

FRIENDS LIFE MANAGEMENT SERVICES LIMITED

COMPANY INCORPORATED IN ENGLAND AND WALES
REGISTRATION NUMBER 983330

ANNUAL REPORT AND ACCOUNTS

For the year ended 31 December 2015

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FRIENDS LIFE MANAGEMENT SERVICES LIMITED

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**FRIENDS LIFE MANAGEMENT SERVICES LIMITED
COMPANY INFORMATION**

BOARD OF DIRECTORS

M. Risam
A. M. Jenkins

COMPANY SECRETARY

Friends Life Secretarial Services Limited

REGISTERED OFFICE

Pixham End
Dorking
Surrey
RH4 1QA

AUDITORS

PricewaterhouseCoopers LLP
2 Glass Wharf
Bristol
BS2 0FR

FRIENDS LIFE MANAGEMENT SERVICES LIMITED STRATEGIC REPORT

The directors present their Strategic Report on Friends Life Management Services Limited ("the Company" / "FLMS") for the year ended 31 December 2015.

PRINCIPAL ACTIVITY

The Company is a wholly owned subsidiary of Friends Life FPL Limited ("FPL"). The Company operates as part of the Aviva plc group of companies ("the Aviva Group" or "the Group"). Further information is contained in the 2015 report and accounts of Aviva plc.

The Company's ultimate parent and controlling company is Aviva plc.

The principal activity of the Company is the provision of management services to companies of the Group. In order to fulfill this role the Company employs staff and contracts with external suppliers to enable it to provide services to other group companies. The principal companies to which FLMS provides services are Friends Life Limited ("FLL") and Friends Life and Pensions Limited ("FLP").

The costs incurred by the Company in providing these services (including pension contributions to the Friends Provident Pension Scheme, "FPPS") are charged to group companies under Management Service Agreements ("MSAs").

ACQUISITION BY AVIVA GROUP

On 19 January 2015, Friends Life Group Limited ("FLGL"), which at that date was the ultimate parent company of the Company, published a Scheme of Arrangement ("the Scheme") document in relation to the proposed acquisition by Aviva plc of the entire ordinary share capital of FLGL. Following shareholder and Guernsey court approval the Scheme became effective on 10 April 2015 and at that point the Company became part of the Aviva Group.

FRIENDS PROVIDENT PENSION SCHEME DEFICIT RECOVERY PLAN

The Company is the statutory employer of the FPPS which is a defined benefit scheme. On 2 January 2013 the Company and the FPPS Trustees signed a deficit recovery plan and supporting schedule of contributions for £195m of recovery contributions. This deficit recovery plan and supporting schedule of contributions required that £23m be paid in July 2013 and that £21.5m be paid in each July of the eight subsequent years. This deficit recovery plan and schedule of contribution has been in-force for the 2014 and 2015 calendar years.

The actuarial valuation of the FPPS at 30 September 2014 showed a funding deficit and on 4 January 2016 the Company and the FPPS Trustees signed a revised deficit recovery plan and supporting schedule of contributions which requires contributions of £43m from January 2016 to September 2016 and from October 2016 to December 2019 at a fixed rate of £43m per annum until the scheme is at least 100% funded on a technical provisions basis. As part of the new funding arrangement the FPPS trustees have received a guarantee from Aviva Group Holdings Limited covering the Company's performance obligation up to the full cost of buying out all of the scheme liabilities with a third party insurance company if necessary.

Under the terms of the MSAs in place the Company expects to charge a management fee in respect of the deficit reduction contributions to the principal companies within the Group, which currently as at 31 December 2015 are the UK life insurance companies FLL and FLP. During both 2014 and 2015 management fees of £21.5m were included in the Company's turnover for the year.

It is noted that the surplus/deficit shown in the Company's balance sheet is calculated on the IAS 19 basis required for entities reporting under Financial Reporting Standard 101. The surplus/deficit on this basis is not directly comparable to the surplus/deficit calculated on a funding basis.

FRIENDS LIFE MANAGEMENT SERVICES LIMITED
STRATEGIC REPORT (continued)

RESULTS AND BUSINESS REVIEW

The result for the year ended 31 December 2015 is set out in the profit and loss account on page 11.

Trading performance and outlook

	2015	2014
	£000	£000
Turnover	413,457	417,361
Administration expenses	(399,174)	(395,574)
Operating Profit	14,283	21,787

The Company provides management services to other companies in the Group. As with previous years all expenses incurred within the Company were charged to the other group companies based on the MSAs.

The expenses of the Company comprise of staff costs, premises and IT infrastructure costs, sales and marketing costs and product development costs. Expenses have increased during the year because of costs associated with the Aviva acquisition.

The operating profit in 2015 and 2014 principally reflects the £21.5m management fees charged in respect of deficit recovery contributions made by FLMS to the FPPS. This is offset during 2015 by non chargeable expenses retained by the Company of £7m. The management fees charged are recognised as turnover whilst under IAS 19 the contributions made by FLMS into the scheme are not recorded as expenses.

Financial Strength

As noted above, the Company has commitments to the FPPS under the deficit recovery plan. These commitments are expected to be recoverable via the MSAs in place between the Company and FLL / FLP which give the Company access to the financial strength of these regulated insurance companies.

FRIENDS LIFE MANAGEMENT SERVICES LIMITED
STRATEGIC REPORT (continued)

PRINCIPAL RISKS AND UNCERTAINTIES

The strategic aim of the Aviva Group is to develop a sustainable business that meets the needs of customers and delivers cash and appropriate returns to shareholders. As with all businesses, the Aviva Group is exposed to risk in pursuit of its objectives.

Enterprise risk management ("ERM") is the discipline by which both the Friends Life Group and Aviva Group safeguards the interests of customers and shareholders. This is achieved through the identification, assessment, management monitoring and control of current and emerging risks, against a set of agreed risk appetite and limits, in order to develop a sustainable business that meets the needs of customers and delivers appropriate returns to shareholders within appropriate and prudent risk boundaries.

The philosophy underpinning risk management is that it should be designed, implemented and maintained in a manner that supports management's decision making and helps management to deal effectively with uncertainty.

Until the Aviva acquisition, the FLGL Board was responsible for the risk management framework applied by companies within the Friends Life Group. The Board delegated responsibility for overseeing risk management across the Friends Life Group to the Risk and Compliance Committee ("RCC"). The RCC was supported by the Executive Risk Committee ("ERC").

Following the Aviva acquisition the ex-Friends Life entities have continued to use the enterprise risk management framework that was in place prior to acquisition across the Friends Life Group. The ex-Friends Life entities will transition to the Aviva Group risk management framework from 1 January 2016.

The principal risks and uncertainties to which the Company is exposed are outlined below:

Market Risk

Market risk is the risk of loss or adverse change in the financial situation (including the value of assets, liabilities and income) resulting, directly or indirectly, from fluctuations in the level or the volatility of market variables, such as interest rates, foreign exchange rates, equity, property and commodity prices. The Company is exposed to market risk in respect of assets held by the FPPS as reductions in the value of assets can impact on the funding deficit of the scheme which in turn can result in FLMS having to make higher contributions into the scheme. The risks to which the FPPS is exposed are discussed in more detail in note 15. Aside from the market risk exposure generated by the FPPS the Company is not considered to be exposed to significant market risk as the assets it holds primarily comprise cash or intercompany debtors.

Credit Risk

Credit risk is the risk of adverse financial impact resulting from fluctuations in credit quality of third parties including default, rating transition and credit spread movements. The Company is exposed to credit risk in respect of debt securities held by the FPPS as a reduction in the value of these assets can impact on the funding deficit of the scheme which in turn can result in FLMS having to make higher contributions into the scheme. The risks to which the FPPS is exposed are discussed in more detail in note 15. Aside from the credit risk exposure generated by the FPPS the Company is not considered to be exposed to significant credit risk as its debtors are primarily with other group companies.

Longevity Risk

The Company is exposed to longevity risk to the extent that members of the FPPS live longer than expected. The FPPS has sought to mitigate a portion of this risk via the purchase of a bulk annuity contract in respect of certain tranches of pensioner liabilities. The risks to which the FPPS is exposed are discussed in more detail in note 15.

FRIENDS LIFE MANAGEMENT SERVICES LIMITED
STRATEGIC REPORT (continued)

PRINCIPAL RISKS AND UNCERTAINTIES (Continued)

Liquidity Risk

Liquidity risk is the risk that liabilities cannot be met in a timely and cost-effective manner as they fall due. The Company is not considered to be exposed to significant liquidity risk given that management fees in respect of costs incurred can be charged to other group companies under the MSAs in place. The majority of the costs incurred by the Company relate to services provided to FLL / FLP which are regulated insurance companies which are required to maintain prudent surplus capital positions.

Operational Risk

Operational risk is the risk of loss arising from inadequate or failed internal processes, personnel or systems, or from external events. Operational risk is controlled through the risk management framework operated by the Group.

