

Friends Life Limited

Solvency and Financial Condition Report

Year ended 31 December 2017

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Friends Life Limited

Solvency and Financial Condition Report

2017

Summary

The purpose of the Solvency and Financial Condition Report ("SFCR") is to provide information about the capital position at 31 December 2017 of Friends Life 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 under the laws of England and Wales. Until 1 October 2017 it transacted life assurance and long-term savings business. On 1 October 2017 the entire long-term 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 fellow Group undertaking Aviva Life & Pensions UK Limited ("UKLAP"). The Company has not traded in the period since the Part VII Transfer. No change in activity is envisaged in the future. The Company was de-authorised by the Prudential Regulation Authority ("PRA") on 23 April 2018.

Operating profit for the Company in 2017 was £377m, (2016: £374m).

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.

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.

There were no material changes to the system of governance during the year.

Risk profile

Risks arising across the Group are mitigated through application of elements of the Group's Risk Management Framework ("RMF"), and in particular business standards in respect of financial risk mitigation and reinsurance.

There was a material reduction in all types following the transfer of the entire long-term business on 1 October 2017.

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 taken.

Valuation for Solvency Purposes

Assets, technical provisions 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 arms length transaction.

As the entire long-term business was transferred on 1 October 2017, no further policy liabilities are expected and as such, the Company recognises no technical provisions.

At 31 December 2017, the Company's excess of assets over liabilities was £10 million on a Solvency II basis which is the same as the value under UK GAAP.

Capital management

The Company manages Own Funds in conjunction with solvency capital requirements.

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

- 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 support new business growth and satisfy the requirements of the Company's regulators and other stakeholders giving the Company's customers assurance of its financial strength;
- Retain financial flexibility by maintaining strong liquidity;
- Allocate capital rigorously to support value adding growth and repatriate excess capital where appropriate.

The Company Solvency Capital Requirement ("SCR") at 31 December 2017 reduced to £nil (2016: £4,231m) following the transfer of its long-term insurance business on 1 October 2017. The minimum capital requirement ("MCR") was £3.3m (2016: £1,058m). At 31 December 2017, the total eligible Own Funds to meet the MCR was £10.0m (2016: £6,559m) which is entirely represented by unrestricted tier 1 capital. The overall surplus position was £6.7m which translates to a cover ratio of 303% (2016: 155%).

Section E of this report further describes the objectives, policies and procedures employed by the Company for managing its Own Funds.

Friends Life Limited

Solvency and Financial Condition Report 2017

A. Business and Performance

In this chapter

A.1 Business

A.2 Underwriting Performance

A.3 Investment 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 UK. Until 1 October 2017 it transacted life assurance and long-term savings business. On 1 October 2017 the entire long-term 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 its immediate parent company Aviva Life & Pensions UK Limited ("UKLAP"). The Company has not traded in the period since the Part VII Transfer. No change in activity is envisaged in the future. The Company was de-authorised by the PRA on 23 April 2018.

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 2017. 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 Friends Life FPL Limited (FLFPL), a company incorporated in England.



The Company has one wholly owned subsidiary, Friends Life & Pensions Limited ("FLP"). All of the subsidiary, related undertakings and participating interests of the Company, except for the holding in FLP, were transferred to UKLAP under the Scheme on 1 October 2017.

A.1.3 Significant events in the reporting period

On 1 October 2017 there was a Part VII Transfer of the Company's long-term insurance business to UKLAP, as set out in the Executive Summary of this report.

At one minute past midnight on 1 October 2017 all the net assets, with the exception of a £5m intercompany debt and £5m subsidiary holding, passed to Aviva Life & Pensions UK Limited. Consequently, the operating result generated from the FLL book of business between October and December 2017 is included within the UKLAP result. The Part VII Transfer has been accounted for as a business combination under common control, with nil impact on profit and loss. The only asset remaining on the balance sheet of FLL is a £5m intercompany receivable which is maintained to cover the Minimum Capital Requirement of the Company until it is deregulated and a £5m holding in the wholly owned subsidiary FLP. The Company was de-authorised by the PRA on 23 April 2018.

