

THE OCEAN MARINE INSURANCE COMPANY LIMITED  
Registered in England and Wales: No. 00027204  
ANNUAL REPORT AND FINANCIAL STATEMENTS 2015

MONDAY



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# **THE OCEAN MARINE INSURANCE COMPANY LIMITED**

Registered in England and Wales: No. 00027204

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# **THE OCEAN MARINE INSURANCE COMPANY LIMITED**

Registered in England and Wales: No. 00027204

## **Directors and Officers**

### **Directors**

M G Sykes  
C J Holmes  
D J Lovely

### **Officer - Company Secretary**

C M Valentine  
St Helen's  
1 Undershaft  
London  
EC3P 3DQ

### **Independent auditors**

PricewaterhouseCoopers LLP  
Chartered Accountants and Statutory Auditors  
7 More London Riverside  
London SE1 2RT

### **Registered office**

St Helen's  
1 Undershaft  
London  
EC3P 3DQ

### **Company number**

Registered in England and Wales: No. 00027204

### **Other information**

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

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

## **THE OCEAN MARINE INSURANCE COMPANY LIMITED**

Registered in England and Wales: No. 00027204

### **Strategic report**

#### **For the year ended 31 December 2015**

The directors present their Strategic report for the Company for the year ended 31 December 2015

### **Review of the Company's business**

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. An insurance business transfer in November 2011 increased the Company's claims by £355 million. All business is wholly reinsured through reinsurance agreements entered into with National Indemnity Company in 2000.

On completion of the insurance business transfer detailed above, the Company completed an Adverse Reserve Deterioration ("ARD") agreement with its parent company, Aviva Insurance Limited. This agreement provides an extra £1 billion of reinsurance cover to protect against circumstances in which the reinsurance with National Indemnity Company is exhausted or otherwise fails to satisfy claims. Together these arrangements provide substantial protection in excess of current gross liabilities.

### **Financial position and performance**

The financial position of the Company at 31 December 2015 is shown in the statement of financial position on page 17, with the results shown in the income statement on page 15 and the statement of cash flows on page 18.

During the year the Company continued to manage the run-off of its insurance portfolio. Profit was driven by income from interest-bearing assets and insurance liabilities steadily decreasing. The Company's profit before tax was £1 million (2014: £1 million).

The Solvency II regime came into effect from 1 January 2016. The Company will adopt an internal model approach to calculating their Solvency II capital requirement.

### **Principal risks and uncertainties**

A description of the principal risks and uncertainties facing the Company and the Company's risk management policies are set out in notes 13 and 15 to the financial statements.

### **Key performance indicator ("KPI")**

The directors consider that the Company's KPI that communicates the financial performance is as follows:

- Percentage change in gross outstanding claims

The KPI is set out below:

	<b>2015</b>	<b>2014</b>
Percentage reduction in gross outstanding claims	(10%)	(7%)

By order of the Board 22 March 2016



C M Valentine  
Company Secretary  
Registered Office: St Helen's  
1 Undershaft  
London  
EC3P 3DQ

## **THE OCEAN MARINE INSURANCE COMPANY LIMITED**

Registered in England and Wales: No. 00027204

### **Directors' report For the year ended 31 December 2015**

The directors present their annual report and financial statements for the Company for the year ended 31 December 2015.

#### **Directors**

The names of the present directors of the Company appear on page 1.

D J Lovely was appointed as a director of the Company on 27 March 2015

#### **Dividend**

The directors do not recommend the payment of a dividend for the year ended 31 December 2015 (2014: £nil).

#### **Going concern**

After making enquiries, the directors have continued to adopt the going concern basis in preparing the financial statements and have not identified any material uncertainties to the Company's ability to continue as a going concern for a period of at least twelve months from the date of approval of the financial statements.

#### **Future outlook**

High level strategies are determined by the Board of Aviva plc, and a summary is shown in the Group's 2015 report and financial statements and 2015 Preliminary Announcement. The directors expect that the nature of the Company's principal activity of general insurance business run-off will continue unchanged into the foreseeable future.

#### **Financial instruments and financial risk management**

The business of the Company includes the use of financial instruments. Details of the Company's risk management objectives and policies and exposures to risk relating to financial instruments are set out in note 15 to the financial statements.

#### **Employees**

The Company has no employees. All staff are employed by a fellow subsidiary undertaking of Aviva plc, Aviva Employment Services Limited. Disclosures relating to employees may be found in the annual report and financial statements of Aviva Employment Services Limited.

## **THE OCEAN MARINE INSURANCE COMPANY LIMITED**

Registered in England and Wales: No. 00027204

### **Directors' report (continued)**

#### **Disclosure of information to the auditors**

Each person who was a director of the Company on the date that this report was approved confirms that;

- (a) so far as the director is aware, there is no relevant audit information, being information needed by the auditors in connection with preparing their report, of which the auditors are unaware; and
- (b) each director has taken all the steps that he ought to have taken as a director in order to make himself aware of any relevant audit information and to establish that the auditors are aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of section 418 of the Companies Act 2006.

#### **Independent auditors**

It is the intention of the directors to reappoint the auditors, PricewaterhouseCoopers LLP under the deemed appointment rules of section 487 of the Companies Act 2006.

#### **Qualifying indemnity provisions**

Aviva plc, the Company's ultimate parent, granted in 2004 an indemnity to the directors against liability in respect of proceedings brought by third parties, subject to the conditions set out in the Companies Act 1985 (which continue to apply in relation to any provision made before 1 October 2007). The directors also have the benefit of the indemnity provision contained in the Company's articles of association.

Both the indemnity granted in 2004 and the indemnity provision in the Company's articles of association constitute "qualifying third party indemnities" for the purposes of sections 309A to 309C of the Companies Act 1985. These qualifying third party indemnity provisions remain in force as at the date of approving the Directors' Report by virtue of paragraph 15, Schedule 3 of The Companies Act 2006 (Commencement No. 3, Consequential Amendments, Transitional Provisions and Savings) Order 2007.

# THE OCEAN MARINE INSURANCE COMPANY LIMITED

Registered in England and Wales: No. 00027204

## Directors' report (continued)

### Statement of directors' responsibilities

The directors are responsible for preparing the Strategic report, Directors' report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, the directors are required to:

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

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

By order of the Board 22 March 2016.



