Aviva International Insurance Limited

Registered in England and Wales No. 21487

Annual Report and Financial Statements 2016

Contents

Directors and Officers 3
Strategic report 4
Directors' report 6
Independent auditors report 8
Accounting policies 10
Income Statement 18
Statement of Comprehensive Income 19
Statement of Changes in Equity 20
Statement of Financial Position 21
Statement of Cash Flows 22
Notes to the financial statements 23
1. Details of income 23
2. Details of expenses 24
3. Employees 24
4. Directors 25
5. Auditors' remuneration 25
6. Tax charge 26
7. Dividends 26
8. Investment in subsidiaries 27
9. Investment in joint ventures 27
10. Fair value methodology 27
11. Receivables and other financial assets 29
12. Deferred acquisition costs, prepayments and accrued income 29
13. Tax assets and liabilities 30
14. Ordinary share capital 30
15. Other reserves 31
16. Retained earnings 31
17. Insurance liabilities 31
18. Reinsurance assets 38
19. Payables and other financial liabilities 39
20. Other liabilities 39
21. Contingent liabilities and other risk factors 39
22. Statement of Cash Flows 40
23. Financial investments 40
24. Capital structure 41
25. Risk management 42
26. Derivative financial instruments 50
27. Related party transactions 50
28. Related undertakings 53
29. Events after the statement of financial position date 53

Directors and Officers

Directors

J Buttigieg
R W A Howe **
P L Mylet
T D Stoddard *
O Thoresen **
N Williams **
D Wright **

* Non-Executive Director
** Independent Non-Executive Director

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. 21487

Other Information

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

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

Strategic report

The directors present their strategic report for the Company for the year ended 31 December 2016.

Review of the Company's Business

The principal activity of the Company is to act as the onshore reinsurance vehicle for the Aviva plc Group ("the Group").

During 2016, the Company expanded its activities by entering into new quota share reinsurance agreements with four fellow Group subsidiaries as follows:

- An arrangement with Aviva Annuity UK Limited ("UKA") which transacts long-term insurance business, to increase its reinsurance from 10% to 50% of its insurance liabilities.
- An arrangement with Aviva Insurance Limited ("AIL") which transacts general and health insurance business, to increase its reinsurance from 5% to 50% of its insurance liabilities.
- An arrangement with Aviva Life & Pensions UK Limited ("UK L&P") which transacts investment and long term insurance business, to reinsure 50% of specified parts of its non-profit sub-fund ("NPSF").
- An arrangement with Aviva Assurances ("FGI") a Group subsidiary incorporated in France which transacts general and health insurance business, to reinsure 50% of its insurance liabilities.

All agreements were effective from 1 January 2016. For UKA, AIL and UK L&P, all reinsured business is transacted in the United Kingdom ("UK") and Ireland. For FGI, all reinsured business is transacted in France.

Financial position and performance

The financial position of the Company at 31 December 2016 is shown in the Statement of Financial Position on page 21, with the results shown in the Income Statement on page 18 and the Statement of Cash Flows on page 22.

The Company's net assets at 31 December 2016 were £2,562 million, up from £1,192 million at 31 December 2015 primarily due to the profits arising on the new reinsurance agreements and the issue of £50 million of ordinary share capital in the year.

The profit before tax increased to £1,556 million in 2016, up from £22 million in 2015. The increase is driven by the significant one-off transactions, notably the reinsurance of the existing liabilities of UKA, AIL, UK L&P and FGI which generated a total profit at inception of £1,022 million. On 27 February 2017, the Lord Chancellor announced a reduction in the discount rate used in the Ogden tables from 2.5% set in 2001 to minus 0.75%, which will increase lump sum payments to UK bodily injury claimants. This is an adjusting post-balance sheet event, and therefore the 2016 claims reserves have been strengthened by £238 million to allow for the impact of the reduction in the current discount rate, which has impacted the Company's profit before tax by the same amount.

Gross written premiums of £47,022 million in 2016 *(2015: £318 million)* are wholly in relation to the quota share reinsurance agreements noted above *(2015: £317 million)*, of which £40,895 million reflected the reinsurance of back book liabilities *(2015: £nil)*.

Future outlook

High level strategies are determined by the Board of Aviva plc and these are shown in the Group Report and Accounts and 2016 Preliminary Statement.

The Group has plans to continue to increase the amount of business ceded to the Company. The objective of these plans is to promote capital efficiency and realise the benefits of group diversification of risk through lower solo capital requirements in the ceding entities.

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 note 25 to the financial statements.

Risk factors beyond the Company's control, including those accepted through quota share reinsurance arrangements, that could cause actual results to differ materially from those estimated include, but are not limited to:

- Credit risk relating to losses arising from counterparty default or the fluctuations in value of investments arising from credit rating changes or changes in the market value of investments such as government bonds, corporate bonds and commercial mortgages
- Life insurance risk, currently mainly longevity risk, but potentially including mortality risk, morbidity risk, persistency risk, expense risk and policyholder behaviour risk around the take-up of insurance guarantees and options
- General insurance risk including fluctuations in the timing, frequency and severity of claims and claims settlements relative to expectations when pricing and reserving
- Market risk which is the risk of loss or adverse change in the Company's financial situation resulting, directly or indirectly, from fluctuations in the level or the volatility of market variables such as interest rates, property prices and foreign exchange rates.

Strategic report continued

The Company uses a number of metrics to measure, monitor and manage these risks and a fuller explanation of these and other risks may be found in note 25 to the financial statements.

Additionally the Company has a long-term loan due from its parent, Aviva Group Holdings Limited, and the net asset value of the Company's financial resources is exposed to the potential default on this loan. The loan amounts to £200 million *(2015: £200 million)* and is secured by a legal charge against the ordinary share capital of Aviva Insurance Limited. The credit risk arising from Aviva Group counterparties failing to meet all or part of their obligations is considered remote. Due to the nature of the loan, and the fact that it is not traded, the Company is not exposed to the risk of changes to the market value caused by changing perceptions of the credit worthiness of Aviva plc. Financial assets that were past due or impaired at 31 December 2016 were £nil *(2015: £nil)*.

Key performance indicators

The directors consider that the Company's key performance indicators (KPIs) that communicate the financial performance are as follows:

- Profit for the year before tax
- Estimated Regulatory Capital Surplus (Solvency II came into effect on 1 January 2016 - the regulatory capital surplus disclosed below in respect of 2015 is therefore on a different basis, being the PRA's previous Solvency 1 regime).

A summary of the KPIs is set out below:

Measure	2016 £m	2015 £m
Financial Performance		
Profit for the year before tax	**1,556**	22
Capital Metrics		
Estimated Regulatory Capital Surplus	**1,391**	725

By order of the Board on 30 March 2017

Aviva Company Secretarial Services Limited
Company Secretary

Directors' report

The directors present their annual report and audited financial statements for the Company for the year ended 31 December 2016.

Directors

The names of the present directors of the Company appear on page 3 and detailed below are the changes that have occurred during 2016 and post year end.

R Alford resigned as a director of the Company on 27 September 2016
J M Windsor resigned as a director of the Company on 31 July 2016
O Thoresen was appointed as a director of the Company on 27 September 2016
P L Mylet was appointed as a director of the Company on 3 March 2017

Officer – Company Secretary

Aviva Company Secretarial Services Limited was company secretary over the year.

Dividends

Interim ordinary dividends of £nil on the Company's ordinary shares were declared and paid during 2016 *(2015: £39 million)*. The directors do not recommend a final dividend on the Company's ordinary shares for the year ended 31 December 2016 *(2015: £nil)*.

Going concern

The Company's business activities, together with the factors likely to affect its future development, performance and position are set out in the Strategic Report on page 4.

The Company and its ultimate holding company, Aviva plc, have considerable financial resources together with a diversified business model, with a spread of business and geographical reach. As a consequence, the directors believe that the Company is well placed to manage its business risks successfully.

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.

Major Events

On 1 January 2016, the Company entered into new reinsurance arrangements as set out on page 4 of the Strategic Report. The effect of these arrangements was to increase the Company's gross assets by £40.9 billion, gross liabilities by £39.9 billion and therefore net assets by £1.0 billion.

On 25 July 2016, the Board approved for the Company to issue 5,000 ordinary shares of £10,000 each to its sole shareholder, Aviva Group Holdings Limited, in return for cash of £50 million.

Future Outlook

Likely future developments in the business of the Company is discussed in the Strategic Report on page 4.

Events since the Statement of Financial Position

As described in the Strategic Report, on 27 February 2017 the Lord Chancellor announced a reduction in the discount rate used in the Ogden tables from 2.5% set in 2001 to minus 0.75%. This is an adjusting post-balance sheet event. As a result, claims reserves have been strengthened by £238 million to allow for the impact of the reduction in the discount rate. The Lord Chancellor has also announced that the framework for setting the discount rate is under review and a public consultation will be launched before the end of April 2017. The timing of the conclusion of this review and its outcome and impact on future Ogden discount rates is unclear.

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 25 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, who make a management charge for the provision of staff to the Company.

Directors' report continued

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.

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/she ought to have taken as a director in order to make himself/herself 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 s418 of the Companies Act 2006.

Qualifying Indemnity Provisions

In 2004 Aviva plc, the Company's ultimate parent, granted an indemnity to the directors against liability in respect of proceedings brought by third parties, subject to the conditions set out in the Companies Act 1985 (which continue to apply in relation to any provision made before 1 October 2007). This indemnity is a "qualifying third party indemnity" for the purposes of 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 directors also have the benefit of the indemnity provision contained in the Company's articles of association, subject to the conditions set out in the Companies Act 2006. This is a "qualifying third party indemnity" provision as defined by section 234 of the Companies Act 2006.

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. In preparing these financial statements, the directors have also elected to comply with IFRSs issued by the International Accounting Standards Board (IASB). 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 as adopted by the EU, and IFRSs as issued by the International Accounting Standards Board (IASB) have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

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 on 30 March 2017

Aviva Company Secretarial Services Limited
Company Secretary

Independent auditors report to the members of Aviva International Insurance Limited

Report on the financial statements

Our opinion

In our opinion, Aviva International Insurance 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 2016 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 Income Statement and Statement of Comprehensive Income for the year ended 31 December 2016;
- the Statement of Changes in Equity for the year ended 31 December 2016;
- the Statement of Financial Position as at 31 December 2016;
- the Statement of Cash Flows for the year ended 31 December 2016; and
- the notes to the financial statements, which include a summary of significant accounting policies and 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.

Opinions on other matters prescribed by the Companies Act 2006

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

- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

In addition, in light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we are required to report if we have identified any material misstatements in the Strategic Report and the Directors' Report. We have nothing to report in this respect.

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.

Independent auditors report to the members of Aviva International Insurance Limited continued

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 7, 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. With respect to the Strategic Report and Directors' Report, we consider whether those reports include the disclosures required by applicable legal requirements.

Paul Pannell (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London

30 March 2017

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 presentation

The Company is exempt from preparing group financial statements by virtue of section 400 of the Companies Act 2006, as it is a subsidiary of an EEA parent and is included in consolidated financial statements for the Aviva Group, i.e. the ultimate parent company, Aviva plc, and its subsidiaries, joint ventures and associates, at the same date. These financial statements therefore present information about the Company as an individual entity.

The financial statements of the Company have been prepared and approved by the directors in accordance with International Financial Reporting Standards (IFRSs) as issued by the International Accounting Standards Board (IASB) and endorsed by the European Union (EU), and those parts of the Companies Act 2006 applicable to those reporting under IFRS. In addition to fulfilling their legal obligation to comply with IFRSs as adopted by the EU, the Company has also complied with IFRSs as issued by the IASB and applicable at 31 December 2016. The date of transition to IFRS was 1 January 2004.