EMPLOYEES

The Group's commitment to open collaboration and involvement with its employees continues. The methods used to implement this policy include:

- management briefings or presentations and discussion through the management structure;
- the issue of a full range of employee communications via the Group's intranet or other internal publication of relevant information, which inform employees of current issues, developments and progress;
- an established and regular staff opinion survey that encourages employees anonymously to present their views, thereby generating workplace and business improvements; and
- the establishment of effective working relationships with employee representative bodies.

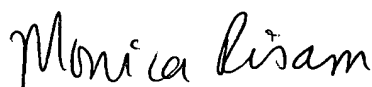
The primary aim of all of these activities is to ensure employees know the objectives and activities of the Group so that they can contribute fully to its continued success.

The Company is committed to providing equal opportunities for all irrespective of their gender, sexual orientation, marital status, race, religion, age, disability, nationality, ethnic origin or union membership status in all its dealings with employees. The Company is an inclusive employer and values the diversity in its employees. These commitments extend to recruitment and selection, training, career development, flexible working arrangements, promotion and performance management.

The Company respects the dignity of individuals and their beliefs. The Company does not tolerate any sexual, racial, physical or mental harassment of employees in the workplace.

The Group has amongst its employees a number who are disabled. It gives full and fair consideration to applications for employment from disabled persons. In the event of employees becoming disabled, every effort is made to ensure that their employment with the Group continues and to provide specialised training where this is appropriate. The average number of employees (including all directors) was 2,023 (2014: 1,846).

Approved and authorised for issue by the board on 19 April 2016 and signed on its behalf by



M. Risam
Director

FRIENDS LIFE MANAGEMENT SERVICES LIMITED REPORT OF THE DIRECTORS

The directors in office at the date of signing of these financial statements are listed on page 2. Appointments and resignations of directors during the year and up to the date of the signing of these financial statements are as follows:

DIRECTORS

J. A. Newman	Resigned 31 March 2015
R. W. Barnett	Resigned 12 October 2015
J. S. Moss	Resigned 29 October 2015
M. Risam	Appointed 29 October 2015
A. M. Jenkins	Appointed 19 February 2016

QUALIFYING INDEMNITY PROVISIONS

Aviva plc, the Company's ultimate parent, granted in 2004 an indemnity to the directors against liability in respect of proceedings brought by third parties, subject to the conditions set out in the Companies Act 1985, which continue to apply in relation to any provision made before 1 October 2007. This indemnity is a "qualifying third party indemnity" for the purposes of sections 309A to 309C of the Companies Act 1985. These qualifying third party indemnity provisions were in force throughout the year and at the date of approving the Directors' Report by virtue of paragraph 15, Schedule 3 of The Companies Act 2006 (Commencement No. 3, Consequential Amendments, Transitional Provisions and Savings) Order 2007. The directors also have the benefit of the indemnity provision contained in the Company's articles of association, subject to the conditions set out in the Companies Act 2006. This is a "qualifying third party indemnity" provision as defined by section 234 of the Companies Act 2006.

STATEMENT OF DISCLOSURE OF INFORMATION TO THE AUDITOR

Each of the directors who held office at the date of approval of this Report of the Directors confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditor is unaware; and each director has taken all the steps that they ought to have taken as a director to make themselves aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

AUDITOR

During the year Ernst & Young LLP resigned as auditors and PricewaterhouseCoopers LLP were appointed. It is the intention of the directors to reappoint the auditors, PricewaterhouseCoopers LLP, under the deemed appointment rules of section 487 of the Companies Act 2006.

DIVIDEND

The directors do not recommend the payment of an interim dividend for the year ended 31 December 2015 (2014: £nil).

FUTURE OUTLOOK

Following the acquisition of the Friends Life Group by the Aviva Group significant integration activity is envisaged across the combined Group. The impact of the integration on the activities of the Company has yet to be determined. Until any changes are agreed and implemented the Company will continue with its existing activities.

STATEMENT OF GOING CONCERN

The financial statements have been prepared on a going concern basis. In assessing whether the going concern basis is appropriate, the directors have considered the information contained in the financial statements of the Company. The directors are satisfied that the Company has adequate resources to continue in operational existence for the foreseeable future and at least 12 months from the approval of the financial statements.

**STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE REPORT OF THE
DIRECTORS AND THE FINANCIAL STATEMENTS**

The directors are responsible for preparing the Strategic Report, the Report of the Directors and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including Financial Reporting Standards 101 Reduced Disclosure Framework (FRS 101).

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and the profit or loss of the Company for that period.


In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards, including FRS 101, have been followed, subject to any material departures disclosed and explained in the financial statements;
- notify its shareholders in writing about the use of disclosure exemptions, if any, of FRS 101 used in the preparation of the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Pixham End
Dorking
Surrey
RH4 1QA
19 April 2016

ON BEHALF OF THE BOARD



M. Risam
Director

**INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF
FRIENDS LIFE MANAGEMENT SERVICES LIMITED**

REPORT ON THE FINANCIAL STATEMENTS

Our opinion

In our opinion, Friends Life Management Services Limited's financial statements (the "financial statements"):

- give a true and fair view of the state of the company's affairs as at 31 December 2015 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

What we have audited

The financial statements, included within the Annual Report and Accounts (the "Annual Report"), comprise:

- the Balance Sheet as at 31 December 2015;
- the Profit and Loss Account for the year then ended;
- the Statement of Changes in Equity for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in the preparation of the financial statements is United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law (United Kingdom Generally Accepted Accounting Practice).

In applying the financial reporting framework, the directors have made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.

OPINION ON OTHER MATTERS PRESCRIBED BY THE COMPANIES ACT 2006

In our opinion, the information given in the Strategic Report and the Report of the Directors for the financial year for which the financial statements are prepared is consistent with the financial statements.

OTHER MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION

Adequacy of accounting records and information and explanations received

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns.

**INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF
FRIENDS LIFE MANAGEMENT SERVICES LIMITED (continued)**

We have no exceptions to report arising from this responsibility.

Directors' remuneration

Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of directors' remuneration specified by law are not made. We have no exceptions to report arising from this responsibility.

RESPONSIBILITIES FOR THE FINANCIAL STATEMENTS AND THE AUDIT

Our responsibilities and those of the directors

As explained more fully in the Statement of Directors' Responsibilities set out on page 8, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) ("ISAs (UK & Ireland)"). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

What an audit of financial statements involves

We conducted our audit in accordance with ISAs (UK & Ireland). An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the directors; and
- the overall presentation of the financial statements.

We primarily focus our work in these areas by assessing the directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.



Christopher Weissberg (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Bristol

20 April 2016

FRIENDS LIFE MANAGEMENT SERVICES LIMITED
PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31 DECEMBER 2015

		2015	2014
	Notes	£000	Restated £000
Turnover	3	413,457	417,361
Administrative expenses		(399,174)	(395,574)
OPERATING PROFIT		14,283	21,787
Interest received		190	144
Other finance income		2,629	2,438
PROFIT ON ORDINARY ACTIVITIES BEFORE TAX	4	17,102	24,369
Tax (charge) / credit on profit on ordinary activities	5(b)	(17,910)	4,226
(LOSS) / PROFIT FOR THE FINANCIAL YEAR		(808)	28,595

All of the activities of the company are classed as continuing.

STATEMENT OF COMPREHENSIVE INCOME FOR
THE YEAR ENDED 31 DECEMBER 2015

		2015	2014
	Notes	£000	Restated £000
(Loss) / Profit for the financial year		(808)	28,595
Actuarial gain recognised in the pension scheme	15(g)	81,996	41,421
Deferred tax arising on pension scheme losses		(32,498)	(17,139)
TOTAL OTHER COMPREHENSIVE INCOME		49,498	24,282
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		48,690	52,877

The notes on pages 14 to 38 form an integral part of these financial statements.

FRIENDS LIFE MANAGEMENT SERVICES LIMITED
BALANCE SHEET AS AT 31 DECEMBER 2015

		2015	2014
	Notes	£000	Restated £000
FIXED ASSETS			
Tangible assets	8	118	7,681
CURRENT ASSETS			
Amounts owed by group undertakings		122,498	50,890
Other debtors	10	26,896	78,910
Prepayments and accrued income		3,175	5,952
Pension asset	15(e)	164,471	59,035
Total debtors		317,040	194,787
Cash at bank and in hand		56,914	84,446
CREDITORS: Amounts falling due within one year			
Amounts owed to group undertakings		48,419	28,545
Other creditors including taxation and social security	11	35,458	71,837
Accruals and deferred income		65,917	79,255
		149,794	179,637
NET CURRENT ASSETS		224,160	99,596
TOTAL ASSETS LESS CURRENT LIABILITIES		224,278	107,277
PROVISIONS FOR LIABILITIES			
Taxation, including deferred taxation	9	57,565	20,662
Other provisions	12	38,299	4,269
		95,864	24,931
NET ASSETS		128,414	82,346
CAPITAL AND RESERVES			
Called up share capital	13	70,100	70,100
Reserves		58,314	12,246
TOTAL SHAREHOLDERS' FUNDS		128,414	82,346

Approved and authorised for issue by the Board on 19 April 2016 and signed on its behalf by



A. M. Jenkins
Director

The notes on pages 14 to 38 form an integral part of these financial statements.