C M Valentine  
Company Secretary  
Registered Office: St Helen's  
1 Undershaft  
London  
EC3P 3DQ

## **THE OCEAN MARINE INSURANCE COMPANY LIMITED**

Registered in England and Wales: No. 00027204

### **Independent auditors' report**

#### **To the members of The Ocean Marine Insurance Company Limited**

#### **Report on the financial statements**

##### **Our opinion**

In our opinion, The Ocean Marine Insurance Company Limited's financial statements (the "financial statements"):

- give a true and fair view of the state of the Company's affairs as at 31 December 2015 and of its profit and cash flows for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

##### **What we have audited**

The financial statements, included within the Annual Report and Financial Statements (the "Annual Report"), comprise:

- the Statement of financial position as at 31 December 2015;
- the Income statement for the year then ended;
- the Statement of cash flows for the year then ended;
- the Statement of changes in equity for the year then ended;
- the accounting policies; and
- the notes to the financial statements, which include other explanatory information.

The financial reporting framework that has been applied in the preparation of the financial statements is IFRSs as adopted by the European Union and applicable law.

In applying the financial reporting framework, the directors have made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.

##### **Opinion on other matter prescribed by the Companies Act 2006**

In our opinion, the information given in the Strategic report and the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements.

##### **Other matters on which we are required to report by exception:**

##### **Adequacy of accounting records and information and explanations received**

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

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

##### **Directors' remuneration**

Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of directors' remuneration specified by law are not made. We have no exceptions to report arising from this responsibility.



**THE OCEAN MARINE INSURANCE COMPANY LIMITED**

Registered in England and Wales: No. 00027204

**Independent auditors' report (continued)**

**To the members of The Ocean Marine Insurance Company Limited**

**Responsibilities for the financial statements and the audit**

**Our responsibilities and those of the directors**

As explained more fully in the Statement of directors' responsibilities set out on page 5, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) ("ISAs (UK & Ireland)"). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

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

**What an audit of financial statements involves**

We conducted our audit in accordance with ISAs (UK & Ireland). An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements 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 financial statements.

We primarily focus our work in these areas by assessing the directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.



Lee Clarke (Senior Statutory Auditor)  
for and on behalf of PricewaterhouseCoopers LLP  
Chartered Accountants and Statutory Auditor  
London  
22 March 2016

## **THE OCEAN MARINE INSURANCE COMPANY LIMITED**

Registered in England and Wales: No. 00027204

### **Accounting policies**

The Company is a private limited company incorporated and domiciled in the United Kingdom (UK).

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

#### **(A) Basis of preparation**

The financial statements have been prepared and approved by the directors in accordance with International Financial Reporting Standards (IFRS) as endorsed by the European Union (EU) and those parts of the Companies Act 2006 applicable to those reporting under IFRS. The financial statements have been prepared under the historical cost convention, as modified by the revaluation of, available-for-sale financial assets, and financial assets and financial liabilities (including derivative instruments) at fair value. The financial statements have been prepared on the going concern basis as explained in the Directors' report on page 3.

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

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

The Company has adopted the following new standards or amendments to standards which became effective for the annual reporting period beginning on 1 January 2015:

##### **(i) Annual Improvements to IFRSs 2011-2013**

These improvements to IFRSs consist of amendments to four IFRSs including IFRS 3 Business Combinations and IFRS 13 Fair Value Measurement. The amendments clarify existing guidance and there is no impact on the Company's financial statements.

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

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

## **Accounting policies (continued)**

### **(A) Basis of preparation (continued)**

#### **(i) Amendments to IAS 16 and IAS 38 - Clarification of Acceptable Methods of Depreciation and**

These amendments provide additional guidance on how the depreciation or amortisation of property, plant and equipment and intangible assets should be calculated. The amendments to IAS 16 and IAS 38 prohibit the use of revenue-based depreciation for property, plant and equipment and significantly limit the use of revenue-based amortisation for intangible assets. The adoption of these amendments is not expected to have significant impact for the Company's financial statements as the Company does not apply a revenue-based depreciation or amortisation. These amendments are effective for annual reporting periods beginning on or after 1 January 2016 and have been endorsed by the EU.

#### **(ii) Amendments to IAS 27 - Equity Method in Separate Financial Statements**

The amendments to IAS 27 allow investments in subsidiaries to be accounted for using the equity method within the Company's financial statements. The Company does not intend to use the equity method in separate financial statements. The amendments to IAS 27 are effective for annual reporting periods beginning on or after 1 January 2016 and have been endorsed by the EU.

#### **(iii) Amendments to IAS 1 – Disclosure Initiative**

These amendments clarify guidance in IAS 1 on materiality and aggregation, the presentation of subtotals, the structure of financial statements and the disclosure of accounting policies. The amendments form part of the IASB's Disclosure Initiative, which explores how financial statement disclosures can be improved. The adoption of these amendments will have no impact on the Company's profit or loss or equity. The amendments are effective for annual reporting periods beginning on or after 1 January 2016 and have been endorsed by the EU.

#### **(iv) Annual improvements to IFRSs 2012-2014**

These improvements consist of amendments to five IFRSs including IFRS 5 Non-current Assets Held for Sale and Discontinued Operations, IFRS 7 Financial Instruments: Disclosures and IAS 19 Employee Benefits. The amendments clarify existing guidance. The adoption of these amendments is not expected to have a significant impact on the Company's financial statements. The amendments are effective for annual reporting periods beginning on or after 1 January 2016 and have yet to be endorsed by the EU.

#### **(v) IFRS 15, revenue from contracts with customers**

IFRS 15 will replace IAS 18, Revenue, and establishes a principle-based five-step model to be applied to all contracts with customers, except for insurance contracts, financial instruments and lease contracts. IFRS 15 includes enhanced disclosure requirements. The impact of the adoption of the new standard has yet to be fully assessed by the Company. This standard applies to an annual reporting period beginning on or after 1 January 2018 and has not yet been endorsed by the EU.

## **THE OCEAN MARINE INSURANCE COMPANY LIMITED**

Registered in England and Wales: No. 00027204

### **Accounting policies (continued)**

#### **(A) Basis of preparation (continued)**

##### **(vi) IFRS 9, financial instruments**

In July 2014, the IASB published IFRS 9, Financial Instruments which will replace IAS 39, Financial Instruments: Recognition and Measurement. The standard incorporates new classification and measurements requirements for financial assets, the introduction of an expected credit loss impairment model which will replace the incurred loss model of IAS 39, and new hedge accounting requirements. Under IFRS 9, all financial assets will be measured at either amortised cost or fair value. The basis of classification will depend on the business model and the contractual cash flow characteristics of the financial assets. The standard retains most of IAS 39's requirements for financial liabilities except for those designated at fair value through profit or loss whereby that part of the fair value changes attributable to own credit is to be recognised in other comprehensive income instead of the income statement. The hedge accounting requirements are more closely aligned with risk management practices and follow a more principle based approach.

