

THE OCEAN MARINE INSURANCE COMPANY LIMITED
Registered in England and Wales: No. 00027204
ANNUAL REPORT AND FINANCIAL STATEMENTS 2017

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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 officer

Directors

M G Sykes
D J Lovely
R I L Townend

Officer - Company Secretary

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

Independent auditors

PricewaterhouseCoopers LLP
7 More London Riverside
London
SE1 2RT

Registered office

St Helen's
1 Undershaft
London
EC3P 3DQ

Company number

Registered in England and Wales: No. 00027204

Other information

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

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

THE OCEAN MARINE INSURANCE COMPANY LIMITED

Registered in England and Wales: No. 00027204

Strategic report

For the year ended 31 December 2017

The directors present their strategic report for the Company for the year ended 31 December 2017.

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. All business is wholly reinsured through reinsurance agreements entered into with National Indemnity Company in 2000.

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

Financial position and performance

The financial position of the Company at 31 December 2017 is shown in the statement of financial position on page 18, with the results shown in the income statement on page 16 and the statement of cash flows on page 19.

During the year the Company continued to manage the run-off of its insurance portfolio. The Company's profit before tax was £nil million (2016: £2 million).

Future outlook

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

Principal risks and uncertainties

A description of the principal risks and uncertainties facing the Company and the Company's risk management policies are set out in notes 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 the percentage change in gross outstanding claims.

	2017	2016
Percentage reduction in gross outstanding claims	(10%)	(5%)

The continued reduction in gross outstanding claims is in line with anticipated settlement of claims.

By order of the Board on 23 March 2018



For and on behalf of Aviva Company Secretarial Services Limited
Company Secretary

THE OCEAN MARINE INSURANCE COMPANY LIMITED

Registered in England and Wales: No. 00027204

Directors' report

For the year ended 31 December 2017

The directors present their annual report and audited financial statements for the Company for the year ended 31 December 2017.

Directors

The current directors, all of whom were in office throughout the year, are as follows:

D J Lovely

M G Sykes

R I L Townend

Future outlook

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

Dividend

The directors do not recommend the payment of a dividend for the year ended 31 December 2017 (2016: £nil).

Going concern

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

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

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Directors' report (continued)

Statement of 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

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

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). This indemnity is a 'qualifying third party indemnity' 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 in respect of the financial statements

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

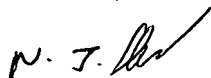
Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. Under company law the directors must 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 the financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
 - state whether applicable IFRSs as adopted by the European Union have been followed, subject to any material
 - departures disclosed and explained in the financial statements;
 - make judgements and accounting estimates that are reasonable and prudent; 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.

The directors 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 on 23 March 2018.



For and on behalf of Aviva Company Secretarial Services Limited
Company Secretary

Independent auditors' report to the members of The Ocean Marine Insurance Company Limited

Report on the audit of the financial statements

Opinion

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

- give a true and fair view of the state of the Company's affairs as at 31 December 2017 and of its result and cash flows for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report, which comprise: the statement of financial position as at 31 December 2017; the income statement, the statement of cash flows, the statement of changes in equity for the year then ended; the accounting policies; and the notes to the financial statements.

Our opinion is consistent with our reporting to the Board of Directors.

Basis for opinion

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

Independence

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

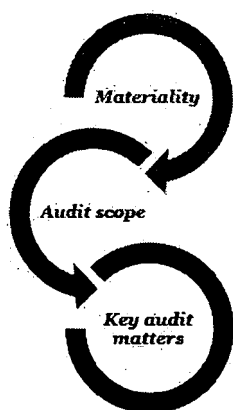
To the best of our knowledge and belief, we declare that non-audit services prohibited by the FRC's Ethical Standard were not provided to the Company.

Other than those disclosed in Note 5 to the financial statements, we have provided no non-audit services to the Company in the period from 1 January 2017 to 23 March 2018.

Our audit approach

Overview

- Overall materiality: £5.0 million, based on 1% of total assets.



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

The scope of our audit

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we looked at where the directors made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. We

gained an understanding of the legal and regulatory framework applicable to the Company and the industry in which it operates, and considered the risk of acts by the Company which were contrary to applicable laws and regulations, including fraud. We designed audit procedures to respond to the risk, recognising that the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

We focused on laws and regulations that could give rise to a material misstatement in the Company's financial statements, including but not limited to, the Companies Act 2006, the Prudential Regulation Authority's regulations, and UK tax legislation.

