

# Friends Life FPLMA Limited

Solvency and Financial Condition Report

Year ended 31 December 2017

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# Friends Life FPLMA Limited

## Solvency and Financial Condition Report

### 2017

## Summary

The purpose of the Solvency Financial and Condition Report (SFCR) is to provide information about the capital position at 31 December 2017 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 under the laws of England and Wales. 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. On 1 October 2017, the insurance business conducted by FLL was transferred to Aviva Life & Pensions Limited under the terms of a Part VII scheme of transfer. The Company has not traded in the year to 31 December 2017. 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 2017 was £11,000 (2016: £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 and remain credit, market, liquidity and operational although exposure to these risks is not considered significant. 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 further policy liabilities are anticipated and as such, the Company recognises no technical provisions.

At 31 December 2017, the Company's excess of assets over liabilities was £6.4 million (2016: £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 2017, the total eligible Own Funds to meet the SCR and Minimum Capital Requirement ("MCR") was (£6.4 million *(2016: £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 2017 was £0.4 million *(2016: £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 *(2016: £3.3 million)*. The overall surplus position was £3.2 million *(2016: £3.1 million)* which translates to a regulatory cover ratio of 198% *(2016: 193%)*. The MCR exceeds the SCR as the regulatory absolute MCR floor is biting.

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.

# Friends Life FPLMA 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 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 (a "Part VII Transfer") to a fellow subsidiary Friends Life Limited ("FLL"), with the exception of some general business which was fully reinsured to FLL. On 1 October 2017, the insurance business conducted by FLL was transferred to Aviva Life & Pensions Limited under the terms of a Part VII scheme of transfer. The Company has not traded in the year to 31 December 2017. 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 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 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

In 2000 the business was transferred through an insurance business transfer scheme under Part VII of the Financial Services and Markets Act 2000 (a "Part VII Transfer") to a fellow subsidiary Friends Life Limited ("FLL"), with the exception of some general business which was fully reinsured to FLL. On 1 October 2017, the insurance business conducted by FLL was transferred to Aviva Life & Pensions Limited under the terms of a Part VII transfer.

### 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: Central Square, 29 Wellington Street, Leeds, LS1 4DL

Telephone number: +44 (0) 113 289 4000

#### Rounding convention

In the tables, values are stated in GBP thousands. Values below GBP 500 are displayed as "0" or "-". Empty cell means there is no value to state. Rounding differences +/- one unit can occur.

## 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.

	2017	2016
	£000	£000
Net investment income	14	26
UK GAAP profit before tax	14	26
Tax attributable	(3)	(5)
UK GAAP profit after tax	11	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.

# Friends Life FPLMA Limited

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## B. System of Governance

### [In this chapter](#)

- B.1 General information on the system of governance
- B.2 Fit and proper policy
- B.3 Risk management system including the own risk and solvency assessment
- B.4 Internal control system
- B.5 Internal audit function
- B.6 Actuarial function
- B.7 Outsourcing



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 2017 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 2017

There have been no material changes in the system of governance during the year..

### B.1.2 Remuneration Policy

The directors 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 Aviva Life & Pensions UK 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”) requirements for Approved Persons.

Information as to the Group’s fit and proper policy are available in the Solvency and Financial Condition Report Aviva Life & Pensions UK 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 Solvency II 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 Aviva Life & Pensions UK Limited business unit level. Further details as to the ORSA processes are included in the Solvency and Financial Condition Report of Aviva Life & Pensions UK 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 Aviva Life & Pensions UK 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.

Three key processes comprise Aviva's compliance activity:

- Conduct regulatory risk management (including monitoring regulatory developments), performed by the Compliance function and including activities such as;
  - Setting conduct and financial crime policy framework;
  - Provide advice, support, guidance and challenge on conduct and financial crime risk; and,
  - Manage conduct and financial crime regulatory engagement.
- Prudential regulatory risk management (including prudential regulatory developments), performed by the Risk Management function and including activities such as;
  - Setting prudential regulatory risk policy framework;
  - Provide advice, support, guidance and challenge on prudential regulatory risk; and,
  - Manage prudential regulatory engagement.
- Legal developments monitoring, performed by the Legal and Company Secretarial function.

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 Aviva Life and Pensions UK Limited Audit Committee.

The Audit Committee has a duty to recommend the appointment or dismissal of the Internal Audit Director to the Aviva Life & Pensions UK Limited 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 Procurement and Outsourcing Standard is set out in the Solvency and Financial Condition Report of Aviva Life & Pensions UK 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. 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

# Friends Life FPLMA Limited

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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 (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 Board of Aviva Life & Pensions 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 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 Manchester Group Limited, the Company's immediate parent company, provides an indemnity to the Company against any future claims. As at 31 December 2017 there is one claim outstanding.

### 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 invests in highly liquid money market liquidity 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 'risk limiting' preference 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. The Company's brands or 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.