A.1.4 Other information

Qualifying holdings

Qualifying holdings in the Company are held by Aviva Life & Pensions UK Limited ("UKLAP"), 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 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 PRA have issued the company with a waiver to exempt the SFCR from the external audit requirements in the PRA handbook. Consequently, all qualitative and quantitative disclosure in this document is unaudited.

Rounding convention

The SFCR is presented in pound sterling rounded to the nearest million which is consistent with the presentation in the IFRS financial statements. The QRTs are presented in pound sterling rounded to the nearest thousand. Rounding differences of +/- one unit can occur.

A.2 Underwriting Performance

A.2.1 Performance from underwriting and other activities

The table below presents the operating profit for the Company for the year ended 31 December 2017.

	2017	2016
	£m	£m
Gross written premiums	942	1,345
Premiums ceded to reinsurers	(537)	(690)
Net earned premiums	405	655
Net investment income	946	7,278
Other technical income	225	267
Income	1,576	8,200
Claims and benefits paid, net of recoveries from reinsurers	(2,798)	(3,725)
Change in technical provisions, net of reinsurance	195	(3,378)
Change in fund for future appropriations	27	(13)
Other expenses	(280)	(455)
UK GAAP Profit before tax	(1,280)	629
Tax attributable	(162)	(313)
UK GAAP Profit after tax	(1,442)	316
Adjusted for non-operating items:		
Dividend receipts	(441)	-
Investment return variances and economic assumptions changes	161	97
Revaluation of investment in subsidiaries	1,964	(199)
Other, primarily tax	135	160
Operating profit before tax attributable to shareholders	377	374

A.2.2 Solvency II lines of business and products

Detailed information on premiums, claims, expenses and changes in technical provisions by Solvency II line of business is presented in the Quantitative Reporting Templates ("QRTs") S.05.01 and S.05.02 (included in the Appendices in Section F). A summary of the information presented in these QRTs is shown below.

A clarification change has been made to the reporting instructions by EIOPA in 2017 in connection with QRT S.05.01. The change states that the template should include all insurance business regardless of the possible different classification between investment contracts and insurance contracts applicable in the financial statements. Aviva has complied with this requirement for 2017 and included unit linked business, including the movement in unit linked liabilities in this QRT. The 2016 premiums and claims figures in the following table were prepared prior to this change in EIOPA guidelines on deposit accounting and therefore align with the 2016 financial statements in table A.2.1. The QRT figures in the 2017 table, prepared after this EIOPA clarification, include premiums and claims expenses for contracts that are excluded from the financial statements in A.2.1 where deposit accounting is applied.

	Health insurance	Insurance with profit participation	Index-linked and unit-linked insurance	Other life insurance	2017 Total
	£m	£m	£m	£m	£m
<i>Gross premiums written</i>	172	72	429	408	1,081
<i>Premiums ceded to reinsurers</i>	(44)	(0)	(112)	(425)	(581)
Net premiums written	128	72	317	(17)	500
Net claims incurred	(79)	(1,321)	(2,478)	(357)	(4,234)
Changes in other technical provisions	(11)	814	671	299	1,773
Direct expenses incurred	(18)	(21)	(178)	(59)	(275)

	Health insurance	Insurance with profit participation	Index-linked and unit-linked insurance	Other life insurance	2016 Total
	£m	£m	£m	£m	£m
<i>Gross premiums written</i>	227	149	273	695	1,344
<i>Premiums ceded to reinsurers</i>	(27)	-	(6)	(656)	(689)
Net premiums written	200	149	267	39	655
Net claims incurred	(118)	(1,647)	(1,342)	(584)	(3,691)
Changes in other technical provisions	(4)	(241)	36	(632)	(841)
Direct expenses incurred	(24)	(46)	(326)	(44)	(440)

The Company sells a diverse range of products through its business. The principal products sold include pensions, annuities, protection and investment products. Some of the Company's insurance and investments products contain a discretionary participation feature, which is a contractual right to receive additional benefits as a supplement to guaranteed benefits. These are referred to as 'participating' contracts.

A.3 Investment performance

A.3.1 Measurement of investment performance

Net investment income as disclosed in the Company's financial statements represents the Company's overall investment performance for both policyholders and shareholders. Net investment income consists of dividends, interest and rents receivable for the year, realised gains and losses and unrealised gains and losses on investments held at fair value. A.3.1

Net investment income as disclosed in the Company's financial statements represents the Company's overall investment performance for both policyholders and shareholders. Net investment income consists of dividends, interest and rents receivable for the year, realised gains and losses, and unrealised gains and losses on investments held at fair value.