The impact of the adoption of IFRS 9 on the Company's financial statements, to a large extent, will need to take into account the interaction of the requirements with the IASB's ongoing insurance contracts accounting project. IFRS 9 has not been endorsed by the EU.

In December 2015, the IASB published an Exposure Draft to consult on amendments to IFRS 4 Insurance Contracts that would address the accounting consequences of the application of IFRS 9 to insurers prior to the publication of the new accounting standard for insurance contracts. The Exposure Draft introduces two alternative options to insurers: the overlay approach and the deferral approach. The deferral approach provides the entity, if eligible, with a temporary exemption from applying IFRS 9 until the later of the effective date of new insurance contract standard or 2021. The overlay approach allows an entity to remove from profit or loss the effects of some of the accounting mismatches that may occur before the new insurance contracts standard is applied. These amendments are expected to be finalised and issued in 2016

##### **(vii) IFRS 16, Leases**

In January 2016, the IASB published IFRS 16 Leases which will replace IAS 17 Leases. IFRS 16 introduces definition of a lease with a single accounting model eliminating the classification of either operating or finance leases. The Lessee will be required to account for all leases in a similar manner to the current financial lease accounting recognising lease assets and liabilities on the statement of financial position. Lessor accounting remains similar to current practice. The impact of the adoption of IFRS 16 has yet to be fully assessed by the Company. This standard applies to annual reporting periods beginning on or after 1 January 2019 and has not been endorsed by the EU.

##### **(viii) Narrow scope amendments to IAS 12 - Recognition of Deferred Tax Assets for Unrealised losses**

The revisions to IAS 12 clarify the accounting for deferred tax assets on unrealised losses and state that deferred tax assets should be recognised when an asset is measured at fair value and that fair value is below the asset's tax base. It also provides further clarification on the estimation of probable future taxable profits that may support the recognition of deferred tax assets. The adoption of this amendment is not expected to have an impact on the financial statements as the classification to IAS 12 are consistent with our existing interpretation. The amendment is effective from 1 January 2017 and has not yet been endorsed by EU.

##### **(ix) Amendments to IAS 7 - Disclosure initiative**

The amendments to IAS 7, which form part of the IASB's Disclosure Initiative, require a disclosure of the movements in liabilities arising from financing activities. The movements arising from cash and non-cash changes are to be disclosed separately. The adoption of this amendment is not expected to have impact on the financial statements as the Company. The amendment is effective from 1 January 2017 and has not yet been endorsed by EU.

## THE OCEAN MARINE INSURANCE COMPANY LIMITED

Registered in England and Wales: No. 00027204

### Accounting policies (continued)

#### (B) Critical accounting policies and the use of estimates

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

##### *Critical accounting policies*

The major areas of judgement on policy application are considered to be on insurance contract liabilities (set out in policy G) and financial investments (set out in policy J).

##### *Use of estimates*

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

The table below sets out those items we consider particularly susceptible to changes in estimates and assumptions, and the relevant accounting policy and notes disclosures.

Item	Critical accounting assumptions	Accounting policy	Notes
Insurance contract liabilities	The principle assumption underlying the techniques used to estimate insurance liabilities is that a company's past claims development experience can be used to project future claims development and hence ultimate claims costs.	G	9
Provision and contingent liabilities	When evaluating whether a provision or a contingent liability should be recognised the Company assesses the likelihood of a constructive or legal obligation to settle a past event and whether the amount can be reliably estimated. The amount of provision is determined based on the Company's estimation of the expenditure required to settle the obligation at the statement of financial position date.	M	13

#### (C) Foreign currency translation

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

#### (D) Product classification

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

As noted in policy A, insurance contracts in general continue to be measured and accounted for under existing accounting practices ('grandfathered') at the later of the date of transition to IFRS or the date of the acquisition of the entity, in accordance with IFRS 4. IFRS accounting for insurance contracts in UK companies was grandfathered at the date of transition to IFRS and determined in accordance with the Statement of Recommended Practice issued by the Association of British Insurers subsequently withdrawn by the ABI in 2015. The accounting policies or accounting estimates have been changed, as permitted by IFRS 4 and IAS 8 respectively, to remeasure designated insurance liabilities to reflect current market interest rates and changes to regulatory capital requirements. When accounting policies or accounting estimates have been changed and adjustments to the measurement basis have occurred then the financial statements of that year will have disclosed the impacts accordingly.

## THE OCEAN MARINE INSURANCE COMPANY LIMITED

Registered in England and Wales: No. 00027204

### Accounting policies (continued)

#### (E) Premiums

Premiums written reflect adjustments to premiums written in earlier periods.

#### (F) Net investment income

Investment income consists of dividends and interest receivable. Interest income is recognised as it accrues, taking into account the effective yield on the investment.

A gain or loss on a financial investment is only realised on disposal or transfer, and is the difference between the proceeds received, net of transaction costs, and its original cost or amortised cost as appropriate. Unrealised gains and losses, arising on financial investments which have not been derecognised as a result of disposal or transfer, represent the difference between the carrying value at the year end and the carrying value at the previous year end or purchase value during the year, less the reversal of previously recognised unrealised gains and losses in respect of disposals made during the year.

#### (G) Insurance contract liabilities

##### *Claims*

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

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

##### *Outstanding claims provisions*

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

Provisions for latent claims are discounted, using rates based on the relevant swap curve, in the relevant currency at the reporting date, having regard to the expected settlement dates of the claims. The discount rate is set at the start of the accounting period with any change in rates between the start and end of the accounting period being reflected as a change in insurance liabilities. The range of discount rates used is described in note 9(b).

Where material, anticipated recoveries are disclosed under receivables and not deducted from outstanding claims provisions. Recoveries include non-insurance assets that have been acquired by exercising rights to salvage and subrogation under the terms of insurance contracts

## **THE OCEAN MARINE INSURANCE COMPANY LIMITED**

Registered in England and Wales: No. 00027204

### **Accounting policies (continued)**

#### **(H) Reinsurance**

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

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

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

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

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

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

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

#### **(J) Cash and cash equivalents**

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

## **THE OCEAN MARINE INSURANCE COMPANY LIMITED**

Registered in England and Wales: No. 00027204

### **Accounting policies (continued)**

#### **(K) Receivables**

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

#### **(L) Payables and other financial liabilities**

Payables, including inter-company amounts payable, are recognised initially at their fair value and are subsequently measured at amortised cost using the effective interest rate method.