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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 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 Statement of Accounting Policies note of the Company's 2017 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 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

		UK GAAP	UK GAAP reclassified	Variance	Solvency II	Variance
		(a)	(b)	(b-a)	(d)	(d-b)
	Note	£000	£000	(c)	(d)	(e)
As at 31 December 2017		£000	£000	£000	£000	£000
<b>Assets</b>						
Collective investment undertakings	D.1.1	-	6,640	6,640	6,640	-
Cash and cash equivalents	D.1.2	6,640	-	(6,640)	-	-
Receivables (reinsurance)	D.1.3	7	7	-	7	-
<b>Total assets</b>		<b>6,647</b>	<b>6,647</b>	<b>-</b>	<b>6,647</b>	<b>-</b>
<b>Liabilities</b>						
Insurance and intermediaries payables	D.3.1	7	7	-	7	-
Payables (trade, not insurance)	D.3.1	210	210	-	210	-
<b>Total liabilities</b>		<b>217</b>	<b>217</b>	<b>-</b>	<b>217</b>	<b>-</b>
<b>Excess of assets over liabilities</b>		<b>6,430</b>	<b>6,430</b>	<b>-</b>	<b>6,430</b>	<b>-</b>

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.

There have been no significant changes to the assumptions and judgements over the valuation of assets during 2017.

##### 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.

## 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 further policy liabilities are anticipated and as such, the Company recognises no technical provisions. Consequently the QRT detailing technical provisions S.12.01 is not applicable and this QRT is not required.

## 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.

There have been no significant changes to the assumptions and judgements over the valuation of other liabilities during 2017.

### 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).

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.

# Friends Life FPLMA Limited

## Solvency and Financial Condition Report

### 2017

## E. Capital Management

### [In this chapter](#)

- E.1 Own Funds
- E.2 Solvency Capital Requirement ("SCR") and Minimum Capital Requirement ("MCR")
- E.3 Use of 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
- E.5 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 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 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 assurance 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 2017:

		Tier 1	Tier 1		
	Total	unrestricted	restricted	Tier 2	Tier 3
31 December 2017	£000	£000	£000	£000	£000
Ordinary share capital	5,750	5,750	-	-	-
Reconciliation reserve	680	680	-	-	-
<b>Total Basic Own Funds after Adjustment</b>	<b>6,430</b>	<b>6,430</b>	<b>-</b>	<b>-</b>	<b>-</b>
Restrictions	-	-	-	-	-
<b>Total Eligible Own Funds to meet the SCR</b>	<b>6,430</b>	<b>6,430</b>	<b>-</b>	<b>-</b>	<b>-</b>
Restrictions to meet the MCR	-	-	-	-	-
<b>Total Eligible Own Funds to meet the MCR</b>	<b>6,430</b>	<b>6,430</b>	<b>-</b>	<b>-</b>	<b>-</b>

		Tier 1	Tier 1		
	Total	unrestricted	restricted	Tier 2	Tier 3
31 December 2016	£000	£000	£000	£000	£000
Ordinary share capital	5,750	5,750	-	-	-
Reconciliation reserve	669	669	-	-	-
<b>Total Basic Own Funds after Adjustment</b>	<b>6,419</b>	<b>6,419</b>	<b>-</b>	<b>-</b>	<b>-</b>
Restrictions	-	-	-	-	-
<b>Total Eligible Own Funds to meet the SCR</b>	<b>6,419</b>	<b>6,419</b>	<b>-</b>	<b>-</b>	<b>-</b>
Restrictions to meet the MCR	-	-	-	-	-
<b>Total Eligible Own Funds to meet the MCR</b>	<b>6,419</b>	<b>6,419</b>	<b>-</b>	<b>-</b>	<b>-</b>

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 2017, 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:

	2017	2016
	£000	£000
Solvency II excess of assets over liabilities	6,430	6,419
Other Basic Own Fund items	(5,750)	(5,750)
Reconciliation reserve	680	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 2017 is £0.4 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.

SCR by risk module	£000
Market risk	108
Counterparty default risk	364
Total undiversified modules	472
Diversification	(67)
SCR	405

### 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 2017 is £3.3 million as the absolute floor is biting.

### 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 2017.

### E.2.4 Standard Formula undertaking specific parameters ("USPs")

The Company has not used any USPs to calculate the SCR at 31 December 2017.

#### 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 Partial Internal Model, 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 2017.

# Friends Life FPLMA Limited

## Solvency and Financial Condition Report

### 2017

## F. Other Information

### [In this Chapter](#)

- F.1 Public disclosure templates
- F.2 Glossary
- F.3 Waivers and determinations
- F.4 Directors' statement
- F.5 Audit opinion

## 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
<b>Assets</b>		
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	6,640
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	6,640
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	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	
<b>Total assets</b>	R0500	6,647
<b>Liabilities</b>		
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	210
Subordinated liabilities	R0850	
- Subordinated liabilities not in BOF	R0860	
- Subordinated liabilities in BOF	R0870	
Any other liabilities, not elsewhere shown	R0880	
<b>Total liabilities</b>	R0900	217
<b>Excess of assets over liabilities</b>	R1000	6,430