Our tests included, but were not limited to, the review of the financial statement disclosures to underlying supporting documentation, the review of correspondence with the regulators, discussions with legal counsel, enquiries of management and the review of internal audit reports in so far as they related to the financial statements.

There are inherent limitations in the audit procedures described above, and the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely we would become aware of it.

We did not identify any key audit matters relating to irregularities, including fraud. As in all of our audits, we also addressed the risk of management override of internal controls, including testing journals and evaluating whether there was evidence of bias by the directors that represented a risk of material misstatement due to fraud.

Key audit matters

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

<i>Key audit matter</i>	<i>How our audit addressed the key audit matter</i>
<p><i>Valuation of net insurance liabilities</i></p> <p>Insurance liabilities are based on an estimated ultimate cost of all claims incurred but not settled at 31 December 2017, whether reported or not, together with the related claims handling costs. An estimate is also made of corresponding reinsurance assets. The valuation of these insurance liabilities and assets is a significant accounting estimate in the financial statements and involves a significant degree of judgement.</p> <p>The Company has been in run-off for many years. Due to the historic nature of the liabilities, the directors monitor and understand movements or any emerging trends in key metrics, in total and for each class of business, such as; prior year development, the IBNR to outstanding claims ratio, and the paid survival ratio.</p> <p>A Reinsurance agreement between the Company and a third party reinsurer reduces the risk that any gross deterioration would impact the net insurance liabilities as it provides substantial protection in excess of current booked gross liabilities.</p> <p>Key area of focus this year were:</p> <ul style="list-style-type: none"> The use of appropriate reserving methodologies and assumptions and the consistency of their application from year to year. <p>Refer to Accounting policy B (page 12) and G (page 13) and Note 9 and 13 (page 24 and 28) for disclosure of related accounting policies, judgements and estimates.</p>	<p>In performing our audit over net insurance liabilities, we have used actuarial specialists as part of our team to conduct some of the testing. Our procedures included:</p> <ul style="list-style-type: none"> For all classes of business, we tested the methodology and assumptions used by the directors to estimate the insurance liabilities and associated reinsurance assets. <p>In performing the above, we have also considered and tested the following:</p> <ul style="list-style-type: none"> The internal control environment in place over insurance liabilities including: <ul style="list-style-type: none"> Governance control activities; and Control activities supporting key data used in the estimation process. The underlying relevant data (including but not limited to claims case estimates and paid claims) to relevant evidence. Examined prior year run-off of previous estimates. Examined third party reinsurance contracts and assessed the non-performance risk of the contracts and also considered the remaining 'headroom' in the contracts in developing our testing strategy. The directors' assessment of estimation uncertainty (disclosed in Note 13). Considered whether any of our audit procedures gave rise to an indication of management bias in the estimates. <p>Based on the work performed and evidence obtained, we were satisfied with the insurance liabilities booked.</p>

How we tailored the audit scope

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

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

The Company outsources certain claims handling, actuarial and accounting functions to Resolute Management Limited ('Resolute') as part of the Company's reinsurance agreement with National Insurance Company part of the Berkshire Hathaway group. As part of our risk assessment, we assessed the control environment at both the Company and Resolute to the extent relevant to our audit.

Materiality

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

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

Overall materiality	£5.0 million
How we determined it	1% of total assets
Rationale for benchmark applied	The principal activity of the Company is to run-off its existing book of business and it is 'fully reinsured'. Therefore total assets were considered to be the most relevant financial metric.

We agreed with the Board of Directors that we would report to them misstatements identified during our audit above £0.3 million as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Conclusions relating to going concern

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

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

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

Reporting on other information

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

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

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

Based on the responsibilities described above and our work undertaken in the course of the audit, ISAs (UK) require us also to report certain opinions and matters as described below.

Strategic Report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' Report for the year ended 31 December 2017 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

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

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Statement of Directors' Responsibilities in respect of the financial statements set out on page 5, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditors' responsibilities for the audit of the financial statements

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

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

Use of this report

This report, including the opinions, has been prepared for and only for the Company's 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.

