



FRIENDS PROVIDENT

Friends Provident Reinsurance Services Limited

Annual Return
as at
31st December 2008

Pursuant to the Interim Prudential Sourcebook and the
Prudential Sourcebook for Insurers

Appendices 9.1, 9.3, 9.4 & 9.6

PRINCIPAL AND HEAD OFFICE:
PIXHAM END, DORKING, SURREY, RH4 1QA

Friends Provident Reinsurance Services Limited

Year ended 31st December 2008

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Statement of solvency - long-term insurance businessName of insurer **Friends Provident Reinsurance Services Limited**

Global business

Financial year ended **31 December 2008**

Solo solvency calculation

	Company registration number	GL/ UK/ CM	day month year			Units
			R2	31	12	
	5165822	GL				£000
			As at end of this financial year			As at end of the previous year
			1			2

Capital resources

Capital resources arising within the long-term insurance fund	11	35841	40137
Capital resources allocated towards long-term insurance business arising outside the long-term insurance fund	12	11842	11533
Capital resources available to cover long-term insurance business capital resources requirement (11+12)	13	47683	51670

Guarantee fund

Guarantee fund requirement	21	2518	2231
Excess (deficiency) of available capital resources to cover guarantee fund requirement	22	45165	49439

Minimum capital requirement (MCR)

Long-term insurance capital requirement	31	5179	4958
Resilience capital requirement	32		
Base capital resources requirement	33	2518	2231
Individual minimum capital requirement	34	5179	4958
Capital requirements of regulated related undertakings	35		
Minimum capital requirement (34+35)	36	5179	4958
Excess (deficiency) of available capital resources to cover 50% of MCR	37	45094	49191
Excess (deficiency) of available capital resources to cover 75% of MCR	38	43799	47951

Enhanced capital requirement

With-profits insurance capital component	39		
Enhanced capital requirement	40	5179	4958

Capital resources requirement (CRR)

Capital resources requirement (greater of 36 and 40)	41	5179	4958
Excess (deficiency) of available capital resources to cover long-term insurance business CRR (13-41)	42	42504	46712

Contingent liabilities

Quantifiable contingent liabilities in respect of long-term insurance business as shown in a supplementary note to Form 14	51	122593	122593
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Covering Sheet to Form 2

Form 2

Name of insurer **Friends Provident Reinsurance Services Limited**

Global business

Financial year ended **31 December 2008**

.....
T.J. Matthews Director

.....
C.A.J. Bellringer Director

.....
R.G. Ellis Secretary

25 March 2009

Components of capital resourcesName of insurer **Friends Provident Reinsurance Services Limited**

Global business

Financial year ended **31 December 2008**

	Company registration number	GL/ UK/ CM	day	month	year	Units
R3	5165822	GL	31	12	2008	£000
		General insurance business		Long-term insurance business	Total as at the end of this financial year	Total as at the end of the previous year
		1		2	3	4

Core tier one capital

Permanent share capital	11		30000	30000	30000
Profit and loss account and other reserves	12		(104910)	(104910)	(100923)
Share premium account	13				
Positive valuation differences	14		122593	122593	122593
Fund for future appropriations	15				
Core tier one capital in related undertakings	16				
Core tier one capital (sum of 11 to 16)	19		47683	47683	51670

Tier one waivers

Unpaid share capital / unpaid initial funds and calls for supplementary contributions	21				
Implicit Items	22				
Tier one waivers in related undertakings	23				
Total tier one waivers as restricted (21+22+23)	24				

Other tier one capital

Perpetual non-cumulative preference shares as restricted	25				
Perpetual non-cumulative preference shares in related undertakings	26				
Innovative tier one capital as restricted	27				
Innovative tier one capital in related undertakings	28				

Total tier one capital before deductions (19+24+25+26+27+28)	31		47683	47683	51670
Investments in own shares	32				
Intangible assets	33				
Amounts deducted from technical provisions for discounting	34				
Other negative valuation differences	35				
Deductions in related undertakings	36				
Deductions from tier one (32 to 36)	37				
Total tier one capital after deductions (31-37)	39		47683	47683	51670

Components of capital resourcesName of insurer **Friends Provident Reinsurance Services Limited**

Global business

Financial year ended **31 December 2008**

	Company registration number	GL/ UK/ CM	day month year			Units	
	R3	5165822	GL	31	12	2008	£000
			General insurance business	Long-term insurance business	Total as at the end of this financial year	Total as at the end of the previous year	
			1	2	3	4	

Tier two capital

Implicit items, (tier two waivers and amounts excluded from line 22)	41					
Perpetual non-cumulative preference shares excluded from line 25	42					
Innovative tier one capital excluded from line 27	43					
Tier two waivers, innovative tier one capital and perpetual non-cumulative preference shares treated as tier two capital (41 to 43)	44					
Perpetual cumulative preference shares	45					
Perpetual subordinated debt and securities	46					
Upper tier two capital in related undertakings	47					
Upper tier two capital (44 to 47)	49					

Fixed term preference shares	51					
Other tier two instruments	52					
Lower tier two capital in related undertakings	53					
Lower tier two capital (51+52+53)	59					