The Company and its ultimate parent company, Aviva plc, have considerable financial resources and as a consequence, the directors believe that the Company is well placed to manage its business risks successfully despite the current uncertain macro-economic outlook. 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.

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 policy K below.

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

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

Effective for annual periods beginning on or after 1 January 2016

(i) Amendments to IAS 16 and IAS 38 – Clarification of Acceptable Methods of Depreciation and Amortisation
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 has no impact on the Company's financial statements.

(ii) Amendments to IAS 1 – Disclosure Initiative
These amendments form part of the IASB's Disclosure Initiative and are intended to assist entities in applying judgement in considering presentation and disclosure requirements. The amendments clarify guidance in IAS 1 Presentation of Financial Statements on materiality and aggregation, the presentation of subtotals, the order of the notes to financial statements and the disclosure of accounting policies. The adoption of these amendments has no impact on the Company's financial statements.

(iii) 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 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, are effective for accounting periods beginning on or after the following date and have not been adopted early by the Company:

Accounting policies continued

(A) Basis of presentation continued

Effective for annual reporting periods beginning on or after 1 January 2017

(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 the publication of the forthcoming accounting standard for insurance contracts. 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 the earlier of the effective date of a 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.

The Company is eligible to apply the deferral approach under the amendments to IFRS 4. 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 forthcoming insurance contracts standard. 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) Other standards

The IASB has issued a number of amendments to standards which are not yet effective and have not been adopted early by the Company:

(a) Narrow scope amendments to IAS 12 – Recognition of Deferred Tax Assets for Unrealised Losses
(b) Amendments to IAS 7 – Disclosure initiative
(c) IFRS 15 - Revenue from Contracts with Customers
(d) Amendments to IFRS 2 - Classification and Measurement of Share-based Payment Transactions
(e) IFRS 16 - Leases

These have not been endorsed by the EU. The amendments are not expected to have a material impact on the Company's financial statements.

(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 K).

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 that management consider particularly susceptible to changes in estimates and assumptions, and the relevant accounting policy.

Item	Accounting policy
Insurance contract liabilities	K
Derivative financial instruments	O

Accounting policies continued

(C) Subsidiaries and Joint ventures

Subsidiaries are those entities (including special purpose entities) in which the Company, directly or indirectly, has power to exercise control over financial and operating policies in order to gain economic benefits.

Subsidiaries are stated at their fair values, estimated using applicable valuation models underpinned by the quoted market valuations of comparable listed entities, and with regard to the Aviva Group's market capitalisation.

Joint ventures are entities whereby the Company and other parties undertake an economic activity which is subject to joint control arising from a contractual agreement. In a number of these, the Company's share of the underlying assets and liabilities may be greater than 50% but the terms of the relevant agreements make it clear that control is not exercised. Such jointly-controlled entities are referred to as joint ventures in these financial statements.

Joint ventures are stated at their fair values, estimated using applicable valuation models, underpinned by the quoted market valuations of comparable listed entities.

Where the cumulative changes recognised in equity represent an unrealised loss, the investments are reviewed annually to test whether an impairment exists. Where there is objective evidence that such an asset is impaired, such as the financial difficulty of the entity or a significant or prolonged decline in its fair value below cost, the unrealised loss recorded in equity is reclassified and charged to the Income Statement.

(D) Foreign currency transactions

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.

Translation differences on monetary financial assets measured at fair value and designated as held at fair value through profit and loss (FVTPL) are included in foreign exchange gains and losses in the Income Statement. Translation differences on non-monetary items, such as equities which are designated as FVTPL, are reported as part of the fair value gain or loss, whereas such differences on available for sale equities are included in other comprehensive income.

(E) Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. This presumes that the transaction takes place in the principal (or most advantageous) market under current market conditions. Fair value is a market-based measure and in the absence of observable market prices in an active market, it is measured using the assumptions that market participants would use when pricing the asset or liability.

The fair value of a non-financial asset is determined based on its highest and best use from a market participant's perspective. When using this approach, the Company takes into the account the asset's use that is physically possible, legally permissible and financially feasible. Where the carrying amount of a non-financial asset exceeds the fair value, the carrying amount is reduced to the fair value, and a charge made to impairment.

If an asset or a liability measured at fair value has a bid price and an ask price, the price within the bid-ask spread that is most representative of fair value in the circumstances is used to measure fair value.

(F) 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.

As noted in policy A above, 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 or the date of the acquisition of the entity, in accordance with IFRS 4. Accounting for insurance contracts in UK companies is determined in accordance with the Statement of Recommended Practice issued by the Association of British Insurers (subsequently withdrawn by the ABI in 2015).

Accounting policies continued

(F) Product classification continued

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.

(G) Premiums earned

(i) Premiums written – General Business

Premiums written are recorded on the accruals basis. Premiums are earned on a pro-rata basis over the terms of the underlying policies. Premium adjustments are recorded when notified. Premiums on reinsurance assumed are recognised as revenue in the same manner as they would be if the reinsurance were considered direct business, taking into account the product classification of the reinsured business.

(ii) Premiums written – Long term Business

Long-term business premiums are recognised as income when receivable under the terms of the underlying treaties to which they relate.

(H) Other fee and commission income

Other fee and commission income is recognised as the services are provided.

(I) Net investment income

Investment income consists of dividends, interest receivable for the year, realised gains and losses, and unrealised gains and losses on fair value investments (as defined in policy E). Interest income is recognised as it accrues, taking into account the effective yield on the investment.

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

(J) Other receivables and payables

Other receivables and payables including the deposits held by cedants are initially recognised at cost, being fair value. Deposits held by cedant undertakings represent funds withheld under the terms of the quota share reinsurance arrangements, and in accordance with those arrangements are remeasured to reflect the relevant underlying asset and liability fair values within the cedants. Subsequent to initial measurement all other receivables and payables are measured at amortised cost which is considered a reasonable approximation to fair value.

(K) Insurance contract liabilities

Claims

Long-term business claims reflect the cost of all claims arising during the year, including claims handling costs.

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

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

Insurance provisions

(i) Long-term business provisions

Under IFRS 4, insurance contract liabilities are measured using accounting policies consistent with those adopted previously under existing accounting practices. Calculation of the long-term business provisions are based on UK regulatory requirements, prior to the adoption of Solvency II, adjusted to remove certain regulatory reserves and margins in assumptions, notably for annuity business. Each calculation represents a determination within a range of possible outcomes, where the assumptions used in the calculations depend on the prevailing circumstances. The principal assumptions are disclosed in note 17.

Accounting policies continued

(K) Insurance contract liabilities continued

(ii) Outstanding claims provisions

General insurance and health outstanding claims provisions are based on the estimated ultimate cost of all claims incurred but not settled at the Statement of Financial Position date, whether reported or not, together with related claims handling costs. Significant delays are experienced in the notification and settlement of certain types of general insurance claims, particularly in respect of liability business, including environmental and pollution exposures, the ultimate cost of which cannot be known with certainty at the Statement of Financial Position date. Any estimate represents a determination within a range of possible outcomes. Further details of estimation techniques and assumptions are given in note 17.

Provisions for latent claims and claims that are settled on an annuity basis such as structured settlements are discounted, using the relevant swap curve including an illiquidity premium, 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 17.

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

(iii) Provision for unearned premiums

The proportion of written premiums, gross of commission payable to intermediaries, attributable to subsequent periods is deferred as a provision for unearned premiums. The change in this provision is taken to the Income Statement in order that revenue is recognised over the period of risk.

(iv) Liability adequacy

At each reporting date, the Company reviews its unexpired risks and carries out a liability adequacy test for any overall excess of expected claims and deferred acquisition costs over unearned premiums, using the current estimates of future cash flows under its contracts, after taking account of the investment return expected to arise on assets relating to the relevant provisions. If these estimates show that the carrying amount of its insurance liabilities (less related deferred acquisition costs) is insufficient in light of the estimated future cash flows, the Company recognises the deficiency in the Income Statement by setting up a provision in the Statement of Financial Position.

Other assessments and levies

The Company is subject to various periodic insurance-related assessments or guarantee fund levies. Related provisions are established where there is a present obligation (legal or constructive) as a result of a past event. Such amounts are not included within insurance liabilities but are included under "other liabilities" in the Statement of Financial Position.

(L) Reinsurance

The Company assumes and cedes reinsurance in the normal course of business, with retention limits varying by line of business. Premiums on reinsurance assumed are recognised as revenue in the same manner as they would be if the reinsurance were considered direct business, taking into account the product classification of the reinsured business.

Where general insurance liabilities are discounted, any corresponding reinsurance assets are also discounted using consistent assumptions.

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.

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

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

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

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

Accounting policies continued

(M) Derecognition and offset of financial assets and financial liabilities continued

Financial assets and liabilities are offset and the net amount reported in the Statement of Financial Position when there is a legally enforceable 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.

(N) Financial investments

The Company classifies its investments as either FVTPL or financial assets available for sale (AFS). The classification depends on the purpose for which the investments were acquired, and is determined at initial recognition. The FVTPL has two sub-categories – those that meet the definition as being held for trading and those the Company chooses to designate as "other than trading" upon initial recognition.

With the exception of investment in subsidiaries, the FVTPL category is used as the Company's investment or risk management strategy is to manage its financial investments on a fair value basis. All securities in the FVTPL category are classified as other than trading.

Purchases and sales of investments are recognised on the trade date, which is the date that the Company commits to purchase or sell the assets, at their fair values. Debt securities are initially recorded at their fair value, which is taken to be amortised cost, with amortisation credited or charged to the income statement. Investments classified as other than trading are subsequently carried at fair value. Changes in the fair value of other than trading investments are included in the income statement in the period in which they arise.

(O) Derivative financial instruments

Derivative financial instruments include over the counter credit swaps that derive their value from fluctuations in the credit worthiness of a basket of European listed corporates. All derivatives are initially recognised in the statement of financial position at their fair value, which usually represents their cost. They are subsequently re-measured at their fair value with fair value gains and losses recognised immediately in the net investment income. Fair values are obtained from discounted cash flow models and option pricing models. All derivatives are carried as assets when the fair values are positive and liabilities when the fair values are negative.

Derivatives are subject to various risks including market, liquidity and credit risk, similar to those related to the underlying financial instruments. Many over-the-counter (OTC) transactions are contracted and documented under International Swaps and Derivatives Association ("ISDA") master agreements or their equivalent, which are designed to provide legally enforceable set-off in the event of default, reducing the Company's credit risk.

The notional or contractual amounts associated with a derivative financial instrument are not recorded as assets or liabilities in the Statement of Financial Position as they do not represent the potential gain or loss associated with such transactions. These amounts are disclosed in note 19.

(P) Loans

Loans with fixed maturities are recognised when cash is advanced to borrowers. Loans are carried at their unpaid principal balances and adjusted for amortisation of premium or discount, non-refundable loan fees and related direct costs. These amounts are deferred and amortised over the life of the loan as an adjustment to loan yield using the effective interest rate method. Loans with indefinite future lives are carried at unpaid principal balances or cost.

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

At each reporting date, the directors review loans carried at amortised cost for objective evidence that they are impaired and uncollectable, either at the level of an individual security or collectively within a group of loans with similar credit risk characteristics. To the extent that a loan is uncollectable, it is written down as impaired to its recoverable amount, measured as the present value of expected future cash flows discounted at the original effective interest rate of the loan, including any collateral receivable. Subsequent recoveries in excess of the loan's written-down carrying value are credited to the Income Statement.