**Annex I**
**S.23.01.01**
**Own Funds**

Amounts in 000s

**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
Share premium account related to ordinary share capital	R0030
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
Subordinated liabilities	R0140
An amount equal to the value of net deferred tax assets	R0160
Other own fund items approved by the supervisory authority as basic own funds not specified above	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

**Deductions**

Deductions for participations in financial and credit institutions	R0230
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**Total basic own funds after deductions**
**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 - Solo**
**Available and eligible own funds**

Total available own funds to meet the SCR	R0500
Total available own funds to meet the MCR	R0510
Total eligible own funds to meet the SCR	R0540
Total eligible own funds to meet the MCR	R0550
<b>SCR</b>	R0580
<b>MCR</b>	R0600
<b>Ratio of eligible own funds to SCR</b>	R0620
<b>Ratio of eligible own funds to MCR</b>	R0640

**Reconciliation Reserve**

Excess of assets over liabilities	R0700
Own shares (held directly and indirectly)	R0710
Foreseeable dividends, distributions and charges	R0720
Other basic own fund items	R0730
Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced funds	R0740
<b>Reconciliation reserve</b>	R0760

**Expected profits**

Expected profits included in future premiums (EPIFP) - Life business	R0770
Expected profits included in future premiums (EPIFP) - Non-life business	R0780
<b>Total expected profits included in future premiums (EPIFP)</b>	R0790

Total	Tier 1 Unrestricted	Tier 1 Restricted	Tier 2	Tier 3
C0010	C0020	C0030	C0040	C0050

5,750	5,750			
680	680			

--	--	--	--	--

6,430	6,430			
-------	-------	--	--	--


6,430	6,430			
6,430	6,430			
6,430	6,430			
6,430	6,430			
405				
3,251				
15.8884				
1.9781				

**C0060**

6,430
5,750
680

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	C0120
Market risk	R0010	108		
Counterparty default risk	R0020	364		
Life underwriting risk	R0030			
Health underwriting risk	R0040			
Non-life underwriting risk	R0050			
Diversification	R0060	-67		
Intangible asset risk	R0070			
<b>Basic Solvency Capital Requirement</b>	R0100	405		
<b>Calculation of Solvency capital Requirement</b>		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			
<b>Solvency Capital Requirement excluding capital add-on</b>	R0200	405		
Capital add-ons already set	R0210			
<b>Solvency capital requirement for undertakings under consolidated method</b>	R0220	405		
<b>Other information on SCR</b>				
Capital requirement for duration-based equity risk sub-module	R0400			
Total amount of Notional Solvency Capital Requirements for remaining part	R0410			
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			

Linear formula component for non-life insurance and reinsurance obligations

MCRNL Result	R0010	C0010	

Linear formula component for life insurance and reinsurance obligations

MCRL Result	R0200	C0040		
		</		

Overall MCR calculation

		C0070	
Linear MCR	R0300		
SCR	R0310	405	
MCR cap	R0320	182	
MCR floor	R0330	101	
Combined MCR	R0340	101	
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](http://www.aviva.com/glossary).

## F.3 Waivers and determinations

No approvals, determinations or modifications apply for the Company at 31 December 2017.

#### F.4 Directors' statement

We acknowledge our responsibility for preparing the Solvency and Financial Condition Report of Friends Life FPLMA Limited ("the Company") at 31 December 2017 in all material respects in accordance with the PRA Rules and the Solvency II Regulations.

We are satisfied that:

- a) throughout the financial year in question, 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
- b) it is reasonable to believe that, at the date of publication of the SFCR, the Company has continued so to comply subsequently and will continue so to comply in future.

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A.D. Briggs

Director

27 April 2018

## 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 2017:

- The 'Valuation for solvency purposes' and 'Capital Management' sections of the Solvency and Financial Condition Report of the Company as at 31 December 2017, ('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 '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 2017 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) (ISAs (UK)) including ISA (UK) 800 and ISA (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. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the Solvency and Financial Condition Report in the UK, including the FRC's Ethical Standard as applied to public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

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

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

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.

Other Information

The Directors are responsible for the Other Information.

Our opinion on the relevant elements of the Solvency and Financial Condition Report does not cover the Other Information and we do not express an audit opinion or any form of assurance conclusion thereon.

In connection with our audit of the Solvency and Financial Condition Report, our responsibility is to read the Other Information and, in doing so, consider whether the Other Information is materially inconsistent with the relevant elements of the Solvency and Financial Condition Report, or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the relevant elements of the Solvency and Financial Condition Report or a material misstatement of the Other Information. If, based on the work we have performed, we conclude that there is a material misstatement of this Other Information, we are required to report that fact. We have nothing to report in this regard.

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 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 financial reporting provisions of the PRA Rules and Solvency II regulations on which they are based.

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

A further description of our responsibilities for the audit is located on the Financial Reporting Council's website at: [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditors' 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 also required to consider whether the Other Information is materially inconsistent with our knowledge obtained in the audit 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*

Central Square

29 Wellington Street

Leeds, LS1 4DL

27 April 2018