Friends Life FPLMA Limited

2016 Solvency and Financial Condition Report

Contents

Executive Summary

Executive Summary

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

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

Business and performance

The Company is a limited company incorporated and domiciled in the United Kingdom. It previously transacted general insurance, life assurance, pensions and annuities business, but ceased writing business in 2000. In 2000 the business was transferred through an insurance business transfer scheme under Part VII of the Financial Services and Markets Act 2000 (the "Part VII Transfer") to a fellow subsidiary Friends Life Limited ("FLL"), with the exception of some general business which was fully reinsured to FLL. The Company has not traded in the year to 31 December 2016. No change in activity is envisaged in the future. The Company carries out its business in the UK.

The UK GAAP profit after tax for the Company in 2016 was £21,000.

Section A of this report sets out further details about the Company's business structure, key operations, market position and financial performance over the reporting period, split by underwriting performance and investment performance.

System of governance

The Board's responsibility includes ensuring that an appropriate system of governance is in place throughout the Company. To discharge this responsibility, the Board has established frameworks for risk management and internal control using a 'three lines of defence' model. A strong system of governance throughout the Company aids effective decision-making and supports the achievement of the Company's objectives for the benefit of customers, shareholders and regulators.

Section B of this report describes the system of governance in place throughout the Company by which the operations of the Company are overseen, directed, managed and controlled, and explains how it complies with the requirements of Solvency II.

Risk profile

As an insurer, the Company accepted the risks inherent to its core business lines. Since the Company ceased trading and transferred the bulk of its business, its exposure to risks has reduced significantly. As the Company has an indemnity from its parent against any future claims and no longer has any technical provisions for policy liabilities, it is no longer considered to be exposed to underwriting risk.

The types of risk to which the Company is exposed have not changed significantly over the year. Section C of this report further describes the risks to which the Company is exposed and how we measure, monitor, manage and mitigate these risks, including any changes in the year to our risk exposures and specific risk mitigation actions taken.

Valuation for Solvency Purposes

Assets and other liabilities are valued in the Company's Solvency II Balance Sheet according to the Solvency II regulations. Assets and liabilities are valued at an amount for which they could be exchanged, transferred or settled by knowledgeable and willing third parties in an arm's length transaction.

As no business has been underwritten or claims notified for a number of years, no futher policy liabilities are anticipated and as such, the Company recognises no technical provisions.

At 31 December 2016, the Company's excess of assets over liabilities was £6.4 million on a Solvency II basis which is the same as the value under UK GAAP.

Section D of this report provides further description of the bases, methods and main assumptions used in the valuation of assets and other liabilities for each material asset/liability class.

Capital management

The Company manages Own Funds in conjunction with solvency capital requirements. In the calculation of the Solvency Capital Requirement ("SCR"), the Company uses the Standard Formula approach.

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

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

At 31 December 2016, the total eligible Own Funds to meet the SCR and Minimum Capital Requirement ("MCR") was £6.4 million, all of which was represented by unrestricted tier 1 capital. The Company's SCR, which is calculated using the Standard Formula, at 31 December 2016 was £0.5 million. The MCR, the minimum level below which the amount of financial resources of a firm should not fall, for the Company was £3.3 million. The overall surplus position was £3.1 million which translates to a regulatory cover ratio of 193%.

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

Section A
Business and Performance

In this Chapter

Section A: Business and Performance

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

A.1 Business

A.1.1 Business overview

The Company is a limited company incorporated and domiciled in the United Kingdom. It previously transacted general insurance, life assurance, pensions and annuities business, but ceased writing business in 2000. In 2000 the business was transferred through an insurance business transfer scheme under Part VII of the Financial Services and Markets Act 2000 (the “Part VII Transfer”) to a fellow subsidiary Friends Life Limited (“FLL”), with the exception of some general business which was fully reinsured to FLL. The Company has not traded in the year to 31 December 2016. No change in activity is envisaged in the future. The Company carries out its business in the UK.

A.1.2 Organisational structure

The following chart shows, in simplified form, the position of the Company within the legal organisational structure of the Aviva plc Group (“the Group”) as at 31 December 2016. Aviva plc is the holding company of the Group and is the ultimate parent undertaking of the Company. The immediate parent undertaking of the Company is London and Manchester Group Limited (“LMG”), a company incorporated in England.

The Company has no participations in subsidiary undertakings and other related undertakings.

Refer to section B for a high level description of the system of governance in place within the Company and the Group.

A.1.3 Significant events in the reporting period

London Capital Holdings Limited, a fellow group undertaking provided an indemnity to the Company against any future claims. This indemnity was transferred to LMG in December 2016.

A.1.4 Other information

Qualifying holdings

Qualifying holdings in the Company are held by LMG, a limited company incorporated and domiciled in the UK, which holds 100% of the Company's share capital.

Supervisor

The Group's and Company's Supervisor is the Prudential Regulation Authority (PRA), which is part of the Bank of England. Contact details for the PRA are as follows:

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

External auditor

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

Address	2 Glass Wharf, Bristol, BS2 0FR
Telephone number	+44 (0) 117 955 7779

A.2 Underwriting Performance

A.2.1 Performance from underwriting and other activities

The table below presents the non-technical profit and loss account included in the Company's financial statements, which are prepared using UK GAAP Financial Reporting Standard ("FRS") 101.

	FY16 £000
Net investment income	26
UK GAAP profit before tax	**26**
Tax attributable	(5)
UK GAAP profit after tax	**21**

The profit arising in the year reflects interest earned on the Company's cash holdings.

A.2.2 Solvency II lines of business and products

As the Company has ceased trading, detailed information on premiums, claims, expenses and changes in technical provisions by Solvency II line of business as presented in Quantitative Reporting Templates ("QRTs") S.05.01 and S.05.02 is not applicable and these QRTs are not required.

A.3 Investment performance

Net investment income consists of interest receivable for the year on cash investments held at fair value.

Section B
System of Governance

In this chapter

Section B: System of governance

This section of the report sets out information regarding the 'System of Governance' in place within the Company.

Details of the structure of the undertaking's "administrative, management or supervisory body" (defined as including the Board, subsidiary boards and Board sub-committees) are provided. The roles, responsibilities and governance of key functions (defined as the Risk, Compliance, Internal Audit and Actuarial functions) are also provided. Other components of the system of governance are also outlined, including the risk management system and internal control system implemented across the business.

B.1 General Information on the system of governance

B.1.1 Overview of the Company's system of governance

Role and responsibilities of the Board

As at 31 December 2016 the Company's Board comprised two executive directors.

The Board's role is to be responsible for promoting the long-term success of the Company. The Board's responsibility includes ensuring that an appropriate system of governance is in place. This is fulfilled by the incorporation of the Company into the established Group frameworks for risk management and internal control using a 'three lines of defence' model.

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

Roles and responsibilities for risk management are based around the 'three lines of defence model' where employees are involved in the management and mitigation of risk. The roles of the three lines of defence each contribute to embedded risk management.