Accounting policies continued

(Q) Collateral

The Company receives and pledges collateral in the form of cash or non-cash assets in respect of certain derivative contracts in order to reduce the credit risk of these transactions. The amount and type of collateral required depends on the assessment of credit risk of the counterparty.

Collateral received in the form of cash, which is not legally segregated from the Company, is recognised as an asset in the Statement of Financial Position with a corresponding liability for the repayment. Non-cash collateral received is not recognised in the Statement of Financial Position unless the Company either (a) sells or re-pledges these assets in the absence of a default, at which point the obligation to return this collateral is recognised as a liability; or (b) the counterparty to the arrangement defaults, at which point the collateral is seized and recognised as an asset.

Collateral pledged in the form of cash, which is legally segregated from the Company, is derecognised from the statement of financial position with a corresponding receivable recognised for its return. Non-cash collateral pledged is not derecognised from the Statement of Financial Position unless the Company defaults on its obligations under the relevant agreement, and therefore continues to be recognised in the Statement of Financial Position within the appropriate asset classification.

(R) Deferred acquisition costs and other assets

The costs relating to the acquisition of new business for insurance contracts are deferred to the extent that they are expected to be recoverable out of future margins in revenues on those contracts. Where such business is reinsured, an appropriate proportion of the deferred acquisition costs is attributed to the reinsurer, and is treated as a separate liability.

Deferred acquisition costs are amortised over the period in which the related revenues are earned. The reinsurers' share of deferred acquisition costs is amortised in the same manner as the underlying asset. Deferred acquisition costs are reviewed by category of business at the end of each reporting period and are written off where they are no longer considered recoverable.

Other receivables and payables are initially recognised at cost, being fair value. Subsequent to initial measurement they are measured at amortised cost.

(S) 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.

(T) Provisions and contingent liabilities

Provisions are recognised when the Company has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made. Where the Company expects a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

The Company recognises a provision for onerous contracts when the expected benefits to be derived from a contract are less than the unavoidable costs of meeting the obligations under the contract.

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

(U) 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 balance sheet date are used to determine the deferred tax.

Accounting policies continued

(U) Income taxes continued

Current and deferred tax relating to items recognised in other comprehensive income and directly in equity are similarly recognised in other comprehensive income and directly in equity respectively. Deferred tax related to fair value re-measurement of available for sale investments, and other amounts charged or credited directly to other comprehensive income is recognised in the Statement of Financial Position as a deferred tax asset or liability.

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.

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

Deferred tax is not provided on revaluations of investments in subsidiaries as under current tax legislation no tax is expected to arise on their disposal.

(V) 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 the shareholder.

Income Statement
For the year ended 31 December 2016

	Note	2016 £m	2015 £m
Income	1		
Gross written premiums		**47,022**	318
Premiums ceded to reinsurers		**-**	(1)
Premiums written net of reinsurance		**47,022**	317
Net change in provision for unearned premiums		**(1,183)**	(1)
Net earned premiums	G & L	**45,839**	316
Net investment income	I	**5,454**	42
Other income	D & H	**14**	-
		51,307	358
Expenses	2		
Claims and benefits paid, net of recoveries from reinsurers	K	**(5,636)**	(358)
Change in insurance liabilities, net of reinsurance	K	**(42,913)**	140
Fee and commission expense		**(1,195)**	(94)
Other expenses		**(7)**	(8)
Loss on disposal of joint venture		**-**	(16)
		(49,751)	(336)
Profit for the year before tax		**1,556**	22
Tax charge	U & 6	**(236)**	(8)
Profit for the year		**1,320**	14

The accounting policies (identified alphabetically) on pages 10 to 17 and notes (identified numerically) on pages 23 to 53 are an integral part of these financial statements.

Statement of Comprehensive Income
For the year ended 31 December 2016

	Note	2016 £m	2015 £m
Profit for the year		**1,320**	14
Other comprehensive income:			
Items that may be subsequently reclassified to the Income Statement			
Joint ventures			
Fair value (losses) / gains transferred to profit on disposal of joint ventures	C, 9 & 15	-	(4)
Other comprehensive income, net of tax		-	(4)
Total comprehensive income for the year		**1,320**	10

The accounting policies (identified alphabetically) on pages 10 to 17 and notes (identified numerically) on pages 23 to 53 are an integral part of these financial statements.

Statement of Changes in Equity
For the year ended 31 December 2016

	Note	Ordinary share capital £m	Investment valuation reserve £m	Retained earnings £m	Total equity £m
Balance at 1 January 2015		380	4	487	871
Profit for the year		-	-	14	14
Other comprehensive income		-	(4)	-	(4)
Total comprehensive income for the year		-	(4)	14	10
Issue of share capital	14	350	-	-	350
Dividends paid	7 & 16	-	-	(39)	(39)
Balance at 31 December 2015		**730**	**-**	**462**	**1,192**
Profit for the year		**-**	**-**	**1,320**	**1,320**
Total comprehensive income for the year		**-**	**-**	**1,320**	**1,320**
Issue of share capital	14	**50**	**-**	**-**	**50**
Balance at 31 December 2016		**780**	**-**	**1,782**	**2,562**

The accounting policies (identified alphabetically) on pages 10 to 17 and notes (identified numerically) on pages 23 to 53 are an integral part of these financial statements.

Statement of Financial Position
As at 31 December 2016

	Note	2016 £m	2015 £m
Assets			
Financial investments	23	**1,143**	198
Reinsurance assets	L & 18	**6**	9
Receivables and other financial assets	J & 11	**49,532**	4,152
Deferred acquisition costs, prepayments and accrued income	R & 12	**307**	26
Cash and cash equivalents	S & 22(b)	**43**	497
Total assets		**51,031**	4,882
Equity			
Ordinary share capital	14	**780**	730
Retained earnings	16	**1,782**	462
Total equity		**2,562**	1,192
Liabilities			
Gross insurance liabilities	K & 17	**47,887**	3,649
Current tax liabilities	U & 13	**236**	8
Payables and other financial liabilities	M & 19	**340**	28
Other liabilities	T & 20	**6**	5
Total liabilities		**48,469**	3,690
Total equity and liabilities		**51,031**	4,882

The financial statements were approved by the Board of Directors on 30 March 2017 and signed on its behalf by:

J Buttigieg

Judith Buttigieg
Director

The accounting policies (identified alphabetically) on pages 10 to 17 and notes (identified numerically) on pages 23 to 53 are an integral part of these financial statements.

Statement of Cash Flows
For the year ended 31 December 2016

	Note	2016 £m	2015 £m
Cash flows from operating activities			
Cash generated from operations	22(a)	**(504)**	(195)
Net cash generated from operating activities		**(504)**	(195)
Cash flows from investing activities			
Disposal of held for sale assets	8	**-**	6
Disposal of joint ventures	9	**-**	(10)
Cash dividend receipts		**-**	1
Net cash generated from investing activities		**-**	(3)
Cash flows from financing activities			
Proceeds from issue of share capital	14	**50**	350
Cash dividends paid	7	**-**	(39)
Net cash generated from financing activities		**50**	311
Net increase in cash and cash equivalents		**(454)**	113
Cash and cash equivalents at 1 January		**497**	384
Cash and cash equivalents at 31 December	22(b)	**43**	497

The accounting policies (identified alphabetically) on pages 10 to 17 and notes (identified numerically) on pages 23 to 53 are an integral part of these financial statements.

Notes to the financial statements

1. Details of income

	Note	2016 £m	2015 £m
Gross written premiums			
Long-term insurance business premiums		**40,202**	145
General insurance premiums	17(e)	**6,820**	173
		47,022	318
Less: premiums ceded to reinsurers	18(c)(iii)	**-**	(1)
Change in provision for unearned premiums	17(e)	**(1,183)**	(1)
Reinsurers' share of change in provision for unearned premiums	18(c)(iii)	**-**	-
Net change in provision for unearned premiums		**(1,183)**	(1)
Net earned premiums		**45,839**	316
Other income		**14**	-
Total revenue		**45,853**	316
Interest and similar income			
From investments designated as other than trading		**5**	2
From deposits with ceding undertakings		**5,465**	31
		5,470	33
Other income from investments designated as trading			
Unrealised losses		**(32)**	-
		(32)	-
Other income from investments designated as other than trading			
Realised gains		**1**	-
Unrealised gains		**8**	-
		9	-
Income from parent company and subsidiaries			
Dividend income		**-**	1
Interest income		**8**	8
		8	9
Investment expenses		**(1)**	-
Net investment income		**5,454**	42
Total income		**51,307**	358

Gross written premiums in 2016 include £47,022 million *(2015: £317 million)* in respect of the quota share reinsurance agreements entered into between the Company and other Group subsidiaries. A further analysis of the quota share reinsurance premiums is provided below, and additional details on the impacts of these transactions is provided in note 27(a)(iii).

Interest and similar income includes £5,465 million *(2015: £31 million)* arising from investment returns on the deposits with ceding undertakings.

Notes to the financial statements continued

1. Details of income continued

	2016 £m	2015 £m
Quota share reinsurance premiums		
Reinsurance of back book liabilities - long term business	**37,002**	-
Reinsurance of back book liabilities - general insurance & health business	**3,893**	-
New business premiums - long term business	**3,200**	145
New business premiums - general insurance & health business	**2,927**	172
	47,022	317

2. Details of expenses

	Note	2016 £m	2015 £m
Claims and benefits paid, net of recoveries from reinsurers			
Claims and benefits paid - long-term business		**3,490**	206
Claims and benefits paid - general insurance	17(c)(iv)	**1,912**	154
Claims and benefits paid - commutation	17(c)(iv)	**235**	-
Less: Claims recoveries from reinsurers on general insurance business	18(c)(ii)	**(1)**	(2)
		5,636	358
Change in insurance liabilities, net of reinsurance			
Change in insurance liabilities - long term business	17(b)	**40,157**	(101)
Change in insurance liabilities - general insurance	17(c)(iv)	**2,752**	(46)
Change in reinsurance asset for insurance provisions	18(c)((i),(ii)	**4**	7
		42,913	(140)
Fee and commission expense, net of reinsurance			
Acquisition costs			
Commission expenses		**549**	79
Change in deferred acquisition costs	12	**(277)**	1
Other acquisition costs		**923**	14
		1,195	94
Other operating expenses			
Other expenses		**7**	8
		7	8
Loss on disposal of joint venture	9	**-**	16
Total expenses		**49,751**	336

3. Employees

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

Notes to the financial statements continued

4. Directors

Messrs Stoddard, Windsor and Ms Buttigieg were all remunerated by Aviva Employment Services Limited, a fellow subsidiary of Aviva plc.

Messrs Stoddard and Windsor were remunerated for their services to the Aviva Group as a whole. They were not remunerated directly for their services as directors of the Company and the amount of time spent performing their duties is incidental to their roles across the Aviva Group and details of their emoluments are disclosed in Aviva plc's annual report and financial statements. Mr Stoddard was a director of Aviva plc during the year. Mr Windsor was a person discharging management responsibilities (PDMR).

Mr Windsor's and Ms Buttigieg's remuneration is disclosed within the aggregate of key management compensation in note 27 (b).

The fees for Messrs Alford, Howe, Thoresen, Williams and Wright are paid for and borne by the Company. In addition, Mr Howe received a fee in respect of his services as a Non-Executive Director of Aviva Life Holdings UK Limited and its subsidiaries, which are also subsidiaries of Aviva plc, and this is disclosed in the annual report and financial statements of those companies.