#### **(M) Contingent liabilities**

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

#### **(N) Income taxes**

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

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

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

#### **(O) Dividends**

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



**Income statement**  
**For the year ended 31 December 2015**

	Note	<u>2015</u> £m	<u>2014</u> £m
<b>Income</b>			
Gross written premiums		-	1
Premiums ceded to reinsurers		-	(1)
		<hr/>	<hr/>
Premiums written and earned net of reinsurance		-	-
Net investment income	1	1	1
<b>Expenses</b>	2		
Claims paid, net of reinsurance		-	-
Change in claims provisions, net of reinsurance		-	-
		<hr/>	<hr/>
<b>Profit before tax</b>		1	1
Tax	6	-	-
		<hr/>	<hr/>
<b>Profit for the year</b>		<u>1</u>	<u>1</u>

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

The accounting policies on pages 8 to 14 and the notes on pages 19 to 37 form an integral part of these financial statements.

**THE OCEAN MARINE INSURANCE COMPANY LIMITED**

Registered in England and Wales: No. 00027204

**Statement of changes in equity  
For the year ended 31 December 2015**

	Note	Ordinary share capital £m	Capital reserve £m	(Accumulated losses) / Retained earnings £m	Total equity £m
<b>Balance at 1 January 2014</b>		<u>128</u>	<u>28</u>	<u>(45)</u>	<u>111</u>
Capital reduction	12	(127)	-	127	-
Comprehensive income and profit for the year		<u>-</u>	<u>-</u>	<u>1</u>	<u>1</u>
<b>Balance at 31 December 2014</b>		<u>1</u>	<u>28</u>	<u>83</u>	<u>112</u>
Comprehensive income and profit for the year		<u>-</u>	<u>-</u>	<u>1</u>	<u>1</u>
<b>Balance at 31 December 2015</b>		<u>1</u>	<u>28</u>	<u>84</u>	<u>113</u>

The accounting policies on pages 8 to 14 and the notes on pages 19 to 37 form an integral part of these financial statements.

**THE OCEAN MARINE INSURANCE COMPANY LIMITED**

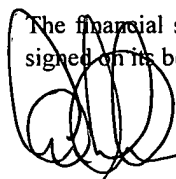
Registered in England and Wales: No. 00027204

**Statement of financial position****As at 31 December 2015**

	Note	<u>2015</u> £m	<u>2014</u> £m
<b>ASSETS</b>			
Reinsurance assets	7	451	499
Receivables	8	72	72
Cash and cash equivalents	14(b)	42	41
<b>Total assets</b>		<u>565</u>	<u>612</u>
<b>LIABILITIES</b>			
Insurance liabilities	9	451	499
Payables and other financial liabilities	11	1	1
<b>Total liabilities</b>		<u>452</u>	<u>500</u>
<b>Net assets</b>		<u>113</u>	<u>112</u>
<b>EQUITY</b>			
Ordinary share capital	12	1	1
Capital reserve	12	28	28
Retained earnings		84	83
<b>Total equity</b>		<u>113</u>	<u>112</u>

The accounting policies on pages 8 to 14 and the notes on pages 19 to 37 form an integral part of these financial statements.

The financial statements on pages 8 to 37 were approved by the Board of Directors on 22 March 2016 and signed on its behalf by:



C J Holmes  
Director

**THE OCEAN MARINE INSURANCE COMPANY LIMITED**

Registered in England and Wales: No. 00027204

**Statement of cash flows**  
**For the year ended 31 December 2015**

	Note	<u>2015</u> £m	<u>2014</u> £m
<b>Cash flows from operating activities</b>			
Net cash inflow from operating activities	14(a)	1	1
<i>Net cash from operating activities</i>		<u>1</u>	<u>1</u>
<b>Net increase in cash and cash equivalents</b>		<u>1</u>	<u>1</u>
Cash and cash equivalents at 1 January		41	40
<b>Cash and cash equivalents at 31 December</b>	14(b)	<u>42</u>	<u>41</u>

The accounting policies on pages 8 to 14 and the notes on pages 19 to 37 form an integral part of these financial statements.

## Notes to the financial statements

### 1. Net investment income

	<u>2015</u>	<u>2014</u>
	<u>£m</u>	<u>£m</u>
Interest and dividend income		
Interest income	<u>1</u>	<u>1</u>

### 2. Expenses

	<u>2015</u>	<u>2014</u>
	<u>£m</u>	<u>£m</u>
Claims paid, net of reinsurance		
Claims paid to policyholders	47	47
Less: Claims recoveries from reinsurers	(47)	(47)
	<u>-</u>	<u>-</u>
Change in claims provisions, net of reinsurance		
Change in gross claims provisions	(67)	(92)
Change in reinsurance asset for claims provisions	67	92
	<u>-</u>	<u>-</u>

### 3. Employee information

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

### 4. Directors' remuneration

Messrs Sykes, Holmes and Lovely were remunerated during the year for their roles as employees across the Group. They were not remunerated directly for their services as Directors of this Company and no cost is borne by the Company for these services.

During the year, three of the directors exercised share options (2014: 2) and three of the directors received shares under long term incentive schemes (2014: 2).

## THE OCEAN MARINE INSURANCE COMPANY LIMITED

Registered in England and Wales: No. 00027204

### Notes to the financial statements (continued)

#### 5. Auditors' remuneration

The total remuneration payable by the Company, excluding VAT, to its auditors, PricewaterhouseCoopers LLP and its associates, in respect of the audit of these financial statements, is shown below.

	2015	2014
	£000	£000
Fees payable to the Company's auditor for the audit of the Company's financial statements	47	47

Fees paid to the Company's auditor for services other than the statutory audit of the Company are not disclosed in the Company's financial statements since the consolidated financial statements of the Company's ultimate parent, Aviva plc, disclose these fees on a consolidated basis.

Audit fees are paid by Aviva Insurance Limited, a parent company, and recharged as appropriate to the Company and fellow Group companies.

#### 6. Tax

##### (a) Tax charged to the income statement

The total tax charge comprises:	2015	2014
	£m	£m
<b>Current tax:</b>		
For the current year	-	-
Total tax charged to income statement	-	-

##### (b) Tax reconciliation

The tax on the Company's profit before tax is the same as the theoretical amount that would arise using the tax rate in the United Kingdom as follows:

	2015	2014
	£m	£m
Net profit before tax	1	1
Tax calculated at standard UK corporation tax rate of 20.25% (2014: 21.5%)	-	-
Tax (credit)/charged for the period (note 6(a))	-	-

UK legislation was substantively enacted in July 2013 to reduce the UK corporation tax rate from 21% to 20% from 1 April 2015, resulting in an effective rate for the year ended 31 December 2015 of 20.25%.