The first line: management monitoring

Management is responsible for the application of the Risk Management Framework ("RMF"), for implementing and monitoring the operation of the system of internal control and for providing assurance to relevant oversight bodies.

The second line: Risk Management, Compliance and Actuarial functions

The Risk Management function is accountable for developing the RMF and for the quantitative and qualitative oversight and challenge of the identify, measure, manage, monitor, and report ("IMMMR") process. As the business responds to changing market conditions and customer needs, the Risk Management function regularly monitors the appropriateness of risk policies and the RMF to ensure they remain up to date.

The Actuarial function is accountable for actuarial methodology, reporting to the relevant governing body on the adequacy of reserves and capital requirements, as well as underwriting and reinsurance arrangements.

The Compliance function supports and advises the business on the identification, measurement and management of its regulatory, financial crime and conduct risks. It is also accountable for monitoring and reporting on the compliance risk profile.

Refer to sections B.3.2, B.4.2 and B.6 for further details on the roles, responsibilities, authority, resources, independence and reporting lines of the Risk Management, Compliance and Actuarial functions respectively, and how their independence is ensured.

The third line: Internal Audit

This function provides independent and objective assessment on the robustness of the RMF and the appropriateness and effectiveness of internal control to relevant oversight bodies.

Refer to section B.5 of this report for details on the roles, responsibilities, authority, resources, independence and reporting lines of the Internal Audit function.

Implementation and assessment of adequacy of the system of governance

The Company implements its Risk Management Framework and system of internal controls and associated reporting procedures consistently throughout, via group-wide risk policies and business standards.

Changes in the system of governance during 2016

There have been no material changes in the system of governance during the year. It should be noted that, whilst not a change to the overall system of governance in place, the Friends Life Group had an established framework of financial reporting controls in place at the time of acquisition and work to align this with the Aviva Group's financial reporting and control framework ("FRCF") methodology was completed in 2016.

B.1.2 Remuneration Policy

The vast majority of staff are employed by a fellow subsidiary undertaking of Aviva plc, Aviva Employment Services Limited.

Given the limited nature of the Company's activities it is considered that the staff services supplied to the Company are incidental to the services those staff supply to other parts of the Aviva Group.

The Group's reward principles and arrangements relevant to staff who provide services to the Company are set out in the Solvency and Financial Condition Report for Friends Life Limited.

B.1.3 Material transactions with shareholder and persons exercising significant influence during the period

Key management personnel may from time to time purchase insurance, savings, asset management or annuity products marketed by Group companies on equivalent terms to all employees of the Group. Any transactions with key management personnel deemed to be significant either by size or in the context of their individual financial positions have been conducted on an arms-length basis.

The Company has not entered into any material transactions with its shareholder or persons exercising significant influence during the period.

B.2 Fit and proper policy

The Group has policies in place to ensure that individuals acting on behalf of the Company are both "fit" and "proper" in line with the PRA's Fit and Proper requirements for individuals subject to the Senior Insurance Manager Regime and the Financial Conduct Authority's (''FCA''s) requirements for Approved Persons.

Information as to the Group's fit and proper policy are available in the Solvency and Financial Condition Report of Friends Life Limited.

B.3 Risk management system including the own risk and solvency assessment (''ORSA'')

B.3.1 Overall risk management system: strategies, processes and reporting procedures

The RMF forms an integral part of the management and Board processes and decision-making framework across the Company. The key elements of this framework comprise risk appetite; risk governance, including risk policies and business standards, and the processes used to IMMMR risks, including the use of risk models.

To promote a consistent and rigorous approach to risk management across all parts of the business, there is a set of risk policies and business standards which set out the risk strategy, appetite, and minimum requirements for the Company's operations.

The Risk Management 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.

B.3.2 Risk management function

The Risk Management function is responsible for the design and implementation of the risk management system, and the design and independent validation of economic capital models requiring regulatory approval.

The Risk Management function has authority to review all areas of the business and has full, free and unrestricted access to all activities, records, property and personnel necessary to complete its work. The scope of Risk's activities extends to all legal entities, joint ventures, partnerships, outsourcing and reinsurance arrangements.

The Risk Management function operates as part of the Global Risk function, which includes the Actuarial and Compliance functions as well as Risk Management. Further information on the Actuarial and Compliance functions is set out in sections B.6 and B.4.2 respectively.

B.3.3 Integration of risk management into the decision making processes

The Company's Board considers risk management when making key decisions.

B.3.4 Own Risk and Solvency Assessment (''ORSA'')

The ORSA Report is prepared at a UK Life business unit level. Further details as to the ORSA processes are included in the Solvency and Financial Condition Report of Friends Life Limited.

B.4 Internal Control System

B.4.1 Description of the internal control system

Internal controls facilitate effective and efficient business operations, the development of robust and reliable internal reporting and compliance with laws and regulations.

The Internal Control Business Standard sets out required controls for effective internal control across the Group and is applied by the Company. The Internal Control Business Standard principles applied by the Company are set out in the Solvency and Financial Condition Report of Friends Life Limited.

B.4.2 Compliance function

The primary purpose of the Compliance function is to assess and manage the business's exposure to regulatory risk. In the UK, where a dual regulatory system exists, this activity has been divided between prudential and conduct regulatory risk.

The Compliance function is an integral part of the Risk Management Framework and constitutes a key part of corporate governance. The function is a critical contributor to the safe and sound operation of the business and underpins the achievement of strategic and business goals. The Compliance function is led by the Compliance Director, who reports to the Chief Risk Officer and has delegated authority to manage compliance related risk across the business.

The Compliance function is required to monitor and assess the impact of changes in the legal environment on the operations of the business. Given the highly specialised nature of the work, the Legal function is responsible for this activity. The Compliance function, with support from the Legal function is required to provide input to regulatory developments through consultations and representation to industry bodies.

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

B.5 Internal audit function

The Internal Audit function provides independent and objective assessment of the robustness of the Risk Management Framework and the appropriateness and effectiveness of internal control.

B.5.1 Independence and objectivity of the Internal Audit function

Internal Audit must be independent from management at all times in order to be effective in performing its activities. The Internal Audit function maintains its independence and objectivity by reporting directly to the Group Chief Audit Officer and the Chairman of the UK Life Audit Committee.

The Audit Committee has a duty to recommend the appointment or dismissal of the Internal Audit Director to the UK Life Board and to participate, jointly with the Chief Audit Officer or designee, in the determination of the objectives of the Internal Audit Director and the evaluation of his levels of achievement, including consultation with the Chief Executive Officer.

Internal Audit staff have no direct responsibility or authority over any operational activities reviewed and may not relieve others of such responsibilities. Internal Audit staff previously working on behalf of the Company, but outside of the Internal Audit function, may not perform or manage reviews of the Company for a period of at least one year after the end of their previous role. Internal Audit operates a formal policy of rotating staff to ensure that independence is maintained.

Internal Audit provides the Audit Committee with an annual confirmation of its independence, supported by an independence declaration form signed by all members of Internal Audit staff.

