purpose vehicles

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

C.2 Market Risk

C.2.1 Exposure

Market risk is the risk of adverse financial impacts resulting directly or indirectly from fluctuations in interest rates, foreign currency exchange rates and inflation. Market risk arises due to fluctuations in both the value of liabilities and investments held.

Given the current high level of reinsurance headroom in place over the Company's liabilities, and that assets are predominately held in the form of cash, cash equivalents and receivables, the Company has immaterial exposure to market risk.

The Company has assets and claims liabilities in foreign currency, principally USD, 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.

The Company's overall exposure to market risk is measured and assessed using the SCR. QRT S.25.03 (Appendix F.1.7) shows that the Company's undiversified SCR for market risk is immaterial (£nil). There has been no material change in the Company's overall market risk exposure during the period.

C.2.2 Risk concentration

Liabilities are fully reinsured. In additional to the reinsurance asset, the Company holds cash and is thus not exposed to material concentration risk.

C.2.3 Risk mitigation

The Company manages market risk as part of the wider market risk framework, within local regulatory constraints and in line with established Group policy. The management of market risk is overseen by the AIL ALCO.

The Company did not have any derivatives during the year or at year-end.

C.2.4 Stress and scenario testing and sensitivity analysis

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

C.3 Credit Risk

C.3.1 Exposure

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

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

The Company's management of credit risk includes implementation of credit risk management processes as part of the Risk Management Framework (including limits frameworks), the operation of specific risk management committees, and detailed reporting and monitoring of exposures against pre-established risk criteria. The management of credit risk is overseen by the AIL ALCO.

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

The principal basis used to measure and assess the Company's exposure to counterparty risk is the SCR. QRT S.25.03 (Appendix F.1.7) shows that the Company's undiversified SCR for counterparty risk is £4m. Counterparty risk relates to the risk associated with reinsurers and insurance debtors. There has been no material change in the Company's counterparty credit risk exposure over the reporting period.

The following metrics are also used by the Company when measuring and assessing its credit risk exposure and to support risk management actions and investment decisions:

- Maximum exposure: credit exposure of the Company's financial assets to counterparties; and
- External credit rating: available Moody, Standard & Poor and Fitch ratings.

The overall credit quality of the Company's reinsurance assets is strong. At 31 December 2016, all reinsurance assets were held with counterparties with external credit ratings of AA. Cash and cash equivalents are held with highly-rated banking institutions or liquidity funds. At 31 December 2016 the majority (84%) of its other receivables due are from other Group companies and no financial assets are impaired or overdue.

C.3.2 Risk concentration

The Company's main concentration of external credit risk arises from it exposure to NICo via reinsurance arrangement (£441m at 31 December 2016). There is an additional £1bn of ARD provided by the Company's parent AIL as described in section C1.1.

The Company's main inter-Group exposure is to its immediate parent, AIL, due to a receivable balance of £61m at 31 December 2016.

C.3.3 Risk mitigation

As described in section C3.1 the Company has in place a credit control framework to manage credit risk.

In accordance with the requirements of its Financial Risk Mitigation Business Standard the Company assesses and documents the effectiveness of arrangements to mitigate credit risk. On-going monitoring is carried out by reporting management information to the Board and the AIL ALCO, against pre-defined trigger points, to enable appropriate oversight and to prompt action if effectiveness deteriorates.

C.3.4 Stress and scenario testing and sensitivity analysis

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

C.4 Liquidity Risk

C.4.1 Exposure

The Company's exposure to liquidity risk arises from the risk that its liabilities cannot be settled, in a timely and cost-effective manner, as they fall due because of insufficient liquid assets. Liquidity risk may arise from uncertainty of the value and timing of liabilities versus reinsurance recoveries, or the ability to realise assets to produce cash to meet obligations.

Claims are not met directly by the Company but are the responsibly of NICo via an outsourced provider. The material liquidity risk to the Company would arise in the extreme event of NICo failing to meet claims liabilities as they fall due along with material timing mis-matches between reinsurance recoveries from AIL, under the ARD, and claims obligations.

The principal bases used to measure and assess the Company's exposure to liquidity risk are absolute liquidity coverage relative to pre-defined appetites and the quantum of certain liquid assets. These are calibrated to ensure sufficient liquidity to meet expected liquidity requirements following an extreme liquidity-specific stress event. During the year these appetites were calibrated to make allowance for both short-term and long-term stress scenarios.

There were no material changes in the assessment of liquidity risks throughout the year and the Company's liquidity profile was maintained within appetite.

C.4.2 Risk concentration

The credit limit framework described in section C.3.1 above also avoids concentrations of liquidity risk by preventing investment in a restricted number of issuers, asset classes and sectors. The Company has set its liquidity risk appetite to ensure it has sufficient liquid funds to meet its expected obligations as they fall due. The credit quality of reinsurers is also monitored closely to avert liquidity risks.

C.4.3 Risk mitigation

The Company manages its liquidity risk by:

- Weekly monitoring of projected short-term cash flow needs;
- Setting a liquidity risk appetite which requires that sufficient liquid resources be maintained to cover net outflows in a stress scenario;
- Defining trigger levels that enable action to be taken before those levels are breached; and
- Its parent, AIL, maintaining a liquidity risk management plan which details management actions to address liquidity funding requirements in a significant stress scenario.

In extreme circumstances, the Company could, in addition, approach AIL or the Group for additional short-term borrowing whilst the Company liquidated other assets. The Group maintains significant committed borrowing facilities from a range of highly rated banks to mitigate this risk further. AIL maintains significant liquidity including consideration of its reinsurance obligations to the Company.

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

- The internal controls that enable effective liquidity risk management are subject to assurance testing to ensure they operate effectively;
- Liquidity positions are regularly reported to and monitored by the AIL ALCO against pre-defined trigger points to enable appropriate oversight and actions to take place if effectiveness deteriorates.

C.4.4 Expected profit in future premium

The amount of expected profit in future premium (EPIPF) included within the valuation of the Company's Technical Provisions as at 31 December 2016 is £nil.

C.4.5 Stress and scenario testing and sensitivity analysis

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

C.5. Operational Risk

C.5.1 Exposure

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

Conduct risk, an element of operational risk, is where the company does not achieve positive or fair customer outcomes. Management of conduct risk was a key priority for the Company in 2016 with robust governance and metrics embedded across the organisation.

The Company is exposed to outsourcing risk in regard to activities which could be undertaken by the Company itself, but are contracted to third parties. The Company can not outsource its statutory and regulatory obligations.

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

The Company and its parent has sought to contain and reduce exposure to risks such as data theft and conduct breaches arising from IT systems failures during the year, for example, by investment in a programme to improve IT Security, disaster recovery and outsourcing risk. The Company has also implemented the new Group Operational Risk and Control Management Framework, which better 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.

The Company holds economic capital, based on the SII SCR, against residual operational risk to the extent that it cannot be eliminated by management action. QRT S.25.03 (Appendix F.1.7) shows that the Company's undiversified SCR for operational risk is £1m.

The have been no material changes in the operational risks that the Company is exposed to over the year.

C.5.2 Risk Concentration

The Company has outsourced the handling of claims to a third party.

C.5.3 Risk mitigation

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

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

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

The Company has outsourced business critical activities to a third party and has implemented appropriate oversight mechanisms and is applying focus to exit and termination arrangements and the quality of business continuity and disaster recovery plans in the event of supplier failure.

The Company's three lines of defence monitor the effectiveness of the controls that are in place against operational risk. Further details of the three lines of defence are included in section B.1.1, including the specific roles and responsibilities of each line. Operational risk is overseen by the Board.