As legislated in the Finance (No 2) Act 2015, which was substantively enacted on 26 October 2015, the UK corporate rate will reduce to 19% from 1 April 2017 and to 18% from 1 April 2020. A further change to the UK corporate tax rate was announced in the Chancellor's Budget on 16 March 2016 to reduce the rate to 17% from 1 April 2020. There is no impact on the Company's net assets from the reductions in the rates as the Company does not have any recognised or unrecognised deferred tax balances.

**THE OCEAN MARINE INSURANCE COMPANY LIMITED**

Registered in England and Wales: No. 00027204

**Notes to the financial statements (continued)****7. Reinsurance assets****(a) Carrying amounts**

The following is a summary of the reinsurance assets and related insurance provisions as at 31 December:

	<b>2015</b>			<b>2014</b>		
	<b>Gross insurance liabilities</b>	<b>Reinsurance assets</b>	<b>Net</b>	<b>Gross insurance liabilities</b>	<b>Reinsurance assets</b>	<b>Net</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
Outstanding claims provisions	307	307	-	342	342	-
Provisions for claims incurred but not reported	144	144	-	157	157	-
<b>Total</b>	<b>451</b>	<b>451</b>	<b>-</b>	<b>499</b>	<b>499</b>	<b>-</b>

Of the above total, £407 million (2014: £451 million) of the reinsurance assets is expected to be recovered in more than one year after the statement of financial position date.

The reinsurers' share of outstanding claims provisions and provisions for claims incurred but not reported is reduced by £82 million (2014: £101 million) as a result of the discounting of latent claims.

**(b) Assumptions**

The assumptions, including discount rates, used for reinsurance contracts follow those used for insurance contracts shown in note 9(b) and 9(c).

Reinsurance assets are valued net of any provisions for their recoverability.

**THE OCEAN MARINE INSURANCE COMPANY LIMITED**

Registered in England and Wales: No. 00027204

**Notes to the financial statements (continued)****7. Reinsurance assets (continued)****(c) Movements**

Reinsurers' share of claims provisions:

	<u>2015</u>	<u>2014</u>
	<u>£m</u>	<u>£m</u>
<b>Carrying amount at 1 January</b>	499	535
Impact of changes in discount rate assumptions	-	33
Reinsurers' share of claims losses and expenses incurred in prior years	(20)	(45)
Reinsurers' share of incurred claims losses and expenses	(20)	(12)
Less:		
Reinsurance recoveries received on claims incurred in prior years	(47)	(47)
Unwind of discount	2	3
Change in reinsurance asset	(65)	(56)
Foreign exchange rate movements	17	20
<b>Carrying amount at 31 December</b>	<u>451</u>	<u>499</u>

Reinsurance assets held in United States dollars have been revalued at the year end rate as described in note 9(d).



**THE OCEAN MARINE INSURANCE COMPANY LIMITED**

Registered in England and Wales: No. 00027204

**Notes to the financial statements (continued)****8. Receivables**

	<u>2015</u>	<u>2014</u>
	<u>£m</u>	<u>£m</u>
Amounts due from reinsurers	10	10
Amount due from related parties (note 17(a)(i))	62	62
Total	<u>72</u>	<u>72</u>
Expected to be recovered in less than one year	62	62
Expected to be recovered in more than one year	<u>10</u>	<u>10</u>

All receivables are carried at amortised cost, which approximates to fair value.

**9. Insurance liabilities****(a) Carrying amount**

Gross insurance liabilities at 31 December comprise:

	<u>2015</u>	<u>2014</u>
	<u>£m</u>	<u>£m</u>
Provisions for outstanding claims	307	342
Provisions for claims incurred but not reported	144	157
Total	<u>451</u>	<u>499</u>

**(b) Provisions for outstanding claims**

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

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

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

	<u>Discount rate</u>		<u>Mean term of liabilities</u>	
	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>
Latent Claims (£)	0.48% to 2.25%	0.44% to 2.29%	9.1 years	9.7 years
Latent Claims (US\$)	<u>0.27% to 2.77%</u>	<u>0.16% to 2.77%</u>	<u>9.8 years</u>	<u>7.9 years</u>

## **Notes to the financial statements (continued)**

### **9. Insurance liabilities (continued)**

#### **(b) Provision for outstanding claims (continued)**

The gross outstanding claims provisions before discounting are £533 million (2014: £600 million). The period of time which will elapse before the liabilities are settled has been estimated by modelling the settlement patterns of the underlying claims.

Loss reserves are only established for losses that have already occurred.

#### **(c) Assumptions**

Outstanding claims provisions are estimated based on known facts at the date of estimation. Case estimates are generally set by skilled claims technicians applying their experience and knowledge to the circumstances of individual claims, taking into account all available information and correspondence regarding the circumstances of the claim, such as medical reports, investigations and inspections. Claims technicians set case estimates according to documented claims department policies and specialise in setting estimates for certain lines of business or types of claim. Claims above certain limits are referred to senior claims handlers for authorisation.

No adjustments are made to the claims technicians' case estimates included in booked claims provisions, except for rare occasions when the estimated ultimate cost of a large or unusual claim may be adjusted, subject to internal reserve committee approval, to allow for uncertainty regarding, for example, the outcome of a court case. The ultimate cost of outstanding claims is then estimated by using a range of standard actuarial claims projection techniques, such as the Chain Ladder and Bornhuetter-Ferguson methods along with other actuarial methods to deal with the unique attributes of latent claims. The main assumption underlying these techniques is that the Company's past claims development experience can be used to project future claims development and hence ultimate claims costs. As such, these methods extrapolate the development of paid and incurred losses, average costs per claim and claims numbers based on the observed development of earlier years and expected loss ratios.

Historical claims development is mainly analysed by accident period, although underwriting or notification period is also used where this is considered appropriate. Claims development is separately analysed for each line of business. Certain lines of business are also further analysed by claims type or type of coverage. In addition, large claims are usually separately assessed, either by being reserved at the face value of loss adjuster estimates, or separately projected in order to reflect their future development.