Internal Audit is authorised to review all areas of the Company and has full, free, and unrestricted access to all activities, records, property, and personnel necessary to complete their work.

B.6 Actuarial function

The Actuarial function is accountable for actuarial methodology, reporting to the Board on the adequacy of reserves and capital requirements, and on the adequacy of underwriting and reinsurance arrangements.

The independence of the Actuarial function is derived through its membership in the wider Global Risk function. The Actuarial function is led by the Chief Risk Actuary, who reports to the Company's Chief Risk Officer.

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

B.7 Outsourcing

The Group Procurement and Outsourcing Standard is the Company's Outsourcing Policy which sets out the relevant responsibilities, objectives, process, and monitoring arrangements to be applied in cases of outsourcing, all of which shall be consistent with the overall business strategy. The standard applies equally to any externally or internally (intra-group) outsourced activity.

Given the financial position of the Company and the limited nature of its activities the only material outsourcing relationship the Company has is in relation to the provision of employee services by other Group companies.

Further details on the Group's Procurment and Outsourcing Standard is set out in the Solvency and Financial Condition Report of Friends Life Limited.

B.7.1 Outsourced functions and activities

The Group outsources a wide range of operational functions and activities, including policy administration, claims handling, customer contact centres and IT services. The Procurement and Outsourcing Standard requires a global Supplier Landscape document to be produced bi-annually to capture details of all critical or important outsourced operational functions and activities.

The Company has outsourced the following functions to other companies within the Group.

Supplier Name	Jurisdiction	Services provided
Aviva Central Services Limited	United Kingdom	Provision of Finance, People and Information Technology functions
Aviva Employment Services Limited	United Kingdom	Employment of the Company's staff from 1 July 2016
Aviva Life Services Limited	United Kingdom	Expenses management
Friends Life Management Services Limited	United Kingdom	Employment of the Company's staff until 30 June 2016 and expenses management
Friends Life Services Limited	United Kingdom	Employment of the Company's staff until 30 June 2016 and expenses management

Section C
Risk Profile

In this chapter

Section C: Risk profile

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

Overview of the Company's risk profile

For the purposes of risk identification and measurement, and aligned to the Company's risk policies, risks are usually grouped by the following principal risk types: underwriting risk (including life and long-term health), market, credit, liquidity and operational risk.

An overview of the Company's process for identifying, measuring, managing and monitoring the risks it faces is set out below, with further detail provided in sections C.1 to C.5.

Risk identification

The ultimate parent company, Aviva plc, and its related undertakings comprising the Group (including the Company) operate a risk framework which defines the enterprise-wide approach to managing risk, including how the Group identifies, measures, manages, monitors and reports on the risks to which it is, or could be, exposed. The Group has a variety of tools and processes to support the identification and measurement of the material risks the Group is (or could be) exposed to in the short, medium and long-term. The risk framework has been adopted by the Boards of the legal entities within the business collectively referred to as "UK Life" (principally consisting of Friends Life and Pensions Limitied, Friends Life Limited, Aviva Life & Pensions UK Limited and Aviva Annuity UK Limited).

Primary sources for identifying risks include risk events analysis, external and internal trends analysis and management information as well as other risk governance processes and input from executive teams and internal committees. The key risk identification and measurement processes are set out below.

Exposure measurement and monitoring

The primary basis used by the Company to measure and assess risks is the Solvency II SCR which is calculated as Solvency II Own Funds at risk in a 1-in-200 year loss event over a 1 year time horizon. Solvency II SCR is the basis on which the Company sets solvency (economic capital) risk appetite and is used to assess the significance of risks and to appropriately direct resources to their management. Refer to section E.2 of this report for details of the methodology and assumptions used in the calculation of the Company's Solvency II SCR.

The primary risk types measured in the Company's Solvency II SCR calculation are:

- Underwriting risk – Life and health risk (refer to section C.1);
- Market risk (refer to section C.2);
- Credit risk (refer to section C.3); and
- Operational risk (refer to section C.5).

Some categories of risk are not managed by holding capital, principally liquidity risk, which is measured through the liquidity coverage ratio (see section C.4).

The Company also assesses risks on the basis of their potential impact on the value of the Company's franchise, which is supported by the Company's reputation, brand and good customer relationships. Operational risks, in particular, have the potential to significantly impact the franchise value (see section C.5) compared to other risk types which are relatively more significant measured on the basis of Solvency II SCR.

The Company also measures and assesses risk in terms of its total gross exposure and sum at risk, as well as monitoring risk indicators that might indicate changes in the risk exposure and act as a trigger for management action. These are generally risk type specific and are considered in sections C.1 to C.5.

Changes in the period to risk profile

There were no changes to the risk profile during the period.

Risk mitigation

Risks arising across the Group are mitigated through application of elements of the Group's Risk Management Framework, and in particular business standards in respect of financial risk mitigation and reinsurance. Risk mitigation techniques applied are explained in greater detail by risk type in sections C.1 to C.5.

Monitoring the effectiveness of risk mitigation techniques

Annually the Group Risk function undertakes an assessment, presented to the Group Board Risk Committee, of the effectiveness of the Group's and business units' overall risk management, including specifically the robustness of their control environments in mitigating operational risk. The Group's major business units have dedicated risk monitoring teams which monitor the effectiveness of risk management in the business including risk mitigation. How the effectiveness of specific risk mitigation techniques is monitored is considered in sections C.1 to C.5.

Risk concentration

The Company assesses concentrations of each type of risk. This analysis enables the Company to assess whether accumulations of risk exceed risk appetite.

Prudent Person Principle

The Company ensures that its assets are invested in accordance with the prudent person principle as set out in Article 132 (Directive 2009/138/EC) through the collective application of its risk policies and business standards. These ensure the Company invests in assets whose risks it can properly identify, measure, monitor, manage, control and report, and appropriately take into account in the assessment of its overall solvency needs. The Company's asset liability management business standard and certain provisions of the investment management business standard contain mandatory requirements to ensure that the Company develops its own set of key risk indicators and takes into account the risks associated with its investments without relying solely on the risk being adequately captured by the capital requirements.

C.1 Underwriting risk

Underwriting risk is the risk of loss on underwriting activity caused by an adverse change in the value of liabilities. The nature of the business means that the Company is not exposed to underwriting risk. London Capital Holdings Limited, a fellow group undertaking, provided an indemnity to the Company against any future claims. This indemnity was transferred to London and Manchester Group Limited, the Company's immediate parent company, in December 2016.

C.2 Market risk

Market risk is the risk of adverse financial impact resulting from changes in fair values or future cash flows of financial instruments due to fluctuations in interest rates, equity prices and property prices. Market risk arises within the Company due to fluctuations in the relationship between the values of liabilities and the value of investments held. The nature of the business means that the Company is not exposed to significant market risk.

C.3 Credit risk

Credit risk is the risk of financial loss as a result of the default or failure of third parties to meet their payment obligations to the Company, or variations in market values as a result of changes in expectations related to these risks. The Company is exposed to default risk (the risk that a counterparty is unable or unwilling to meet its financial obligations when they fall due) in relation to its reinsurance asset and money market liquidity funds reported as collective investment undertakings, but this risk is not considered significant.