C.5.4 Stress and scenario testing and sensitivity analysis

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

C.6 Other Material Risks

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

C.7 Any Other Information

C.7.1 Stress and scenario testing and sensitivity analysis

Stress and Scenario Testing in relation to the Company is an element of the wider Group's Risk Management Framework, providing insight into key risk exposures and dependencies of the Company; considering resilience of potential changes to these exposures and dependencies; and anticipating a range of possible outcomes. The evaluation of the potential impacts on the Company's Solvency II capital and liquidity positions enables the Company to identify and prepare for appropriate ways to mitigate and/or manage the realisation of such impacts.

Stress and Scenario Testing includes a range of stress (where one risk factor, such as interest rates, is assumed to vary) and scenario (where combinations of risk factors are assumed to vary) tests to evaluate their impact on the business and to enable identification of plausible management actions to mitigate such impacts.

C.7.1.1 Stress and scenario testing

A range of stress and scenario tests are considered as part of the wider business plan, with the results of these stress and scenario tests demonstrating that, after consideration of any management actions that may be required to restore surplus post stress, the Company retains a SII surplus. The stress and scenario tests performed by the Company, have considered potential impacts from the most significant risks to the Company of counterparty credit risk and operational risks arising from outsourcing operations or from internal failings.

The Company also considers, and is inherently considered within, the Stress and Scenario Testing that is completed by its parent company.

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

C.7.1.2 Sensitivity analysis

Management use the sensitivity analyses to assess the impact of a range of potential events of differing levels of severity on the capital and/or liquidity positions of the Company and to ensure that the Company has a sufficient range of plausible management actions that could be executed in a timely manner to mitigate the potential impact(s).

The SCR is the primary basis used by the Company to measure and assess its risks. The sensitivity analysis performed by the Company therefore includes consideration of the sensitivity of its SCR cover ratio to economic assumptions, noting that the assets holdings of the Company are predominately cash.

7.2 Prudent Person Principle

The Company ensures that its assets are invested in accordance with the prudent person principle as set out in Article 132 of the SII Directive through the collective application of its risk policies and business standards. These ensure that the Company invests in assets whose risks it can properly identify, measure, monitor, manage, control and report, and appropriately take into account in the assessment of its overall solvency needs having regard to the term and nature of its liabilities. The Company's Asset Liability Management Business Standard and certain provisions of the Investment Management Business Standard contain mandatory requirements to ensure that the Company develops its own set of key risk indicators and takes into account the risks associated with its investments without relying only on the risk being adequately captured by the capital requirements. Risk appetites by risk type are also set and monitored by the Company. Other business standards set requirements for the quality of investment assets (including setting risk limits to control the market and credit risk within a portfolio), matching of assets to liabilities, diversification of invested assets and use of derivatives.

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D. Valuation for Solvency Purposes

In this Chapter

D. Valuation for Solvency Purposes

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

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

The Company's IFRS balance sheet has been reclassified to the prescribed format of the SII balance sheet QRT. The reclassification is shown in column (c) and relates to the reclassification of cash equivalents, under IFRS, to collective investment undertakings in the SII balance sheet.

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

Where the valuation of assets and liabilities is the same under IFRS and SII, a description of the bases, methods and main assumptions can be found in the accounting policies and notes of the Company's financial statements. If the valuation is materially different, a description of the bases methods and main assumptions used under SII is given in Sections D.1 and D.2 below.

Assets and other liabilities have been valued, according to the requirements of the SII regulations, at the amount for which they could be exchanged between knowledgeable willing parties in an arms length transaction. The value of other liabilities is not adjusted to take account of the impact of changes in own credit standing of the Company. The valuation of Technical Provisions is detailed in Section D.2.1.

Balance Sheet – IFRS and SII

As at 31 December 2016 £m	Note in financial statements (a)	IFRS balance sheet classified according to financial statements (b)	Reclassification of IFRS balances to SII balance sheet categories (c)	Reclassified IFRS balance sheet (d) =(b)+(c))	SII balance sheet (e)	Valuation differences between SII and IFRS (f) =(e)-(d)
Financial investments						
Collective investment undertakings		-	34	34	34	-
Reinsurance recoverables	H & 7	429	-	429	411	(18)
Receivables						
Reinsurance	K & 8	12	-	12	11	(1)
Trade, not insurance	K & 8	61	-	61	62	1
Cash and cash equivalents	J & 14(b)	43	(34)	9	10	1
Assets		545	-	545	528	(17)
Technical Provisions	G & 9	(429)	-	(429)	(412)	17
Payables and other financial liabilities						
Payables trade, not insurance	L & 11	(1)	-	(1)	(1)	-
Other liabilities		-	-	-	(1)	(1)
Liabilities		(430)	-	(430)	(414)	16
Excess of assets over liabilities		115	-	115	114	(1)

D.1 Assets

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

D.1.1 Collective investment undertakings

The Company's collective investment undertakings are all invested in highly liquid investments that are readily convertible into cash and which are subject to an insignificant risk of change in value.

D.1.2 Reinsurance recoverables

Reinsurance recoverables are calculated as the probability-weighted average of discounted future cash flows relating to reinsurance contracts, adjusted for the expected losses due to counterparty default. Although established separately, reinsurance recoverables are valued on the same basis and using the same methodology and assumptions used to derive Technical Provisions - Best Estimate Liabilities, as described in Section D.2.1, subject to the following:

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

The Company's reinsurance recoverables relate to the reinsurance of its general insurance claims with NICo.

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

- Only reinsurance cash flows relating to latent claims reserves are discounted under IFRS whereas all reinsurance cash flows are discounted under SII; and
- The rate used to discount PPO cash flows is lower under SII than the equivalent rate used under IFRS.

The Company does not have any Special Purpose Vehicles.

D.2 Technical Provisions

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

D.2.1 Valuation of Technical Provisions

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

Line of Business As at 31 December 2016 £m	Best Estimate	Risk Margin (unaudited)	Technical Provisions
Marine, aviation and transport	18	-	18
General liability insurance	290	-	290
Accepted non-proportional reinsurance	104	-	104
Total	412	-	412

D.2.1.1 Best Estimate Liabilities

The following general principles apply to the valuation of Best Estimate liabilities:

- A Best Estimate is one that represents the expected outcome from the range of possible outcomes for the future and is reasonable and realistic taking account of all the uncertainties involved;
- A consistent approach has been applied across all non-life business; and
- The calculation of Technical Provisions is performed on a going concern basis.

The Company's Best Estimate Liabilities are valued based on the present value of future cash flows discounted using relevant risk-free interest rates.

As the Company has been in run-off for a number of years, its Best Estimate Liabilities comprise only a claims provision. The claims provision includes cash flows relating to events that occurred before the valuation date, whether reported or not. The cash flows include net claims costs and expenses.

When modelling these cash flows the inflows are considered separately from the outflows. Claims costs take into account recoveries from salvage and subrogation.

Claims costs

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

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

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

Expenses

Given the nature of the Company's reinsurance arrangements, there are no expense components within Best Estimate Liabilities.

Events Not in Data (ENID)

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

Allowances for "known unknowns" are made using scenario analysis to cover any foreseeable event with a potentially material impact. ENID are considered both at SII lines of business level, and at portfolio level with allocations to SII lines of business, depending on the scenario being considered. Given that business has been in run-off for a number of years, the main ENID considered for the Company is in relation to a legislative change which impacts outstanding gross of reinsurance claims liabilities.

Discounting

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

Future management actions

There are no future management actions assumed in the calculation of the Company's gross of reinsurance Best Estimate Liabilities as at 31 December 2016.

D.2.1.2 Risk Margin (unaudited)

The Company's Risk Margin is less than £1m.