Other required reporting

Companies Act 2006 exception reporting

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

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

We have no exceptions to report arising from this responsibility.

Appointment

Following the recommendation of the Audit Committee of the Group, we were appointed by the directors on 3 May 2012 to audit the financial statements for the year ended 31 December 2012 and subsequent financial periods. The period of total uninterrupted engagement is 6 years, covering the years ended 31 December 2012 to 31 December 2017.



Matthew Nichols (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
23 March 2018

THE OCEAN MARINE INSURANCE COMPANY LIMITED

Registered in England and Wales: No. 00027204

Accounting policies

The Company is a private limited liability company incorporated and domiciled in the United Kingdom ("UK"). Its principal activity is the run-off of general insurance claims.

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

(A) Basis of preparation

The financial statements of the Company have been prepared and approved by the directors in accordance with International Financial Reporting Standards ("IFRSs") as endorsed by the European Union 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 financial assets and financial liabilities 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.

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

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

The Company has adopted the following amendments to standards which became effective for the annual reporting period beginning on 1 January 2017:

(i) Narrow scope amendments to IAS 12 – Recognition of Deferred Tax Assets for Unrealised Losses

The revisions to IAS 12 Income Taxes 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 does not have an impact on the financial statements as the clarifications are consistent with our existing interpretation.

(ii) Amendments to IAS 7 – Disclosure Initiative

The amendments to IAS 7 Statement of Cash Flows, which form part of the IASB's Disclosure Initiative, require disclosure of the movements in liabilities arising from financing activities with cash and non-cash changes presented separately. The adoption of this amendment does not have an impact on the 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 have been issued, are not yet effective and have not been adopted early by the Company:

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Accounting policies (continued)

(A) Basis of preparation (continued)

(i) IFRS 9, Financial Instruments (including amendments to IFRS 4, Insurance Contracts)

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.

In September 2016, the IASB published amendments to IFRS 4 Insurance Contracts that address the accounting consequences of the application of IFRS 9 to insurers prior to implementing the accounting standard for insurance contracts, IFRS 17, which replaces IFRS 4. The amendments introduce two options for insurers: the deferral approach and the overlay approach. The deferral approach provides an entity, if eligible, with a temporary exemption from applying IFRS 9 until 1 January 2021 at the latest. The overlay approach allows an entity to remove from profit or loss the effects of some of the accounting mismatches that may occur before the new insurance contracts standard is applied.

The Company is eligible to apply the deferral approach as its activities are predominantly connected with insurance, as defined by the amendments to IFRS 4. The Company has opted to apply this deferral from 2018. The impact of the adoption of IFRS 9 on the Company's financial statements will, to a large extent, have to take into account the interaction with the new insurance contracts standard IFRS 17. As such, it is not possible to fully assess the effect of the adoption of IFRS 9. IFRS 9 has been endorsed by the EU.

(ii) IFRS 17, Insurance Contracts

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

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

The impact of the adoption of IFRS 17 has yet to be fully assessed by the Company but it is expected there may be significant impacts relating to the measurement and presentation of the contracts in scope of the standard. This standard applies to annual reporting periods beginning on or after 1 January 2021 and has not yet been endorsed by the EU.

Standards, interpretations and amendments to published standards that are not yet effective and are not expected to have a significant impact on the Company

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

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Accounting policies (continued)

(A) Basis of preparation (continued)

(i) IFRS 15, Revenue from Contracts with Customers

In May 2014, the IASB issued IFRS 15 Revenue from Contracts with Customers. This standard applies to annual reporting periods beginning on or after 1 January 2018 and has been endorsed by the EU. IFRS 15 replaces 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 also includes enhanced disclosure requirements.

(ii) IFRIC 22, Foreign Currency Transactions and Advance Consideration

In December 2016, the IASB published IFRIC 22 Foreign Currency Transactions and Advance Consideration. The standard is effective for annual reporting beginning on or after 1 January 2018 and has not yet been endorsed by the EU.

(iii) IFRIC 23, Uncertainty over Income Tax Treatments

In June 2017, the IASB published IFRIC 23 Uncertainty over Income Tax Treatments. The standard is effective for annual reporting beginning on or after 1 January 2019 and has not yet been endorsed by the EU.

(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 liabilities and provision and contingent liabilities.