C.4 Liquidity risk

Liquidity risk is the risk that financial obligations to policyholders and other relevant external and internal parties cannot be met in a timely and cost-effective manner as they fall due. Liquidity issues may arise from uncertainty in the value and timing of liabilities as well as uncertainty in the ability to realise assets as cash to meet obligations. The Company investments in highly liquid money market liquidty funds to cover its liabilities and capital requirements. Therefore the Company is not exposed to significant liquidity risk.

C.5. Operational risk

Operational risk is the risk of loss, arising from inadequate or failed internal processes, people and systems, or external events including changes in the regulatory environment. There is a limited tolerance for operational risk and the aim is to reduce this risk as far as is commercially sensible.

Conduct risk is an aspect of operational risk and is the risk that positive customer outcomes are not achieved. It arises

throughout the whole product lifecycle from the development of products, from the sales process to servicing policies and handling claims.

Reputational risk can result from operational risk. This is the risk that litigation, employee misconduct, operational failures, the outcome of regulatory investigations, media speculation and negative publicity, disclosure of confidential client information and inadequate services, whether or not founded, could impact our brands or reputation. Any of our brands or our reputation could also be affected if products or services recommended by us (or any of our intermediaries) do not perform as expected (whether or not the expectations are well founded) or customers' expectations for the product change.

The Group's business standards set out the minimum control objectives and controls that each business area is expected to have in place. Operational risk limits and tolerances act as quantitative boundaries that constrain specific risk-taking activities at an operational level. The nature of the business means that the Company is not exposed to significant operational risk.

Section D
Valuation for Solvency Purposes

In this chapter

Section D: Valuation for solvency purposes

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

Assets and liabilities under Solvency II are valued in accordance with the Company's accounting policies under UK GAAP Financial Reporting Standard (FRS) 101, unless stated otherwise in sections D.1 'Assets', D.2 'Technical Provisions' and D.3 'Other liabilities'. A summary of the Company's accounting policies can be found in the Accounting Policies note of the Company's 2016 financial statements.

The table below sets out a summarised balance sheet as at 31 December 2016. It compares assets and liabilities as reported in the financial statements (column a), a reclassified UK GAAP balance sheet as presented in the balance sheet QRT (column b) and the Solvency II balance sheet (column d).

Where differences are present either in respect of the classification or measurement of assets or liabilities between UK GAAP and Solvency II, they have been presented in the below table, columns (c) and (e) and a qualitative description provided for all material items in sections D.1 'Assets' or D.3 'Other Liabilities'.

Balance Sheet – UK GAAP and Solvency II

As at 31 December 2016	Note	UK GAAP (a) £000	UK GAAP reclassified (b) £000	Variance (b-a) (c) £000	Solvency II (d) £000	Variance (d-b) (e) £000
Assets						
Collective investment undertakings	D.1.1	-	6,633	6,633	6,633	-
Cash and cash equivalents	D.1.2	6,633	-	(6,633)	-	-
Receivables (reinsurance)	D.1.3	7	7	-	7	-
Total assets		**6,640**	**6,640**	**-**	**6,640**	**-**
Liabilities						
Insurance and intermediaries payables	D.3.1	7	7	-	7	-
Payables (trade, not insurance)	D.3.1	214	214	-	214	-
Total liabilities		**221**	**221**	**-**	**221**	**-**
Excess of assets over liabilities		6,419	6,419	-	6,419	-

There is a classification difference between the presentation of the balance sheet in the financial statements and the Solvency II balance sheet which has no net asset impact and therefore no impact on Solvency II measurement. This reclassifies £6.6 million of liquidity funds from cash equivalents to collective investment undertakings.

There are no valuation differences.

D.1 Assets

Assets have been valued according to the requirements of the Solvency II Directive and related guidance; the basis of the Solvency II valuation principle is the amount for which they could be exchanged between knowledgeable willing parties in an arm's length transaction.

A description of the basis of valuation under Solvency II along with valuation differences between the Solvency II bases and the UK GAAP financial statements, by asset class, is provided below.

D.1.1 Collective investment undertakings

Collective investment undertakings are measured at fair value for both Solvency II and UK GAAP purposes. Fair value is obtained from quoted market prices or, if these are not available, by using relevant valuation techniques.

D.1.2 Cash and cash equivalents

Cash and cash equivalents comprise cash at bank 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 only with an insignificant change in their fair values. The Solvency II fair value of cash is equivalent to the UK GAAP value. As noted above the cash equivalents are reclassified to collective investment undertakings for Solvency II.

D.1.3 Receivables (reinsurance)

Under Solvency II, receivables are held at fair value, being the amount for which they could be exchanged between knowledgeable parties in an arm's length transaction. All the Company's receivables are due within one year. Where receivables are expected to be recovered within one year, the Solvency II fair value is considered equivalent to the UK GAAP carrying value.

D.2 Technical provisions

As no business has been underwritten or claims notified for a number of years, no futher policy liabilities are anticipated and as such, the Company recognises no technical provisions.

D.3 Other liabilities

Liabilities have been valued according to the requirements of the Solvency II directive and related guidance. The basis of the Solvency II valuation principle is the amount for which the liabilities could be transferred or settled between knowledgeable willing parties in an arm's length transaction.

A description of the basis of valuation under Solvency II along with valuation differences between the Solvency II bases and the UK GAAP financial statements, by liability class, is provided below.

D.3.1 Financial liabilities (including payables)

Financial liabilities (including payables) consist of the following headings listed in the Solvency II balance sheet QRT:

- Insurance and intermediaries payables;
- Payables (trade, not insurance).

Each of these categories is valued according to the methodology described below.

Financial liabilities expected to be paid within one year are valued on the Solvency II and UK GAAP balance sheets at the amounts expected to be paid.

D.3.2 Contingent liabilities

Under Solvency II reporting, material contingent liabilities are required to be recognised in the balance sheet. The Company has no material contingent liabilities under Solvency II.

D.4 Alternative methods of valuation

None of the Company's assets are valued using alternative methods of valuation.

Section E

Capital Management

In this chapter

Section E: Capital Management

This section of the report describes the internal operational structures and procedures underlying the Company's capital management process covering structure and quality of Own Funds; SCR and MCR; methodology for calculation of the SCR and any other material information.

E.1 Own Funds

E.1.1 Management of Own Funds

The primary objective of capital management is to optimise the balance between return and risk, whilst maintaining economic and regulatory capital in accordance with risk appetite. In managing Own Funds, the Company seeks to:

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

In order to achieve these objectives, Own Funds are monitored.

There have been no material changes to the objectives, policies or processes with respect to the management of Own Funds during the year.

