# Friends Life FPLMA Limited

## Solvency and Financial Condition Report

Year ended 31 December 2018

2nd April 2019

AVIVA

# Contents

# Friends Life FPLMA Limited

# Solvency and Financial Condition Report

# 2018

## Summary

The purpose of the Solvency Financial and Condition Report (SFCR) is to provide information about the capital position at 31 December 2018 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 2018. 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 2018 was £29,000 *(2017: £11,000)*.

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

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 January 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.

A £7k provision relating to a potential for legal costs was released in 2018. This pertained to a claim dating back to 2011 and was released on the grounds that it was unrealistic to expect to be billed after such a long period of time.

### Valuation for Solvency Purposes

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

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

At 31 December 2018, the Company's excess of assets over liabilities was £6.5 million *(2017: £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 2018, the total eligible Own Funds to meet the SCR and Minimum Capital Requirement ("MCR") was (£6.5 million *(2017: £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 2018 was £0.3 million *(2017: £0.4 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 *(2017: £3.3 million)*. The overall surplus position was £3.2 million *(2017: £3.2 million)* which translates to a regulatory cover ratio of 198% *(2016: 193%)*.

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

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# A. Business and Performance

In this Chapter

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 2018. 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 2018. 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.

### 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 £7k provision relating to a potential for legal costs was released in 2018. This pertained to a claim dating back to 2011 and was released on the grounds that it was unrealistic to expect to be billed after such a long period of time. A draft application for deauthorisation was made to the FCA and PRA on 15 February 2019.

### 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 PRA issued Policy Statement PS25/18 in October 2018 which removes the external audit requirement for the SFCR of certain small Solvency II firms. As the Company meets the criteria of a small Solvency II firm there is no requirement for this SFCR to be audited. Consequently, all qualitative and quantitative disclosure in this document is unaudited.

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.

| | 2018<br>£000 | 2017<br>£000 |
|---|---|---|
| Net investment income | 36 | 14 |
| UK GAAP profit before tax | 36 | 14 |
| Tax attributable | (7) | (3) |
| UK GAAP profit after tax | 29 | 11 |

The profit arising in the year reflects interest earned on the Company's cash and cash equivalent 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 and cash equivalent investments held at fair value.

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# B. System of Governance

In this chapter

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

## B.1 Outsourcing

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

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

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

The intra-group companies listed here also hold contractual agreements with a number of external suppliers to outsource activities.

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# C. Risk Profile

In this chapter

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

A £7k provision relating to a potential for legal costs was released in 2018. This pertained to a claim dating back to 2011 and was released on the grounds that it was unrealistic to expect to be billed after such a long period of time.

## 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 investments 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 Compnany'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.

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# D. Valuation for Solvency Purposes

In this chapter

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 2018. It compares assets and liabilities as reported in the financial statements (column a), a reclassified UK GAAP balance sheet as presented in the balance sheet QRT (column b) and the Solvency II balance sheet (column d).

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

Balance Sheet – UK GAAP and Solvency II

| As at 31 December 2018 | Note | UK GAAP (a) £000 | UK GAAP reclassified (b) £000 | Variance (b-a) (c) £000 | Solvency II (d) £000 | Variance (d-b) (e) £000 |
|---|---|---|---|---|---|---|
| Assets | | | | | | |
| Collective investment undertakings | D.1.1 | - | 6,670 | 6,670 | 6,670 | 6,670 |
| Cash and cash equivalents | D.1.2 | 6,670 | - | (6,670) | - | (6,670) |
| Receivables (reinsurance) | D.1.3 | - | - | - | - | - |
| Total assets | | 6,670 | 6,670 | - | 6,670 | - |
| Liabilities | | | | | | |
| Technical Provisions | D.3.1 | - | - | - | - | - |
| Other Liabilities | D.3.1 | 211 | 211 | - | 211 | - |
| Total liabilities | | 211 | 211 | - | 211 | - |
| Excess of assets over liabilities | | 6,459 | 6,459 | - | 6,459 | - |

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 2018.

### 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 futher policy liabilities are anticipated and as such, technical provisions are £nil.

## 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.

Other Liabilities consists of financial liabilities: 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.

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# E. Capital Management

In this chapter

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 assuramce of its financial strength;
- Retain financial flexibility by maintaining strong liquidity; and
- Allocate capital efficiently and repatriate excess capital where appropriate.