In most cases no explicit assumptions are made regarding future rates of claims inflation or loss ratios. Instead, the assumptions used are those implicit in the historic claims development data on which the projections are based. Additional qualitative judgement is used to assess the extent to which past trends may not apply in the future, for example, to reflect one-off occurrences, changes in external or market factors such as public attitudes to claiming, economic conditions, levels of claims inflation, judicial decisions and legislation, as well as internal factors such as portfolio mix, policy conditions and loss adjustment procedures, in order to arrive at the estimated ultimate cost of claims, that represent the most likely outcome, from the range of possible outcomes, taking account of all the uncertainties involved. The range of possible outcomes does not, however, result in the quantification of a reserve range.

Where discount rate assumptions are based on current market yields on fixed interest securities, allowance is made for default risk implicit in the yields on the underlying assets.

**THE OCEAN MARINE INSURANCE COMPANY LIMITED**

Registered in England and Wales: No. 00027204

**Notes to the financial statements (continued)****9. Insurance liabilities (continued)****(c) Assumptions (continued)**

The level of uncertainty associated with latent claims is considerable due to the relatively small number of claims and the long-tail nature of the liabilities. Mesothelioma claims account for a large proportion of the Company's latent claims. The key assumptions underlying the estimation of these claims include claims numbers, the base average cost per claim, future inflation in the average cost of claims, legal fees and the life expectancy of potential sufferers. In 2000 all the Company's business was reinsured as the Company is party to a reinsurance agreement entered into with the National Indemnity Company.

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

**(d) Movements**

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

	<b>2015</b>	<b>2014</b>
	<b>£m</b>	<b>£m</b>
<b>Carrying amount at 1 January</b>	499	535
Impact of changes in discount rate assumptions	-	33
Claims losses and expenses incurred in prior years	(20)	(45)
Incurred claims losses and expenses	(20)	(12)
Less:		
Payments made on claims incurred in prior years	(47)	(47)
Unwind of discount	2	3
Changes in gross claims	(65)	(56)
Foreign exchange rate movements	17	20
<b>Carrying amount at 31 December</b>	<b>451</b>	<b>499</b>

**Discount rate**

The discount rate that has been applied to latent claims reserves is based on the relevant swap rate, in the relevant currency, having regard to the expected settlement dates of the claims. The range of discount rates used depends on the duration of the claims and is given in the table in section (b). The duration of the claims spans 51 years, with the average duration 9.1 years (2014: 9.7 years) for claims in Sterling and 9.8 years (2014: 7.9 years) for claims in US\$. Any change in discount rates between the start and the end of the accounting period is reflected as an economic assumption change.

**Exchange rates**

Monetary assets and liabilities denominated in United States dollars have been translated at the year end rate of £1 = US\$ 1.47 (2014: £1 = US\$ 1.56).

**THE OCEAN MARINE INSURANCE COMPANY LIMITED**

Registered in England and Wales: No. 00027204

**Notes to the financial statements (continued)****9. Insurance liabilities (continued)****(e) Loss development tables**

The Company ceased to write business in the London Market in 1995. In 2000, all business was wholly reinsured with the National Indemnity Company.

	<u>Gross</u>	<u>Net of reinsurance</u>
	<u>2005 and</u>	<u>2005 and</u>
	<u>prior years</u>	<u>prior years</u>
	<u>£m</u>	<u>£m</u>
Outstanding claims provisions (undiscounted)	533	-
Effect of discounting	(82)	-
Present value recognised in the statement of financial position	<u>451</u>	<u>-</u>

The table above includes information on asbestos, environmental pollution and health hazard claims provisions. The total gross claims provisions in respect of this business are £353 million at 31 December 2015 (2014: £426 million). The net claims provisions in this respect are £nil (2014: £nil).

**THE OCEAN MARINE INSURANCE COMPANY LIMITED**

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**Notes to the financial statements (continued)****10. Tax assets and liabilities**

	<u>2015</u>	<u>2014</u>
	<u>£m</u>	<u>£m</u>
Net tax asset	-	-
Net tax asset recognised in statement of financial position	-	-

Assets for prior years' tax settled by group relief of £nil (2014: £nil) are included within receivables (note 8) and within the related party transactions (note 17(a)(i)) of which all are recoverable in less than one year.

**11. Payables and other financial liabilities**

	<u>2015</u>	<u>2014</u>
	<u>£m</u>	<u>£m</u>
Other financial liabilities	1	1
Expected to be settled in more than one year	1	1

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

**12. Ordinary share capital and capital reserve****(a) Ordinary share capital**

Details of the Company's ordinary share capital are as follows:

	<u>2015</u>	<u>2014</u>
	<u>£m</u>	<u>£m</u>
<b>Allotted, called up and fully paid</b>		
40,000 Ordinary shares of £25 each	1	1

The Companies Act 2006 abolished the requirement for a company to have an authorised share capital and the articles of association adopted by the Company on 22 June 2010 reflect this. Directors will still be limited as to the number of shares they can at any time allot as the allotment authority continues to be required under the Act, save in respect of employee share schemes. Ordinary shares in issue in the Company rank pari passu. All the ordinary shares in issue carry the same right to receive all dividends and other distributions declared, made or paid by the Company.

**(b) Capital reserve**

Details of the Company's capital reserve are as follows:

	<u>2015</u>	<u>2014</u>
	<u>£m</u>	<u>£m</u>
Capital reserve	28	28

## **Notes to the financial statements (continued)**

### **13. Contingent liabilities and other risk factors**

#### **Uncertainty over claims provisions**

Note 9(c) gives details of the estimation techniques used in determining the outstanding claims provisions which are designed to allow for prudence. These are estimated to give a result within the normal range of outcomes. However, the actual cost of settling these liabilities may differ, for example because experience may be worse than that assumed, or future claims inflation may differ from that expected, and hence there is uncertainty in respect of these liabilities

### **14. Statement of cash flows**

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

	<u>2015</u>	<u>2014</u>
	<u>£m</u>	<u>£m</u>
Profit before tax	1	1
Changes in working capital:		
Decrease in reinsurance assets	48	36
Decrease in insurance liabilities	(48)	(36)
Net cash inflow from operating activities	<u>1</u>	<u>1</u>

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

	<u>2015</u>	<u>2014</u>
	<u>£m</u>	<u>£m</u>
Cash and cash equivalents	<u>42</u>	<u>41</u>

## THE OCEAN MARINE INSURANCE COMPANY LIMITED

Registered in England and Wales: No. 00027204

### Notes to the financial statements (continued)

#### 15. Risk management

The Company operates a risk management framework that forms an integral part of the management and Board processes and decision making framework. This risk management framework is aligned to the Aviva Group's risk policies. The key elements of the risk management framework comprise risk appetite; risk governance, including risk policies and business standards, risk oversight committees and roles and responsibilities; and the processes we use to identify, measure, manage, monitor and report ("IMMMR") risks, including the use of risk models and stress and scenario testing. The risk management framework has been adopted in the Aviva businesses collectively referred to as "UK&I GI" (including this Company and the UK and Ireland general insurance businesses carried out primarily within Aviva Insurance Limited).