FRIENDS LIFE MANAGEMENT SERVICES LIMITED
STATEMENT OF CHANGES IN EQUITY FOR 31 DECEMBER 2015

	Share capital	Other reserves	Equity Reserve	Total shareholders' funds
	£000	£000	£000	£000
Balance as at 1 January 2015	70,100	(28,419)	40,665	82,346
Loss for the financial year	-	(808)	-	(808)
Share based payment	-	-	(2,622)	(2,622)
Actuarial loss recognised in the pension scheme	-	81,996	-	81,996
Deferred tax arising on pension scheme losses	-	(32,498)	-	(32,498)
Balance as at 31 December 2015	70,100	20,271	38,043	128,414

	Share capital	Other reserves	Equity Reserve	Total shareholders' funds
	£000	£000	£000	£000
Balance as at 1 January 2014 (restated)	70,100	(81,296)	34,922	23,726
Profit for the financial year	-	28,595	-	28,595
Share based payment	-	-	5,743	5,743
Actuarial loss recognised in the pension scheme	-	41,421	-	41,421
Deferred tax arising on pension scheme losses	-	(17,139)	-	(17,139)
Balance as at 31 December 2014 (restated)	70,100	(28,419)	40,665	82,346

The notes on pages 14 to 38 form an integral part of these financial statements.

**FRIENDS LIFE MANAGEMENT SERVICES LIMITED
NOTES TO THE FINANCIAL STATEMENTS**

1. ACCOUNTING POLICIES

(a) Basis of preparation

The financial statements have been prepared in accordance with Financial Reporting Standard 101 *Reduced Disclosure Framework* (FRS 101) and under the historical cost convention.

The Company is a wholly owned subsidiary of FPL and is included in the consolidated financial statements of Aviva plc which are publicly available. The Company's ultimate parent undertaking is Aviva plc.

The financial statements have been prepared on the going concern basis, which the directors believe to be appropriate for the following reasons.

The Company has applied all applicable accounting standards and interpretations effective at 31 December 2015.

The financial statements are stated in sterling which is the Company's functional and presentation currency. Unless otherwise stated the amounts shown in the financial statements are in thousands of pounds sterling (£000).

The Company transitioned from the previously extant UK GAAP to FRS 101 for all periods presented. Transitional reconciliations showing all material adjustments are disclosed in note 20.

The accounting policies which follow set out those policies which apply in preparing the financial statements for the year ended 31 December 2015.

The Company has taken advantage of the following disclosure exemptions under FRS 101:

- (a) the requirements of paragraphs 45(b) and 46 to 52 of IFRS 2 *Share-based Payment* to disclose the number and weighted average exercise price of share options under the share based payment arrangement for the following categories: outstanding at the beginning of the period, granted, forfeited, exercised, expired during the period, outstanding at the end of the period and exercisable at the end of the period. In addition there is an exemption to disclose the determination of the fair value of goods and services received or equity instruments granted under the share based payment arrangement and the impact on the share based payment arrangements on the profit and loss account and the financial position.
- (b) the requirements of IFRS 7 *Financial Instruments: Disclosure*.
- (c) the requirements of paragraphs 91 to 99 of IFRS 13 *Fair Value Measurement* to disclose the valuation techniques and inputs used to measure the fair value of assets and liabilities.
- (d) the requirement in paragraph 38 of IAS 1 *Presentation of Financial Statements* to present comparative information in respect of:
 - (i) Paragraph 73 (e) of IAS 16 *Property, Plant and Equipment* to show a reconciliation of the carrying value at the beginning and end of the period in respect of property, plant and equipment.

FRIENDS LIFE MANAGEMENT SERVICES LIMITED
NOTES TO THE FINANCIAL STATEMENTS (continued)

1. ACCOUNTING POLICIES (continued)

(a) Basis of preparation (continued)

- (e) the requirements of paragraphs 10 (d) and 111 of IAS 1 Presentation of Financial Statements to include a statement of cash flows and the requirements of IAS 7 Statement of Cash Flows.
- (f) the requirements of paragraphs 30 and 31 of IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors to disclose when an entity has not applied a new accounting standard that has been issued but is not yet effective.
- (g) the requirements of paragraph 17 of IAS 24 Related Party Disclosure to disclose key management personnel compensation.
- (h) the requirements of IAS 24 Related Party Disclosures to disclose related party transactions entered into between two or more members of a group.

Amendments to IAS 19, Employee Benefits became effective for the reporting period beginning on 1 January 2015, along with minor clarifications to existing guidance on a number of other standards. The amendments do not have any impact on the Company's financial statements.

(b) Pensions costs

Defined contribution and defined benefit pension schemes are in place for employees. The defined benefit scheme was closed to future accrual on 14 December 2012.

The pension asset / liability recognised in the balance sheet is the present obligation of the employer, which is the estimated present value of the future benefits that employees have earned in return for their services in the current and prior years, less the fair value of the plan assets in the FPPS defined benefit. An asset is recognised to the extent that the Company is able to receive a surplus either through reduced contributions in the future or through a refund from the surplus. The rate used to discount pension obligations is determined by reference to market yields at the end of the reporting period on high quality corporate bonds. A qualified actuary performs the calculation annually using the projected unit credit method.

The defined benefit pension cost for the FPPS is charged to the profit and loss account and consists of current service cost, past service cost, the effect of any settlements or curtailments, and net interest on the net defined pension liability. Past service costs are recognised in the profit and loss account on a straight-line basis over the period in which the increase in benefits vests. The actuarial gains and losses, which arise from any new valuation and from updating the latest actuarial valuation to reflect conditions at the balance sheet date, are taken to the statement of total comprehensive income for the period. The adjustment is shown net of deferred taxation. The difference between interest income and the actual return on plan assets is reported as part of the re-measurement of the net defined benefit asset within the statement of total comprehensive income.

Deferred tax liabilities are established at a rate of 35% on any pension asset recognised reflecting the tax rate payable on any refunds from the scheme.

FRIENDS LIFE MANAGEMENT SERVICES LIMITED
NOTES TO THE FINANCIAL STATEMENTS (continued)

1. ACCOUNTING POLICIES (continued)

Contributions to defined contribution schemes are charged to the profit and loss account as they become payable in accordance with the rules of the scheme.

(c) Taxation

Current Tax

Taxation is based on the profits and income for the period as determined in accordance with the relevant tax legislation, together with adjustments to provisions for prior periods. Tax payable is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Current taxation is recognised in the profit and loss account for the period, except to the extent that it is attributable to a gain or loss recognised outside the profit and loss account, in which case the current tax is recognised in the statement of comprehensive income, or equity, as applicable.

Deferred Tax

Deferred taxation is recognised on temporary differences arising between tax bases of assets and liabilities and their carrying amounts in the financial statements. The tax rates used are the rates that have been enacted or substantively enacted by the balance sheet date.

Full provision is made for deferred tax liabilities. Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against of which the temporary differences can be utilised.

Deferred taxation is recognised in the profit and loss account for the period, except to the extent that it is attributable to a gain or loss recognised outside the profit and loss account, in which case the deferred taxation is recognised in the statement of comprehensive income, or equity, as applicable.

(d) Tangible assets

Tangible assets are capitalised and depreciated on a straight line basis over their estimated useful lives as follows:

Motor vehicles	3 to 4 years
Computer equipment	1 to 4 years
Fixtures, fittings, and office equipment	3 to 10 years
Leased assets	Over the term of the finance lease

Residual values and estimated useful lives are reviewed at the end of each financial period and adjusted accordingly if appropriate.

(e) Leases

Leases in which a significant proportion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the profit and loss account on a straight-line basis over the period of the lease.

FRIENDS LIFE MANAGEMENT SERVICES LIMITED
NOTES TO THE FINANCIAL STATEMENTS (continued)

1. ACCOUNTING POLICIES (continued)

(f) Share based payment schemes

The Company is the employer of a number of group employees to whom the Friends Life Group offered share based payment plans. Where the Company does not have the obligation to settle the award and settlement is not made in the shares of the Company, the plans are accounted for as equity settled with the Company recognising a share based payment expense in the Profit and Loss Account with an offsetting entry being made to a share based payment reserve in Shareholder Funds. The share based payment expense recognised is recharged to other group companies.

The expense charged to the profit and loss account is based upon the fair value of options granted, the vesting period and the vesting conditions. Fair values are determined using stochastic and scenario-based modelling techniques where appropriate.

For equity settled schemes the fair value is determined at grant date and expensed on a straight line basis over the vesting period in the profit and loss account. A corresponding amount is credited to shareholder equity. At each balance sheet date the Group revises its estimates of the number of shares that are expected to be issued and recognises the impact of the revision of original estimates, if any, to the profit and loss account, with a corresponding adjustment to equity over the remaining vesting period. Where a leaver is entitled to scheme benefits, this is treated as an acceleration of vesting and hence a shortening of the period over which the expense is charged.