E.1.2 Own Funds by tier

The table below sets out the Company's Own Funds at 31 December 2016:

31 December 2016	Total £000	Tier 1 unrestricted £000	Tier 1 restricted £000	Tier 2 £000	Tier 3 £000
Ordinary share capital	**5,750**	5,750	-	-	-
Reconciliation reserve	**669**	669	-	-	-
Total basic own funds after adjustments	**6,419**	6,419	-	-	-
Restrictions	**-**	-	-	-	-
Total eligible own funds to meet the SCR	**6,419**	6,419	-	-	-
Restrictions to meet the MCR	**-**	-	-	-	-
Total eligible own funds to meet the MCR	**6,419**	6,419	-	-	-

All of the Company's Own Funds is unrestricted Tier 1 capital, as there are no restrictions on cancellation of the Company's dividends prior to payment, as set out in the Company's Articles of Association. This consists of ordinary share capital and the reconciliation reserve, which reconciles to the total excess of assets over liabilities with identifiable Own Fund instruments (refer to section E.1.3). At 31 December 2016, total basic Own Funds equalled the total eligible Own Funds to meet the SCR, with no tiering limit restrictions.

E.1.3 Reconciliation reserve

The table below sets out the constituents of the reconciliation reserve:

31 December 2016	Total £000
Solvency II excess of assets over liabilities	**6,419**
Other basic own fund items	(5,750)
Reconciliation reserve	**669**

The reconciliation reserve equals the total excess of Solvency II assets over liabilities reduced by the following:

Other Basic Own funds items that have been separately identified on the Own Funds QRT being; share capital

E.1.4 Differences between UK GAAP net assets and the excess of assets over liabilities as calculated for Solvency II

There is no difference between UK GAAP net assets and the excess of assets over liabilities as calculated for Solvency II.

E.2 Solvency capital requirement (SCR) and minimum capital requirement (MCR)

E.2.1 Solvency capital requirement (SCR)

The Company SCR at 31 December 2016 is £0.5 million.

The Company SCR is calculated using the Standard Formula approach.

A detailed breakdown of the Company SCR by risk module is shown below. Each risk module includes the impact of diversification within that module, and the diversification line includes diversification between risk modules. Other risks and adjustments include the loss absorbing capacity of technical provisions and the loss absorbing capacity of deferred tax.

SCR by risk module	£000
Market risk	336
Counterparty default risk	355
Total undiversified modules	691
Diverisification	(144)
SCR	547

E.2.2 Minimum capital requirement (MCR)

The MCR represents the minimum level below which the amount of financial resources of a firm should not fall.

The MCR is calculated using a linear formula that applies prescribed factors to capital-at-risk and the best estimate liability (net of reinsurance). The factors applied to the best estimate liability vary by type (with-profits guaranteed benefits, with-profits discretionary benefits, index/unit-linked and other). The MCR is subject to a floor, equal to 25% of the SCR, and a cap, equal to 45% of the SCR. There is an absolute floor of €3.7 million.

The MCR for the Company at 31 December 2016 is £3.3 million.

E.2.3 Standard Formula simplifications

Where the SCR is calculated using the Standard Formula, the Solvency II regulations specify 23 simplified calculations that may be used across all of the Standard Formula risk modules except operational risk. The use of these simplifications is disclosed in QRT S.25.01.21, where applicable. The Company has not used any of these simplified calculations to calculate the SCR at 31 December 2016.

E.2.4 Standard Formula undertaking specific parameters (“USPs”)

The Company has not used any USPs to calculate the SCR at 31 December 2016.

E.2.5 Transitional measures, disclosure of capital add-ons and USPs (unaudited)

Regulators have the power to impose capital add-ons to the SCR or to require the use of certain USPs in the Standard Formula, where there are significant deficiencies in a firm’s Internal Model or PIM, or where a Standard Formula firm’s risk profile deviates significantly from the assumptions underlying the Standard Formula.

In addition, regulators have the option to specify that any capital add-ons or the SCR impact of any required USPs do not need to be disclosed separately to the total SCR during a transitional period. The PRA has chosen to exercise this option with a two-year transitional period.

Firms have the right to apply a reduced Standard Formula equity stress to equities purchased on or before 1 January 2016, for a transitional period ending on 31 December 2022. The Company has not applied the reduced stress.

E.3 Use of the duration-based equity risk sub-module in the calculation of the SCR

The Company does not use the duration-based equity risk sub-module in the calculation of the SCR.

E.4 Differences between the standard formula and any internal model used

The Company does not use an internal model.

E.5 Non-compliance with the MCR and non-compliance with the SCR

The Company complied with its MCR and SCR at all times during 2016.

Section F
Other Information

In this Chapter

F.1 Public disclosure templates

The following pages contain the Company's public disclosure templates, as listed below:

- S.02.01.02 Balance Sheet
- S.23.01.01 Own Funds
- S.25.01.21 Solvency Capital Requirement – For undertakings on Standard Formula
- S.28.01.01 Minimum Capital Requirement – Only life or only non-life insurance or re-insurance activity

Annex I
S.02.01.02
Balance Sheet
Amounts in 000s

		Solvency II Value
		C0010
Assets		
Intangible assets	R0030	
Deferred tax assets	R0040	
Pension benefit surplus	R0050	
Property, plant & equipment held for own use	R0060	
Investments (other than assets held for index-linked and unit-linked contracts)	R0070	6,633
Property (other than for own use)	R0080	
Holdings in related undertakings, including participations	R0090	
Equities	R0100	
- Equities - Listed	R0110	
- Equities - Unlisted	R0120	
Bonds	R0130	
- Government Bonds	R0140	
- Corporate Bonds	R0150	
- Structured Notes	R0160	
- Collateralised securities	R0170	
Collective Investments Undertakings	R0180	6,633
Derivatives	R0190	
Deposits other than cash equivalents	R0200	
Other investments	R0210	
Assets held for index-linked and unit-linked contracts	R0220	
Loans & mortgages	R0230	
- Loans on policies	R0240	
- Loans & mortgages to individuals	R0250	
- Other loans & mortgages	R0260	
Reinsurance recoverables from:	R0270	
- Reinsurance recoverables - Non-life and health similiar to non-life	R0280	
- Reinsurance recoverables - Non-life excluding health	R0290	
- Reinsurance recoverables - Health similar to non-life	R0300	
- Reinsurance recoverables - Life and health similar to life, excluding health and index-linked and unit-linked	R0310	
- Reinsurance recoverables - Health similar to life	R0320	
- Reinsurance recoverables - Life excluding health and index-linked and unit-linked	R0330	
- Reinsurance recoverables - Life index-linked and unit-linked	R0340	
Deposits to cedants	R0350	
Insurance & intermediaries receivables	R0360	
Reinsurance receivables	R0370	7
Receivables (trade, not insurance)	R0380	
Own Shares (held directly)	R0390	
Amounts due in respect of own fund items or initial fund called up but not yet paid in	R0400	
Cash and cash equivalents	R0410	
Any other assets, not elsewhere shown	R0420	
Total assets	R0500	6,640
Liabilities		
Technical provisions - Non-life	R0510	
- Technical provisions - Non-life (excluding health)	R0520	
- TP calculated as a whole - Non-life (excluding health)	R0530	
- Best Estimate - Non-life (excluding health)	R0540	
- Risk margin - Non-life (excluding health)	R0550	
- Technical provisions - Health (similar to non-life)	R0560	
- TP calculated as a whole - Health (similar to non-life)	R0570	
- Best Estimate - Health (similar to non-life)	R0580	
- Risk margin - Health (similar to non-life)	R0590	
Technical provisions - Life (excluding index-linked and unit linked)	R0600	
- Technical provisions - Health (similar to life)	R0610	
- TP calculated as a whole - Health (similar to life)	R0620	
- Best Estimate - Health (similar to life)	R0630	
- Risk margin - Health (similar to life)	R0640	
- Technical provisions - Life (excluding health and index-linked and unit-linked)	R0650	
- TP calculated as a whole - Life (excl health, index-linked and unit-linked)	R0660	
- Best Estimate - Life (excl health, index-linked and unit-linked)	R0670	
- Risk margin - Life (excl health, index-linked and unit-linked)	R0680	
Technical provisions - Index-linked and unit-linked	R0690	
- TP calculated as a whole - Index-linked and unit-linked	R0700	
- Best Estimate - Index-linked and unit-linked	R0710	
- Risk margin - Index-linked and unit-linked	R0720	
Contingent liabilities	R0740	
Provisions other than technical provisions	R0750	
Pension benefit obligations	R0760	
Deposits from reinsurers	R0770	
Deferred tax liabilities	R0780	
Derivatives	R0790	
Debts owed to credit institutions	R0800	
Financial liabilities other than debts owed to credit institutions	R0810	
Insurance & intermediaries payables	R0820	7
Reinsurance payables	R0830	
Payables (trade, not insurance)	R0840	214
Subordinated liabilities	R0850	
- Subordinated liabilities not in BOF	R0860	
- Subordinated liabilities in BOF	R0870	
Any other liabilities, not elsewhere shown	R0880	
Total liabilities	R0900	221
Excess of assets over liabilities	R1000	6,419