The Company's exposure to investment return varies according to the characteristics of the liability that the assets are held to support. For many types of long-term business, including unit-linked and participating funds, net investment income is broadly offset by corresponding changes in liabilities, limiting the net impact on profit. Therefore returns on policyholder, participating funds and shareholder investments are distinguished from one another:

- Policyholder assets are connected to unit-linked business, where the policyholder bears the investments risk on the assets in the unit-linked funds. Shareholder exposure to loss on policyholder assets is limited to the extent that income arising from asset management charges is based on the value of assets in the funds.
- Participating fund assets relate to a subset of insurance and investment contracts which contain a discretionary participation feature, which is a contractual right to receive additional benefits as a supplement to guaranteed benefits. Shareholder exposure to investment losses on participating funds is generally limited to the shareholder's participation in the fund.
- Shareholder assets are other assets held within our business that are not backing unit-linked liabilities or participating funds.

Operating profit includes an expected investment return on financial investments backing shareholder funds and policyholder funds, with a consistent allowance for the corresponding expected movements in liabilities.

Assets are invested in order to generate a return for both policyholders and shareholders. The financial strength of the Company and both current and future operating results and financial performance are, therefore, in part dependent on the quality and performance of the investment portfolios held by the Company.

The aim is to match appropriate investments to the nature of the underlying liabilities, whilst at the same time considering regulatory requirements, the level of risk inherent within different investments, and the desire to generate superior investment returns, where compatible with the stated strategy and risk appetite.

A.3.2 Investment performance by asset class

The following section summarises the Company's net investment income and provides an analysis of net investment income by fund type.

	Debt Securities	Equity Securities	Loans	Other financial investment	Investment property	Other	2017 Total
	£m	£m	£m	£m	£m	£m	£m
Net Investment Income - Total							
Dividends	-	272	-	370	-	-	642
Interest	553	-	29	7	1	38	628
Net realised gains/(losses)	1,776	2,760	(6)	2,015	473	-	7,018
Net unrealised gains/(losses)	(1,985)	(2,040)	(288)	(1,082)	(412)	-	(5,807)
Rental income less expenses	-	-	-	-	86	-	86
Other income less management charges	-	-	-	-	-	(1,621)	(1,621)
Total	344	992	(265)	1,310	148	(1,583)	946

	Debt Securities	Equity Securities	Loans	Other financial investment	Investment property	Other	2016 Total
	£m	£m	£m	£m	£m	£m	£m
Net Investment Income - Total							
Dividends	-	773	-	227	4	-	1,004
Interest	574	31	(69)	42	2	27	607
Net realised gains/(losses)	1,115	1,082	-	314	8	15	2,534
Net unrealised gains/(losses)	1,539	728	3	857	(34)	21	3,114
Rental income less expenses	-	-	-	-	123	-	123
Other income less management charges	-	-	-	(2)	-	(102)	(104)
Total	3,228	2,614	(66)	1,438	103	(39)	7,278

The following table provides an analysis of the Company's net investment income by policyholder, participating and shareholder exposures.

	Debt Securities	Equity Securities	Loans	Other financial investment	Investment property	Other	2017 Total
	£m	£m	£m	£m	£m	£m	£m
Net Investment Income - Total							
Policyholder assets	37	438	1	1,000	89	(75)	1,490
Participating assets	132	554	(271)	279	59	(55)	698
Shareholder assets	175	(0)	5	31	0	(1,453)	(1,242)
Total	344	992	(265)	1,310	148	(1,583)	946

	Debt Securities	Equity Securities	Loans	Other financial investment	Investment property	Other	2016 Total
	£m	£m	£m	£m	£m	£m	£m
Net Investment Income - Total							
Policyholder assets	510	1,708	-	1,200	57	-	3,475
Participating assets	1,124	694	-	553	46	(29)	2,388
Shareholder assets	1,594	212	(66)	(315)	-	(10)	1,415
Total	3,228	2,614	(66)	1,438	103	(39)	7,278

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B. System of Governance

[In this chapter](#)

B.1 Outsourcing

The system of governance for the Company is as described in the Aviva Life & Pensions UK Limited SFCR.