Leading up to the commencement of the Solvency II regime on 1 January 2016, the Company has defined its Own Risk and Solvency Assessment ("ORSA") as the entirety of the IMMMR risk processes and determines its "own funds" under Solvency II to ensure that the Company's overall solvency needs are met at all times. ORSA underpins the consideration of risk and capital implications in key decisions and, in particular, in strategy setting and business planning.

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 the products the Company delivers to customers and the service to customers and distributors, which can be categorised as risks to brand and reputation.

To promote a consistent and rigorous approach to risk management across the business, the Company has a set of formal risk policies and business standards, which set out the risk strategy, appetite, framework and minimum requirements for the Company's operations. On a semi-annual basis the Chief Executive Officer and Chief Risk Officer sign off compliance with these policies and standards, providing assurance to the relevant oversight committees that there is a consistent framework for managing the business and the associated risks.

A regular top-down key risk identification and assessment process is carried out in the Risk function. This includes the consideration of emerging risks and is supported by deeper thematic reviews and a risk and control self-assessment process. The risk assessment processes are used to generate risk reports which are shared with relevant committees.

Risk models are an important tool in the measurement of risks and are used in conjunction with other assessment processes to support the monitoring and reporting of the risk profile and in the consideration of the risk management actions available. The Company carries out a range of stress (where one risk factor, such as equity returns, is assumed to vary) and scenario (where combinations of risk factors are assumed to vary) tests to evaluate their impact on the business and the management actions available to respond to the conditions envisaged and inform business decisions.

## **THE OCEAN MARINE INSURANCE COMPANY LIMITED**

Registered in England and Wales: No. 00027204

### **Notes to the financial statements (continued)**

#### **15. Risk management (continued)**

Roles and responsibilities for risk management in the Company are based around the ‘three lines of defence model’ where ownership for risk is taken at all levels. Line management in the business are accountable for risk management, including the implementation of the risk management framework and embedding of the risk culture. The Risk function is accountable for quantitative and qualitative oversight and challenge of the IMMMR processes and for developing the risk management framework. Internal Audit provides an independent assessment of the risk framework and internal control processes.

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, liquidity and franchise value. The Company’s position against risk appetite is monitored and reported to the Board on a regular basis. The oversight of risk and risk management in UK&I GI is supported by the Asset and Liability Committee (“ALCO”), which focuses on insurance and financial risks, and the Operational Risk Committee (“ORC”) which focuses on operational and reputational risks for UK&I GI.

Further information on the types and management of specific risk types is given in sections (a) to (e)

##### **(a) Credit risk**

Credit risk is the risk of financial loss as a result of 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. Credit risk arises as a consequence of asset investments made to achieve the returns required to satisfy policyholder liabilities and to provide enhanced long-term risk-adjusted returns to shareholders. The Company is exposed to third party credit quality changes through a range of activities including 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. Credit risks arise through exposures to debt security investments, reinsurance counterparties and other receivables.

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



## Notes to the financial statements (continued)

### 15. Risk management (continued)

#### (a) Credit risk (continued)

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, and include methods such as collateralisation.

Financial assets are graded according to current credit ratings issued. AAA is the highest possible rating. Investment grade financial assets are classified within the range of AAA to BBB ratings. Financial assets which fall outside this range are classified as sub-investment grade.

The table below provides information regarding the aggregated credit risk exposure of the Company, excluding intra-group transactions and other receivables and cash and cash equivalents. Cash and cash equivalents are held with highly rated banking institutions. "Non-rated" assets capture assets not rated by external ratings agencies.

31 December 2015	Credit rating						Carrying value in the statement of financial position
	AAA	AA	A	BBB	Speculative grade	Non-rated	
	£m	£m	£m	£m	£m	£m	£m
Reinsurance assets	-	451	-	-	-	-	451
Amounts due from reinsurers	-	10	-	-	-	-	10

31 December 2014	Credit rating						Carrying value in the statement of financial position
	AAA	AA	A	BBB	Speculative grade	Non-rated	
	£m	£m	£m	£m	£m	£m	£m
Reinsurance assets	-	499	-	-	-	-	499
Amounts due from reinsurers	-	10	-	-	-	-	10

The carrying amount of assets included in the statement of financial position represents the maximum credit exposure.

Of the Company's receivables of £72 million (2014: £72 million), £62 million (2014: £62 million) is due from other Group companies and details are set out in note 17.

At 31 December 2015 and 31 December 2014, no financial assets are impaired or overdue.

The Company has a significant exposure to the National Indemnity Company amounting to £461 million (2014: £509 million) in respect of reinsurance arrangements.

The management of credit risk for the Company is overseen by the UK&I GI Asset and Liability Committee.

## **THE OCEAN MARINE INSURANCE COMPANY LIMITED**

Registered in England and Wales: No. 00027204

### **Notes to the financial statements (continued)**

#### **15. Risk management (continued)**

##### **(b) Market risk**

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

The Company manages market risk locally within the UK&I GI market risk framework, within local regulatory constraints and in line with established Group policy, including minimum principles for matching liabilities with appropriate assets.

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

Derivatives are used within policy guidelines agreed by the Aviva plc Board of Directors. Derivatives are only used for efficient portfolio management or risk hedging purposes. The Company did not have any derivatives during the year or at the year-end (2014: none).

The management of market risk for the Company is overseen by the UK&I GI Asset and Liability Committee.

##### **(c) Liquidity risk**

Liquidity risk is the risk of the Company not being able to make payments as they become due because there are insufficient liquid assets.

The Company has set its investment strategy to ensure it has sufficient liquid funds to meet its expected obligations as they fall due. In extreme circumstances, the Company would approach the Aviva Group for additional short-term borrowing whilst the Company liquidated other assets. The Aviva Group maintains significant committed borrowing facilities from a range of highly-rated banks to mitigate this risk further.