Where scheme awards have to be settled in cash instead of shares a liability is reflected on the balance sheet instead of taking the credit side of the profit and loss entry to the share based payment reserve. The fair value of cash awards is recalculated each year with the profit and loss charge and balance sheet liability being adjusted accordingly.

2. USE OF ACCOUNTING ESTIMATES

(a) Staff pension scheme

In assessing the pension benefit obligation, assumptions are made as to the life expectancy of all current, deferred and retired members, rates of increases of salaries and pensions, and interest and inflation rates. Material assumptions used are detailed in note 15.

(b) Share options and share based payments

In assessing the cost of share options expected to vest, the key assumptions are future staff leaver numbers on the basis of past experience, and of the fair value of the options using assumptions including expected future levels of share price volatility and dividend yield.

The impact of the share based payment scheme on the Company's financial position are disclosed in note 7.

FRIENDS LIFE MANAGEMENT SERVICES LIMITED
NOTES TO THE FINANCIAL STATEMENTS (continued)

2. USE OF ACCOUNTING ESTIMATES (continued)

(c) Changes in accounting estimates

The total impact of changes in accounting estimates amounted to £32m increase in profit for 2015 as follows:

- **One off basis changes: Pension scheme expense inflation**
 The assumption used for deferred pension increases has been changed to align with Aviva plc. This has resulted in an increase to gains recognised in the statement of comprehensive income of £37m due to an increase in the value of the pension asset.
- **One off write off: Capitalised leasehold improvements**
 Following the acquisition by Aviva plc, the Company vacated the property, One New Change, resulting in the write off of leasehold improvements. This has resulted in a decrease of profit of £5m.

3. TURNOVER

Turnover comprises fees for management services provided to companies within the Group. The fees for management services are charged monthly to the relevant subsidiaries of the Group. The charge is equal to the expenses incurred by the Company on behalf of group companies excluding VAT that is recoverable by the Company.

Contracts for the provision of management services exist with the main companies of the Group, providing the Company with legal resource to recover all expenses under the terms of agreement.

Pension deficit reduction contributions of £21.5m plus fees were made by the Company and a management fee charged to the life insurance companies in respect of these.

4. PROFIT ON ORDINARY ACTIVITIES BEFORE TAX

Profit on ordinary activities before tax is stated after charging:

	2015	2014
	£000	£000
Auditor's remuneration for audit services	60	119
Operating lease rentals:		
- land and buildings	4,608	8,429
Depreciation of tangible fixed assets:		
- owned assets	3,994	1,761

FRIENDS LIFE MANAGEMENT SERVICES LIMITED
NOTES TO THE FINANCIAL STATEMENTS (continued)

5. TAX

(a) Analysis of the tax charge in period

	2015	2014
	£000	£000
Current taxation		
UK corporation tax @ 20.25% (2014: 21.5%)	(11,374)	2,875
Adjustments in respect of prior periods	(1,862)	(5,013)
Total current taxation (credit)	(13,236)	(2,138)
Deferred taxation		
Adjustment to tax charge in respect of previous years	5,050	(6,048)
Origination and reversal of timing differences	24,900	3,960
Change in tax rate	1,196	-
Total deferred taxation charge / (credit)	31,146	(2,088)
Tax charge / (credit) on profit on ordinary activities	17,910	(4,226)

(b) Factors affecting charge for period

	2015	2014
	£000	£000
Profit on ordinary activities before tax	17,102	24,369
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 20.25% (2014: 21.5%)	3,463	5,239
Effects of:		
Deductions not allowable for tax purposes	10,063	2,010
Impact of reduction in corporation tax rate to 18% (20%)	1,196	(414)
Adjustments in respect of prior periods	3,188	(11,061)
Total tax charge / (credit) for the period	17,910	(4,226)

UK legislation was substantively enacted in July 2013 to reduce the rate of corporation tax from 21% to 20% from 1 April 2015, resulting in an effective rate for the year ended 31 December 2015 of 20.25%. UK legislation was substantively enacted in October 2015 to reduce the rate of corporation tax to 19% from 1 April 2017 and to 18% from 1 April 2020. Under UK GAAP, deferred tax is calculated using rates substantively enacted by the reporting date and as such the 18% rate has been taken into account in deferred tax balances.

FRIENDS LIFE MANAGEMENT SERVICES LIMITED
NOTES TO THE FINANCIAL STATEMENTS (continued)

6. EMPLOYEES

The service contracts for all employees within the UK and Corporate segment of the Group are with the Company. These employees provide services for all companies in the UK and Corporate segment, with the cost being included in the fees charged to the relevant companies.

	2015	2014
(a) The average number of employees (including all directors) was:		
Management services	2,023	1,846
	£000	£000
(b) Gross employment costs (including all directors) amounted to:		
Wages and salaries	90,478	91,793
Social security costs	11,688	11,574
Pension costs	11,540	11,467
	113,706	114,834

7. SHARE BASED PAYMENTS

The Company has taken advantage of the exemptions permitted under FRS 101 to disclose information in respect of share based payment arrangements involving equity instruments of another group entity as set out within 1 (a). The equivalent disclosures have been included within the consolidated accounts of Aviva plc.

(a) Long Term Incentive Plan ("LTIP")

The scheme was introduced in 2009 as a cash-settled share-based payment scheme, and was modified in May 2013 in order to continue to properly incentivise the Friends Life Group's senior executives following the change in the Group's strategy, that was announced in August 2012. The LTIP terms were amended so that the implicit need for an exit event was replaced with a market value based calculation to measure performance, without altering the required internal rate of return of 12%. The change to the scheme was accounted for as a modification. The modified scheme was an equity-settled scheme, settled in three tranches of shares in FLGL over 2014 to 2016. No shares were awarded in 2014 (Tranche A) as the target share price was not achieved, as at 30 June 2014.

On acquisition by the Aviva Group, the amount payable in respect of outstanding awards (Tranches B & C) under the scheme crystallised, however payment was deferred with two equal instalments being payable to participants on 1 September 2015 and 1 September 2016. The payments are made in cash and are subject to participants fulfilling conditions relating to on-going service. At the acquisition date the liability to participants was estimated to be £29m and during March 2015 Friends Life Holdings plc transferred cash of £33m into a new Employee Benefits Trust to settle the LTIP awards (£29m for the awards to participants plus £4m for employers' NIC).

The amount to be paid to participants was determined by a formula set out in the scheme rules. The LTIP created a profit pool equal to 2% of the growth in value of the Friends Life Group, as assessed under the LTIP rules. The calculation of the value of the profit pool on acquisition was partly based on the value of Aviva shares over the 40 day period immediately prior to the date of the first announcement of the proposed acquisition and also involved an assessment of the market value of the Friends Life Group using the consideration paid to Friends Life shareholders and to RCAP under the value share arrangement.

FRIENDS LIFE MANAGEMENT SERVICES LIMITED
NOTES TO THE FINANCIAL STATEMENTS (continued)

7. SHARE BASED PAYMENTS (continued)

(a) Long Term Incentive Plan ("LTIP") (continued)

The changes to the scheme as a result of the Aviva acquisition are considered to have been a modification in that participants were informed that the scheme would now be settled in cash rather than equity settled. As such it is necessary to account for the scheme as cash settled and recognise an expense

for the estimated £33m cost of the scheme. The cost has been allocated to the pre and post acquisition period based on the service of participants from the date of their joining the scheme to the payment dates in 2015 and 2016.

The impacts in FLMS financial statements for the year ended 31 December 2015 are as follows:

- Reclassification of the £4.3m cumulative charge to 31 December 2014 from reserves to a share based payment liability in other creditors reflecting the modification of the scheme to a cash settled basis.
- Recognition of an expense charge of £27.1m (2014: £1.8m) during the year which increased the share based payment liability in other creditors. This increase in the share based payment liability has been partially offset by the £15.6m payment to participants on 1 September 2015 resulting in a year end 31 December 2015 liability of £15.8m.
- Recognition of turnover of £27.1m (2014: £1.8m) reflecting the recharge of the expense charge to other group companies. At year end 31 December 2015 the amount due from other group companies in respect of the LTIP scheme was £15.8m.

During 2016 it is expected that a further expense charge of c£0.7m will be recognised in respect of the LTIP scheme which will be recharged to other group companies. The final payment due on 1 September 2016 is expected to be c£16.5m.

(b) Deferred Share Award Plan ("DSAP")

Certain key management of the Friends Life Group had one-third of any annual bonus deferred into shares in FLGL for a period of three years. The awards were accounted for as equity-settled schemes. The DSAP included a change of control vesting clause and as such the acquisition by the Aviva Group triggered the vesting of the awards which were settled in shares of FLGL.

Vesting of the awards triggered the acceleration of the unrecognised expense charges in relation to the DSAP resulting in a total expense charge during 2015 of £1.3m (2014: £2.2m).