Annex I
S.23.01.01
Own Funds
Amounts in 000s

		Total	Tier 1 Unrestricted	Tier 1 Restricted	Tier 2	Tier 3
		C0010	C0020	C0030	C0040	C0050
Basic own funds before deduction for participations in other financial sector as foreseen in article 68 of Delegated Regulation 2015/35						
Ordinary share capital (gross of own shares)	R0010	5,750	5,750			
Share premium account related to ordinary share capital	R0030					
Total initial funds, members' contributions or the equivalent basic own - fund item for mutual and mutual type undertakings	R0040					
Subordinated mutual member accounts	R0050					
Surplus funds	R0070					
Preference shares	R0090					
Share premium account related to preference shares	R0110					
Reconciliation reserve	R0130	669	669			
Subordinated liabilities	R0140					
An amount equal to the value of net deferred tax assets	R0160					
Own fund from financial statements do not meet the criteria to be classified as Solvency II own funds	R0180					
Own funds from the financial statements that should not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds						
Own funds from the financial statements that should not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds	R0220					
Deductions						
Deductions for participations in financial and credit institutions	R0230					
Total basic own funds after deductions	R0290	6,419	6,419			
Ancillary own funds						
Unpaid and uncalled ordinary share capital callable on demand	R0300					
Unpaid and uncalled initial funds, members' contributions or the equivalent basic own fund item for mutual and mutual - type undertakings, callable on demand	R0310					
Unpaid and uncalled preference shares callable on demand	R0320					
A legally binding commitment to subscribe and pay for subordinated liabilities on demand	R0330					
Letters of credit and guarantees under Article 96(2) of the Directive 2009/138/EC	R0340					
Letters of credit and guarantees other than under Article 96(2) of the Directive 2009/138/EC	R0350					
Supplementary members calls under first subparagraph of Article 96(3) of the Directive 2009/138/EC	R0360					
Supplementary members calls - Other than under first subparagraph of Article 96(3) of the Directive 2009/138/EC	R0370					
Other ancillary own funds	R0390					
Total ancillary own funds	R0400					
Available and eligible own funds						
Total available own funds to meet the SCR	R0500	6,419	6,419			
Total available own funds to meet the MCR	R0510	6,419	6,419			
Total eligible own funds to meet the SCR	R0540	6,419	6,419			
Total eligible own funds to meet the MCR	R0550	6,419	6,419			
SCR	R0580	547				
MCR	R0600	3,332				
Ratio of Eligible own funds to SCR	R0620	11.7427				
Ratio of Eligible own funds to MCR	R0640	1.9264				

		C0060
Reconciliation Reserve		
Excess of assets over liabilities	R0700	6,419
Own shares (direct/indirect)	R0710	
Foreseeable dividends, distributions and charges	R0720	
Other basic own fund items	R0730	5,750
Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced funds	R0740	
Reconciliation reserve	R0760	669
Expected profits		
Expected profits included in future premiums (EPIFP) - Life business	R0770	
Expected profits included in future premiums (EPIFP) - Non-life business	R0780	
Total Expected profits included in future premiums (EPIFP)	R0790	

Annex I

S.25.01.21

Solvency Capital Requirement - For undertakings on Standard Formula

Amounts in 000s

		Gross solvency capital requirement	USP	Simplifications
		C0110	C0090	C0100
Market risk	R0010	336		
Counterparty default risk	R0020	355		
Life underwriting risk	R0030			
Health underwriting risk	R0040			
Non-life underwriting risk	R0050			
Diversification	R0060	-145		
Intangible asset risk	R0070			
Basic Solvency Capital Requirement	R0100	547		

Calculation of Solvency capital Requirement		C0100
Operational risk	R0130	
Loss-absorbing capacity of technical provisions	R0140	
Loss-absorbing capacity of deferred taxes	R0150	
Capital requirement for business operated in accordance with Art. 4 of Directive 2003/41/EC	R0160	
Solvency Capital Requirement excluding capital add-on	R0200	547
Capital add-ons already set	R0210	
Solvency capital requirement for undertakings under consolidated method	R0220	547
Other information on SCR		
Capital requirement for duration-based equity risk sub-module	R0400	
Total amount of Notional Solvency Capital Requirements for remaining part	R0410	547
Total amount of Notional Solvency Capital Requirements for ring fenced funds	R0420	
Total amount of Notional Solvency Capital Requirements for matching adjustment portfolios	R0430	
Diversification effects due to RFF nSCR aggregation for article 304	R0440	

Annex I

S.28.01.01

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

Amounts in 000s

Linear formula component for non-life insurance and reinsurance obligations

		C0010
MCRNL Result	R0010	

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

Linear formula component for life insurance and reinsurance obligations

		C0040
MCRL Result	R0200	

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

Overall MCR calculation

		C0070
Linear MCR	R0300	
SCR	R0310	547
MCR cap	R0320	246
MCR floor	R0330	137
Combined MCR	R0340	137
Absolute floor of the MCR	R0350	3,332