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

### E.1.2 Own Funds by tier

The table below sets out the Company's Own Funds at 31 December 2018:

| 31 December 2018 | Total £000 | Tier 1 unrestricted £000 | Tier 1 restricted £000 | Tier 2 £000 | Tier 3 £000 |
|---|---|---|---|---|---|
| Ordinary share capital | 5,750 | 5,750 | - | - | - |
| Reconciliation reserve | 709 | 709 | - | - | - |
| Total Basic Own Funds after Adjustment | 6,459 | 6,459 | - | - | - |
| Restrictions | - | - | - | - | - |
| Total Eligible Own Funds to meet the SCR | 6,459 | 6,459 | - | - | - |
| Restrictions to meet the MCR | - | - | - | - | - |
| Total Eligible Own Funds to meet the MCR | 6,459 | 6,459 | - | - | - |

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 2018, 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:

| | 2018 £000 | 2017 £000 |
|---|---|---|
| Solvency II excess of assets over liabilities | 6,459 | 6,430 |
| Other Basic Own Fund items | (5,750) | (5,750) |
| Reconciliation reserve | 709 | 680 |

The reconciliation reserve equals the total excess of Solvency II assets over liabilities reduced by 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 2018 is £0.3 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 | 112 |
| Counterparty default risk | 205 |
| Total undiversified modules | 317 |
| Diversification | (60) |
| SCR | 257 |

### 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 2018 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 2018.

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

The Company has not used any USPs to calculate the SCR at 31 December 2018.

### E.2.5 Transitional measures, disclosure of capital add-ons and USPs

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 2018.

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# F. Other Information

In this Chapter

## F.1 Public disclosure templates

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

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

**Annex I**
**S.02.01.02**
**Balance Sheet**
Amounts in 000s

| | | Solvency II Value |
|---|---|---|
| | | C0010 |
| **Assets** | | |
| Intangible assets | R0030 | |
| Deferred tax assets | R0040 | |
| Pension benefit surplus | R0050 | |
| Property, plant & equipment held for own use | R0060 | |
| Investments (other than assets held for index-linked and unit-linked contracts) | R0070 | 6,670 |
| 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 | 6,670 |
| Derivatives | R0190 | |
| Deposits other than cash equivalents | R0200 | |
| Other investments | R0210 | |
| Assets held for index-linked and unit-linked contracts | R0220 | |
| Loans & mortgages | R0230 | |
| - Loans on policies | R0240 | |
| - Loans & mortgages to individuals | R0250 | |
| - Other loans & mortgages | R0260 | |
| Reinsurance recoverables from: | R0270 | |
| - Reinsurance recoverables - Non-life and health similiar to non-life | R0280 | |
| - Reinsurance recoverables - Non-life excluding health | R0290 | |
| - Reinsurance recoverables - Health similar to non-life | R0300 | |
| - Reinsurance recoverables - Life and health similar to life, excluding health and index-linked and unit-linked | R0310 | |
| - Reinsurance recoverables - Health similar to life | R0320 | |
| - Reinsurance recoverables - Life excluding health and index-linked and unit-linked | R0330 | |
| - Reinsurance recoverables - Life index-linked and unit-linked | R0340 | |
| Deposits to cedants | R0350 | |
| Insurance & intermediaries receivables | R0360 | |
| Reinsurance receivables | R0370 | |
| Receivables (trade, not insurance) | R0380 | |
| Own Shares (held directly) | R0390 | |
| Amounts due in respect of own fund items or initial fund called up but not yet paid in | R0400 | |
| Cash and cash equivalents | R0410 | |
| Any other assets, not elsewhere shown | R0420 | |
| **Total assets** | R0500 | 6,670 |
| **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 | 212 |
| Subordinated liabilities | R0850 | |
| - Subordinated liabilities not in BOF | R0860 | |
| - Subordinated liabilities in BOF | R0870 | |
| Any other liabilities, not elsewhere shown | R0880 | |
| **Total liabilities** | R0900 | 212 |
| **Excess of assets over liabilities** | R1000 | 6,459 |