(c) Share awards

Certain Friends Life directors were entitled to cash and shares in FLGL to compensate them for awards they forfeited from their previous employer as a result of joining the Company. The share elements of these awards are treated as equity-settled schemes. The share awards included change of control vesting clauses and as such the acquisition by the Aviva Group triggered the vesting of the awards which were settled in shares of FLGL. The FLGL shares were then acquired by the Aviva Group under the terms of the acquisition.

Vesting of the awards triggered the acceleration of the unrecognised expense charges in relation to these share awards resulting in a total expense charge during 2015 of £0.2m (2014: £1.7m).

FRIENDS LIFE MANAGEMENT SERVICES LIMITED
NOTES TO THE FINANCIAL STATEMENTS (continued)

7. SHARE BASED PAYMENTS (continued)

(d) Performance Share Plan (“PSP”)

The PSP was approved at the AGM on 8 May 2014 and awards were granted by FLGL on 16 May 2014. The aim of the plan was to incentivise the executives to increase the market value of FLGL over the longer term. It is accounted for as an equity-settled scheme.

Awards were granted subject to performance conditions in respect of Total Shareholders Return, Embedded Value and Total Group Free Surplus Generated which had to be met for awards to vest.

50% of any shares awarded were due to vest on the third anniversary of the grant date and the remaining 50% of shares awarded were due to vest on the fourth anniversary of the grant date.

The PSP included change of control vesting clauses and as such the acquisition by Aviva Group triggered the vesting of the awards which were settled in shares of FLGL. The awards which vested on acquisition were time pro-rated and adjusted for the performance conditions.

An expense charge for the year of £0.2m (2014: £0.6m) has been recognised reflecting the time pro-rated original fair value charge.

FRIENDS LIFE MANAGEMENT SERVICES LIMITED
NOTES TO THE FINANCIAL STATEMENTS (continued)

8. TANGIBLE FIXED ASSETS

	Motor vehicles	Computer equipment and software	Fixtures, fittings and office equipment	Total
	£000	£000	£000	£000
Cost				
At 1 January 2015	34	52,055	15,345	67,434
Write offs	-	-	(11,557)	(11,557)
At 31 December 2015	34	52,055	3,788	55,877
Depreciation				
At 1 January 2015	34	52,031	7,688	59,753
Charge for the year	-	24	(4,018)	(3,994)
At 31 December 2015	34	52,055	3,670	55,759
Net book value				
At 31 December 2014	-	24	7,657	7,681
At 31 December 2015	-	-	118	118

In addition to the £5m write off of capitalised leasehold improvements mentioned in note 2c, a further £2.5m of fixed assets were written off during 2015.

9. DEFERRED TAX

	2015 £000	2014 £000
Opening balance at 1 January	18,204	33,255
(Charged) / Credited in year to the profit and loss account	(31,146)	2,088
(Charged) in year to the statement of comprehensive income	(32,498)	(17,139)
Closing balance as at 31 December	(45,440)	18,204

Details of the deferred tax asset are given below:

	2015 £000	2014 £000
Deferred tax on pension asset	(57,565)	(20,662)
Deferred tax on accounting policy change	-	21,632
Accelerated depreciation	12,125	17,234
Deferred tax (liability) / asset	(45,440)	18,204

The deferred tax liability in respect of the pension asset is included in provisions for liabilities on the face of the balance sheet. The remainder of the deferred tax balance is included within other debtors.

FRIENDS LIFE MANAGEMENT SERVICES LIMITED
NOTES TO THE FINANCIAL STATEMENTS (continued)

10. OTHER DEBTORS

	2015	2014
		Restated
	£000	£000
Deferred Tax	12,125	38,866
VAT debtor	42	4,836
Prepayment	53	867
Other debtors	3,302	1,946
Corporation tax receivable	11,374	32,395
	26,896	78,910

The tax receivable for the current year of £11,374k will be settled in more than 1 year by way of group relief with other Aviva Group companies.

11. OTHER CREDITORS INCLUDING TAXATION AND SOCIAL SECURITY

	2015	2014
		Restated
	£000	£000
Other taxation and social security	113	5,428
Policy related creditors	14,778	12,764
Amounts due for PAYE and social security	4,168	4,782
Other creditors	16,399	48,863
	35,458	71,837

As disclosed within note 20 there has been a prior year restatement on the transition to FRS 101 to spread the benefit of any operating lease incentives over the period of the lease term where previously the benefit was being spread over the period to the next rent review under UK GAAP. This has resulted in £0.7m of additional deferred income being recognised within other creditors and a reduction in administrative expenses of £0.3m within the profit and loss account as at 31 December 2014.

12. OTHER PROVISIONS

	Integration	Vacant	ROL	Outsourcing	Other	Total
	Properties	Properties	separation			
	£000	£000	costs	£000	£000	£000
			£000			
At 1st January 2015	-	-	1,179	2,193	897	4,269
Utilised during the year	-	-	(352)	(2,194)	(36)	(2,582)
Charge for the year	28,057	9,950	-	-	-	38,007
Release for the year	-	-	(825)	-	(570)	(1,395)
At 31 December 2015	28,057	9,950	2	(1)	291	38,299

FRIENDS LIFE MANAGEMENT SERVICES LIMITED
NOTES TO THE FINANCIAL STATEMENTS (continued)

12. OTHER PROVISIONS (continued)**Integration**

The provision increased during the year to cover specific costs associated with the property integration activities of the business from Friends Life into the Aviva Group. It is expected £15m will be utilised during 2016 and the remainder between 2017 and 2021.

Vacant Properties

The provision comprises residual onerous lease commitments on vacated properties together with other outgoings, after taking into account existing sub-tenant arrangements. The provision is reviewed on a regular basis, taking into account the amounts used during the year and any additional sub-tenancies created or break clauses operated since the last review, but it is expected to be required until the leases expire. The provision increased £10m during the year following a review of the expected costs.

ROL Separation costs

The provision was set up to cover the anticipated costs associated with the transfer of staff and activities of Resolution and has been fully utilised.

Outsourcing

In 2011 Friends Life signed an outsourcing contract with Diligenta. Part of this contract included the payment of Transition and Service costs to Diligenta in the early years of this contract. It was agreed that these costs would be provided for on day one. The provision has been fully utilised.

Other

This includes a provision for bad debt of which £0.6m was released following a review of the liabilities.

13. CALLED-UP SHARE CAPITAL

	2015	2014
	£000	£000
Allotted, called-up and fully paid		
70,100,000 ordinary shares of £1 each	70,100	70,100

Ordinary shares in issue in the Company rank pari passu. All the ordinary shares in issue carry the same right to receive all dividends and other distributions declared, made or paid by the company.

14. OPERATING LEASES

At 31 December 2015 the Company had lease agreements in respect of properties, for which the payments extend over a number of years. The 2015 figures show the total future minimum lease payments whereas the previous presentation showed the annual commitments. 2014 has been restated to reflect this change.

	2015	2014
	£000	£000
Total of future minimum lease payments und non-cancellable operating lease expiring:		
Within one year	62	1,136
Within two to five years	4,440	272
After five years	17,939	54,318

FRIENDS LIFE MANAGEMENT SERVICES LIMITED
NOTES TO THE FINANCIAL STATEMENTS (continued)

15. STAFF PENSION SCHEMES

The Company is the statutory employer of the FPPS which is a defined benefit scheme.

FPPS assets are held under the control of the Trustee and used to secure benefits for the members of the FPPS and their dependents in accordance with the Trust Deed and Rule.

The FPPS has been closed to new members since 1 July 2007 and was closed to active membership on 31 December 2012.

On 2 January 2013 the Company and the FPPS Trustees signed a deficit recovery plan and supporting schedule of contributions for £195m of recovery contributions. This deficit recovery plan and supporting schedule of contributions required that £23m be paid in July 2013 and that £21.5m be paid in each July of the eight subsequent years. This deficit recovery plan and schedule of contribution has been in force for the 2014 and 2015 calendar years.

The actuarial valuation of the FPPS at 30 September 2014 showed a funding deficit and on 4 January 2016 the Company and the FPPS Trustees signed a revised deficit recovery plan and supporting schedule of contributions which requires contributions of £43m from January 2016 to September 2016 and from October 2016 to December 2019 at a fixed rate of £43m per annum until the scheme is at least 100% funded on a technical provision basis. As part of the new funding arrangement the FPPS trustees have received a guarantee from Aviva Group Holdings Limited covering the Company's performance in respect of its obligation up to the debt triggered under section 75 of the Pensions Act 1995 (as amended from time to time) which is based on the cost of buying out the scheme benefits with a third party insurance company.

Under the terms of the MSAs in place, the Company expects to charge a management fee in respect of the deficit reduction contributions to the principal companies within the Group, which currently as at 31 December 2015 are the UK life insurance companies FLL and FLP. During both 2014 and 2015 management fees of £21.5m were included in the Company's turnover for the year.

It is noted that the surplus/deficit shown in the Company's balance sheet is calculated on the IAS 19 basis required for entities reporting under Financial Reporting Standard 101. The surplus/deficit on this basis is not directly comparable to the surplus/deficit calculated on a funding basis.