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 liabilities	The principal 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
Contingent liabilities	When evaluating whether a contingent liability should be recognised the Company assesses the likelihood of a constructive or legal obligation to settle a past event and whether the amount can be reliably estimated. The amount of provision is determined based on the Company's estimation of the expenditure required to settle the obligation at the statement of financial position date.	M	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 the year end exchange rate.

Accounting policies (continued)

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

(E) Premiums

Premiums written include adjustments to premiums written in earlier periods.

(F) Net investment income

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

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

Claims

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

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

Outstanding claims provisions

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 environmental and pollution exposures, the ultimate cost of which cannot be known with certainty at the statement of financial position date. As such, booked claims provisions are based on the best estimate of the cost of future claims payments plus an explicit allowance for risk and uncertainty. Any estimate represents a determination within a range of possible outcomes. Further details of estimation techniques and assumptions are given in note 9(c).

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Accounting policies (continued)

(G) Insurance liabilities (continued)

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

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

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

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

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

- (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) 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.

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

THE OCEAN MARINE INSURANCE COMPANY LIMITED

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Accounting policies (continued)

(K) 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.

(L) Statement of Cash Flows

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.

Operating cash flows

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

(M) Contingent liabilities

Contingent liabilities are disclosed if there is a possible future obligation as a result of a past event, or if there is a present obligation as a result of a past event but either a payment is not probable 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. The rates enacted or substantively enacted at the statement of financial position date are used to value the deferred tax assets and liabilities.

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

(O) Share capital

Equity instruments

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

- (i) there is no contractual obligation to deliver cash or other financial assets or to exchange financial assets or liabilities on terms that may be unfavourable; and
- (ii) the instrument is a non-derivative that contains no contractual obligation to deliver a variable number of shares or is a derivative that will be settled only by the Company exchanging a fixed amount of cash or other assets for a fixed number of the Group's own equity instruments.

Dividends

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

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Income statement**For the year ended 31 December 2017**

	Note	<u>2017</u> £m	<u>2016</u> £m
Income			
Gross written premiums		-	-
Premiums ceded to reinsurers		-	-
		<hr/>	<hr/>
Premiums written and earned net of reinsurance		-	-
Net investment income	1	1	2
Expenses	2		
Claims paid, net of reinsurance		-	-
Change in claims provisions, net of reinsurance		-	-
Other operating expenses		(1)	-
		<hr/>	<hr/>
Profit before tax		-	2
Tax	6	-	-
		<hr/>	<hr/>
Profit for the year		<u>-</u>	<u>2</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 10 to 15 and the notes on pages 20 to 38 form an integral part of these financial statements.

THE OCEAN MARINE INSURANCE COMPANY LIMITED

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Statement of changes in equity
For the year ended 31 December 2017

	Ordinary share capital	Capital reserve	Retained earnings	Total equity
	£m	£m	£m	£m
Balance at 1 January 2016	<u>1</u>	<u>28</u>	<u>84</u>	<u>113</u>
Comprehensive income and profit for the year	<u>-</u>	<u>-</u>	<u>2</u>	<u>2</u>
Balance at 31 December 2016	<u>1</u>	<u>28</u>	<u>86</u>	<u>115</u>
Comprehensive income and profit for the year	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Balance at 31 December 2017	<u>1</u>	<u>28</u>	<u>86</u>	<u>115</u>

The accounting policies on pages 10 to 15 and the notes on pages 20 to 38 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 2017**

	Note	<u>2017</u> £m	<u>2016</u> £m
ASSETS			
Reinsurance assets	7	385	429
Receivables	8	73	73
Cash and cash equivalents	14(b)	43	43
Total assets		<u>501</u>	<u>545</u>
LIABILITIES			
Insurance liabilities	9	385	429
Payables and other financial liabilities	11	1	1
Total liabilities		<u>386</u>	<u>430</u>
Net assets		<u>115</u>	<u>115</u>
EQUITY			
Ordinary share capital	12(a)	1	1
Capital reserve	12(b)	28	28
Retained earnings		86	86
Total equity		<u>115</u>	<u>115</u>

The accounting policies on pages 10 to 15 and the notes on pages 20 to 38 form an integral part of these financial statements.