		C0070
Minimum Capital Requirement	R0400	3,332

F.2 Glossary

Product definitions

Annuity	A type of policy that pays out regular amounts, either immediately and for the remainder of a person's lifetime, or deferred to commence from a future date. Immediate annuities may be purchased for an individual and his or her dependants or on a bulk purchase basis for groups of people. Deferred annuities are accumulation contracts, which may be used to provide benefits in retirement and may be funded by a policyholder by payment of a series of contributions or by a capital sum. Annuities may be guaranteed, unit-linked or index-linked.
Bonds and savings	These are accumulation products with single or regular premiums and unit-linked or guaranteed investment returns.
Collective investment schemes (SICAVs)	This is an open-ended investment fund, structured as a legally independent joint stock company, whose units are issued in the form of shares.
Critical illness cover	Pays out a lump sum if the insured person is diagnosed with a serious illness that is specified within the insurance policy
Group pension	A pension plan that covers a group of people, which is typically purchased by a company and offered to their employees.
Income drawdown	The policyholder can transfer money from any pension fund to an income drawdown plan from which they receive an income. The remainder of the pension fund continues to be invested, giving it the potential for growth.
Individual savings accounts (ISAs)	Tax-efficient plans within the UK for investing in stocks and shares, cash deposits or life insurance investment funds, subject to certain limits.
Investment sales	Comprise retail sales of mutual fund-type products such as unit trusts, individual savings accounts (ISAs) and open ended investment companies (OEICs).
Mortgage endowment	An insurance contract combining savings and protection elements which is designed to repay the principal of a loan or a mortgage.
Mortgage life insurance	A protection contract designed to pay off the outstanding amount of a mortgage or loan in the event of the death of the insured.
Open ended investment company (OEIC)	A collective investment fund structured as a limited company in which investors can buy and sell shares.
Pension	A means of providing income in retirement for an individual and possibly his/her dependants.
Personal pension	A pension plan tailored to the individual policyholder, which includes the options to stop, start or change their payments.
Protection	An insurance contract that protects the policyholder or his/her dependants against financial loss on death or ill-health.
Regular premium	A series of payments are made by the policyholder, typically monthly or annually for part of or all of the duration of the contract.
Single premium	A single lump sum is paid by the policyholder at the start of the contract.
Stakeholder pensions	Low cost and flexible pension plans governed by specific regulations.

Term assurance A simple form of life insurance, offering cover over a fixed number of years during which a lump sum will be paid out if the life insured dies within the specified time period.

Unit trusts A form of open ended collective investment constituted under a trust deed, in which investors can buy and sell units.

Whole life A protection policy that remains in force for the insured's whole life with a lump sum paid out on death. Traditional whole life contracts have fixed premium payments that typically cannot be missed without lapsing the policy. Flexible whole life contracts allow the policyholder to vary the premium and/or amount of life cover, within certain limits.

General terms

99.5% percentile An event that would be expected to occur once on every 200 years.

Alternative valuation methods Valuation methods that are consistent with Article 75 of the SII Directive other than those which solely use the quoted market prices for the same or similar assets or liabilities.

Basis risk The risk resulting from the situation in which the exposure covered by the risk-mitigation technique does not correspond to the risk exposure of the insurance or reinsurance undertaking.

Best estimate liabilities (BEL) The expected present value of future cash flows for a company's current insurance obligations, calculated using best estimate assumptions, projected over the contract's run-off period, taking into account all up-to-date financial market and actuarial information.

Concentration risk All risk exposures with a loss potential which is large enough to threaten the solvency or the financial position of insurance and reinsurance undertakings.

Contract boundaries A contract boundary is the first point in time in the lifetime of an insurance policy at which the insurer has the ability to review the premiums charged at the individual policy level, without any contractual constraints. For policies in which such a point does not exist, the contract boundary is the same as the full term of the contract. Under Solvency II, if a contract boundary on an insurance contract is less than the full term of the contract the expected future premiums and obligations that relate to cover which may be provided after that date are not recognised in the measurement of the insurance liabilities.

Credit risk The risk of loss or of adverse change in the financial situation, resulting from fluctuations in the credit standing of issuers of securities, counterparties and any debtors to which insurance and reinsurance undertakings are exposed, in the form of counterparty default risk, spread risk or market risk concentrations.

Deferred acquisition costs (DAC) The costs directly attributable to the acquisition of new business for insurance and investment contracts may be deferred to the extent that they are expected to be recoverable out of future margins in revenue on these contracts.

Diversification benefit The reduction in the risk exposure of insurance and reinsurance undertakings and groups related to the diversification of their business, resulting from the fact that the adverse outcome from another risk, where those risks are not fully correlated.

Expected profit included in future premium (EPIFP) The expected present value of future cash flows which result from the inclusion in technical provisions of premiums relating to existing insurance and reinsurance contracts that are expected to be received in the future, but that may not be received for any reason, other than because the insured event has occurred, regardless of the legal or contractual rights of the policyholder to discontinue the policy.

Fair value 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 (i.e. an exit price).

Financial Conduct Authority (FCA)	The FCA is an independent public body and is independent of the Bank of England. It is responsible for the conduct business regulation of financial services firms (including those firms subject to prudential regulation by the PRA) and the prudential regulation of firms not regulated by the PRA. The FCA has three statutory objectives: securing an appropriate degree of protection for consumers, protecting and enhancing the integrity of the UK financial system and promoting effective competition in the interests of consumers.
Financial Reporting Standard (FRS) 101	A UK GAAP financial reporting standard which allows the Company to use the recognition and measurement bases of International Financial Reporting Standards (IFRS) in its individual entity financial statements, while being exempt from a number of disclosures required by full IFRS.
Inherited estate	The assets of the long-term with-profit funds less the realistic reserves for non-profit policies written within the with-profit funds, less asset shares aggregated across the with-profit policies and any additional amounts expected at the valuation date to be paid to in-force policyholders in the future in respect of smoothing costs and guarantees.
International financial reporting standards (IFRS)	These are international accounting regulations that all publicly listed companies in the European Union are required to use.
Life business	Businesses selling life and pensions contracts.
Liquidity premium	An addition to the risk-free rate used when projecting investment returns and discounting cash flows on certain types of contracts where the liabilities are illiquid and have cash flows that are predictable.
Liquidity risk	The risk that insurance and reinsurance undertakings are unable to realise investments and other assets in order to settle their financial obligations when they fall due.
Longevity risk	Risk associated with increasing life expectancy trends among policyholders and pensioners.
Long-term and savings business	Collective term for life insurance, pensions, savings, investments and related business.
Look through	The Company considers the risks, assets, liabilities of its subsidiary as if they were its own.
Market risk	The risk of loss or of adverse change in the financial situation resulting, directly or indirectly, from fluctuations in the level and in the volatility of market prices of assets, liabilities and financial instruments.
Matching adjustment	An increase applied to the risk-free rate used to value insurance liabilities where the cash flows are relatively fixed (e.g. no future premiums or surrender risk) and are well matched to assets that are intended to be held to maturity and have cash flows that are also relatively fixed.
Minimum capital requirement (MCR)	The Minimum Capital Requirement is the minimum amount of capital that an insurer needs to hold to cover tis risks under the Solvency II regulatory framework. If an insurer's capital falls below the MCR then authorisation will be withdrawn by the regulator unless a firm is able to meet the MCR within a short period of time.
Morbidity	Rate of disease or how likely someone will fall ill, varying by such parameters as age, gender and health, used in pricing and calculating liabilities for policyholders of life and annuity products.
Mortality	Rate of death, varying by such parameters as age, gender and health, used in pricing and calculating liabilities for policyholders of life and annuity products which contain mortality risks.
Net written premiums	Total gross written premiums for the given period, minus premiums paid over or 'ceded' to reinsurers.
Operating expenses	The day-to-day expenses involved in running the business including the staff costs. For the avoidance of doubt, operating expenses excludes commission, non-operating integration and restructuring costs, and

amortisation and impairment of PVIF and intangible assets.