	2016	2015
	£'000	£'000
Aggregate emoluments	**752**	760
	752	760

During the year, three directors (*2015: three*) accrued retirement benefits under money purchase pension schemes in respect of qualifying services.

During the year, three of the directors exercised share options *(2015: three)* and three of the directors received shares under long term incentive schemes *(2015: three)*.

The details of the highest paid director are as follows:

	2016	2015
	£'000	£'000
Aggregate emoluments	**451**	425
Company pension contributions to a money purchase scheme	**7**	28
	458	453

During the year the highest paid director exercised share options and received shares under long term incentive schemes.

5. Auditors' remuneration

The total remuneration payable by the Company, excluding VAT, to its principal auditors, PricewaterhouseCoopers LLP, *is shown* below.

	2016	2015
	£'000	£'000
Fees payable to the Company's auditors for the audit of financial statements	**201**	125
	201	125

Fees paid to the Company's auditors 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.

Notes to the financial statements continued

6. Tax charge

(a) Tax (charged)/credited to the Income Statement

(i) The total tax charge comprises:

	2016 £m	2015 £m
Current tax		
For this year	**(236)**	(8)
Adjustment in respect of prior years	-	-
Total current tax charge	**(236)**	(8)
Total tax (charged) in the income statement	**(236)**	(8)

(b) Tax (charged) / credited to other comprehensive income

There was no tax charged or credited to other comprehensive income in either 2016 or 2015.

(c) Tax reconciliation

The tax on the Company's profit before tax differs from the tax calculated at the standard United Kingdom corporation tax rate as follows:

	Note	2016 £m	2015 £m
Profit for the year before tax		**1,556**	22
Tax calculated at standard UK corporation tax rate of 20.00% *(2015: 20.25%)*		**(311)**	(5)
Surrender of tax losses from group undertakings for no charge		**100**	-
Movement in deferred tax not recognised		**(25)**	-
Non-taxable loss on disposal of joint ventures		-	(3)
Tax (charged) for the period	6(a)(i)	**(236)**	(8)

Finance (No 2) Act 2015 introduced legislation reducing the rate of corporation tax from 20% at 1 April 2016 to 19% from 1 April 2017 and to 18% from 1 April 2020. The 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 impact on the Company's net assets from the reductions in the rates as the Company does not have any recognised deferred tax balances.

7. Dividends

	Note	2016 £m	2015 £m
Ordinary dividends declared and charged to equity in the year			
Interim dividends - paid £1,026 per share	16 & 27(a)(iv)	-	39
Total dividends for the year		-	39

Notes to the financial statements continued

8. Investment in subsidiaries

(a) Movements in the Company's investments in its subsidiaries are as follows:

	2016	2015
	£m	£m
Fair value at 1 January	-	-
Fair value at 31 December	-	-

In 2015, the Company disposed of its investments in East Point Reinsurance Company of Hong Kong Limited and Hong Kong Reinsurance Company Limited for a consideration of £6 million, and had previously reported these investments as held for sale.

As at 31 December 2016, the Company has a single investment in a subsidiary undertaking, being CGU Project Services Private Limited, which is in the process of being liquidated. This subsidiary has a fair value of £nil *(2015: £nil)*. Further details of this subsidiary undertaking are listed in note 28.

9. Investment in joint ventures

(a) Movements in the Company's investments in its joint ventures are as follows:

	Note	**2016**	2015
		£m	£m
Fair value at 1 January		-	10
Additions		-	43
Disposals	2	-	(33)
Impairment	15	-	(20)
Fair value at 31 December		-	-

In 2015, the Company disposed of its two 51% joint venture partnerships with Bank Zachodni WBK in Poland that operated in the life and general insurance markets.

10. Fair value methodology

(a) Basis for determining fair value hierarchy of financial instruments

All financial assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the 'fair value hierarchy' described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1
Inputs to Level 1 fair values are quoted prices (unadjusted) in active markets for identical assets and liabilities that the entity can access at the measurement date.

Level 2
Inputs to Level 2 fair values are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. If the asset or liability has a specified (contractual) term, a Level 2 input must be observable for substantially the full term of the instrument. Level 2 inputs include the following:

- Quoted prices for similar assets and liabilities in active markets.
- Quoted prices for identical or similar assets and liabilities in markets that are not active, the prices are not current, or price quotations vary substantially either over time or among market makers, or in which little information is released publicly.
- Inputs other than quoted prices that are observable for the asset or liability (for example, interest rates and yield curves observable at commonly quoted intervals, implied volatilities, and credit spreads).
- Market-corroborated inputs.

Notes to the financial statements continued

10. Fair value methodology continued

(a) Basis for determining fair value hierarchy of financial instruments continued

Where we use broker quotes and no information as to the observability of inputs is provided by the broker, the investments are classified as follows:

- where the broker price is validated by using internal models with market observable inputs and the values are similar, we classify the investment as Level 2.
- in circumstances where internal models are not used to validate broker prices, or the observability of inputs used by brokers is unavailable, the investment is classified as Level 3.

Level 3
Inputs to Level 3 fair values are unobservable inputs for the asset or liability. Unobservable inputs may have been used to measure fair value to the extent that observable inputs are not available, thereby allowing for situations in which there is little, if any, market activity for the asset or liability at the measurement date. However, the fair value measurement objective remains the same, i.e. an exit price at the measurement date from the perspective of a market participant that holds the asset or owes the liability. Therefore, unobservable inputs reflect the assumptions the business unit considers that market participants would use in pricing the asset or liability.

The majority of the Company's assets and liabilities measured at fair value are based on quoted market information or observable market data. Third party valuations using significant unobservable inputs validated against Level 2 internally modelled valuations are classified as Level 3, where there is a significant difference between the third party price and the internally modelled value. Where the difference is insignificant, the instrument would be classified as Level 2.

(b) Fair value hierarchy

The Company records investments in listed fixed interest securities as Level 1 in the fair value hierarchy. The Company records its derivative financial investments as Level 1 in the fair value hierarchy.

An analysis of financial assets and liabilities according to fair value hierarchy is given below:

		Fair value hierarchy			2016
		Level 1	Level 2	Level 3	Statement of financial position
	Note	£m	£m	£m	£m
Financial investments					
Debt securities	23	**1,143**	-	-	**1,143**
Financial liabilities					
Derivative financial instruments	26	**(105)**	-	-	**(105)**
Total		**1,038**	-	-	**1,038**

		Fair value hierarchy			2015
		Level 1	Level 2	Level 3	Statement of financial position
	Note	£m	£m	£m	£m
Financial investments					
Debt securities	23	198	-	-	198
Total		198	-	-	198

The fair value of cash and cash equivalents, receivables, payables and other financial liabilities approximates to their carrying amount.

Notes to the financial statements continued

10. Fair value methodology continued

(c) Further information on Level 3 financial instruments

The table below shows movements in the assets measured at fair value based on valuation techniques for which any significant input is not based on observable market data (Level 3 only):

	Investment in joint ventures (note 9) £m	Assets held for sale (note 8) £m	Total £m
Balance at 1 January 2015	10	6	16
Additions	43	-	43
Impairment	(20)	-	(20)
Transfer to fellow group company	(33)	-	(33)
Disposals	-	(6)	(6)
Balance at 31 December 2015	-	-	-
Balance at 31 December 2016	-	-	-

The unobservable inputs to the fair value relate to assumptions made to individual subsidiary and joint ventures net assets or embedded values, all of which are underpinned by quoted market valuations of comparable listed entities. These Level 3 investments were disposed of in 2015.

11. Receivables and other financial assets

	Note	2016 £m	2015 £m
Loan due from holding company	27(a)(i)	**200**	200
Amounts due from holding company	27(a)(iv)	**52**	54
Amounts due from other Aviva Group companies	27(a)(iv)	**-**	7
Deposits with ceding undertakings	27(a)(iii)	**49,280**	3,891
Total at 31 December		**49,532**	4,152

Deposits with ceding undertakings represent funds withheld under the terms of the quota share reinsurance arrangements.

12. Deferred acquisition costs, prepayments and accrued income

(a) The carrying amount comprises:

	2016 £m	2015 £m
Deferred acquisition costs in respect of insurance contracts	**300**	21
Prepayments and accrued income	**7**	5
Total at 31 December	**307**	26

Notes to the financial statements continued

12. Deferred acquisition costs, prepayments and accrued income continued

(b) The movements in deferred acquisition costs during the year are:

	Note	2016 £m	2015 £m
Carrying amount at 1 January		**21**	22
Commutation	17(c)(iv)	**(21)**	-
Acquisition costs deferred during the year		**712**	57
Amortisation		**(414)**	(58)
Foreign exchange rate movements		**2**	-
Carrying amount at 31 December		**300**	21

Deferred acquisition costs of £298 million *(2015: £21 million)* relate to the general insurance business, and £2 million *(2015: £nil)* relate to life insurance business. Deferred acquisition costs relating to general insurance business are generally recoverable within one year of the Statement of Financial Position date.

13. Tax assets and liabilities

(a) Current tax

The Company has a current tax liability of £236 million *(2015: £8 million)* payable in more than one year.

(b) Deferred taxes

The Company has no recognised temporary differences and unrecognised temporary differences of £123 million *(2015: £nil)* carried forward.

14. Ordinary share capital

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

	2016 £m	2015 £m
Allotted, called up and fully paid		
78,000 *(2015: 73,000)* ordinary shares of £10,000 each	**780**	730

Movements in ordinary share capital during the year are as follows:

	Number of shares	Share capital £m
At 1 January 2016	73,000	730
Issued on 25 July 2016 (fully paid)	5,000	50
At 31 December 2016	**78,000**	**780**

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. On 25 July 2016, the Company issued 5,000 shares for consideration of £10,000 a share to Aviva Group Holdings Limited, its parent company, which were settled in full.

Notes to the financial statements continued

15. Other reserves

	Note	Investment valuation reserve £m	Total other reserves £m
Balance at 1 January 2015		4	4
Arising in the year:			
Impairment of investment in joint ventures	9	(4)	(4)
Fair value at 31 December 2015		-	-
Fair value at 31 December 2016		-	-

As at 31 December 2016, the Company's investment valuation reserve was £nil *(2015: £nil)*, following the sale of the Company's investments in joint ventures in 2015.

16. Retained earnings

	Note	2016 £m	2015 £m
At 1 January		**462**	487
for the year		**1,320**	14
Dividends	7	**-**	(39)
At 31 December		**1,782**	462

All of the retained earnings are considered distributable.

17. Insurance liabilities

(a) Carrying amount

Insurance liabilities at 31 December comprise:

	2016 £m	2015 £m
Long term business provision	**43,487**	3,330
General insurance and health outstanding claims provisions	**2,458**	168
General insurance and health provision for claims incurred but not reported	**613**	48
	3,071	216
Provision arising from liability adequacy tests	**6**	-
Provision for unearned premiums	**1,323**	103
Total at 31 December	**47,887**	3,649

Of the above total £42,001 million *(2015: £3,256 million)* is expected to be paid more than a year after the Statement of Financial Position date.

Notes to the financial statements continued

17. Insurance liabilities continued

(b) Long term business provision

(i) Business description

With effect from 1 January 2016 the Company increased its quota share reinsurance of UKA's back book liabilities and future business written from 10% to 50%.

In addition, also with effect from 1 January 2016, the Company entered into a quota share reinsurance agreement with UK L&P. Under the terms of the agreement, the Company reinsured 50% of certain elements of the UK L&P non profit sub-fund back book liabilities and 50% of future business written (subject to agreement), although it should be noted that no new business was written within the non-profit sub-fund during 2016.