The financial statements on pages 10 to 38 were approved by the Board of Directors on 23 March 2018 and signed on its behalf by:

M G Sykes
Director

M. G. Sykes

THE OCEAN MARINE INSURANCE COMPANY LIMITED

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Statement of cash flows**For the year ended 31 December 2017**

	Note	<u>2017</u> £m	<u>2016</u> £m
Cash flows from operating activities			
Net cash inflow from operating activities	14(a)	-	1
<i>Net cash from operating activities</i>		<u>-</u>	<u>1</u>
Net increase in cash and cash equivalents		<u>-</u>	<u>1</u>
Cash and cash equivalents at 1 January		43	42
Cash and cash equivalents at 31 December	14(b)	<u><u>43</u></u>	<u><u>43</u></u>

The accounting policies on pages 10 to 15 and the notes on pages 20 to 38 form an integral part of these financial statements.

Notes to the financial statements

For the year ended 31 December 2017

1. Net investment income

	2017	2016
	£m	£m
Interest and dividend income	1	2

2. Details of expenses

	2017	2016
	£m	£m
Claims paid, net of reinsurance	20	26
Claims paid to policyholders	(20)	(26)
Less: Claims recoveries from reinsurers	-	-
Change in claims provisions, net of reinsurance		
Change in gross claims provisions	(27)	(71)
Change in reinsurance asset for claims provisions	27	71
	-	-
Other operating expenses		
Other operating expenses	(1)	-
	(1)	-

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

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

During the year, two of the directors exercised share options (2016: two) and none of the directors received shares under long term incentive schemes (2016: three) in relation to shares of the Company's ultimate parent, Aviva plc.

THE OCEAN MARINE INSURANCE COMPANY LIMITED

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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.

	<u>2017</u>	<u>2016</u>
	<u>£000</u>	<u>£000</u>
Fees payable for the audit of the Company's financial statements	49	48
Fees payable for audit-related assurance services	39	38
	<u>88</u>	<u>86</u>

Fees payable for audit-related assurance services are in relation to the audit of the Solvency II and Employers Liability Register regulatory returns.

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

6. Tax**(a) Tax charged to the income statement**

(i) The total tax charge comprises:

	<u>2017</u>	<u>2016</u>
	<u>£m</u>	<u>£m</u>
Current tax	-	-
Total tax charge	<u>-</u>	<u>-</u>

(ii) There were no unrecognised tax losses and no temporary differences of previous years used to reduce the current tax expense in either 2017 or 2016.

(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 UK as follows:

	<u>2017</u>	<u>2016</u>
	<u>£m</u>	<u>£m</u>
Profit for the year before tax	-	2
Tax calculated at standard UK corporation tax rate of 19.25% (2016: 20%)	-	-
Tax charged for the year (note 6(a))	<u>-</u>	<u>-</u>

The rate of corporation tax changed to 19% with effect from 1 April 2017. Finance Act 2016, which received Royal Assent on 15 September 2016, will reduce the corporation tax rate further to 17% from 1 April 2020. There is no current year impact on the Company's net assets from the future reduction in the tax rate, as the Company does not have any recognised or unrecognised deferred tax balances.

THE OCEAN MARINE INSURANCE COMPANY LIMITED

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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:

	2017			2016		
	Gross insurance liabilities	Reinsurance assets	Net insurance liabilities	Gross insurance liabilities	Reinsurance assets	Net insurance liabilities
	£m	£m	£m	£m	£m	£m
Outstanding claims provisions	228	228	-	262	262	-
Provisions for claims incurred but not reported	157	157	-	167	167	-
Total	385	385	-	429	429	-

Of the above total, £337 million (2016: £365 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 £62 million (2016: £66 million) as a result of the discounting of latent claims.