(a) Principal economic assumptions used by the FPPS Actuary

	2015 %	2014 %
Rate of increase in pensions in payment	Relevant inflation assumption with Black- Scholes Model and Caps and Floors	Relevant RPI inflation swap curve
Rate of increase for deferred benefits	RPI assumption less deduction of 1.1% at all terms	Relevant RPI inflation swap curve less 75 bps
Discount rate for active and deferred members	3.80	3.79
Discount rate for pensioners	3.60	3.50
Single equivalent discount rate	3.76	3.67

FRIENDS LIFE MANAGEMENT SERVICES LIMITED
NOTES TO THE FINANCIAL STATEMENTS (continued)

15. STAFF PENSION SCHEMES (continued)

(a) Principal economic assumptions used by the FPPS Actuary (continued)

The inflation rate assumptions for revaluation of deferred pensions in excess of Guaranteed Minimum Pensions ("GMPs") have been based on the consumer price index ("CPI") as the statutory inflation index. The FPPS applies the statutory CPI revaluation factors published by the Government with the factors based on the higher compound cap of 5% per annum applied in respect of benefits accrued up to 31 December 2010 and on the lower compound cap of 2.5% per annum applied for benefits between 1 January 2011 and 31 December 2012 (when the FPPS closed to active membership).

Pensions in payment in excess of the GMPs accrued up to 31 December 2010 will increase each year in line with the RPI with a minimum of zero and a maximum of 5% and pensions accrued from 1 January 2011 to 31 December 2012 (when the FPPS closed to active membership) will increase each year in line with the RPI with a minimum of zero and a maximum of 2.5%.

(b) Mortality Assumptions

Mortality assumptions are a proportion of the "SAPS-All" series mortality tables published by the Continuous Mortality Investigations ("CMI"), with proportions varying by sex and by status determined from an analysis of the members' postcodes and the annual pension amounts:

Proportion of "SAPS-All" likelihood of death in any year

	2015	2014
	%	%
Male pensioner	83	83
Female pensioner	98	98
Male non-pensioner	90	90
Female non-pensioner	100	100

In addition, allowance was made for future improvements in mortality according to each individual's year of birth through the use of the CMI's 2014 projection method in 2014 and CMI's 2015 projection method for the 2015 disclosures, with a long-term trend parameter of 1.5% p.a. in both years. The mortality assumptions provide the following average life expectancies of future pensioners currently aged 47 retiring at the age of 60, and current pensioners aged 71.

	2015	2014
Expected age at death of future male pensioner	89	90
Expected age at death of future female pensioner	91	91
Expected age at death of current male pensioner	89	89
Expected age at death of current female pensioner	90	90

The present value of providing an annuity of £1 per annum for members aged 60, based on the above assumptions, is as follows:

Cost of annuities

	2015	2014
	£	£
Male annuity	27.70	30.21
Female annuity	26.58	28.88

FRIENDS LIFE MANAGEMENT SERVICES LIMITED
NOTES TO THE FINANCIAL STATEMENTS (continued)

15. STAFF PENSION SCHEMES (continued)

(b) Mortality Assumptions (continued)

These rates assume a monthly payments model with a discount rate of 3.80% (2014: 3.79%). The rates also assume two-thirds of the member's benefit will be paid to the spouse or civil partner on the death of the member. A guarantee is provided for pensioners who die within five years of retiring.

	2015 % of total	2014 % of total
Deferred members	60	70
Pensioners	40	30
	100	100

The cost of providing pensioner benefits for members who retired before 30 June 2013 is met by the insurance contract with Aviva Annuity UK Limited ("Aviva Annuity").

The sensitivities regarding the principal assumptions used to measure the FPPS assets/liabilities are set out below.

<u>Assumption</u>	<u>Increase in assumption</u>	<u>Impact on scheme liabilities¹</u>
Inflation (RPI) ²	Increase by 0.5%	£120m
Salaries	Increase by 0.5%	n/a
CPI	Increase by 0.5%	£60m
Pensions	Increase by 0.5%	£100m
Discount rate	Decrease by 0.5%	£150m
Discount rate	Increase by 0.5%	(£140m)
Longevity assumption	Increase by 1 year	£30m

¹ The insured pensioner liability equals the insured contract asset. Therefore any change in DBO for the insured pensioner liability equally impacts the insured contract asset.

² Assuming other inflation related elements of the basis including CPI and pension increases move by a proportionate amount, allowing for caps and floors for the pension increase assumptions.

The sensitivity information has been derived for the FPPS using projected cash flows for the FPPS valued using the relevant assumptions as at 31 December 2015. Extrapolation of these results beyond the sensitivity figures shown may not be appropriate.

In addition to the annuities held by the FPPS, the FPPS partially hedges its exposure to inflation risk and nominal risk for the deferred liability by investing in liability driven investments including RPI and nominal swaps. This hedging strategy serves to reduce volatility in the balance sheet and profit and loss account. Broadly the FPPS has hedging that covers 70% of the interest rate movements and 85% of the inflation movements. As such a 0.5% increase in interest rates would reduce liabilities by £180 million and a 0.5% increase in inflation would increase liabilities by £145 million.

FRIENDS LIFE MANAGEMENT SERVICES LIMITED
NOTES TO THE FINANCIAL STATEMENTS (continued)

15. STAFF PENSION SCHEMES (continued)

(c) Changes in the present value of obligations of defined benefit scheme

	2015 £000	2014 £000
Present value of obligations at 1 January	1,578,757	1,413,794
Interest cost	55,055	61,349
Actuarial (losses)/gains	(187,630)	148,923
Benefits paid	(69,978)	(45,309)
Present value of obligations at 31 December	1,376,204	1,578,757
Analysed		
Wholly or partly funded plans	1,376,204	1,578,757

The weighted average duration of the defined benefit obligation is 26 years for deferred pensioner members and 14 years for pensioner members.

(d) Changes in present value of defined benefit plan assets

	2015 £000	2014 £000
Fair value of plan assets at 1 January	1,637,792	1,409,947
Actual return on plan assets	(48,048)	251,992
Administrative expenses paid	(1,826)	(1,573)
Employer contributions	22,735	22,735
Benefits paid	(69,978)	(45,309)
Fair value of plan assets at 31 December	1,540,675	1,637,792

(e) Assets in the defined benefit scheme

	2015 £000	Value 2014 Restated £000
Equities	-	223,867
LDI Pools	306,131	574,037
Fixed Interest/other credit (LDI In specie)	684,291	192,330
Insurance Contract	545,587	611,394
Cash	4,666	36,164
Total market value of assets	1,540,675	1,637,792
Present value of scheme liabilities	(1,376,204)	(1,578,757)
Surplus in the FPPS	164,471	59,035
Related deferred tax	(57,565)	(20,662)
Net pension liability	106,906	38,373

FRIENDS LIFE MANAGEMENT SERVICES LIMITED
NOTES TO THE FINANCIAL STATEMENTS (continued)

15. STAFF PENSION SCHEMES (continued)

(e) Assets in the defined benefit scheme (continued)

All assets above are quoted securities apart from the insurance contract and £148.4m (2014: £nil) of the fixed interest assets.

As disclosed within note 20 the transition to FRS 101 has resulted in the prior year restatement of the net pension asset worth £38m. Previously the net pension surplus was restricted to £nil in accordance with UK GAAP accounting standards. Under IAS19 Employee Benefits the net pension surplus is recognised on the basis that it is deemed to be recoverable through future refunds from the scheme. In addition a liability is recognised for the 35% authorised surplus charge payable on any refunds from the scheme. This has resulted in a prior year restatement of £20.6m deferred tax which is part of the total £38.4m adjustment.

(f) Amounts recognised in the profit and loss account in respect of defined benefit scheme

	2015	2014
	£000	Restated £000
Net interest cost	2,531	297
Expenses	(1,826)	(1,573)
Total amounts recognised in profit and loss account	705	(1,276)
 Actual return on plan assets	 (48,048)	 251,992

As disclosed within note 20 there has been a prior year restatement on the transition to FRS 101 in respect of the presentation of net interest on the net defined pension asset/ liability. This has resulted in a prior year restatement of £1.3m within the profit and loss account for the prior year.

(g) Amounts recognised in the statement of comprehensive income in respect of defined benefit scheme

	2015	2014
	£000	Restated £000
 Actuarial gains recognised in the year	 81,996	 41,421

As disclosed within note 21 there has been a prior year restatement on the transition to FRS 101 to report the difference between interest income on the liabilities and the expected return on plan assets as part of the re-measurement of the net defined benefit. This has resulted in a restatement of £60.3m of actuarial gains being posted for 2014 to restate the balance from £(18.9)m of actuarial losses to £41.4m of actuarial gains recognised in the year.

(h) Future funding

As stated previously on 4 January 2016 the Company and the FPPS Trustees signed a revised deficit recovery plan and supporting schedule of contributions which requires contributions of £43m from January 2016 to September 2016 and from October 2016 to December 2019 at a fixed rate of £43m per annum until the scheme is at least 100% funded on a technical provisions basis.