(ii) Methodology

The reserves are calculated using the gross premium method which discounts the projected future cash flows. The cash flows are calculated using explicit assumptions for investment returns, inflation, discount rates, mortality, and future expenses. Assumptions are set on a prudent basis and can vary by contract type and reflect current and expected future experience.

For unit-linked business, a reserve equal to the bid value of the units allocated to policyholders is held. In addition, a non-unit reserve is held. The prospective non-unit reserve is calculated by projecting the future non-unit cash flows using prudent assumptions. Where appropriate, allowance for persistency is based on actual experience adjusted to take into account assumed future trends.

(iii) Company Policy

Material judgement is required in calculating the provisions and is exercised particularly through the choice of assumptions, where discretion is permitted. In turn, the assumptions used depend on the circumstances prevailing. Provisions are most sensitive to assumptions regarding future investment returns, discount rates, and mortality rates.

(iv) Assumptions

Valuation interest rate assumptions are set with regard to yields on the supporting assets. An explicit allowance for risk is included by making an explicit deduction from the yields on corporate bonds, mortgages and deposits, based on historical and anticipated default experience of each asset class. A further margin for risk is then deducted for all asset classes.

Valuation discount rates used in 2016 and 2015 are shown in the table below.

	Valuation discount rates	
	2016	2015
Annuities in payment		
Conventional annuity (fixed interest)	**2.8%**	3.6%
Conventional annuity (index linked)	**2.8%**	3.3%
Assurances		
Life conventional non-profit	**1.3%**	n/a
Pensions conventional non-profit	**1.6%**	n/a
Non-unit reserves		
Life	**1.3%**	n/a
Pensions	**1.6%**	n/a
Income Protection		
Active lives	**1.1%**	n/a
Claims in payment – level	**1.1%**	n/a
Claims in payment – indexed	**(0.2)%**	n/a

The above valuation discount rates are after reduction for investment expenses, credit risk and a further prudent margin. For conventional annuity (fixed interest) business, the reduction was 78 bps in 2016 *(2015: 83 bps)*.

Notes to the financial statements continued

17. Insurance liabilities continued

(b) Long term business provision continued

(iv) Assumptions

Annuitant mortality assumptions are set with regard to recent Company experience and general industry trends. The anti-selection adjustments applied have been reviewed and updated in 2016. The base table for Structured Settlements was reviewed in 2015 and has been updated in 2016.

	Mortality tables used 2016 and 2015
Pension business	PCMA00 / PCFA00 adjusted plus allowance for future mortality improvement
BPA business	PCMA00 / PCFA00 adjusted plus allowance for future mortality improvement
General annuity business	IML00 / IFL00 adjusted plus allowance for future mortality improvement
Structured settlements	Best estimate mortality 98.5% of NLT table 2010-12 with the principal UK projection improvements used by the ONS for associated population projections with an addition of 0.5% for all ages in all future years. (2015: NLT Table 2010-12 adjusted plus allowance for ONS future mortality improvements)
Annuities in deferment (BPA business)	AMC00(ult) / AFC00(ult) adjusted plus allowance for future mortality improvement

For individual pensions annuity business, the underlying mortality assumptions for Males are 98% of PCMA00 (*2015: 101.5% of PCMA00*) with base year 2000; for Females, the underlying mortality assumptions are 91.0% of PCFA00 (*2015: 96.5% of PCFA00*) with base year 2000. Improvements are updated from the prior year and are based on CMI_2015 (2015: CMI_2013) improvements with a long-term improvement rate of 1.75% for males and 1.5% for females (2015: 1.75% for males and 1.5% for females), both with an addition of 0.5% to all future annual improvements (2015: 0.5%).

Year-specific adjustments are made for business written from 1997 onwards to allow for selection effects due to the development of the Enhanced Annuity market.

The following changes have occurred in the long term business provision during the year:

	Note	**2016 £m**	2015 £m
Carrying amount at 1 January		**3,330**	3,431
Reinsurance of back book liabilities		**36,305**	-
Provisions in respect of new business		**1,064**	147
Expected change in business provisions		**(972)**	(104)
Variance between actual and expected experience		**2,480**	7
Impact of operating assumption changes		**(120)**	(7)
Impact of economic assumption changes		**1,410**	(140)
Impact of model changes		**(10)**	(4)
Change in liability recognised as an expense	2	**40,157**	(101)
Carrying amount at 31 December		**43,487**	3,330

The variance between actual and expected experience primarily relates to better than expected investment performance of unit linked funds, increasing liabilities in respect of unit linked contracts. This better than expected investment performance is due to increases in equity markets in 2016, and falling interest rates, increasing the value of fixed interest assets within the unit linked funds.

Reserve releases for operating assumption changes primarily relate to a change in longevity assumptions for annuitants.

The impact of economic assumption changes represents the increase in annuity liabilities due to a reduction in valuation interest rates. These will tend to be offset by movements in backing assets that are not shown in this disclosure.

Notes to the financial statements continued

17. Insurance liabilities continued

(c) General insurance liabilities

(i) Provisions for outstanding claims

Significant delays occur in the notification and settlement of claims and substantial 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 for general insurance are based on information currently available, however, it is inherent in the nature of the business written that the ultimate liabilities may vary as a result of subsequent developments.

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

The uncertainties involved in estimating loss reserves are allowed for in the reserving process and by the estimation of explicit reserve uncertainty distributions. The reserve estimation basis for non-life claims requires booked claims provisions to be calculated as the best estimate of the cost of future claim payments, plus an explicit allowance for risk and uncertainty.

(ii) Discounting

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

Aviva Insurance Limited

Class	Discounting Rate		Mean term of liabilities	
	2016	2015	**2016**	2015
Latent claims	**0.6% to 1.5%**	0.7% to 2.8%	**13 years**	13 years
Reinsured London Market business	**0.6% to 2.7%**	0.7% to 2.7%	**10 years**	9 years
Structured settlements	**1.0% to 3.0%**	0.7% to 2.8%	**39 years**	38 years

Aviva Assurances

Class	Discounting Rate		Mean term of liabilities	
	2016	2015	**2016**	2015
Latent claims	**0.0% to 1.24%**	-	**15 years**	-
Structured settlements	**0.15% to 1.43%**	-	**13 years**	-

The gross outstanding claims provision before discounting was £3,189 million *(2015: £223 million)*. The period of time which will elapse before the liabilities are settled has been estimated by modelling the expected settlement patterns of underlying claims.

The discount rate that has been applied to latent claims and structured settlement reserves is based on the relevant swap curve 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 section above.

Lump sum payments in settlement of bodily injury claims decided by the UK courts are calculated in accordance with the Ogden Tables. The Ogden Tables contain a discount rate that is set by the Lord Chancellor and that is applied when calculating the present value of loss of earnings for claims settlement purposes. The reserves at 31 December 2016 have been determined with reference to the discount rate announced on 27 February 2017 of minus 0.75% *(2015: 2.5%)*.

(iii) Assumptions

Outstanding claims provisions are estimated based on known facts at the date of estimation. Case estimates are set by skilled claims technicians and established case setting procedures. Claims technicians apply their experience and knowledge to the circumstances of individual claims, 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.

Notes to the financial statements continued

17. Insurance liabilities continued

(c) General insurance liabilities continued

(iii) Assumptions continued

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. The main assumption underlying these techniques is that a company's past claims development experience can be used to project future claims development and hence ultimate claims costs. As such, these methods extrapolate the development of paid and incurred losses, average costs per claim and claim numbers based on the observed development of earlier years and expected loss ratios. Historical claims development is mainly analysed by accident period, although underwriting or notification period is also used where this is considered appropriate.

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

The assumptions used in most non-life actuarial projection techniques, including future rates of claims inflation or loss ratio assumptions, are implicit in the historical claims development data on which the projections are based. Additional qualitative judgement is used to assess the extent to which past trends may not apply in the future, for example, to reflect one-off occurrences, changes in external or market factors such as public attitudes to claiming, economic conditions, levels of claims inflation, judicial decisions and legislation, as well as internal factors such as portfolio mix, policy conditions and claims handling procedures in order to arrive at the estimated ultimate cost of claims that represents 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.

(iv) Movements

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

	Note	**2016** **£m**	2015 £m
Carrying amount at 1 January		**216**	263
Claims losses and expenses incurred in the current year		**2,111**	153
Increase in estimated claim losses and expenses incurred in prior years		**-**	(50)
Impact of changes in economic assumptions		**120**	5
Reinsurance of back book liabilities		**2,668**	-
Incurred claims losses and expenses		**4,899**	108
Less:			
Payments made on claims incurred in the current year		**(1,912)**	(82)
Payments made on claims incurred in prior years		**-**	(72)
Payment made on commutation		**(235)**	-
Claims payments made in the year	2	**(2,147)**	(154)
Unwinding of discount		**-**	-
Changes in claims reserve recognised as an expense	2	**2,752**	(46)
Foreign exchange rate movements		**109**	(1)
Carrying amount at 31 December		**3,077**	216

As noted in the Strategic Report, on 1 January 2016 the Company increased its reinsurance of the insurance liabilities of Aviva Insurance Limited from 5% to 50%. As part of this transaction, the Company commuted the existing 5% agreement as at 31 December 2015, resulting in a commutation payment of £235 million, and put in place a new 50% agreement, further details of which are disclosed in note 27(a)(iii).

Notes to the financial statements continued

17. Insurance liabilities continued

(c) General insurance liabilities continued

(iv) Movements continued

The discount rates that have been applied to latent claims reserves and periodic payment orders are based on the relevant swap rate, in the relevant currency, having regard to the expected settlement of the claims. The range of discount rates used depends on the duration of the claims and is given in the table in section (c)(ii) above. Any change in discount rates between the start and the end of the accounting period is reflected as an economic assumption change. The increase in claims provisions due to changes in economic assumptions of £120 million *(2015: £5 million)* includes these changes in discount rates and other changes in economic assumptions, being primarily inflation assumptions.

(d) Loss development tables

(i) Description of tables

The tables that follow present the development of claims payments and estimated ultimate cost of claims for the accident years 2012 to 2016. The upper half of the tables show the cumulative amounts paid during successive years related to each accident year. For example, with respect to the accident year 2012, by the end of 2016 £21 million had actually been paid in settlement of claims. In addition, as reflected in the lower section of the table, the original estimated ultimate cost of claims of £28 million was re-estimated to £24 million at 31 December 2016. The original estimates will be increased or decreased, as more information becomes known about individual claims and overall claim frequency and severity.

The Company aims to maintain strong reserves in respect of its general insurance business in order to protect against adverse future claims experience and development. As claims develop and the ultimate cost of claims becomes more certain, the absence of adverse claims experience will then result in a release of reserves from earlier accident years. However, in order to maintain overall reserve adequacy, the Company establishes strong reserves in respect of the current accident year, where the development of claims is less mature and there is much greater uncertainty attaching to the ultimate cost of claims.

The loss development tables in respect of the general insurance liabilities of the Company are shown below.