D.2.1.3 Simplifications

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

- The majority of the Company Best Estimate Liabilities are in GBP and USD. As part of the calculation of Technical Provisions, the Company segments liabilities in these currencies. On materiality grounds, exposure to currencies outside of GBP and USD are not separately segmented and are instead converted to GBP or USD at prevailing exchange rates.
- The Company's Best Estimate Liabilities include a provision in relation to ENIDs. For the purposes of discounting cashflows, it is assumed that ENIDs have the same cashflow profile as other claims.
- Cashflows are modelled in monthly time intervals for the first 10 years and annually thereafter. For the purposes of discounting, all payments are assumed to occur mid-month or mid-year as dictated by the time intervals used.
- When calculating provisions for potential reinsurer default, reinsurance assets are grouped by reinsurer counterparty credit rating and within each credit rating the same probabilities of default are assumed.

D.2.2 Level of uncertainty

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

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

In conducting its insurance business, the Company receives general insurance liability claims, and becomes involved in actual or threatened related litigation arising therefrom, including claims in respect of pollution and other environmental hazards. Amongst these are claims in respect of asbestos production and handling. Given the significant delays that are experienced in the notification of these claims, the potential number of incidents which they cover and the uncertainties associated with establishing liability, the ultimate cost is subject to uncertainty. Gross of reinsurance the level of uncertainty within the Technical Provisions for latent claims is high. The Company has extensive reinsurance in place against these claims so net of reinsurance the level of uncertainty is insignificant.

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

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

Technical Provisions as at 31 December 2016 £m	Best estimate liability (BEL)	SII Technical Provisions (BEL+RM)	IFRS Technical Provisions	Difference between SII and IFRS Technical Provisions
Non-life (excluding health)	**412**	**412**	**429**	**17**
- Marine, aviation and transport	18	18	19	1
- General liability insurance	290	290	302	12
- Accepted non-proportional reinsurance	104	104	108	4
Total	412	412	429	17

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

- Only latent claims reserves (which are within the general liability insurance and accepted non proportional reinsurance lines of business) are discounted under IFRS whereas all cash flows are discounted under SII; and
- The rate used to discount latent claims within the IFRS provision is slightly lower than that used to discount SII Technical Provisions.

Both of the differences lead to SII Technical Provisions being lower than the equivalent IFRS provisions. The differences impact all lines of business, but have the greatest impact on those classes of business with the longer duration liabilities (i.e. the general liability insurance and accepted non proportional reinsurance lines of business).

D.2.4 Volatility Adjustment

The Volatility Adjustment removes temporary distortions in spreads caused by illiquidity in the market or extreme widening of credit spreads, in particular in relation to government bonds. The PRA has approved the Company's application to apply a Volatility Adjustment. The impact of the Volatility Adjustment is detailed in the Long Term Guarantees and Transitional measures QRT S.22.01, see Appendix F.1.5. The impact of removing the Volatility Adjustment from gross Technical Provisions would be to increase their value by £13m.

D.2.5 Other reliefs

No transitional provisions have been applied in the calculation of Technical Provisions.

D.3 Other Liabilities

The Company does not have any material classes of liability, excluding Technical Provisions. The Company's financial statements, provide information about contingent liabilities and other risk factors in note 13. The Company has no additional material contingent liabilities to recognise under SII.

D.4 Alternative Methods of Valuation

The Company has not used any alternative methods of valuation.

D.5 Any Other Information

The Company has no other material information to disclose.

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E. Capital Management

In this Chapter

E. Capital Management

This section of the report describes the internal operational structures and procedures underlying the Company's capital management process covering structure and quality of Own Funds; SCR and Minimum Capital Requirement (MCR); methodology for calculation of the SCR; differences between IM and standard formula (SF) and any other material information.

E.1 Own Funds

E.1.1 Management of Own Funds

The Company's policy on capital and risk management is set out in its Risk Management Framework. The Company's capital and risk management objectives are closely interlinked and recognise the critical importance of protecting policyholder and other stakeholder interests. The Company's primary objective of managing capital efficiently is to optimise the balance between return and risk, whilst maintaining economic and regulatory capital surplus in accordance with approved risk appetites.

The Company manages its capital in accordance with its risk appetites, to satisfy the requirements of regulators and other stakeholders. This gives policyholders and the shareholder assurance of the Company's financial strength. The Company also aims to retain financial flexibility by maintaining sufficient liquidity.

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

There have been no material changes to the objectives, policies or processes during the year.

E.1.2 Eligible Own Funds

An analysis of the Company's Own Funds by tier is presented in the Own Funds QRT S.23.01, see Appendix F.1.6, and is summarised below.

As at 31 December 2016	Total £m	Tier 1 (unrestricted) £m
Ordinary share capital	1	1
Reconciliation reserve	113	113
Total Basic Own Funds	**114**	**114**

Tiering analysis

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

Reconciliation reserve

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

The table below sets out the constituent parts of the reconciliation reserve as at 31 December 2016:

As at 31 December 2016	£m
SII excess of assets over liabilities	114
Ordinary share capital	(1)
Reconciliation reserve	**113**

Eligibility of tiered Capital

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

As at 31 December 2016	£m
Total eligible Own Funds to meet the SCR	114
Total eligible Own Funds to meet the MCR	114

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

As at 31 December 2016	
Ratio of eligible Own Funds to the SCR	2,283%
Ratio of eligible Own Funds to the MCR	3,422%

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

At 31 December 2016 the Company's Own Funds of £114m are equal to the excess of assets over liabilities on a SII basis of £114m. The Company's excess of assets over liabilities on a SII basis is £1m less than its total equity on an IFRS basis. The following table details the material differences between the excess of assets over liabilities on a SII basis and total equity on an IFRS basis.

As at 31 December 2016	£m	£m	See Section
Total equity on an IFRS basis		115	
Valuation adjustments to Reinsurance Recoverables	(18)		D.1.2
Valuation adjustments to Technical Provisions	17		D.2.3
		(1)	
Excess of assets over liabilities on a SII basis		114	

E.1.4 Transitional arrangements and restrictions

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

E.2 Solvency Capital Requirement and Minimum Capital Requirement

E.2.1 The amount of the SCR and MCR

The Company's SCR (unaudited) as at 31 December 2016 was £5m. This is shown in the SCR QRT S.25.03 see Appendix F.1.7.

The Company's MCR as at 31 December 2016 was £3m. This is shown on the MCR QRT S.28.01 see Appendix F.1.8.

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

E.2.2 The composition of the SCR (unaudited)

The Company determines its SCR using an IM. Material risk categories are shown below. Further detail is shown in the SCR QRT S.25.03.

Diversified SCR by material risk category (per the SCR QRT) As at 31 December 2016	£m
Counterparty risk	4
Operational risk	1
Total SCR	5

Each risk component includes the impact of diversification within that component. Diversification is dependent on the categorisation of risks and the level of granularity of reporting. The diversification benefit between the risk categories above is immaterial.

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

Where the SCR is calculated using the SF, the SII regulations specify 23 simplified calculations that may be used across all of the SF risk modules risk modules except operational risk. The use of these simplifications is disclosed in QRT S.25.02, where applicable. The Company has not used any of these simplified calculations to calculate the SCR at 31 December 2016.

Where the SCR is calculated using the SF, SII regulations specify certain undertaking specific parameters that may be used in place of the standard parameters, subject to regulatory approval. These are available for non-life (including some health) premium and reserve risks. The use of these undertaking specific parameters must be disclosed in QRT S.25.02, where applicable. The Company has not used any undertaking specific parameters to calculate the SCR at 31 December 2016.