FRIENDS LIFE MANAGEMENT SERVICES LIMITED
NOTES TO THE FINANCIAL STATEMENTS (continued)

15. STAFF PENSION SCHEMES (continued)

(h) Future funding (continued)

A Statement of Funding Principles was agreed by the Group and the Trustee in January 2016. That statement provides the principles around assumption setting, in particular, choosing the discount rate, future price inflation, future pension increases, rates of mortality, pension commencement age, and typical partner or dependent information and assumes:

- the discounted value of the annuity contract with Aviva Annuity will exactly match the discounted liabilities for pensioners insured under the contract. The pensions in payment up to 30 June 2013 have been reassured by the Trustees to Aviva Annuity under a buy-in annuity contract where the premium progressively transfers from the Trustee to Aviva Annuity over the duration of the contract; and
- the discounted value of non-insured liabilities will be measured using an interest rate swap curve plus a margin of 0.75%, reflecting a prudent estimate of the expected return on the scheme's growth seeking holdings.

Deficit recovery amounts paid to FPPS in the past three years and expected future payments over the next two years are as follows:

		£m
<hr/>		
FPPS (DB) contributions paid		
	2013	22
	2014	22
	2015	22
FPPS (DB) contributions expected to be paid		
	2016	54
	2017	43
<hr/>		

(i) Risk management

The present value of the scheme's obligations and the market value of assets are volatile with the values at any given date being dependent on financial market conditions at that date. A number of steps have been taken to minimise the relative volatility of the scheme's obligations and the market value of assets when determining the investment strategy. The scheme's assets, which are administered by investment managers and insurers appointed by the Trustee, are held under the control of the Trustee and are used to secure benefits for the members of the scheme and their dependants in accordance with the Trust Deed and Rules. The Trustee Board consists of a chairman who is appointed by the Employer and six additional directors of which three are employer-appointed directors and three are member-nominated trustee directors.

The Trustee operates an Investment and Funding Committee ("IFC") and an Operations Committee responsible for assisting the Trustee in investment policy and monitoring the scheme's investments. The Trustee and its committees seek advice from the investment adviser, the funding adviser, the covenant adviser and the legal adviser and believe they have sufficient skills and expertise to make decisions taking into account this advice.

The Trustee sets general investment policy but delegates day-to-day responsibility for the selection of specific investments (other than investments in respect of members' voluntary contributions) to the Investment Manager.

FRIENDS LIFE MANAGEMENT SERVICES LIMITED
NOTES TO THE FINANCIAL STATEMENTS (continued)

15. STAFF PENSION SCHEMES (continued)

(i) Risk management (continued)

The Trustee has set performance and risk targets for the Investment Manager on non-insured assets. The performance objectives are long-term (five years), however, the Trustee monitors the Investment Managers on a regular basis in order to ensure that it is on track to meet its long term objectives.

Interest rate and inflation risk

The Trustee has invested in an insured bulk annuity buy-in contract that covers pensions in payment up to 30 June 2013. The buy-in contract covers market and longevity risk in addition to interest rate and inflation risk.

For non-insured liabilities, the Trustee adopts a liability matching strategy to reduce exposure to interest rate and inflation risk. This strategy is implemented through segregated arrangements that include Gilts, interest rate swaps and inflation swaps. These assets can, currently, have durations of up to 55 years. The liability matching is also implemented by pooled fund allocations to secure income assets, cash and credit.

The allocation to liability matching assets is currently 75% of the non-insured assets.

Market risk

The Trustee currently has a strategic asset allocation to growth assets of 25% of the non-insured fund. This is implemented through allocations to pooled global equity funds and pooled diversified growth funds. The trustee plans to reduce the direct allocation to global equity funds.

Longevity risk

The Trustee first invested in a bulk annuity contract with Aviva Annuity Limited in 2008 with further tranches of investment in each of the years from 2009 to 2013. No more tranches will be placed under the 2008 contract. The contract reassured benefits in payment up to 30 June 2013.

Currency risk

The Trustee has some exposure to currency risk where assets are invested by the appointed Investment Managers in global equities or in non UK securities. The Investment Managers appointed by the Trustee take account of currency risks within their pooled fund vehicles or segregated mandates.

Operational risk

The Investment Managers do not directly hold the scheme's securities for non-insured assets. These non-insured assets are held in separate accounts with custodians, as appointed by the Investment Manager for pooled vehicles or by the Trustee for segregated investments.

(j) Other pension schemes

On 1 January 2013, the Group set up a defined contribution arrangement for UK employees as part of the "My Money" savings and investments platform, called the Flexible Retirement Account ("FRA"). Employer contributions are typically in the range of 6.3% to 13% depending on contribution levels selected by members and the arrangement has a minimum employer plus member contribution level of 9.3% of pensionable salary (basic annual salary up to a defined earnings cap). The FRA has been used for auto-enrolment from the Group's UK staging date of July 2013 and each member has their own personal pension.

Contributions by the Company to the defined contribution scheme were as follows:

FRIENDS LIFE MANAGEMENT SERVICES LIMITED
NOTES TO THE FINANCIAL STATEMENTS (continued)

15. STAFF PENSION SCHEMES (continued)

(j) Other pension schemes (continued)

	2015 £m	2014 £m
Group Personal Pension Plan	11.6	11.5

16. DIRECTORS EMOLUMENTS

The directors of the Company are also directors of other group subsidiaries. The total emoluments received by the directors is detailed below, all of which was paid by Friends Life Management Services Limited, Friends Life Services Limited or Aviva Employment Services Limited for their services to the Group. The directors do not believe that it is practicable to apportion this amount between their services as directors of the Company and their services as directors of other group subsidiaries. Amounts for annual bonus payments to the directors for the year ended 31 December 2015 have already been agreed and are therefore also included in the 2015 emoluments below. Amounts for annual bonus payments to the directors for the year ended 31 December 2014 were included in the 2014 emoluments below.

Aggregate Emoluments	2015 £	2014 £
Aggregate remuneration	1,642,238	2,771,162
Awards under long-term incentive schemes (excluding share options and shares)	1,261,806	Nil
Company contributions to pension schemes	4,875	Nil
Number of directors accruing benefits under money purchase pension schemes	One	None
Compensation for loss of office	205,077	Nil
Number of directors accruing benefits under defined benefit pension schemes	None	None
Number of directors who exercised share options	Four	None
Number of directors in respect of whom shares were received or receivable under long-term incentive schemes	Four	None

Highest paid director	2015 £	2014 £
Aggregate remuneration and benefits under long-term incentive schemes (excluding gains on exercise of share options and value of shares received)	1,303,965	910,889
Company contributions to pension schemes	Nil	Nil
Share options exercise,	Yes	No
Shares received or receivable under long-term incentive schemes	Yes	No

The total aggregate remuneration payable to directors includes £1,303,965 in respect of the highest paid director, of which £588,571 relates to long-term incentive schemes. This is the total of the costs incurred by the Group in respect of the highest paid director due to it being impractical to isolate the element of total remuneration relating to the Company.

FRIENDS LIFE MANAGEMENT SERVICES LIMITED
NOTES TO THE FINANCIAL STATEMENTS (continued)

17. COMMITMENTS

On 9 November 2011, the Company entered into an agreement with Diligenta Limited ("Diligenta") to outsource the majority of the Group's policy administration and IT operations to Diligenta for a 15 year period. The contract will provide a fixed price per unit for a significant part of the customer service operations and therefore transfer this element of cost risk out of the Group. Under the terms of the agreement, the Company will make payments of approximately £0.9 billion to Diligenta until the end of the contract term in 2027. These payments will be recoverable from the main insurance companies of the Group under the MSAs in place.

18. RELATED PARTY TRANSACTIONS

The Company is a wholly owned subsidiary undertaking of FPL. The results of the Company are consolidated in the results of Aviva plc, the Company's ultimate parent and controlling company, whose financial statements are publicly available. Under FRS 101 the Company is exempt from the requirements of IAS 24 *Related Party Disclosures*, concerning the disclosure of transactions entered into between two or more members of a group provided that any subsidiary which is a party to the transaction is wholly owned by such a member. There are no other material related party transactions.

19. ULTIMATE PARENT UNDERTAKING

The Company's ultimate parent undertaking is Aviva plc, who are also the parent company of the smallest and largest group of companies, of which the Company is a wholly owned subsidiary, for which group accounts are drawn up. Copies of the Group Report and Accounts of Aviva plc can be viewed via its website at www.aviva.com.

20. TRANSITION TO FRS 101

For all periods up to and including the year ended 31 December 2014 the Company prepared its financial statements in accordance with the previously extant United Kingdom generally accepted accounting practices (UK GAAP). These financial statements for the year ended 31 December 2015 are the first the Company has prepared in accordance with FRS 101.

Accordingly, the Company has prepared individual financial statements which comply with FRS 101 applicable for periods beginning on or after 1 January 2014 and the significant accounting policies meeting those requirements are described in the relevant notes.