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

(b) Assumptions

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

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

THE OCEAN MARINE INSURANCE COMPANY LIMITED

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

Reinsurers' share of claims as at 31 December:

	<u>2017</u>	<u>2016</u>
	£m	£m
Carrying amount at 1 January	429	451
Impact of changes in discount rate assumptions	(1)	8
Reinsurers' share of claims losses and expenses incurred in prior years	(7)	(45)
Reinsurers' share of incurred claims losses and expenses	(8)	(37)
Less:		
Reinsurance recoveries received on claims incurred in prior years	(20)	(26)
Unwind of discount	4	3
Change in reinsurance asset	(24)	(60)
Foreign exchange rate movements	(20)	38
Carrying amount at 31 December	<u>385</u>	<u>429</u>

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

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

	2017	2016
	£m	£m
Amounts due from reinsurers	12	12
Amount due from related parties (note 17(a)(i))	61	61
Total	73	73
Expected to be recovered in less than one year	61	61
Expected to be recovered in more than one year	12	12

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:

	2017	2016
	£m	£m
Provisions for outstanding claims	228	262
Provisions for claims incurred but not reported	157	167
Total	385	429

(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:

	Discount rate		Mean term of liabilities	
	2017	2016	2017	2016
Latent Claims (£)	0.66% - 1.48%	0.55% to 1.33%	8.7 years	10.4 years
Latent Claims (US\$)	1.91% - 2.58%	1.19% to 2.62%	10.4 years	11.5 years

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Notes to the financial statements (continued)

9. Insurance liabilities (continued)

(b) Provision for outstanding claims (continued)

The gross outstanding claims provisions before discounting are £447 million (2016: £495 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.

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.

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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.

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:

	2017	2016
	£m	£m
Carrying amount at 1 January	429	451
Impact of changes in discount rate assumptions	(1)	8
Claims losses and expenses incurred in prior years	(7)	(45)
Incurred claims losses and expenses	(8)	(37)
Less:		
Payments made on claims incurred in prior years	(20)	(26)
Unwind of discount	4	3
Changes in gross claims	(24)	(60)
Foreign exchange rate movements	(20)	38
Carrying amount at 31 December	385	429

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 8.7 years (2016: 10.4 years) for claims in £ Sterling and 10.4 years (2016: 11.5 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\$ 1.35 (2016: £1 = US\$ 1.24).

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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.

	<u>Gross</u> <u>2007 and</u> <u>prior years</u> <u>£m</u>	<u>Net of reinsurance</u> <u>2007 and</u> <u>prior years</u> <u>£m</u>
Outstanding claims provisions (undiscounted)	447	-
Effect of discounting	(62)	-
Present value recognised in the statement of financial position	<u>385</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 £315 million at 31 December 2017 (2016: £329 million). The net claims provisions in this respect are £nil million (2016: £nil million).

10. Tax assets and liabilities**(a) General**

Amounts for current year tax of £nil million (2016: £nil million) are expected to be receivable/payable in more than one year.

The tax assets and liabilities of the Company will be settled by way of group relief with Aviva Group companies.

(b) Deferred taxes

There are no provided or unprovided deferred tax assets and liabilities at the year end (2016 : £nil).

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Notes to the financial statements (continued)

11. Payables and other financial liabilities

	2017 £m	2016 £m
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:

	2017 £m	2016 £m
Allotted, called up and fully paid		
40,000 (2016: 40,000) Ordinary shares of £25 each	1	1

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:

	2017 £m	2016 £m
Capital reserve	28	28

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

13. Contingent liabilities and other risk factors

(a) 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.

(b) Regulatory

The Prudential Regulation Authority ("PRA") regulates the Company's UK business and the Financial Conduct Authority ("FCA") monitors the financial resources and organisation of the Company. The PRA and FCA have broad powers including the authority to grant, vary the terms of, or cancel a regulated firm's authorisation; to investigate marketing and sales practices; and to require the maintenance of adequate financial resources. The Company's regulators outside the UK typically have similar powers, but in some cases they also operate a system of 'prior product approval'.

THE OCEAN MARINE INSURANCE COMPANY LIMITED

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Notes to the financial statements (continued)**13. Contingent liabilities and other risk factors (continued)****(b) Regulatory (continued)**

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

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

(c) Other

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

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

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

	2017	2016
	£m	£m
Profit before tax	-	2
Changes in working capital:		
Decrease in reinsurance assets	44	22
Increase in receivables and other financial assets	-	(1)
Decrease in insurance liabilities	(44)	(22)
Net cash inflow from operating activities	<u>-</u>	<u>1</u>

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

	2017	2016
	£m	£m
Cash and cash equivalents	<u>43</u>	<u>43</u>

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, aligned to the Aviva Group's risk management framework. 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 the Company uses to identify, measure, manage, monitor and report ("IMMMR") risks, 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 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. The Chief Executive Officer and Chief Risk Officer sign-off compliance with these policies and standards, providing assurance to the Board 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. The Company also operates a risk and control self-assessment process. The risk assessment processes are used to generate risk reports which are shared with relevant committees.