(ii) Gross figures

Before the effect of reinsurance, the loss development table for 2016 is:

£m **Accident year**	**2012**	**2013**	**2014**	**2015**	**2016**	**Total**
Gross cumulative claim payments						
At end of accident year	-	-	(156)	(82)	(1,911)	
One year later	(5)	-	(218)	(162)		
Two years later	(10)	-	(373)			
Three years later	(20)	-				
Four years later	(21)					
Estimate of gross ultimate claims						
At end of accident year	28	6	407	153	5,096	
One year later	29	7	361	162		
Two years later	31	4	373			
Three years later	25	1				
Four years later	24					
Estimate of gross ultimate claims	24	1	373	162	5,096	**5,656**
Cumulative payments	(21)	-	(373)	(162)	(1,911)	**(2,467)**
Total gross undiscounted reserves	**3**	**1**	**-**	**-**	**3,185**	**3,189**
Total gross discount	-	-	-	-	(118)	**(118)**
Present value in the Statement of Financial Position	**3**	**1**	**-**	**-**	**3,067**	**3,071**

Notes to the financial statements continued

17. Insurance liabilities continued

(d) Loss development tables continued

(iii) Net of reinsurance

After the effect of reinsurance, the loss development table for 2016 is:

£m Accident year	2012	2013	2014	2015	2016	Total
Net cumulative claim payments						
At end of accident year	-	-	(156)	(82)	(1,911)	
One year later	(3)	-	(218)	(162)		
Two years later	(5)	-	(373)			
Three years later	(13)	-				
Four years later	(13)					
Estimate of net ultimate claims						
At end of accident year	15	-	407	153	5,096	
One year later	16	-	361	162		
Two years later	17	-	373			
Three years later	13	-				
Four years later	13					
Estimate of net ultimate claims	13	-	373	162	5,096	5,644
Cumulative payments	(13)	-	(373)	(162)	(1,911)	(2,459)
Total net outstanding claims provisions	-	-	-	-	**3,185**	**3,185**
Effect of discounting	-	-	-	-	(118)	**(118)**
Present value in the Statement of Financial Position	-	-	-	-	**3,067**	**3,067**

In the loss development tables shown above, the cumulative claims payments and estimates of cumulative claims for each accident year are translated into sterling at the exchange rates that applied at the end of that accident year.

(e) Provision for unearned premiums

The following changes have occurred in the provision for unearned premiums (UPR) during the year:

	Note	**2016** **£m**	2015 £m
Carrying amount at 1 January		**103**	102
Commutation	17(c)(iv)	**(103)**	-
Premiums written during the year	1	**6,820**	173
Less: Premiums earned during the year		**(5,534)**	(172)
Change in provision for unearned premiums	1	**1,183**	1
Foreign exchange rate movements		**37**	-
Carrying amount at 31 December		**1,323**	103

Notes to the financial statements continued

18. Reinsurance assets

(a) Carrying amounts

The reinsurance assets at 31 December comprised:

	2016 £m	2015 £m
Long term business provision	**2**	-
Outstanding claims provisions	**3**	6
Provision for claims incurred but not reported	**1**	3
	4	9
Total at 31 December	**6**	9

Of the above total, £5 million *(2015: £7 million)* is expected to be recovered more than a year after the Statement of Financial Position date.

(b) Assumptions

The assumptions, used for reinsurance contracts follow those used for insurance contracts, shown in notes 17(b) and 17(c). Reinsurance assets are valued net of an allowance for their recoverability.

(c) Movements

The following movements have occurred in the reinsurance asset during the year:

(i) Reinsurers share of long term business provision

Reinsurance assets now include £2 million *(2015: £nil)* in respect of fully reinsured long term liabilities, previously not recognised.

(ii) Reinsurers' share of outstanding claims provisions and IBNR

	Note	2016 £m	2015 £m
Carrying amount at 1 January		**9**	16
Reinsurers' share of claim losses and expenses incurred in current year		**-**	-
Reinsurers' share of claim losses and expenses incurred in prior years		**(5)**	(5)
Reinsurers' share of incurred claim losses and expenses		**(5)**	(5)
Less:			
Reinsurance recoveries received on claims incurred in current year		**-**	-
Reinsurance recoveries received on claims incurred in prior years		**(1)**	(2)
Reinsurance recoveries received in the year	2	**(1)**	(2)
Change in reinsurance asset recognised as an expense	2	**(6)**	(7)
Foreign exchange rate movements		**1**	-
Carrying amount at 31 December		**4**	9

(iii) Reinsurers' share of the provision for unearned premiums

	2016 £m	2015 £m
Carrying amount as at 1 January	**-**	-
Premiums ceded to reinsurers in the year	**-**	1
Less:		
Reinsurers' share of premiums earned during the year	**-**	(1)
Carrying amount at 31 December	**-**	-

Notes to the financial statements continued

19. Payables and other financial liabilities

	Note	2016 £m	2015 £m
Amounts due to other Group companies	27(a)(iii)	**235**	28
Derivative financial liabilities	26	**105**	-
Total at 31 December		**340**	28

All payables and other financial liabilities are carried at cost, which approximates to fair value, except for derivative liabilities, which are carried at their fair values.

Of the above total, £271 million *(2015: £28 million)* is expected to be settled in less than one year after the Statement of Financial Position date.

20. Other liabilities

	2016 £m	2015 £m
Other liabilities	**6**	5
Total at 31 December	**6**	5

Of the above total, £6 million *(2015: £5 million)* is expected to be settled in less than one year after the Statement of Financial Position date.

21. Contingent liabilities and other risk factors

(a) Uncertainty over claims provisions

Note 17 gives details of the estimation techniques used in determining the general business outstanding claims provisions, which are designed to allow for prudence. These are estimated to give a result within the normal range of outcomes. To the extent that the ultimate cost falls outside this range, for example where experience is worse than that assumed, or future general business claims inflation differs from that expected, there is uncertainty in respect of this liability.

(b) Asbestos, pollution and social environmental hazards

Through its reinsurance arrangement with Aviva Insurance Limited, the Company receives general insurance liability claims, and becomes involved in actual or threatened litigation arising therefrom, including claims in respect of pollution and other environmental hazards. Amongst these are claims in respect of asbestos production and handling in the United Kingdom. Given the significant delays that are experienced in the notification of these claims, the potential number of incidents that they cover and the uncertainties associated with establishing liability, the ultimate cost cannot be determined with certainty.

(c) Regulatory

The Financial Conduct Authority (FCA) and the Prudential Regulation Authority (PRA) regulate and authorise the Company's UK business and in addition monitor the financial resources and organisation of the Company as a whole. The FCA and PRA 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 operate a system of "prior product approval" and hence place less emphasis than the FCA on regulating sales and marketing practices.

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.

Notes to the financial statements continued

22. Statement of Cash Flows

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

	Note	2016 £m	2015 £m
Profit for the year before tax		**1,556**	22
Adjustments for:			
Impairment of investments in joint ventures		**-**	16
Dividends received		**-**	(1)
Foreign exchange gains		**(5)**	-
Realised gains on investments	1	**(1)**	-
Unrealised gains on investments	1	**(8)**	-
Unrealised losses on derivative liabilities	1	**32**	-
		18	15
Changes in working capital:			
Decrease in reinsurance assets		**3**	7
(Increase) / decrease in receivable and other financial assets		**(45,329)**	84
(Increase) in deferred acquisition costs and prepayments		**(279)**	-
Increase in insurance liabilities		**44,179**	(147)
Increase in payable and other financial liabilities		**284**	21
Increase in other liabilities		**1**	1
		(1,141)	(34)
Net purchase of operating assets			
Financial investments		**(937)**	(198)
Cash used in operations		**(504)**	(195)

(b) Cash and cash equivalents in the Statement of Cash Flows at 31 December comprise:

	2016 £m	2015 £m
Cash at bank and in hand	**27**	9
Cash equivalents	**16**	488
Cash and cash equivalents	**43**	497
Total at 31 December	**43**	497

23. Financial investments

The Company had £1,143 million *(2015: £198 million)* of financial investments at the Statement of Financial Position date.

The Company measures financial investments at fair value through profit and loss.

The Company held a total of £1,143 million of UK Governments bonds at the Statement of Financial Position date all with a maturity date of greater than three months after the Statement of Financial Position date. Debt securities which are within three months of their maturity date at purchase are classified as cash equivalents within the financial statements. As a result, £nil *(2015: £347 million)* of the total UK Government bonds are included within "Cash and cash equivalents" in the Statement of Financial Position. The remaining £1,143 million *(2015: £198 million)* of UK Government bonds are included within "Financial investments". Unrealised gains on these bonds were £8 million *(2015: £nil)* at the Statement of Financial Position date.

Notes to the financial statements continued

24. Capital structure

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

(a) General

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

(b) Capital management

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

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

(c) Different measures of capital

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

(i) Accounting basis

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

(ii) Regulatory basis

Relevant capital and solvency regulations are used to measure and report the Company's financial strength. These measures are based on the Prudential Regulatory Authority's regulatory requirements under Solvency II, which were effective from 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. The Company's estimated "own funds" under Solvency II was £3,943 million as at 31 December 2016.

(iii) Economic basis

The Company 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 Solvency II regime. The risk management note (note 25) gives further details.

(d) Company capital structure

	2016 £m	2015 £m
Total capital employed	**2,562**	1,192
Financed by:		
Equity shareholder's funds	**2,562**	1,192

Notes to the financial statements continued

25. Risk management

The risk management framework (RMF) in Aviva forms an integral part of the management and Board processes and decision-making framework. The key elements of the Company's 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.

For the purposes of risk identification and measurement, and aligned to Aviva's risk policies, risks are usually grouped by risk type: credit, market, liquidity, life insurance (including long-term health), 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 service to our cedants, which can be categorised as risks to our brand and reputation.

To promote a consistent and rigorous approach to risk management, the Company has a set of 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, and from 2017 on an annual basis, the Company's 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 by the risk function. This includes the consideration of emerging risks and is supported by deeper thematic reviews. The risk assessment processes are used to generate risk reports which are shared with the relevant risk committees.

Risk models are an important tool in the measurement of risks and are used to support the monitoring and reporting of the risk profile and in the consideration of the risk management actions available. The Company carries out a range of stress tests (where one risk factor, for example such as interest rates, is assumed to vary) and scenario tests (where combinations of risk factors are assumed to vary) to evaluate their impact on the business and the management actions available to respond to the conditions envisaged. For those risk types managed through the holding of capital, we measure and monitor our risk profile on the basis of the Solvency II solvency capital requirement (SCR).

Roles and responsibilities for risk management in the Company are based around the 'three lines of defence model' where ownership for risk is taken at all levels. Line management in the business is 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 process and for developing the risk management framework. Internal Audit provides an independent assessment of the risk framework and internal control processes.

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

The Company's position against risk appetite is monitored and reported to the Board on a regular basis. Long-term sustainability depends upon the protection of franchise value. The oversight of risk and risk management is supported by the Asset Liability Committee & Operational Risk Committee (ALCO/ORC), which focuses on business, financial, operational and reputational risks.

As a predominantly quota share reinsurer of business written within the Aviva Group, much of the primary risk management activity occurs within the Company's cedants, which are subject to the same Aviva group wide risk policies and business standards. The reinsurance treaties require flows of management information to the Company to allow it to assess, monitor and manage its own risks.

Notes to the financial statements continued

25. Risk management continued

(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. Our credit risks arise principally through exposures to debt security investments, structured asset investments, bank deposits, derivative counterparties, mortgage lending and reinsurance counterparties. The Company's management of credit risk is carried out in accordance with Group credit risk processes.

The Company's maximum exposure to credit risk is equal to the carrying value of assets in the Statement of Financial Position.