B.1 Outsourcing

In addition, the following table lists the critical and important functions that the Company has outsourced to other companies within the Group. The intra-group companies listed here also hold contractual agreements with a number of external suppliers to outsource activities.

The Group Procurement and Outsourcing Standard is the Company's Outsourcing ("P&O") 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.

Further detail on the Group Procurement and Outsourcing Standard is set out in the SFCR for Aviva Life & Pensions UK Limited.

B.1.1 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 following table lists the critical and important functions that the Company has outsourced to other companies within the Group. The intra-group companies listed here also hold contractual agreements with a number of external suppliers to outsource activities.

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
Aviva Life Services Limited	United Kingdom	Expenses management
Aviva Administration Limited	United Kingdom	Management of outsourced functions
Aviva Management Services Limited	United Kingdom	Management of outsourced functions

As at 31 December 2017 the Company did not outsource any critical or important arrangements to companies external to the Group.

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C. Risk Profile

[In this chapter](#)

- C Overview of the Company's risk profile
- C.1 Underwriting risk
- C.2 Market risk
- C.3 Credit risk
- C.4 Liquidity risk
- C.5 Operational risk

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, 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 this Company, UKLAP, Friends Life Limited and Friends Life and Pensions 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 (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 liquidity coverage ratios ("LCR"s) (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 was a material reduction in all types following the Part VII Transfer of the long-term insurance business on 1 October 2017 as set out in section A.1.3.

Risk mitigation

Risks arising across the Group are mitigated through application of elements of the Group's RMF, 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. Risk appetites by risk type are also set and monitored by the Company. Other business standards set requirements for the quality of investment assets (including setting risk limits to control the market and credit risk within a portfolio), matching of assets to liabilities, diversification of invested assets, use of derivatives and assets.

C.1 Underwriting risk

Underwriting risk is the risk of loss on underwriting activity caused by an adverse change in the value of liabilities. Following the transfer of the entire long-term business on 1 October 2017 the company is no longer exposed to underwriting risk.

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 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. Following the transfer of the entire long-term business on 1 October 2017 the company is no longer exposed to 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 as they fall due) in relation to its receivables asset, 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 has a single inter-group receivable asset to cover its 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 the Company's brands or reputation. Any of either the Company's brands or reputation could also be affected if products or services recommended by the Company (or any of its intermediaries) do not perform as expected (whether or not the expectations are well founded) or if customers' expectations for the product change.

The resolution of all historic conduct issues was transferred to UKLAP during 2017.

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D. Valuation for Solvency Purposes

[In this chapter](#)

D.1 Assets

D.2 Technical provisions

D.3 Other liabilities

D.4 Alternative methods of valuation

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 as adopted by the European Union ("EU"), 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 2017. 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 table below, in columns (c) and (e) and a qualitative description provided for all material items in sections D.1 Assets, D.2 Technical provisions or D.3 Other liabilities.

Balance Sheet – UK GAAP and Solvency II

		UK GAAP	UK GAAP reclassified	Variance	Solvency II	Variance
		(a)	(b)	(b-a)	(d)	(d-b)
	Note	£m	£m	£m	£m	£m
As at 31 December 2017						
Assets						
Participations	D.1.1	5	5	-	5	-
Receivables (insurance, reinsurance, intermediaries and trade)	D.1.2	5	5	-	5	-
Total assets		10	10	-	10	-
Liabilities						
Technical provisions	D.2	-	-	-	-	-
Total liabilities		-	-	-	-	-
Excess of assets over liabilities		10	10	0	10	0

There are no classification or valuation differences between the presentation of the balance sheet in the financial statements and the Solvency II balance sheet.

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 Participations

The Company's participations in related undertakings are valued in the Solvency II balance sheet at the Company's proportionate equity share of the excess of assets over liabilities (valued on a Solvency II basis) of each related undertaking.

Under UK GAAP, subsidiaries, associates and joint ventures are stated at their fair values, estimated using applicable valuation models.

D.1.2 Receivables

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 the entire long-term business was transferred to UKLAP on 1 October 2017, no further policy liabilities are expected 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.