Under the Solvency II regime, the Company has defined its Own Risk and Solvency Assessment ("ORSA") as the entirety of the IMMMR risk processes and determines its "own funds" 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.

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 and scenario tests to evaluate their impact on the business and the management actions available to respond to the conditions envisaged and inform business decisions. For those risk types managed through the holding of capital, being the Company's principal risk types except for liquidity risk, the Company measures and monitors its risk profile on the basis of the Solvency II Solvency Capital Requirement ("SCR").

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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 management 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. 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 is also undertaken by the Board.

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

(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.

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 reinsurance counterparties, cash and cash equivalents, and other receivables.

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

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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 cash and cash equivalents. Cash and cash equivalents are held with highly-rated banking institutions or liquidity funds.

31 December 2017	AA+	AA	AA-	Carrying value in the statement of financial position
	£m	£m	£m	£m
Reinsurance assets	385	-	-	385
Amounts due from reinsurers	12	-	-	12

31 December 2016	AA+	AA	AA-	Carrying value in the statement of financial position
	£m	£m	£m	£m
Reinsurance assets	-	429	-	429
Amounts due from reinsurers	-	12	-	12

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

Of the Company's receivables of £73 million (2016: £73 million), £61 million (2016: £61 million) is due from other Group companies and details are set out in note 17.

At 31 December 2017 and 31 December 2016, no financial assets are impaired or overdue.

The Company has a significant exposure to the National Indemnity Company amounting to £397 million (2016: £441 million) in respect of reinsurance arrangements.

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

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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 Company's 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 Aviva Group. 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 (2016: none).

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

(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, including consideration of a range of liquidity stresses. In extreme circumstances, the Company could also approach its parent Company or the Aviva Group for additional short-term borrowing whilst the Company liquidated other assets.

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 fall due.

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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	Total
31 December 2017	£m	£m	£m	£m	£m
Reinsurance assets	48	127	143	67	385
Receivables	61	-	12	-	73
Cash and cash equivalents	43	-	-	-	43
	152	127	155	67	501
31 December 2016	£m	£m	£m	£m	£m
Reinsurance assets	64	140	152	73	429
Receivables	61	-	12	-	73
Cash and cash equivalents	43	-	-	-	43
	168	140	164	73	545

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.

	Within 1 year	1 to 5 years	5 to 15 years	Over 15 years	Total
31 December 2017	£m	£m	£m	£m	£m
Insurance liabilities	48	127	143	67	385
Payables and other financial liabilities	-	-	1	-	1
	48	127	144	67	386
31 December 2016	£m	£m	£m	£m	£m
Insurance liabilities	64	140	152	73	429
Payables and other financial liabilities	-	-	1	-	1
	64	140	153	73	430

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

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

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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.

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

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

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

(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.

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

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 Solvency II framework. Management undertakes a regular 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.

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. 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.

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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 are based on the PRA's regulatory requirements under Solvency II, effective 1 January 2016. The risk management note (note 15) gives further details. The regulatory capital tests verify that the Company retains an excess of solvency capital above the required minimum level calculated using a risk-based capital model.

Solvency II "own funds" represents the amount of regulatory capital resources that are available to meet regulatory capital requirements under the Solvency II regime, and is a closely monitored metric. The Company's estimated "own funds" under Solvency II was £114 million as at 31 December 2017 (2016:£114 million). The Company's own funds are sufficient to meet its capital requirements under Solvency II. The Company fully complied with the relevant regulatory requirements during the year.

(d) Company capital structure

	IFRS net assets 2017 £m	IFRS net assets 2016 £m
General insurance	115	115
Total capital employed	115	115
Financed by		
Equity shareholders' funds	115	115

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Notes to the financial statements (continued)**17. Related party transactions**

(a) The Company had the following related party transactions in 2017 and 2016:

(i) **Intercompany receivable**

	2017		2016	
	Income earned in year	Receivable at year end	Income earned in year	Receivable at year end
	£m	£m	£m	£m
Parent	-	61	-	61
	-	61	-	61

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

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

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

(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.