Receivables, financial investments, intercompany loans and reinsurance assets

The Company's principal financial asset is deposits with ceding undertakings of £49,280 million *(2015: £3,891million)* as disclosed in notes 11 & 27(a)(iii). These deposits arise from the quota share reinsurance agreements between the Company and other group companies as disclosed in the related party transactions note 27(a)(iii). The deposits represent investments in a range of assets exposed to credit risk including government bonds, corporate bonds, commercial mortgages and bank deposits and the Company has direct exposure to movements in the value of or defaults on these investments. The risks on these assets are managed in the first instance by the cedants through the application of a credit limit framework and credit risk appetite, adherence to the credit risk policy and related business standards and through oversight by the cedants' asset liability committees. The Company is exposed to the risk of the cedant defaulting, although this is significantly reduced by the ability of the Company to offset the deposit with ceding undertaking against its obligation to make payments in respect of the cedant's insurance liabilities. The Company also has its own asset portfolio which it currently invests in line with a conservative investment strategy including cash and cash equivalents and government bonds. These are also exposed to credit risk. The individual cedant exposures and the aggregate Company exposure is monitored by the Company's ALCO/ORC and subject to an agreed credit risk appetite set by the Board.

The Company also has a loan due from its parent, Aviva Group Holdings Limited, amounting to £200 million *(2015: £200 million)*, with further amounts due from both its parent and other Group companies amounting to £52 million *(2015: £61 million)*. The credit risk arising from Aviva Group Holdings Limited failing to meet all or part of its obligations is considered remote, as in its most recent audited financial statements dated 31 December 2015 Aviva Group Holdings Limited had net assets of £24,220 million. The loan to Aviva Group Holdings Limited is secured by a legal charge against the ordinary share capital of Aviva Insurance Limited mitigating the risk of loss in the event of Aviva Group Holdings Limited defaulting. Due to the nature of the intra-group loans, and the fact that these loans are not traded, the Company is not exposed to the risk of changes to the market value caused by changing perceptions of the credit worthiness of its counterparties.

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

The following table provides information regarding the aggregated credit risk exposure of the Company for financial assets with external credit ratings, excluding assets 'held for sale'. 'Non-rated' assets capture assets not rated by external ratings agencies.

						Credit rating	2016 Carrying value in the financial statements
	AAA	AA	A	BBB	Speculative grade	Non-rated	
	%	%	%	%	%	%	£m
Financial investments	-	**100.0%**	-	-	-	-	**1,143**
Reinsurance assets	-	-	**100.0%**	-	-	-	**6**

Notes to the financial statements continued

25. Risk management continued

(a) Credit risk continued

						Credit rating	2015 Carrying value in the financial statements
	AAA	AA	A	BBB	Speculative grade	Non-rated	
	%	%	%	%	%	%	£m
Financial investments	-	100.0%	-	-	-	-	198
Reinsurance assets	-	-	100.0%	-	-	-	9

Financial investments

Financial investments reflect the Company's holding in UK Government Treasury Bills.

Reinsurance assets

The Company is exposed to concentrations of risk with individual reinsurers due to the nature of the reinsurance market and the restricted range of reinsurers that have acceptable credit ratings. The Group operates a policy to manage its reinsurance counterparty exposures by limiting the reinsurers that may be used and applying strict limits to each reinsurer. Reinsurance exposures are aggregated with other exposures to ensure that the overall risk is within appetite.

The Company's largest reinsurance counterparty is Aviva Re Limited. At 31 December 2016, the reinsurance asset recoverable from Aviva Re Limited was £6 million *(2015: £9 million)*.

The Company is also indirectly exposed to counterparty risk in respect of reinsurers of the insurers ceding risk to the Company. If these reinsurers default on their obligations the Company will share in the resulting losses as a result of the quota share reinsurance arrangements.

Impairment of financial assets

In assessing whether financial assets carried at amortised costs or classified as available for sale are impaired, due consideration is given to the factors outlined in accounting policy (E). The following table provides information regarding the carrying value of financial assets subject to impairment testing that have been impaired and the ageing of those assets that are past due but not impaired. The table excludes assets carried at fair value through profit or loss or 'held for sale'.

		Financial assets that are past due but not impaired					**2016**
	Neither past due nor impaired	**0 – 3 months**	**3 – 6 months**	**6 months – 1 year**	**Greater than 1 year**	**Financial assets that have been impaired**	**Carrying value in the financial statements**
	£m	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**
Debt securities	**1,143**	**-**	**-**	**-**	**-**	**-**	**1,143**
Reinsurance assets	**6**	**-**	**-**	**-**	**-**	**-**	**6**
Receivables and other financial assets	**49,532**	**-**	**-**	**-**	**-**	**-**	**49,532**

Notes to the financial statements continued

25. Risk management continued

(a) Credit risk continued

							2015
		Financial assets that are past due but not impaired					
	Neither past due nor impaired	0 – 3 months	3 – 6 months	6 months – 1 year	Greater than 1 year	Financial assets that have been impaired	Carrying value in the financial statements
	£m	£m	£m	£m	£m	£m	£m
Debt securities	198	-	-	-	-	-	198
Reinsurance assets	9	-	-	-	-	-	9
Receivables and other financial assets	4,152	-	-	-	-	-	4,152

Receivables and other financial assets represent a loan and other amounts due from Group companies as well as deposits with ceding undertakings.

There were no material financial assets that would have been past due or impaired had the terms not been renegotiated.

(b) Market risk

Market risk is the risk of adverse financial impact resulting, directly or indirectly from fluctuations in interest rates, foreign currency exchange rates, and equity and property prices. Market risk arises due to fluctuations in both the value of liabilities and the value of investments held. As for credit risk, the Company is exposed to the underlying performance of the assets representing the deposits with cedants as well as assets that it holds directly. In particular, the Company is exposed to interest rate movements where there is a mismatch between the sensitivity to interest rates of the Company's assets (including deposits with cedants) and liabilities.

The market risk on the assets backing the deposits with the cedants are managed in the first instance by the cedants through the application of market risk appetites, adherence to the market risk policy and the relevant business standards and through oversight by the cedants' asset liability committees (ALCOs). The individual cedant exposures and the aggregate Company exposure is monitored by the Company's ALCO/ORC subject to agreed market risk appetites.

Interest rate risk also arises from the Company's long term loan due from its parent, Aviva Group Holdings Limited (see note 27(a)(i)). The effect of a 100 basis point increase / decrease in interest rates would be an increase / decrease in interest income (before tax) of £2 million *(2015: increase / decrease of £2 million)*. Sensitivity to changes in interest rates is given in section (f) below.

(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 assets in cash form. The Company seeks to ensure that it maintains sufficient financial resources to meet its obligations as they fall due through the application of the Aviva Group liquidity risk policy and business standard and monitoring the Company's position relative to its agreed liquidity risk appetite.

In addition to the existing liquid resources, expected inflows and the ability to make deposit withdrawal elections in respect of deposits with cedants, in extreme circumstances the Company would approach the Aviva Group for additional short-term borrowing.

Notes to the financial statements continued

25. Risk management continued

(c) Liquidity risk continued

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

					2016
	On demand or within 1 year	1-5 years	Over 5 years	No fixed term	Total
	£m	£m	£m	£m	£m
Debt securities	228	915	-	-	1,143
Reinsurance assets	1	3	2	-	6
Receivables and other financial assets	5,994	10,983	32,470	85	49,532
Cash and cash equivalents	43	-	-	-	43
	6,266	11,901	32,472	85	50,724

					2015
	On demand or within 1 year	1-5 years	Over 5 years	No fixed term	Total
	£m	£m	£m	£m	£m
Debt securities	198	-	-	-	198
Reinsurance assets	2	7	-	-	9
Receivables and other financial assets	470	417	3,248	17	4,152
Cash and cash equivalents	497	-	-	-	497
	1,167	424	3,248	17	4,856

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

					2016
	Within 1 year	1-5 years	5-15 years	Over 15 years	Total
	£m	£m	£m	£m	£m
General insurance liabilities	1,160	1,370	405	142	3,077
Life insurance liabilities	3,403	11,235	17,462	11,387	43,487
Payables and other financial liabilities	271	69	-	-	340
	4,834	12,674	17,867	11,529	46,904

Notes to the financial statements continued

25. Risk management continued

(c) Liquidity risk continued

					2015
	Within 1 year	1-5 years	5-15 years	Over 15 years	Total
	£m	£m	£m	£m	£m
General insurance liabilities	86	100	23	7	216
Life insurance liabilities	204	775	1,328	1,023	3,330
Payables and other financial liabilities	28	-	-	-	28
	318	875	1,351	1,030	3,574

(d) Insurance risk (General Insurance and Life)

The Company is exposed to a range of insurance risks as a result of the reinsurance accepted from cedants.

General insurance risks

General insurance mainly arises from:
- Fluctuations in the timing, frequency and severity of claims and claim settlements relative to expectations;
- Unexpected claims arising from a single source or cause;
- Inaccurate pricing of risks or inappropriate underwriting of risks when underwritten; and
- Inadequate reinsurance protection or other risk transfer techniques.

The majority of the general insurance business reinsured by the Company is short tail in nature such as motor, household and commercial property insurances. General insurance risk written within Aviva Group companies is subject to the general insurance risk policy and related business standards and agreed risk appetites and underwriting authorities. External reinsurance is used by cedants to provide protection from aggregations of risk and from catastrophe cover, which in turn reduces the Company's exposure. Oversight of the Company's exposure is carried out in the ALCO/ORC.

Life insurance risks

Life insurance risk can include mortality risk, morbidity risk, longevity risk, persistency risk and policyholder behaviour risk around take-up of insurance guarantees and options. The Company's principal life insurance risk is longevity risk arising from the reinsurance accepted from Aviva Annuity UK Limited (UKA).

Life insurance risk written within Aviva Group companies is subject to the life insurance risk policy and related business standards and agreed risk appetites and underwriting authorities. Oversight of the Company's exposure is carried out in the ALCO/ORC.

Longevity risk is carefully monitored against the latest available internal and external industry data and emerging trends. UKA has used reinsurance solutions to reduce the risks from longevity and continually monitors emerging market solutions to mitigate this risk further. Such reductions in UKA exposure would generally also reduce the Company's exposure.

Expense risk is primarily managed through the assessment of profitability and frequent monitoring of expense levels.

(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 in line with the Company's agreed franchise value risk preference. The Company is also exposed to operational risks in the Group cedants through the reinsurance treaties in place. The Group cedants remain responsible for managing their operational risks in line with the group wide operational risk framework including the risk and control self assessment process, but this responsibility does not imply a limit to the Company's exposure.

The Company is primarily responsible for identifying and managing its own operational risks using the group wide operational risk framework including the risk and control self-assessment process. Management must be satisfied that all material risks falling outside risk tolerances are being mitigated, monitored and reported to an appropriate level. Any risks with a high potential impact are monitored centrally on a regular basis. Management use management information to help monitor the status of the risk and control environment and also identify and capture loss events, taking appropriate action to address actual control breakdowns and promote internal learning. Oversight is carried out through the ALCO/ORC.

Notes to the financial statements continued

25. Risk management continued

(f) Risk and capital management

The Company uses a number of risk management tools to understand the volatility of earnings, the volatility of its capital requirements, and to manage its capital more efficiently. Primarily, a risk-based capital model and scenario tests are used. Sensitivities to economic and operating experience are regularly produced on financial performance metrics to inform Management's decision making and planning processes and quantifying the risks to which the Company is exposed.

Some results of sensitivity testing for the Company's business are set out below. For each sensitivity test the impact of a change in a single factor is shown, with other assumptions left unchanged.

Life insurance contracts

The nature of long-term business is such that a number of assumptions are made in compiling these financial statements. Assumptions are made about investment returns, expenses, mortality rates and persistency in connection with the in-force policies for each cedant. Assumptions are best estimates plus margins for adverse deviation based on historical and expected experience of the cedant. A number of the key assumptions for the Company's central scenario are disclosed elsewhere in these statements.