E.2.4 MCR Calculation

The Company's MCR is calculated by applying prescribed factors to its net written premium and its Best Estimate Liabilities. The MCR is subject to two further constraints: it must lie in the range of 25 to 45% of the Company's SCR and it cannot be less than an absolute minimum of €3.7m, converted at the exchange rate applicable at the end of October preceding the year end. The Company's MCR is the absolute minimum which is £3m following conversion into GBP.

E.3 Use of the Duration-based Equity Risk Sub-Module in the Calculation of the Solvency Capital Requirement (unaudited)

The Company does not use this option.

E.4 Difference between the Standard Formula and any Internal Model Used (unaudited)

E.4.1 Key uses of the IM

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

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

The granular metrics produced by the IM are used in setting the Company's strategy and support a series of other activities including:

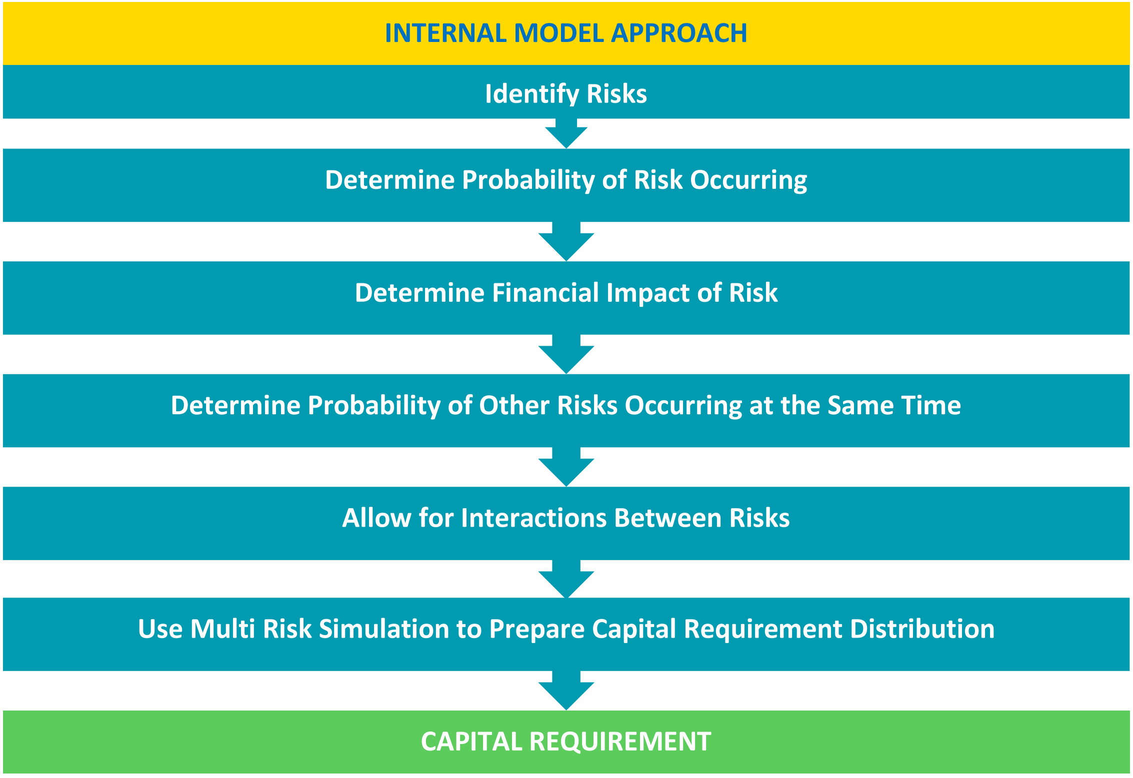
- Business planning, capital allocation, and setting risk appetites;
- Reviewing the effectiveness of the reinsurance contracts in place to mitigate undesirable risk exposures, through modelling potential adverse scenarios; and
- Measuring the impact of market changes on assets and liabilities to drive investment strategy.

E.4.2 Scope of the IM

The Company uses an IM to calculate its SCR covering all of the Company's business units and risk categories.

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

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



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

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

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

Risk measure and time period used in the IM

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

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

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

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

Market risk

- In the Company's IM interest rates are modelled in more detail to ensure changes in the slope and shape of the yield curve are captured. SF only considers the change in the level of interest rates.

Non Life underwriting risk

- Risks relating to latent claims, which are not explicitly included under SF, are included in the Company's IM.
- The Company's IM employs a finer level of granularity for material lines of business which allows for more distinction between material product types and in particular between commercial and personal lines which are grouped in SF.

- The Company's IM captures risks where the probability of extreme values is higher than normal, SF does not consider these elements.
- Inflation risk is explicitly included in the Company's IM, whereas there is no inflation risk in SF beyond that implicitly captured in the calibrations of the premium and reserve risks.

Operational risk

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

Counterparty risk

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

Aggregation, diversification and tax

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

E.4.5 Data used in the IM

The data used in the Company's IM includes:

- Accounting data, computed on an IFRS basis, which is used in the valuation of assets and liabilities;
- Policy data, including data on claims, policies in force and past policies;
- Operational risk data obtained from an external database covering industry operational risk losses, which is obtained from the Operational Risk Insurance Consortium;
- Financial market data, including asset data externally obtained such as from FTSE 100 index;
- Asset data including the market value of assets, most often derived from the accounting data; and
- Other data including numerical, census or classification information, but excluding qualitative information.

As part of the Company's data governance process the appropriateness of the data is considered before it is used in the IM. Data accuracy, appropriateness and completeness are monitored on an ongoing basis by the Company's Data Governance Council. The data used in 2016 was formally approved on 15 February 2017.

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

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

E.6 Any Other Information

The Company has no other material information to disclose.