There are no other liabilities at 31 December 2017.

D.3.1 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.

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E. Capital Management

[In this chapter](#)

- E.1 Own Funds
- E.2 SCR and Minimum Capital Requirement ("MCR")
- E.3 Difference between the Standard Formula and Internal Model
- E.4 Non-compliance with the MCR and non-compliance with the SCR

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; differences between Internal Model and Standard Formula 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 account of the risks inherent in the business;
- Maintain sufficient, but not excessive, financial strength to support new business growth and satisfy the requirements of its policyholders and its regulator, the PRA;
- Retain financial flexibility by maintaining sufficient liquidity; and
- Allocate capital efficiently, applying it to support value adding growth and repatriating excess capital to the Group through dividends.

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

As part of the Part VII Transfer the Company's tier 1 restricted subordinated liabilities were transferred to UKLAP. As a result all of the Company's Own Funds at 31 December 2017 is unrestricted tier 1 capital.

E.1.2 Own Funds by tier

The table below sets out the Company's Own Funds at 31 December 2017:

	Total	Tier 1 unrestricted	Tier 1 restricted	Tier 2	Tier 3
31 December 2017	£m	£m	£m	£m	£m
Ordinary share capital	702	702	-	-	-
Surplus funds	-	-	-	-	-
Preference shares	-	-	-	-	-
Reconciliation reserve	(692)	(692)	-	-	-
Subordinated liabilities	-	-	-	-	-
Total Basic Own Funds after adjustment	10	10	-	-	-
Restrictions	-	-	-	-	-
Total Eligible Own Funds to meet the SCR	10	10	-	-	-
Restrictions to meet the MCR	-	-	-	-	-
Total Eligible Own Funds to meet the MCR	10	10	-	-	-

31 December 2016	Total £m	Tier 1 unrestricted £m	Tier 1 restricted £m	Tier 2 £m	Tier 3 £m
Ordinary share capital	702	702	-	-	-
Surplus funds	3,019	3,019	-	-	-
Preference shares	500	-	316	184	-
Reconciliation reserve	1,411	1,411	-	-	-
Subordinated liabilities	927	-	355	572	-
Total Basic Own Funds after adjustment	6,559	5,132	671	756	-
Restrictions	-	-	-	-	-
Total Eligible Own Funds to meet the SCR	6,559	5,132	671	756	-
Restrictions to meet the MCR	(544)	-	-	(544)	-
Total Eligible Own Funds to meet the MCR	6,015	5,132	671	212	-

The Company's capital consists of tier 1 unrestricted capital.

This consists of the ordinary share capital and reconciliation reserve. Ordinary share capital is classified as unrestricted 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. Tier 1 unrestricted capital includes the highest quality assets with quality features such as permanence, subordination, undated, absence of redemption incentives, mandatory costs and encumbrances.

[E.1.3 Details of Own Funds in issue](#)

[E.1.3 Issued share capital and share premium as at 31 December 2017](#)

The Company had an aggregate issued and outstanding ordinary share capital of £702 million at 31 December 2017.

[E.1.4 Reconciliation reserve](#)

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

	2017 £m	2016 £m
Solvency II excess of assets over liabilities	10	6,390
Ordinary share capital	(702)	(4,222)
Adjustment for restricted Own Fund items in respect of RFFs (unaudited)	(-)	(757)
Reconciliation reserve	(692)	1,411

The reconciliation reserve equals the total excess of Solvency II assets over liabilities reduced by the Other Basic Own Funds items that have been separately identified on the Own Funds QRT being; share capital.

[E.1.5 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 SCR and MCR](#)

[E.2.1 SCR](#)

The Company SCR reduced to £nil following the transfer of its long-term insurance business on 1 October 2017.

E.2.2 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 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 (which equals £3.3m).

The MCR for the Company at 31 December 2017 is £3.3m as the absolute floor is biting.

E.3 Differences between the Standard Formula and Internal Model (unaudited)

The company no longer uses an internal model following the transfer of its long-term insurance business on 1 October 2017.

E.4 Non-compliance with the MCR and non-compliance with the SCR (unaudited)

The Company complied with its MCR or SCR at all times during 2017.