**Annex I**
**S.23.01.01**
**Own Funds**
Amounts in 000s

| | | Total | Tier 1 Unrestricted | Tier 1 Restricted | Tier 2 | Tier 3 |
|---|---|---|---|---|---|---|
| | | C0010 | C0020 | C0030 | C0040 | C0050 |
| **Basic own funds before deduction for participations in other financial sector as foreseen in article 68 of Delegated Regulation 2015/35** | | | | | | |
| Ordinary share capital (gross of own shares) | R0010 | 5,750 | 5,750 | | | |
| Share premium account related to ordinary share capital | R0030 | | | | | |
| 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 | 709 | 709 | | | |
| 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 | R0220 | | | | | |
| **Deductions** | | | | | | |
| Deductions for participations in financial and credit institutions | R0230 | | | | | |
| **Total basic own funds after deductions** | R0290 | **6,459** | **6,459** | | | |
| **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** | R0400 | | | | | |
| **Available and eligible own funds** | | | | | | |
| Total available own funds to meet the SCR | R0500 | 6,459 | 6,459 | | | |
| Total available own funds to meet the MCR | R0510 | 6,459 | 6,459 | | | |
| Total eligible own funds to meet the SCR | R0540 | 6,459 | 6,459 | | | |
| Total eligible own funds to meet the MCR | R0550 | 6,459 | 6,459 | | | |
| **SCR** | R0580 | **257** | | | | |
| **MCR** | R0600 | **3,281** | | | | |
| **Ratio of eligible own funds to SCR** | R0620 | **25.0986** | | | | |
| **Ratio of eligible own funds to MCR** | R0640 | **1.9685** | | | | |

| | | C0060 |
|---|---|---|
| **Reconciliation Reserve** | | |
| Excess of assets over liabilities | R0700 | 6,459 |
| Own shares (held directly and indirectly) | R0710 | |
| Foreseeable dividends, distributions and charges | R0720 | |
| Other basic own fund items | R0730 | 5,750 |
| Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced funds | R0740 | |
| **Reconciliation reserve** | R0760 | **709** |
| **Expected profits** | | |
| Expected profits included in future premiums (EPIFP) - Life business | R0770 | |
| Expected profits included in future premiums (EPIFP) - Non-life business | R0780 | |
| **Total expected profits included in future premiums (EPIFP)** | R0790 | |

**Annex I**

**S.25.01.21**

**Solvency Capital Requirement - For undertakings on Standard Formula**

Amounts in 000s

| | | Gross solvency capital requirement | USP | Simplifications |
|---|---|---|---|---|
| | | C0110 | C0090 | C0120 |
| Market risk | R0010 | 112 | | |
| Counterparty default risk | R0020 | 206 | | |
| Life underwriting risk | R0030 | | | |
| Health underwriting risk | R0040 | | | |
| Non-life underwriting risk | R0050 | | | |
| Diversification | R0060 | -60 | | |
| Intangible asset risk | R0070 | | | |
| **Basic Solvency Capital Requirement** | R0100 | 257 | | |

| **Calculation of Solvency capital Requirement** | | C0100 |
|---|---|---|
| Operational risk | R0130 | |
| Loss-absorbing capacity of technical provisions | R0140 | |
| Loss-absorbing capacity of deferred taxes | R0150 | |
| Capital requirement for business operated in accordance with Art. 4 of Directive 2003/41/EC | R0160 | |
| **Solvency Capital Requirement excluding capital add-on** | R0200 | 257 |
| Capital add-ons already set | R0210 | |
| **Solvency capital requirement for undertakings under consolidated method** | R0220 | 257 |
| **Other information on SCR** | | |
| Capital requirement for duration-based equity risk sub-module | R0400 | |
| Total amount of Notional Solvency Capital Requirements for remaining part | R0410 | |
| Total amount of Notional Solvency Capital Requirements for ring fenced funds | R0420 | |
| Total amount of Notional Solvency Capital Requirements for matching adjustment portfolios | R0430 | |
| Diversification effects due to RFF nSCR aggregation for article 304 | R0440 | |

**Annex I**

**S.28.01.01**

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

Amounts in 000s

**Linear formula component for non-life insurance and reinsurance obligations**

| | | C0010 |
|---|---|---|
| MCRNL Result | R0010 | |

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

**Linear formula component for life insurance and reinsurance obligations**

| | | C0040 |
|---|---|---|
| MCRL Result | R0200 | |

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

**Overall MCR calculation**

| | | C0070 |
|---|---|---|
| Linear MCR | R0300 | |
| SCR | R0310 | 257 |
| MCR cap | R0320 | 116 |
| MCR floor | R0330 | 64 |
| Combined MCR | R0340 | 64 |
| Absolute floor of the MCR | R0350 | 3,281 |
| | | C0070 |
| **Minimum Capital Requirement** | R0400 | 3,281 |

## F.2 Glossary

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

## F.3 Waivers and determinations

No approvals, determinations or modifications apply for the Company at 31 December 2018.

## F.4 Directors' statement

We acknowledge our responsibility for preparing the Solvency and Financial Condition Report of Aviva Life & Pensions UK Limited at 31 December 2018 in all material respects in accordance with the PRA Rules, the Solvency II Regulations, and the approvals, determinations and modifications listed 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 2018, 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 approvals, determinations and modifications listed in section F.4; and

b) it is reasonable to believe that in respect of the period from 31 December 2018 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 2019.

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A.D. Briggs

Director

2nd April 2019