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

**THE OCEAN MARINE INSURANCE COMPANY LIMITED**

Registered in England and Wales: No. 00027204

**Notes to the financial statements (continued)**

**15. Risk management (continued)**

**(c) Liquidity risk (continued)**

	Within 1 year	1 to 5 years	5 to 15 years	Over 15 years	No fixed terms	Total
<b>31 December 2015</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
Reinsurance assets	44	164	146	97	-	451
Receivables	62	-	10	-	-	72
Cash and cash equivalents	42	-	-	-	-	42
	148	164	156	97	-	565
<b>31 December 2014</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
Reinsurance assets	48	178	162	111	-	499
Receivables	62	-	10	-	-	72
Cash and cash equivalents	41	-	-	-	-	41
	151	178	172	111	-	612

For reinsurance assets, the analysis above is based on the estimated timing of future cash flows. The other assets above are analysed in accordance with the earliest possible redemption date of the instrument at the initiation of the Company.

For insurance contracts, the analysis of liabilities below is based on the estimated timing of future cash flows. The table below shows the Company's financial liabilities and general insurance liabilities analysed by duration.

	Within 1 year	1 to 5 years	5 to 15 years	Over 15 years	No fixed terms	Total
<b>31 December 2015</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
Insurance liabilities	44	164	146	97	-	451
Payables and other financial liabilities	-	-	1	-	-	1
	44	164	147	97	-	452
<b>31 December 2014</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
Insurance liabilities	48	178	162	111	-	499
Payables and other financial liabilities	-	-	1	-	-	1
	48	178	163	111	-	500

The management of liquidity risk for the Company is overseen by the UK&I GI Asset and Liability Committee.

## **THE OCEAN MARINE INSURANCE COMPANY LIMITED**

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### **Notes to the financial statements (continued)**

#### **15. Risk management (continued)**

##### **(d) General insurance risk**

The Company is in run-off and considers insurance risk within its general insurance activity to be the management of claims and the adequacy of reserving.

UK&I GI has developed mechanisms that identify, quantify and manage accumulated exposures to contain them within the limits of the appetite of UK&I GI.

The adequacy of the Company's general insurance claims provisions is overseen by the UK&I GI Reserve Committee. Actuarial claims reserving is conducted by UK&I GI's actuaries, with periodic independent external reviews by consulting actuaries.

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

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

The management of insurance risk is overseen by specific UK&I GI senior management committees, namely the Asset and Liability Committee, the Insurance Committee and the Reserve Committee.

##### **(e) Operational risk**

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

Management is responsible for identifying and managing operational risks of the business, within the Aviva group-wide operational risk framework including the risk and control self-assessment process. Management must be satisfied that all material risks falling outside risk tolerance are being mitigated, monitored and reported to an appropriate level. Management use key indicator data to help monitor the status of the risk and control environment, and identifies and captures loss events, taking appropriate action to address actual control breakdowns and promote internal learning.

The management of operational risk for the Company is overseen by the UK&I GI Operational Risk Committee.

## **THE OCEAN MARINE INSURANCE COMPANY LIMITED**

Registered in England and Wales: No. 00027204

### **Notes to the financial statements (continued)**

#### **15. Risk management (continued)**

##### **(f) Risk and capital management**

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

Risk-based capital models are used to support the quantification of risk under the Individual Capital Assessment ("ICA") framework and the Solvency II framework (effective from 1 January 2016). Management undertakes a quarterly review of risks, the output from which is a key input into the risk-based capital assessments.

General insurance claims liabilities are estimated by using standard actuarial claims projection techniques. These methods extrapolate the claims development for each accident year based on the observed development of earlier years. As such, the sensitivity of general insurance claims liabilities is primarily based on the financial impact of changes to the reported loss ratio.

The Company's activities are the run-off of general insurance business, which is fully reinsured and the Company has no material interest rate risk. As such, no sensitivity analysis is presented.

#### **16. Capital structure**

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

##### **(a) General**

IFRS underpins the Company's capital structure and accordingly, the capital structure is analysed on this basis: Up to 31 December 2015, the Company used an individual capital assessment ("ICA") measure to assess its own internal economic capital requirements and from 1 January 2016, the Company measures its capital requirements under the Solvency II regime.

##### **(b) Capital management**

In managing its capital, the Company seeks to:

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

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

**THE OCEAN MARINE INSURANCE COMPANY LIMITED**

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**Notes to the financial statements (continued)****16. Capital structure (continued)****(c) Different measures of capital**

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

**(i) Accounting basis**

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

**(ii) Regulatory basis**

Relevant capital and solvency regulations are used to measure and report the Company's financial strength. These measures were based on the PRA's current regulatory requirements under Solvency I and the ICA regime until 31 December 2015 and are now based on the PRA's regulatory requirements under Solvency II effective 1 January 2016. The regulatory capital tests verify that the Company retains an excess of solvency capital above the required minimum level calculated using a series of prudent assumptions about the type of business that is underwritten.

The Company fully complied with the relevant regulatory requirements during the year.

**(iii) Economic basis**

The Company also measures its capital using a risk-based capital model to assess economic capital requirements and to aid in risk and capital management. This model is used to support reporting under the ICA regime and the Solvency II regime. The risk management note (note 15) gives further details.

**(d) Company capital structure**

	<b>IFRS</b>	<b>IFRS</b>
	<b>net assets</b>	<b>net assets</b>
	<b>2015</b>	<b>2014</b>
	<b>£m</b>	<b>£m</b>
General insurance	113	112
<b>Total capital employed</b>	<b>113</b>	<b>112</b>
<b>Financed by</b>		
Equity shareholder's funds	113	112

## Notes to the financial statements (continued)

### 17. Related party transactions

(a) The Company had the following related party transactions in 2015 and 2014:

#### (i) Services provided to related parties

	2015		2014	
	Income earned in year	Receivable at year end	Income earned in year	Receivable at year end
	£m	£m	£m	£m
Parent	-	62	-	62
	-	62	-	62

The related parties' receivables are not secured and no guarantees were received in respect thereof.

Transactions with Group companies for settlement of corporation tax assets and liabilities by group relief are described in note 10.

#### (ii) Services provided by related parties

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

#### (iii) Key management compensation

The key management of the Company are considered to be the statutory directors of the Company. Note 4, Directors' remuneration, gives details of their compensation as directors of the Company.

### (b) Immediate parent company

The Company's immediate parent Company is Aviva Insurance Limited, registered in Scotland.

### (c) Ultimate controlling entity

The ultimate controlling entity, and parent of the largest and smallest group which consolidates the results of the Company, is Aviva plc. Its Group Financial Statements are available on application to the Group Company Secretary, Aviva plc., St Helen's, 1 Undershaft, London EC3P 3DQ, and on the Aviva plc website at [www.aviva.com](http://www.aviva.com).