General insurance and health

General insurance and health claim 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. In most cases, no explicit assumptions are made as projections are based on assumptions implicit in the historic claims.

Sensitivity results

Some results of sensitivity testing for the Company's business are set out below. For each sensitivity the impact of a change in a single factor is shown, with other assumptions left unchanged.

Sensitivity factor	Description of sensitivity factor applied
Interest rate and investment return	The impact of a change in market interest rates by ± 1% (e.g. if a current interest rate is 5%, the impact of an immediate change to 4% and 6%). The test allows consistently for similar changes to investment returns and movements in the market value of fixed interest securities. The interest rate is restricted to be no less than 0%.
Credit spreads	The impact of a 0.5% increase in credit spreads over risk-free interest rates on corporate bonds and other non-sovereign credit assets. The test allows for any consequential impact on liability valuations.
Property market values	The impact of a change in property market values by +/- 10%.
Assurance mortality / morbidity	The impact of an increase in mortality/morbidity rates for assurance contracts by 5%.
Annuitant mortality	The impact of a reduction in mortality rates for annuity contracts by 5%.
Gross loss ratios	The impact of an increase in gross loss ratios for general insurance business by 5%.

The above sensitivity factors are applied using actuarial and statistical models. The impacts for the year ended 31 December 2016 are shown in the tables below.

Pre-tax impacts on profit and shareholder's equity:

(i) Impact on profit before tax (£m)

	Interest rates	Interest rates	Credit spreads	Property / Equity	Property / Equity	Assurance mortality	Annuitant mortality	2016 Gross loss ratios
	+1%	-1%	+0.5%	+10%	-10%	+5%	-5%	+5%
Gross of reinsurance	(298)	278	(292)	-	(11)	(20)	(330)	(108)
Net of reinsurance	(298)	278	(292)	-	(11)	(20)	(330)	(108)

Notes to the financial statements continued

25. Risk management continued

(f) Risk and capital management continued

(ii) Impact before tax on shareholder's equity (£m)

	Interest rates +1%	Interest rates -1%	Credit spreads +0.5%	Property / Equity +10%	Property / Equity -10%	Assurance mortality +5%	Annuitant mortality -5%	2016 Gross loss ratios +5%
Gross of reinsurance	(298)	278	(292)	-	(11)	(20)	(330)	(108)
Net of reinsurance	(298)	278	(292)	-	(11)	(20)	(330)	(108)

(iii) Impact on profit before tax (£m)

	Interest rates +1%	Interest rates -1%	Credit spreads +0.5%	Property / Equity +10%	Property / Equity -10%	Assurance mortality +5%	Annuitant mortality -5%	2015 Gross loss ratios +5%
Gross of reinsurance	(31)	38	(35)	3	(3)	-	(55)	(8)
Net of reinsurance	(31)	38	(35)	3	(3)	-	(55)	(8)

(iv) Impact before tax on shareholder's equity (£m)

	Interest rates +1%	Interest rates -1%	Credit spreads +0.5%	Property / Equity +10%	Property / Equity -10%	Assurance mortality +5%	Annuitant mortality -5%	2015 Gross loss ratios +5%
Gross of reinsurance	(31)	38	(35)	3	(3)	-	(55)	(8)
Net of reinsurance	(31)	38	(35)	3	(3)	-	(55)	(8)

Limitations of sensitivity analysis

The above tables demonstrate the effect of a change in a key assumption while other assumptions remain unchanged. In reality, there is a correlation between the assumptions and other factors. It should also be noted that these sensitivities are non-linear, and larger or smaller impacts should not be interpolated or extrapolated from these results.

The sensitivity analyses do not take into consideration that the Company's assets and liabilities are actively managed. Additionally, the financial position of the Company may vary at the time that any actual market movement occurs.

As investment markets move past various trigger levels, management actions could include selling investments, changing investment portfolio allocation and taking other protective action.

Other limitations in the above sensitivity analyses include the use of hypothetical market movements to demonstrate potential risk that only represent the Company's view of possible near-term market changes that cannot be predicted with any certainty, and the assumption that all interest rates move in an identical fashion.

Notes to the financial statements continued

26. Derivative financial instruments

The Company's derivatives held as at 31 December 2016 were as follows:

	Contract/ notional amount £m	Fair value asset £m	Fair value liability £m
Credit default contracts			
OTC credit default swaps	3,628	-	105

The notional amounts above reflect the aggregate of individual derivative positions on a gross basis and so give an indication of the overall scale of the derivative transaction. They do not reflect the current market values of the open positions. Fair value liabilities are recognised as 'derivative financial liabilities' in note 19.

The contractual undiscounted cash flows in relation to derivative liabilities have the following maturities:

Contractual undiscounted cashflows	2016 £m	2015 £m
Within one year	**(31)**	-
Between one and two years	**(31)**	-
Between two and three years	**(31)**	-
Between three and four years	**(31)**	-
Between four and five years	-	-
After five years	-	-
	(124)	-

27. Related party transactions

(a) The Company had the following related party transactions

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

(i) Loans due from parent company

The loan accrues interest at 12 month LIBOR plus a credit margin, currently at 308 basis points, with settlement to be received in cash at maturity in December 2042. The 12 month Libor rate is reset annually with the next reset due on 31 December 2017. The credit margin is reset every five years based on a fair value assessment of the credit risk of Aviva Group Holdings Limited and the terms and conditions of the loan agreement. The next reset of the credit margin is due 31 December 2017. As at the Statement of Financial Position date, the loan balance outstanding was £200 million *(2015: £200 million)*. This facility has been secured by a legal charge against the ordinary share capital of Aviva Insurance Limited.

	2016 £m	2015 £m
Over 5 years	**200**	200
	200	200
Effective interest rate	**4.15%**	3.99%

Notes to the financial statements continued

27. Related party transactions continued

(a) The Company had the following related party transactions continued

(ii) Retrocession reinsurance arrangements

The Company entered into a reinsurance arrangement with Aviva Re Limited, with effect from 1 January 2012, whereby it insures various risks on behalf of fellow Group subsidiaries, and then retrocedes the majority of those risks to Aviva Re Limited, a fellow Group subsidiary, with the balance passed to external parties.

The premiums and claims and expenses which have been reinsured into the Company, and retroceded out, under the arrangement: are:

	2016	2015
	£m	£m
Premiums earned	**-**	1
Premiums ceded	**-**	(1)
	-	-
Claims incurred	**1**	1
Claims ceded	**(1)**	(1)
	-	-

The balances in the Statement of Financial Position as at 31 December 2016 relating to this arrangement are:

	2016	2015
	£m	£m
Reinsurance asset	**6**	9
Insurance liabilities	**(6)**	(9)

(iii) Quota share reinsurance arrangements

During the year the Company entered into new quota share agreements with four fellow Group subsidiaries, effective from 1 January 2016, as follows;

- An arrangement with UKA, which transacts long-term insurance business to increase its reinsurance from 10% to 50% of its insurance liabilities.
- An arrangement with AIL, which transacts general and health insurance business, to increase it reinsurance from 5% to 50% of its insurance liabilities.
- An agreement with UK L&P, which transacts investment and long term business to reinsure 50% of specified parts of the non-profit sub-fund.
- An agreement with FGI, a fellow Group subsidiary incorporated in France, which transacts general and health insurance business, to reinsure 50% of its insurance liabilities.

Notes to the financial statements continued

27. Related party transactions continued

(a) The Company had the following related party transactions continued

(iii) Quota share reinsurance arrangements continued

As part of these arrangements funds in respect of premiums due from the cedants are withheld, and this has been reflected in the Statement of Financial Position within Receivables and other financial assets (note 11).

Income Statement	Note	**2016 Life insurance £m**	**2016 General insurance £m**	2015 Life insurance £m	2015 General insurance £m
Reinsurance premiums earned	1	**40,202**	**5,637**	145	171
Interest and similar income	1	**5,309**	**156**	29	2
Other income	1	**-**	**15**	-	-
Claims and benefits paid	2	**(3,490)**	**(2,147)**	(206)	(144)
Change in insurance liabilities	17(b), 17(c)(iv)	**(40,112)**	**(2,758)**	101	27
Fee and commission expense	2	**(512)**	**(683)**	(27)	(67)
		1,397	**220**	42	(11)

Statement of Financial Position	Note	**2016 Life insurance £m**	**2016 General insurance £m**	2015 Life insurance £m	2015 General insurance £m
Deposits with ceding undertakings	11	**45,128**	**4,152**	3,601	290
Deferred acquisition costs	12	**2**	**298**	-	21
Insurance liabilities	17(b), 17(c)(iv)	**(43,437)**	**(4,396)**	(3,330)	(310)
Payables	19	**-**	**(240)**	(25)	-

(iv) Other transactions

The Company receives interest income from, and pays dividends and interest to parent companies, subsidiaries and fellow subsidiaries in the normal course of business. These activities are reflected in the tables below.

Services provided to related parties

	2016 Income earned in the year £m	**2016 Receivable at year end £m**	2015 Income earned in the year £m	2015 Receivable at year end £m
Immediate parent	**8**	**52**	8	54
Other Aviva Group companies	**-**	**-**	1	7
	8	**52**	9	61

Notes to the financial statements continued

27. Related party transactions continued

(a) The Company had the following related party transactions continued

(iv) Other transactions continued

Services provided and expenses recharged by related parties

	2016 Services provided/ expenses recharged £m	**2016** Payable at year end £m	2015 Services provided/ expenses recharged £m	2015 Payable at year end £m
Other Aviva Group companies	**8**	**1**	8	3
	8	**1**	8	3

(b) Key management compensation

The total compensation to those employees classified as key management, being those having authority and responsibility for planning, directing and controlling the activities of the Company, including the directors, is as follows:

	2016 £'000	2015 £'000
Aggregate emoluments	**829**	829
	829	829

(c) Parent entity

The immediate parent undertaking is Aviva Group Holdings Limited, registered in the UK.

(d) Ultimate controlling entity

The immediate and ultimate parent entity and controlling party is Aviva plc, a public limited company incorporated and domiciled in the United Kingdom, which is the parent undertaking of the smallest and largest Group to consolidate these financial statements. Copies of Aviva plc consolidated 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.

28. Related undertakings

The direct related undertaking of the Company as at 31 December 2016 is listed below:

Name of undertaking	Country of Incorporation	Share Class	% held	Address
CGU Project Services Private Limited	India	RS. 10 shares	100	2nd Floor, Prakash Deep Building 7, TolstoyMarg, New Delhi, 110001, India

29. Events after the statement of financial position date

Lump sum payments in settlement of bodily injury claims decided by the UK courts are calculated in accordance with the Ogden Tables and discount rate. The Ogden discount rate is set by the Lord Chancellor in accordance with the Damages Act 1996 and is applied when calculating the present value of future care costs and loss of earnings for claims settlement purposes.

On 27 February 2017, the Lord Chancellor announced a reduction in the discount rate used in the Ogden tables from 2.5% set in 2001 to minus 0.75%. The reduction in the Ogden discount rate will increase lump sum payments to UK bodily injury claimants. This is an adjusting post-balance sheet event. Therefore the 2016 claim reserves have been strengthened by £238 million to allow for the impact of the reduction in the current discount rate. The Lord Chancellor has also announced that the framework for setting the discount rate is under review and a public consultation will be launched before the end of April 2017. The timing of the conclusion of this review and its outcome and impact on future Ogden discount rates is unclear.