In preparing these financial statements, the Company has started from an opening balance sheet as at 1 January 2014, the Company's date of transition to FRS101, and made those changes in accounting policies and other restatements required for the first-time adoption of FRS 101. As such, this note explains the principal adjustments made by the Company in restating its balance sheet as at 1 January 2014 prepared under previously extant UK GAAP and its previously published UK GAAP financial statements for the year ended 31 December 2014.

On transition to FRS 101, the company has applied the requirements of paragraphs 6-33 of IFRS 1 "First time adoption of International Financial Reporting Standards".

FRIENDS LIFE MANAGEMENT SERVICES LIMITED
NOTES TO THE FINANCIAL STATEMENTS (continued)

20. TRANSITION TO FRS 101 (continued)

Reconciliation of equity as at 1 January 2014:

	As previously reported under UK GAAP £000	FRS 101 restatements £000	Restated balance £000
Share capital	70,100	-	70,100
Other reserves	5,478	(86,774)	(81,296)
Equity reserves	34,922	-	34,922
TOTAL EQUITY	110,500	(86,774)	23,726

Restated balance sheet as at 31 December 2014:

	As previously reported under UK GAAP £000	FRS 101 restatements £000	Restated balance £000
ASSETS			
Tangible Assets	7,681	-	7,681
Amounts owed by group undertakings	158,390	(107,500)	50,890
Other debtors	57,278	21,632	78,910
Prepayments and accrued income	5,952	-	5,952
Pension asset	-	59,035	59,035
Cash at bank and in hand	84,446	-	84,446
	313,747	(26,833)	286,914
LIABILITIES			
Amounts owed to group undertakings	(28,545)	-	(28,545)
Other creditors	(71,179)	(658)	(71,837)
Accruals and deferred income	(79,255)	-	(79,255)
Taxation, including deferred taxation	-	(20,662)	(20,662)
Other provisions	(4,269)	-	(4,269)
	(183,248)	(21,320)	(204,568)
TOTAL NET ASSETS	130,499	(48,153)	82,346
CAPITAL AND RESERVES			
Share capital	70,100	-	70,100
Reserves	60,399	(48,153)	12,246
TOTAL EQUITY	130,499	(48,153)	82,346

FRIENDS LIFE MANAGEMENT SERVICES LIMITED
NOTES TO THE FINANCIAL STATEMENTS (continued)

20. TRANSITION TO FRS 101 (continued)

Restated profit and loss account as at 31 December 2014:

	As previously reported under UK GAAP £000	FRS 101 restatements £000	Restated balance £000
Turnover	417,361	-	417,361
Administration expenses	(395,367)	(207)	(395,574)
Operating profit / (loss)	21,994	(207)	21,787
Interest received / (payable)	144	-	144
Other financial income	3,197	(759)	2,438
Profit / (loss) on ordinary activities before tax	25,335	(966)	24,369
Tax credit on profit on ordinary activities	8,580	(4,354)	4,226
Profit / (loss) on ordinary activities after tax	33,915	(5,320)	28,595

Restated statement of comprehensive income as at 31 December 2014:

	As previously reported under UK GAAP £000	FRS 101 restatements £000	Restated balance £000
Profit / (loss) for the year	33,915	(5,320)	28,595
Actuarial (loss) / profit recognised in the pension scheme	(18,890)	60,311	41,421
Deferred tax arising on pension scheme losses	(769)	(16,370)	(17,139)
Total recognised profit for the year	14,256	38,621	52,877

FRS 101 Adjustments

(a) Pension scheme accounting

Under the previous UK GAAP accounting standard FRS 17 *Retirement Benefits* any pension scheme surplus was restricted to nil on the basis that there were no future contributions (other than the deficit recovery contributions) and there was no agreement in place with the pension scheme trustees for any refunds from the scheme. Under IAS 19 *Employee Benefits* it is possible to recognise a surplus if the asset is deemed recoverable through unconditional refunds from the scheme, which is the case for the FPPS. Therefore on the transition to FRS 101 it has been necessary to recognise the pension surplus within the financial statements. This has resulted in a prior year restatement to recognise the gross of deferred tax pension surplus as at 31 December 2014 of £59.0m. There was no adjustment to the opening 1 January 2014 shareholders' equity as at that point in time there was an IAS 19 pension scheme deficit which was already recognised under previous UKGAAP. The gross of deferred tax pension surplus recognised as at 31 December 2015 is £164.5m.

FRIENDS LIFE MANAGEMENT SERVICES LIMITED
NOTES TO THE FINANCIAL STATEMENTS (continued)

20. TRANSITION TO FRS 101 (continued)

(a) Pension scheme accounting (continued)

Refunds from the scheme are subject to a 35% authorised payments surplus charge (APSC). In accordance with IFRIC 14 (the limit on a defined asset minimum funding requirements and their interaction) a liability needs to be recognised for the APSC payable. Therefore to the extent that there is an IAS 19 asset then a liability for the 35% APSC is recognised which is reported as a deferred tax liability.

This has resulted in a prior year restatement to recognise an additional deferred tax liability of £20.7m as at 31 December 2014. There was no adjustment to the opening 1 January 2014 shareholders' equity as at that point in time there was an IAS 19 pension scheme deficit with an associated deferred tax asset which was already recognised under previous UKGAAP. The deferred tax liability recognised as at 31 December 2015 is £57.6m.

In addition to the above changes related to the recognition of surplus in the pension scheme there are also differences between IAS 19 and previous UKGAAP in terms of the recognition of amounts in the profit and loss account. Under previous UKGAAP the interest cost on liabilities and the expected return on plan assets were reported separately within the profit and loss account. On the transition to FRS 101 only interest on the net defined pension asset / liability is reported within the profit and loss account. This has resulted in a total prior year restatement of £1.3m which has reduced profit after tax. The total £1.3m adjustment is reflected as a reduction in other financial income of £0.8m and an increase in administrative expenses of £0.5m.

The total impacts of the pension scheme accounting changes outlined above are as follows. There was no impact on the opening shareholder equity at 1 January 2014. As at 31 December 2014 shareholder equity has increased by £38.3m (£59.0m pension asset less deferred tax liability of £20.7m). The profit and loss account for the year to 31 December 2014 has been restated by £5.6m reflecting a reduction in other financial income of £0.8m, an increase in administrative expenses of £0.5m and a reduction in the tax credit of £4.3m. The statement of comprehensive income for the year to 31 December 2014 has been restated to reflect an additional gain of £43.9m split £60.3m actuarial gains in relation to the pension scheme less £16.4m deferred tax in relation to the pension scheme. As at 31 December 2015 shareholder equity has increased by £106.9m (£164.5m pension asset less deferred tax liability of £57.6m).

(b) Operating lease incentives

Under previous UKGAAP, operating lease incentives were spread over the shorter of the lease term or the date of the next rent review for the accounts. On the transition to FRS 101 an adjustment is required to recognise the operating lease incentive over the period of the lease term. This has resulted in a reduction in opening shareholder equity at 1 January 2014 of £0.8m from the recognition of an additional deferred income liability of £1.0m less £0.2m associated deferred tax. At 31 December 2014 this has resulted in additional deferred income liability of £0.7m less £0.2m of associated deferred tax being recognised in the balance sheet and a reduction in administration expenses of £0.3m within the profit and loss account for the year ended 31 December 2014.

FRIENDS LIFE MANAGEMENT SERVICES LIMITED
NOTES TO THE FINANCIAL STATEMENTS (continued)

20. TRANSITION TO FRS 101 (continued)

(c) Change in recognition of management fees in respect of defined benefit scheme pension scheme.

Previously under FRS 17 the Company had recognised an intercompany asset in respect of future management fee recharges payable to the Company as a result of the deficit funding contributions the Company had agreed to make into FPPS pension scheme. Under IAS 19 for group schemes where there is no contractual or stated policy for recharging to group entities the defined benefit cost of the plan as a whole the requirement is that the group entities being recharged to should only recognise a cost equal to their contribution for the period.

The FRS 101 alignment change has resulted in a decrease in opening shareholder equity at 1 January 2014 of £86.0m (comprising an £107.5m decrease in amounts owed by group undertakings offset by a deferred tax asset of £21.5m).

For 2014 there is no impact in the profit and loss account. In the balance sheet as at 31 December 2014 there is a £107.5m decrease in amounts owed by group undertakings offset by the recognition of a £21.5m deferred tax asset giving a decrease in shareholder equity of £86.0m.

For 2015 there is no impact in the profit and loss account although there is a deferred tax charge of £21.5m which is offset by a current tax credit of £21.5m. In the balance sheet as at 31 December 2015 there is a £107.5m decrease in amounts owed by group undertakings offset by the recognition of an £21.5m current tax asset giving a decrease in shareholder equity of £86.0m.

21. POST BALANCE SHEET EVENTS

A further 1% reduction in the rate of corporation tax to 17% from 1 April 2020 was announced in the Budget on 16 March 2016. The effect on the company's net assets is estimated as a decrease of £0.7m and will be recognised when the legislation is substantively enacted.