Friends Life Limited

Solvency and Financial Condition Report 2017

F. Appendices

[In this chapter](#)

- F.1 Public disclosure templates
- F.2 Glossary
- F.3 Approvals and determinations
- F.4 Directors' statement

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.05.01.02 Premiums, claims and expenses by line of business
- S.23.01.01 Own Funds
- 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	5,000
Property (other than for own use)	R0080	
Holdings in related undertakings, including participations	R0090	5,000
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	
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 similar 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	
Receivables (trade, not insurance)	R0380	5,000
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	10,000
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	
Reinsurance payables	R0830	
Payables (trade, not insurance)	R0840	
Subordinated liabilities	R0850	
- Subordinated liabilities not in BOF	R0860	
- Subordinated liabilities in BOF	R0870	
Any other liabilities, not elsewhere shown	R0880	
Total liabilities	R0900	
Excess of assets over liabilities	R1000	10,000

Annex I
S.05.01.02

Premiums, claims and expenses by line of business
Amounts in 000s

		Line of Business for: life insurance obligations						Life reinsurance obligations		
		Health [accepted non-proportional reinsurance]	Insurance with profit participation	Unit-linked or index-linked insurance	Other life insurance	Annuities stemming from non-life insurance contracts and relating to health insurance obligations	Annuities stemming from non-life insurance contracts and relating to insurance obligations other than health insurance	Health reinsurance	Life reinsurance	Total
		C0210	C0220	C0230	C0240	C0250	C0260	C0270	C0280	C0300
Premiums written										
Gross - Direct Business	R1410	171,746	72,296	429,143	407,916					1,081,101
Reinsurers' share	R1420	43,758	197	112,254	424,861					581,070
Net	R1500	127,989	72,099	316,889	-16,946					500,031
Premiums earned										
Gross - Direct Business	R1510	171,746	72,296	429,143	407,916					1,081,101
Reinsurers' share	R1520	43,758	197	112,254	424,861					581,070
Net	R1600	127,989	72,099	316,889	-16,946					500,031
Claims incurred										
Gross - Direct Business	R1610	116,969	1,320,517	2,518,214	766,385					4,722,085
Reinsurers' share	R1620	38,242	-178	40,153	409,620					487,837
Net	R1700	78,727	1,320,695	2,478,061	356,765					4,234,248
Changes in other technical provisions										
Gross - Direct Business	R1710	-10,834	813,722	1,157,269	73,260					2,033,417
Reinsurers' share	R1720	-82		485,825	-225,403					260,339
Net	R1800	-10,751	813,722	671,444	298,663					1,773,078
Expenses incurred	R1900	17,523	20,513	178,451	58,934					275,420
Other expenses	R2500									34,770
Total expenses	R2600									310,190

Amounts in 000s

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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

MCRNL Result	R0010	C0010	
		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

MCRL Result	R0200	C0040	
		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

Linear MCR	R0300	C0070	
SCR	R0310		0
MCR cap	R0320		0
MCR floor	R0330		0
Combined MCR	R0340		0
Absolute floor of the MCR	R0350		3,251
		C0070	
Minimum Capital Requirement	R0400		3,251

F.2 Glossary

A glossary explaining the key terms used in this report is available on www.aviva.com/glossary.

F.3 Waivers, approvals, determinations and modifications

The Company has one waiver effective as at the 31 December 2017. This waiver exempts the Company from the external audit requirements of the SFCR set out in the PRA Rulebook. Consequently, all information contained in this document is unaudited.

Approval	PRA Reference
Waiver of requirements in respect of external audit	4921499

The waivers, approvals, modifications and determinations which relate to the business transferred in the Part VII Transfer to UKLAP are listed in section F of the UKLAP SFCR.

F.4 Directors' statement

We acknowledge our responsibility for preparing the Solvency and Financial Condition Report of Friends Life Limited at 31 December 2017 in all material respects in accordance with the PRA Rules, the Solvency II Regulations, and the waiver in section F.4.

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

- a) throughout the financial year to 31 December 2017, the Company has complied in all material respects with the requirements of the PRA Rules and the Solvency II Regulations as applicable to the Company, and with the waiver set out in section F.3; and
- b) it is reasonable to believe that in respect of the period from 31 December 2017 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 2018.

J M Windsor

Director

3 May 2018