Operating profit	This is a non-GAAP financial performance measure. It is based on expected investment returns and stated before tax and before non-operating items including impairment of goodwill and amortisation and impairment of acquired value of in-force business, the profit or loss on disposal and remeasurement of subsidiaries and other items.
Operational risk	The risk of loss arising from inadequate or failed internal processes, personnel or systems, or from external events.
Outsourcing	An arrangement of any form between an insurance or reinsurance undertaking and a service provider, whether a supervised entity or not, by which that service provider performs a process, a service or an activity, whether directly or by sub-outsourcing, which would otherwise be performed by the insurance or reinsurance undertaking itself.
Own Funds	Under Solvency II, capital available to cover the SCR and MCR is referred to as own funds. This includes the excess of assets over liabilities in the Solvency II balance sheet (calculated on best estimate, market consistent assumptions and net of transitional measures on technical provisions), subordinated liabilities that qualify as capital under Solvency II, and off-balance sheet own funds approved by the regulator. Own funds eligible to cover the SCR and MCR also reflect any tiering restrictions.
Persistency	The rate at which policies are retained over time and therefore continue to contribute to premium income and funds under management.
Prudential Regulatory Authority (PRA)	The PRA is a part of the Bank of England and is responsible for the prudential regulation of deposit taking institutions, insurers and major investment firms. The PRA has three statutory objectives: • A general objective to promote the safety and soundness of the firms it regulates • An objective specific to insurance firms, to contribute to the securing of an appropriate degree of protection for those who are or may become insurance policyholders; and • A secondary objective to facilitate effective competition.
Purchased value of in force (PVIF)	The present value of future profits on a portfolio of long-term insurance and investment contracts, acquired either directly or through the purchase of, or investment in, a business.
Qualifying holding	A direct or indirect holding in an undertaking which represents 10% or more of the capital or of the voting rights or which makes it possible to exercise a significant influence over the management of that undertaking.
Required capital	The amount of assets, over and above the value placed on liabilities in respect of covered business, whose distribution to shareholders is restricted.
Risk-adjusted returns	Adjusting profits earned and investment returns by how much risk is involved in producing that return or profit
Risk margin	The amount an insurance company would require, in excess of best estimate liabilities, in order to take over and meet the whole portfolio of insurance and reinsurance obligations. It reflects the cost of providing capital equal to the Solvency II capital requirement for non-hedgeable risks necessary to support the insurance obligations over their lifetime. Risk margin represents the value of deviation risk of the actual outcome compared with the best estimate, expressed in terms of a defined risk measure.
Solvency II	These are insurance regulations designed to harmonise EU insurance regulation. Primarily this concerns the amount of capital that European insurance companies must hold under a measure of capital and risk. Solvency II became effective from 1 January 2016.
Solvency II cover ratio	Own funds divided by the Solvency Capital Requirement.

Solvency II surplus	Own funds less the Solvency Capital Requirement.
Solvency Capital Requirement (SCR)	The Solvency Capital Requirement is the amount of capital the regulator requires an insurer to hold to meet the requirements under the Solvency II regulatory framework. Holding capital in excess of the SCR demonstrates an insurer has adequate financial resources in place to meet all its liabilities as and when they fall due and that there is sufficient capital to absorb significant losses. Firms may use their own internal model, the European Insurance and Occupational Pensions Authority (EIOPA) prescribed Standard Formula or a partial internal model to determine SCR.
Special Purpose Vehicle	Any undertaking, whether incorporated or not, other than an existing or insurance or reinsurance undertaking, which assumes risks from insurance or reinsurance undertakings and which fully funds its exposure to such risks through the proceeds of a debt issuance or any other financing mechanism where the repayment rights of the providers of such debt or financing mechanism are subordinated to the reinsurance obligations of such an undertaking.
Transitional measures on technical provisions (TMTP)	TMTP is an adjustment to Solvency II technical provisions to bring them into line with the pre-Solvency II equivalent as at 1 January 2016 when the regulatory basis changed, to smooth the introduction of the new regime. This will decrease linearly over the 16 years following Solvency II implementation but may be recalculated to allow for material changes to the risk profile of the relevant business, subject to agreement with the regulator. TMTP may also be recalculated every 24 months at the request of either the firm or the regulator.
Underwriting risk	The risk of loss or of adverse change in the value of insurance liabilities, due to inadequate pricing and provisioning assumptions.
UK Corporate Governance Code	The code sets out guidance in the form of principles and provisions on how companies should be directed and controlled to follow good governance practice.

F.3 Waivers and determinations

No approvals, determinations or modifications apply for the Company at 31 December 2016.

F.4 Directors' statement

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

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

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

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

A.D. Briggs

Director

17 May 2017

F.5 Audit opinion

Report of the external independent auditors to the Directors of Friends Life FPLMA Limited ('the Company') pursuant to Rule 4.1 (2) of the External Audit Part of the PRA Rulebook applicable to Solvency II firms

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

Opinion

We have audited the following documents prepared by the Company as at 31 December 2016:

- The 'Valuation for Solvency Purposes' and 'Capital Management' sections of the Solvency and Financial Condition Report of the Company as at 31 December 2016, ('**the Narrative Disclosures subject to audit**'); and
- Company templates S.02.01.02, S.23.01.01, S.25.01.21 and S.28.01.01 ('**the Templates subject to audit'**).

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

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

- The 'Executive Summary', 'Business and performance', 'System of governance' and 'Risk profile' elements of the Solvency and Financial Condition Report; and
- The written acknowledgement by management of their responsibilities, including for the preparation of the Solvency and Financial Condition Report ('**the Responsibility Statement**').

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

Basis for opinion

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

Emphasis of Matter - Basis of Accounting

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

Responsibilities of Directors for the Solvency and Financial Condition Report

The Directors are responsible for the preparation of the Solvency and Financial Condition Report in accordance with the financial reporting provisions of the PRA rules and Solvency II regulations.

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

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

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

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

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

Report on Other Legal and Regulatory Requirements

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

PricewaterhouseCoopers LLP

Chartered Accountants

2 Glass Wharf
Bristol
BS2 0FR

17 May 2017

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