The Ocean Marine Insurance Company Limited

Solvency and Financial Condition Report

2016

F. Appendices

In this Section

Appendix F.1.1
S.02.01.02
Balance Sheet
Amounts in 000s

		Solvency II Value
		C0010
Assets		
Intangible assets	R0030	
Deferred tax assets	R0040	
Pension benefit surplus	R0050	
Property, plant & equipment held for own use	R0060	
Investments (other than assets held for index-linked and unit-linked contracts)	R0070	33,900
Property (other than for own use)	R0080	
Holdings in related undertakings, including participations	R0090	
Equities	R0100	
- Equities - Listed	R0110	
- Equities - Unlisted	R0120	
Bonds	R0130	
- Government Bonds	R0140	
- Corporate Bonds	R0150	
- Structured Notes	R0160	
- Collateralised securities	R0170	
Collective Investments Undertakings	R0180	33,900
Derivatives	R0190	
Deposits other than cash equivalents	R0200	
Other investments	R0210	
Assets held for index-linked and unit-linked contracts	R0220	
Loans & mortgages	R0230	
- Loans on policies	R0240	
- Loans & mortgages to individuals	R0250	
- Other loans & mortgages	R0260	
Reinsurance recoverables from:	R0270	411,285
- Reinsurance recoverables - Non-life and health similiar to non-life	R0280	411,285
- Reinsurance recoverables - Non-life excluding health	R0290	411,285
- Reinsurance recoverables - Health similar to non-life	R0300	
- Reinsurance recoverables - Life and health similar to life, excluding health and index-linked and unit-linked	R0310	
- Reinsurance recoverables - Health similar to life	R0320	
- Reinsurance recoverables - Life excluding health and index-linked and unit-linked	R0330	
- Reinsurance recoverables - Life index-linked and unit-linked	R0340	
Deposits to cedants	R0350	
Insurance & intermediaries receivables	R0360	
Reinsurance receivables	R0370	10,968
Receivables (trade, not insurance)	R0380	61,913
Own Shares (held directly)	R0390	
Amounts due in respect of own fund items or initial fund called up but not yet paid in	R0400	
Cash and cash equivalents	R0410	9,502
Any other assets, not elsewhere shown	R0420	0
Total assets	R0500	527,569
Liabilities		
Technical provisions - Non-life	R0510	411,705
- Technical provisions - Non-life (excluding health)	R0520	411,705
- TP calculated as a whole - Non-life (excluding health)	R0530	
- Best Estimate - Non-life (excluding health)	R0540	411,285
- Risk margin - Non-life (excluding health)	R0550	420
- Technical provisions - Health (similar to non-life)	R0560	
- TP calculated as a whole - Health (similar to non-life)	R0570	
- Best Estimate - Health (similar to non-life)	R0580	
- Risk margin - Health (similar to non-life)	R0590	
Technical provisions - Life (excluding index-linked and unit linked)	R0600	
- Technical provisions - Health (similar to life)	R0610	
- TP calculated as a whole - Health (similar to life)	R0620	
- Best Estimate - Health (similar to life)	R0630	
- Risk margin - Health (similar to life)	R0640	
- Technical provisions - Life (excluding health and index-linked and unit-linked)	R0650	
- TP calculated as a whole - Life (excl health, index-linked and unit-linked)	R0660	
- Best Estimate - Life (excl health, index-linked and unit-linked)	R0670	
- Risk margin - Life (excl health, index-linked and unit-linked)	R0680	
Technical provisions - Index-linked and unit-linked	R0690	
- TP calculated as a whole - Index-linked and unit-linked	R0700	
- Best Estimate - Index-linked and unit-linked	R0710	
- Risk margin - Index-linked and unit-linked	R0720	
Contingent liabilities	R0740	
Provisions other than technical provisions	R0750	
Pension benefit obligations	R0760	
Deposits from reinsurers	R0770	
Deferred tax liabilities	R0780	
Derivatives	R0790	
Debts owed to credit institutions	R0800	
Financial liabilities other than debts owed to credit institutions	R0810	
Insurance & intermediaries payables	R0820	
Reinsurance payables	R0830	
Payables (trade, not insurance)	R0840	1,033
Subordinated liabilities	R0850	
- Subordinated liabilities not in BOF	R0860	
- Subordinated liabilities in BOF	R0870	
Any other liabilities, not elsewhere shown	R0880	830
Total liabilities	R0900	413,569
Excess of assets over liabilities	R1000	114,000

Appendix F.1.2.1
S.05.01.02
Premiums, claims and expenses by line of business
Amounts in 000s

		Line of Business for: non-life insurance and reinsurance obligations (direct business and accepted proportional reinsurance)											
		Medical expense insurance	Income protection insurance	Workers' compensation insurance	Motor vehicle liability insurance	Other motor insurance	Marine, aviation and transport insurance	Fire and other damage to property insurance	General liability insurance	Credit and suretyship insurance	Legal expenses insurance	Assistance	Miscellaneous financial loss
		C0010	C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0090	C0100	C0110	C0120
Premiums written													
Gross - Direct Business	R0110								82				
Gross - Proportional reinsurance accepted	R0120												
Gross - Non-proportional reinsurance accepted	R0130												
Reinsurers' share	R0140								82				
Net	R0200												
Premiums earned													
Gross - Direct Business	R0210								82				
Gross - Proportional reinsurance accepted	R0220												
Gross - Non-proportional reinsurance accepted	R0230												
Reinsurers' share	R0240								82				
Net	R0300												
Claims incurred													
Gross - Direct Business	R0310						-4,138	0	-16,732				
Gross - Proportional reinsurance accepted	R0320						-1,342	0	-3,621				
Gross - Non-proportional reinsurance accepted	R0330												
Reinsurers' share	R0340						-5,480	0	-20,354				
Net	R0400						0	0	0				
Changes in other technical provisions													
Gross - Direct Business	R0410												
Gross - Proportional reinsurance accepted	R0420												
Gross - Non-proportional reinsurance accepted	R0430												
Reinsurers' share	R0440												
Net	R0500												
Expenses incurred	R0550								34				
Other expenses	R1200												
Total expenses	R1300												

		Line of Business for: accepted non proportional reinsurance				Total
		Non-proportional health reinsurance	Non-proportional casualty reinsurance	Non-proportional marine, aviation and transport reinsurance	Non-proportional property reinsurance	
		C0130	C0140	C0150	C0160	C0200
Premiums written						
Gross - Direct Business	R0110					82
Gross - Proportional reinsurance accepted	R0120					
Gross - Non-proportional reinsurance accepted	R0130					
Reinsurers' share	R0140					82
Net	R0200					
Premiums earned						
Gross - Direct Business	R0210					82
Gross - Proportional reinsurance accepted	R0220					
Gross - Non-proportional reinsurance accepted	R0230					
Reinsurers' share	R0240					82
Net	R0300					
Claims incurred						
Gross - Direct Business	R0310					-20,870
Gross - Proportional reinsurance accepted	R0320					-4,963
Gross - Non-proportional reinsurance accepted	R0330		-3,440	-4,236	0	-7,676
Reinsurers' share	R0340		-3,440	-4,236	0	-33,509
Net	R0400					0
Changes in other technical provisions						
Gross - Direct Business	R0410					
Gross - Proportional reinsurance accepted	R0420					
Gross - Non-proportional reinsurance accepted	R0430					
Reinsurers' share	R0440					
Net	R0500					
Expenses incurred	R0550					34
Other expenses	R1200					
Total expenses	R1300					34

Appendix F.1.2.2

S.05.02.01

Premiums, claims and expenses by Country

Amounts in 000s

		Home Country	Top 5 countries (by amount of gross premium written) - non-life obligations					Total Top 5 and home country
		C0010	C0020	C0030	C0040	C0050	C0060	C0070
	R0010							
		C0080	C0090	C0100	C0110	C0120	C0130	C0080
Premiums written								
Gross - Direct Business	R0110	82						82
Gross - Proportional reinsurance accepted	R0120							0
Gross - Non-proportional reinsurance accepted	R0130							0
Reinsurers' share	R0140	82						82
Net	R0200							0
Premiums earned								
Gross - Direct Business	R0210	82						82
Gross - Proportional reinsurance accepted	R0220							0
Gross - Non-proportional reinsurance accepted	R0230							0
Reinsurers' share	R0240	82						82
Net	R0300							0
Claims incurred								
Gross - Direct Business	R0310	-20,870						-20,870
Gross - Proportional reinsurance accepted	R0320	-4,963						-4,963
Gross - Non-proportional reinsurance accepted	R0330	-7,676						-7,676
Reinsurers' share	R0340	-33,509						-33,509
Net	R0400							0
Changes in other technical provisions								
Gross - Direct Business	R0410							0
Gross - Proportional reinsurance accepted	R0420							0
Gross - Non-proportional reinsurance accepted	R0430							0
Reinsurers' share	R0440							0
Net	R0500							0
Expenses incurred	R0550	34						34
Other expenses	R1200							
Total expenses	R1300							34

Appendix F.1.3
S.17.01.02
Non-life Technical Provisions
Amounts in 000s

		Direct business and accepted proportional reinsurance											
		Medical expense insurance	**Income protection insurance**	**Workers' compensation insurance**	**Motor vehicle liability insurance**	**Other motor insurance**	**Marine, aviation and transport insurance**	**Fire and other damage to property insurance**	**General liability insurance**	**Credit and suretyship insurance**	**Legal expenses insurance**	**Assistance**	**Miscellaneous financial loss**
		C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0090	C0100	C0110	C0120	C0130
Technical provisions calculated as a whole	R0010												
Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default associated to TP as a whole	R0050												
Technical provisions calculated as a sum of BE and RM													
Best estimate													
Premium provisions													
Gross	R0060												
Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	R0140												
Net Best Estimate of Premium Provisions	R0150												
Claims provisions													
Gross	R0160						17,799		289,588				
Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	R0240						17,799		289,588				
Net Best Estimate of Claims Provisions	R0250												
Total Best estimate - Gross	R0260						17,799		289,588				
Total Best estimate - Net	R0270												
Risk margin	R0280						70		350				
Amount of the transitional on Technical Provisions													
Technical Provisions calculated as a whole	R0290												
Best estimate	R0300												
Risk margin	R0310												
Technical provisions - Total													
Technical provisions - Total	R0320						17,869		289,938				
Recoverable from reinsurance contract/SPV and Finite Re after the adjustment for expected losses due to counterparty default - Total	R0330						17,799		289,588				
Technical provisions minus recoverables from reinsurance/SPV and Finite Re - Total	R0340						70		350				

		Accepted non-proportional reinsurance				
		Non-proportional health reinsurance	**Non-proportional casualty reinsurance**	**Non-proportional marine, aviation and transport reinsurance**	**Non-proportional property reinsurance**	**Total Non-Life obligation**
		C0140	C0150	C0160	C0170	C0180
Technical provisions calculated as a whole	R0010					
Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default associated to TP as a whole	R0050					
Technical provisions calculated as a sum of BE and RM						
Best estimate						
Premium provisions						
Gross	R0060					
Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	R0140					
Net Best Estimate of Premium Provisions	R0150					
Claims provisions						
Gross	R0160		102,530	1,369		411,285
Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	R0240		102,530	1,369		411,285
Net Best Estimate of Claims Provisions	R0250					
Total Best estimate - Gross	R0260		102,530	1,369		411,285
Total Best estimate - Net	R0270					
Risk margin	R0280					420
Amount of the transitional on Technical Provisions						
Technical Provisions calculated as a whole	R0290					
Best estimate	R0300					
Risk margin	R0310					
Technical provisions - Total						
Technical provisions - Total	R0320		102,530	1,369		411,705
Recoverable from reinsurance contract/SPV and Finite Re after the adjustment for expected losses due to counterparty default - Total	R0330		102,530	1,369		411,285
Technical provisions minus recoverables from reinsurance/SPV and Finite Re - Total	R0340					420

Appendix F.1.4
S.19.01.21
Non-Life Insurance Claims Information
Amounts in 000s

Total Non-Life Business

Accident year / Underwriting year	**Z0010**	AY

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

		Development Year 0	1	2	3	4	5	6	7	8	9	10&+			In Current year	Sum of years (cumulative)
		C0010	C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0090	C0100	C0110			C0170	C0180
Prior	R0100											26,059		R0100	26,059	26,059
N-9	R0160													R0160		
N-8	R0170													R0170		
N-7	R0180													R0180		
N-6	R0190													R0190		
N-5	R0200													R0200		
N-4	R0210													R0210		
N-3	R0220													R0220		
N-2	R0230													R0230		
N-1	R0240													R0240		
N	R0250													R0250		
													Total	R0260	26,059	26,059

Gross undiscounted Best Estimate Claims Provisions
(absolute amount)

		Development Year 0	1	2	3	4	5	6	7	8	9	10&+			Year end (discounted data)
		C0200	C0210	C0220	C0230	C0240	C0250	C0260	C0270	C0280	C0290	C0300			C0360
Prior	R0100											496,060		R0100	411,285
N-9	R0160													R0160	
N-8	R0170													R0170	
N-7	R0180													R0180	
N-6	R0190													R0190	
N-5	R0200													R0200	
N-4	R0210													R0210	
N-3	R0220													R0220	
N-2	R0230													R0230	
N-1	R0240													R0240	
N	R0250													R0250	
													Total	R0260	411,285

Appendix F.1.5

S.22.01.21

Impact of long term guarantees and transitional measures

Amounts in 000s

		Amount with LG measures and transitionals	Impact of transitional on technical provisions	Impact of transitional on interest rate	Impact of volatility adjustment set to zero	Impact of matching adjustment set to zero
		C0010	C0030	C0050	C0070	C0090
Technical Provisions	R0010	411,705			13,465	
Basic Own Funds	R0020	114,000				
Eligible own funds to meet Solvency Capital Requirement	R0050	114,000				
Solvency Capital Requirement	R0090	4,994			362	
Eligible own funds to meet Minimum Capital Requirement	R0100	114,000				
Minimum Capital Requirement	R0110	3,332				

Appendix F.1.6
S.23.01.01
Own Funds
Amounts in 000s

		Total	Tier 1 Unrestricted	Tier 1 Restricted	Tier 2	Tier 3
		C0010	C0020	C0030	C0040	C0050
Basic own funds before deduction for participations in other financial sector as foreseen in article 68 of Delegated Regulation 2015/35						
Ordinary share capital (gross of own shares)	R0010	1,000	1,000			
Share premium account related to ordinary share capital	R0030					
Total initial funds, members' contributions or the equivalent basic own - fund item for mutual and mutual type undertakings	R0040					
Subordinated mutual member accounts	R0050					
Surplus funds	R0070					
Preference shares	R0090					
Share premium account related to preference shares	R0110					
Reconciliation reserve	R0130	113,000	113,000			
Subordinated liabilities	R0140					
An amount equal to the value of net deferred tax assets	R0160					
Own fund from financial statements do not meet the criteria to be classified as Solvency II own funds	R0180					
Own funds from the financial statements that should not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds						
Own funds from the financial statements that should not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds	R0220					
Deductions						
Deductions for participations in financial and credit institutions	R0230					
Total basic own funds after deductions	R0290	114,000	114,000			
Ancillary own funds						
Unpaid and uncalled ordinary share capital callable on demand	R0300					
Unpaid and uncalled initial funds, members' contributions or the equivalent basic own fund item for mutual and mutual - type undertakings, callable on demand	R0310					
Unpaid and uncalled preference shares callable on demand	R0320					
A legally binding commitment to subscribe and pay for subordinated liabilities on demand	R0330					
Letters of credit and guarantees under Article 96(2) of the Directive 2009/138/EC	R0340					
Letters of credit and guarantees other than under Article 96(2) of the Directive 2009/138/EC	R0350					
Supplementary members calls under first subparagraph of Article 96(3) of the Directive 2009/138/EC	R0360					
Supplementary members calls - Other than under first subparagraph of Article 96(3) of the Directive 2009/138/EC	R0370					
Other ancillary own funds	R0390					
Total ancillary own funds	R0400					
Available and eligible own funds						
Total available own funds to meet the SCR	R0500	114,000	114,000			
Total available own funds to meet the MCR	R0510	114,000	114,000			
Total eligible own funds to meet the SCR	R0540	114,000	114,000			
Total eligible own funds to meet the MCR	R0550	114,000	114,000			
SCR	R0580	4,994				
MCR	R0600	3,332				
Ratio of Eligible own funds to SCR	R0620	22.8267				
Ratio of Eligible own funds to MCR	R0640	34.2153				

		C0060
Reconciliation Reserve		
Excess of assets over liabilities	R0700	114,000
Own shares (direct/indirect)	R0710	
Foreseeable dividends, distributions and charges	R0720	
Other basic own fund items	R0730	1,000
Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced funds	R0740	
Reconciliation reserve	R0760	113,000
Expected profits		
Expected profits included in future premiums (EPIFP) - Life business	R0770	
Expected profits included in future premiums (EPIFP) - Non-life business	R0780	
Total Expected profits included in future premiums (EPIFP)	R0790	

Appendix F.1.7

S.25.03.21

Solvency Capital Requirement - For undertakings on Full Internal Models

Amounts in 000s

Unique number of component	Component Description	Calculation of the Solvency Capital Requirement
C0010	C0020	C0030
100000	Market Risk	
200000	Counterparty Risk	4,131
300000	Life underwriting risk	
400000	Health underwriting risk	
500000	Non-life underwriting risk	
701000	Operational risk	1,141
801000	Other risks	
802000	Loss-absorbing capacity of technical provisions	
803000	Loss-absorbing capacity of deferred tax	
804000	Other adjustments	

Calculation of Solvency Capital Requirement		C0100
Total undiversified components	R0110	5,272
Diversification	R0060	-278
Capital requirement for business operated in accordance with Art. 4 of Directive 2003/41/EC (transitional)	R0160	
Solvency capital requirement excluding capital add-on	R0200	4,994
Capital add-ons already set	R0210	
Solvency Capital Requirement	R0220	4,994
Other information on SCR		
Amount/estimate of the overall loss-absorbing capacity of technical provisions	R0300	
Amount/estimate of the overall loss-absorbing capacity of deferred taxes	R0310	
Total amount of Notional Solvency Capital Requirements for remaining part	R0410	
Total amount of Notional Solvency Capital Requirements for ring fenced funds (other than those related to business operated in accordance with Art. 4 of Directive 2003/41/EC (transitional))	R0420	
Total amount of Notional Solvency Capital Requirements for matching adjustment portfolios	R0430	
Diversification effects due to RFF nSCR aggregation for article 304	R0440	

Appendix F.1.8

S.28.01.01

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

Amounts in 000s

Linear formula component for non-life insurance and reinsurance obligations

		C0010
MCRNL Result	R0010	

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

Linear formula component for life insurance and reinsurance obligations

		C0040
MCRL Result	R0200	

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

Overall MCR calculation

		C0070
Linear MCR	R0300	
SCR	R0310	4,994
MCR cap	R0320	2,247
MCR floor	R0330	1,249
Combined MCR	R0340	1,249
Absolute floor of the MCR	R0350	3,332

		C0070
Minimum Capital Requirement	R0400	3,332

F.2 Glossary of Abbreviations and Definitions

99.5% percentile	An event that would be expected to occur once in every 200 years
AIL	Aviva Insurance Limited
ALCO	Asset and liability committee
Alternative valuation methods	Valuation methods that are consistent with Article 75 of the SII Directive other than those which solely use the quoted market prices for the same or similar assets or liabilities[iii]
ARD	Adverse Reserve Deterioration agreement
Basis risk	The risk resulting from the situation in which the exposure covered by the risk-mitigation technique does not correspond to the risk exposure of the insurance or reinsurance undertaking[iii]
CEO	Chief Executive Officer
CFO	Chief Finance Officer
Collateral arrangements	Arrangements under which collateral providers do one of the following: (a) transfer full ownership of the collateral to the collateral taker for the purposes of securing or otherwise covering the performance of a relevant obligation; (b) provide collateral by way of security in favour of, or to, a collateral taker, and the legal ownership of the collateral remains with the collateral provider or a custodian when the security right is established[iii]
Concentration risk	All risk exposures with a loss potential which is large enough to threaten the solvency or the financial position of insurance and reinsurance undertakings[ii]
Credit risk	The risk of loss or of adverse change in the financial situation, resulting from fluctuations in the credit standing of issuers of securities, counterparties and any debtors to which insurance and reinsurance undertakings are exposed, in the form of counterparty default risk, or spread risk, or market risk concentrations[ii]
CRO	Chief Risk Officer
Diversification effects	The reduction in the risk exposure of insurance and reinsurance undertakings and groups related to the diversification of their business, resulting from the fact that the adverse outcome from one risk can be offset by a more favourable outcome from another risk, where those risks are not fully correlated[ii]
EEA	European Economic Area
EIOPA	European Insurance and Occupational Pensions Authority
ENID	Events Not in Data are events not deemed to be captured by the data which need to be separately allowed for within the best estimate calculations to take appropriate account of uncertainty.
Expected profit included in future premium	The expected present value of future cash flows which result from the inclusion in technical provisions of premiums relating to existing insurance and reinsurance contracts that are expected to be received in the future, but that may not be received for any reason, other than because the insured event has occurred, regardless of the legal or contractual rights of the policyholder to discontinue the policy[iii]
FCA	Financial Conduct Authority
GAAP	Generally accepted accounting principles
The Group	Aviva plc and its subsidiary companies
GBP	Pounds sterling
IFRS	International Financial Reporting Standards (used to prepare the Company's financial statements)
IM	Internal Model
IMMMR	Identify, Measure, Manage, Monitor, and Report risks
Latent claims	General insurance claims that are often not made until many years after the period of cover provided, due to the impact of perils or causes not becoming evident for a number of years. Sources of latent claims include asbestos-related diseases, environmental pollution and industrial deafness.[i]
Liquidity risk	The risk that insurance and reinsurance undertakings are unable to realise investments and other assets in order to settle their financial obligations when they fall due[ii]
Longevity risk	The risk associated with annuitants living longer than expected.
Market risk	The risk of loss or of adverse change in the financial situation resulting, directly or indirectly, from fluctuations in the level and in the volatility of market prices of assets, liabilities and financial instruments[ii]

MCR	Minimum Capital Requirement
NICo	National Indemnity Company
Operational risk	The risk of loss arising from inadequate or failed internal processes, personnel or systems, or from external events[ii]
ORSA	Own Risk and Solvency Assessment
Outsourcing	An arrangement of any form between an insurance or reinsurance undertaking and a service provider, whether a supervised entity or not, by which that service provider performs a process, a service or an activity, whether directly or by sub-outsourcing, which would otherwise be performed by the insurance or reinsurance undertaking itself[ii]
PRA	Prudential Regulatory Authority
Probability distribution forecast	A mathematical function that assigns to an exhaustive set of mutually exclusive future events a probability of realisation[ii]
Qualifying holding	A direct or indirect holding in an undertaking which represents 10 % or more of the capital or of the voting rights or which makes it possible to exercise a significant influence over the management of that undertakingii
QRT	Quantitative Reporting Templates
RCSA	Risk and control self assessment
Risk Margin	An estimate of the amount, in addition to the Best Estimate Liability that a third party would expect to receive in order to assume ownership of the Company's insurance obligations.
Risk-mitigation techniques	All techniques which enable insurance and reinsurance undertakings to transfer part or all of their risks to another party[ii]
Run-off	A Company that is letting its present insurance policies run to their expiration dates.
SCR	Solvency Capital Requirement
Scenario analysis	The analysis of the impact of a combination of adverse eventsiii
SII	Solvency II Regulatory Regime
SII Directive	Directive 2009/138/EC of the European Parliament and of the Council on the taking-up and pursuit of the business of Insurance and Reinsurance
SII Regulations	Commission delegated regulation (EU) 2015/35 of 10 October 2014 supplementing Directive 2009/138/EC of the European Parliament and of the Council on the taking-up and pursuit of the business of Insurance and Reinsurance (Solvency II)
Special Purpose Vehicle	Any undertaking, whether incorporated or not, other than an existing insurance or reinsurance undertaking, which assumes risks from insurance or reinsurance undertakings and which fully funds its exposure to such risks through the proceeds of a debt issuance or any other financing mechanism where the repayment rights of the providers of such debt or financing mechanism are subordinated to the reinsurance obligations of such an undertaking [ii]
Subrogation	Subrogation is the right for an insurer to legally pursue a third party that caused an insurance loss to the insured. This is done as a means of recovering the amount of the claim paid by the insurance carrier to the insured for the loss.
USD	US dollars
Underwriting risk	The risk of loss or of adverse change in the value of insurance liabilities, due to inadequate pricing and provisioning assumptions[ii]

i www.aviva.com
ii Article 13 SII Directive
iii Article 1 SII Regulations

F.3 Directors' Statement

We acknowledge our responsibility for preparing the Solvency and Financial Condition Report of The Ocean Marine Insurance Company Limited at 31 December 2016 in all material respects in accordance with the PRA Rules and the Solvency II Regulations.

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

(a) throughout the financial year to 31 December 2016, the Company has complied in all material respects with the requirements of the PRA rules and Solvency II Regulations as applicable to the Company; and

(b) it is reasonable to believe that in respect of the period from 31 December 2016 to the date of the publication of the SFCR, the Company has continued so to comply and that it will continue so to comply for the remainder of the financial year to 31 December 2017.

DJ Lovely
Director
16 May 2017

Report of the external independent auditors to the Directors of The Ocean Marine Insurance Company Limited ('the Company') pursuant to Rule 4.1 (2) of the External Audit Part of the PRA Rulebook applicable to Solvency II firms

Report on the Audit of the relevant elements of the Solvency and Financial Condition Report

Opinion

Except as stated below, we have audited the following documents prepared by the Company as at 31 December 2016:

- The 'Valuation for solvency purposes' and 'Capital Management' sections of the Solvency and Financial Condition Report of the Company as at 31 December 2016, (**'the Narrative Disclosures subject to audit'**); and
- Company templates S.02.01.02, S.17.01.02, S.22.01.21, S.23.01.01 and S.28.01.01 (**'the Templates subject to audit'**).

The Narrative Disclosures subject to audit and the Templates subject to audit are collectively referred to as the **'relevant elements of the Solvency and Financial Condition Report'**.

We are not required to audit, nor have we audited, and as a consequence do not express an opinion on the **Other Information** which comprises:

- Information contained within the relevant elements of the Solvency and Financial Condition Report set out above which are, or derive from the Solvency Capital Requirement, as identified in the Appendix to this report;
- The 'Summary', 'Business and performance', 'System of governance' and 'Risk profile' elements of the Solvency and Financial Condition Report;
- Company templates S.05.01.02, S.05.02.01, S.19.01.21 and S.25.03.21;
- The written acknowledgement by management of their responsibilities, including for the preparation of the Solvency and Financial Condition Report (**'the Responsibility Statement'**).

To the extent the information subject to audit in the relevant elements of the Solvency and Financial Condition Report includes amounts that are totals, sub-totals or calculations derived from the Other Information, we have relied without verification on the Other Information.

In our opinion, the information subject to audit in the relevant elements of the Solvency and Financial Condition Report of the Company as at 31 December 2016 is prepared, in all material respects, in accordance with the financial reporting provisions of the PRA Rules and Solvency II regulations on which they are based, and as supplemented by supervisory approvals.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) (ISAs (UK & I)), International Standard on Auditing (UK) 800 and International Standard on Auditing (UK) 805, and applicable law. Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the relevant elements of the Solvency and Financial Condition Report* section of our report.

Emphasis of Matter - Basis of Accounting

We draw attention to the 'Valuation for solvency purposes' and 'Capital Management' sections of the Solvency and Financial Condition Report, which describe the basis of accounting. The Solvency and Financial Condition Report is prepared in compliance with the financial reporting provisions of the PRA Rules and Solvency II regulations, and therefore in accordance with a special purpose financial reporting framework. The Solvency and Financial Condition Report is required to be published, and intended users include but are not limited to the Prudential Regulation Authority. As a result, the Solvency and Financial Condition Report may not be suitable for another purpose. Our opinion is not modified in respect of this matter.

Responsibilities of Directors for the Solvency and Financial Condition Report

The Directors are responsible for the preparation of the Solvency and Financial Condition Report in accordance with the financial reporting provisions of the PRA rules and Solvency II regulations which have been supplemented by the approvals made by the PRA, under the PRA Rules and Solvency II regulations on which they are based, as detailed below:

- Approval to use the volatility adjustment in the calculation of technical provisions
- Approval to use an internal model

The Directors are also responsible for such internal control as they determine is necessary to enable the preparation of a Solvency and Financial Condition Report that is free from material misstatement, whether due to fraud or error.

Auditors' Responsibilities for the Audit of the relevant elements of the Solvency and Financial Condition Report

It is our responsibility to form an independent opinion, in accordance with applicable law, ISAs (UK & I) and ISAs (UK) 800 and 805 as to whether the information subject to audit in the relevant elements of the Solvency and Financial Condition Report is prepared, in all material respects, in accordance with the financial reporting provisions of the PRA Rules and Solvency II regulations on which they are based. ISAs (UK & I) require us to comply with the Auditing Practices Board's Ethical Standard for Auditors.

An audit involves obtaining evidence about the amounts and disclosures in the relevant elements of the Solvency and Financial Condition Report sufficient to give reasonable assurance that the relevant elements of the Solvency and Financial Condition Report are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Directors; and the overall presentation of the relevant elements of the Solvency and Financial Condition Report. In addition, we read all the financial and non-financial information in the Solvency and Financial Condition Report to identify material inconsistencies with the audited relevant elements of the Solvency and Financial Condition Report. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

This report, including the opinion, has been prepared for the Directors of the Company to comply with their obligations under External Audit rule 2.1 of the Solvency II firms Sector of the PRA Rulebook and for no other purpose. We do not, in providing this report, accept or assume responsibility for any other purpose save where expressly agreed by our prior consent in writing.

Other Matter

The Company has authority to calculate its Solvency Capital Requirement using an internal model ('the Model') approved by the Prudential Regulation Authority in accordance with the Solvency II Regulations. In forming our opinion (and in accordance with PRA Rules), we are not required to audit the inputs to, design of, operating effectiveness of and outputs from the Model, or whether the Model is being applied in accordance with the Company's application or approval order.

Report on Other Legal and Regulatory Requirements

In accordance with Rule 4.1 (3) of the External Audit Part of the PRA Rulebook for Solvency II firms we are required to read the Other Information and consider whether it is materially inconsistent with the relevant elements of the Solvency and Financial Condition Report and our knowledge obtained in the audits of the Solvency and Financial Condition Report and of the Company's statutory financial statements. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

PricewaterhouseCoopers LLP
Chartered Accountants
London
16 May 2017

- The maintenance and integrity of the Aviva plc website is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the Solvency and Financial Condition Report since it was initially presented on the Aviva plc website.
- Legislation in the United Kingdom governing the preparation and dissemination of Solvency and Financial Condition Reports may differ from legislation in other jurisdictions.

Appendix – relevant elements of the Solvency and Financial Condition Report that are not subject to audit

The relevant elements of the Solvency and Financial Condition Report that are not subject to audit comprise:

- The following elements of template S.02.01.02:
  - Row R0550: Technical provisions - non-life (excluding health) - risk margin
  - Row R0590: Technical provisions - health (similar to non-life) - risk margin
  - Row R0640: Technical provisions - health (similar to life) - risk margin
  - Row R0680: Technical provisions - life (excluding health and index-linked and unit-linked) - risk margin
  - Row R0720: Technical provisions - Index-linked and unit-linked - risk margin
- The following elements of template S.17.01.02
  - Row R0280: Technical provisions calculated as a sum of BE and RM - Risk margin
- The following elements of template S.22.01.21
  - Row R0010 – Technical provisions
  - Row R0090 – Solvency Capital Requirement
- The following elements of template S.23.01.01
  - Row R0580: SCR
  - Row R0740: Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced funds
- The following elements of Company template S.28.01.01
  - Row R0310: SCR
- Elements of the Narrative Disclosures subject to audit identified as ‘unaudited’.