Total tier two capital before restrictions (49+59)	61					
Excess tier two capital	62					
Further excess lower tier two capital	63					
Total tier two capital after restrictions, before deductions (61-62-63)	69					

Components of capital resourcesName of insurer **Friends Provident Reinsurance Services Limited**

Global business

Financial year ended **31 December 2008**

	Company registration number	GL/ UK/ CM	day	month	year	Units	
	R3	5165822	GL	31	12	2008	£000
			General insurance business	Long-term insurance business	Total as at the end of this financial year	Total as at the end of the previous year	
			1	2	3	4	

Total capital resources

Positive adjustments for regulated non-insurance related undertakings	71					
Total capital resources before deductions (39+69+71)	72			47683	47683	51670
Inadmissible assets other than intangibles and own shares	73					
Assets in excess of market risk and counterparty limits	74					
Deductions for related ancillary services undertakings	75					
Deductions for regulated non-insurance related undertakings	76					
Deductions of ineligible surplus capital	77					
Total capital resources after deductions (72-73-74-75-76-77)	79			47683	47683	51670

Available capital resources for GENPRU/INSRU tests

Available capital resources for guarantee fund requirement	81			47683	47683	51670
Available capital resources for 50% MCR requirement	82			47683	47683	51670
Available capital resources for 75% MCR requirement	83			47683	47683	51670

Financial engineering adjustments

Implicit items	91					
Financial reinsurance - ceded	92					
Financial reinsurance - accepted	93					
Outstanding contingent loans	94			122593	122593	122593
Any other charges on future profits	95					
Sum of financial engineering adjustments (91+92-93+94+95)	96			122593	122593	122593

Analysis of admissible assetsName of insurer **Friends Provident Reinsurance Services Limited**

Global business

Financial year ended **31 December 2008**Category of assets **Total other than long term insurance business assets**

	Company registration number	GL/ UK/ CM	day	month	year	Units	Category of assets
R13	5165822	GL	31	12	2008	£000	1
						As at end of this financial year	As at end of the previous year
						1	2
Land and buildings			11				

Investments in group undertakings and participating interests

UK insurance dependants	Shares	21		
	Debts and loans	22		
Other insurance dependants	Shares	23		
	Debts and loans	24		
Non-insurance dependants	Shares	25		
	Debts and loans	26		
Other group undertakings	Shares	27		
	Debts and loans	28		
Participating interests	Shares	29		
	Debts and loans	30		

Other financial investments

Equity shares	41		
Other shares and other variable yield participations	42		
Holdings in collective investment schemes	43		
Rights under derivative contracts	44		
Fixed interest securities	Approved	45	250
	Other	46	
Variable interest securities	Approved	47	
	Other	48	3037 4117
Participation in investment pools	49		
Loans secured by mortgages	50		
Loans to public or local authorities and nationalised industries or undertakings	51		
Loans secured by policies of insurance issued by the company	52		
Other loans	53		
Bank and approved credit & financial institution deposits	One month or less withdrawal	54	1210 808
	More than one month withdrawal	55	7218 6484
Other financial investments	56		
Deposits with ceding undertakings	57		
Assets held to match linked liabilities	Index linked	58	
	Property linked	59	

Analysis of admissible assetsName of insurer **Friends Provident Reinsurance Services Limited**

Global business

Financial year ended **31 December 2008**Category of assets **Total other than long term insurance business assets**

Company registration number	GL/UK/CM	day	month	year	Units	Category of assets	
R13	5165822	GL	31	12	2008	£000	1
					As at end of this financial year	As at end of the previous year	
					1	2	

Reinsurers' share of technical provisions

Provision for unearned premiums	60		
Claims outstanding	61		
Provision for unexpired risks	62		
Other	63		

Debtors and salvage

Direct insurance business	Policyholders	71		
	Intermediaries	72		
Salvage and subrogation recoveries		73		
Reinsurance	Accepted	74		
	Ceded	75		
Dependants	due in 12 months or less	76		
	due in more than 12 months	77		
Other	due in 12 months or less	78		
	due in more than 12 months	79		

Other assets

Tangible assets	80		
Deposits not subject to time restriction on withdrawal with approved institutions	81	61	21
Cash in hand	82		
Other assets (particulars to be specified by way of supplementary note)	83		
Accrued interest and rent	84	69	105
Deferred acquisition costs (general business only)	85		
Other prepayments and accrued income	86		
Deductions from the aggregate value of assets	87		
Grand total of admissible assets after deduction of admissible assets in excess of market risk and counterparty limits (11 to 86 less 87)	89	11845	11535

Analysis of admissible assetsName of insurer **Friends Provident Reinsurance Services Limited**

Global business

Financial year ended **31 December 2008**Category of assets **Total other than long term insurance business assets**

	Company registration number	GL/ UK/ CM	day month year			Units	Category of assets
R13	5165822	GL	31	12	2008	£000	1
					As at end of this financial year	As at end of the previous year	
					1	2	

Reconciliation to asset values determined in accordance with the insurance accounts rules or international accounting standards as applicable to the firm for the purpose of its external financial reporting

Total admissible assets after deduction of admissible assets in excess of market risk and counterparty limits (as per line 89 above)	91	11845	11535
Admissible assets in excess of market and counterparty limits	92		
Inadmissible assets directly held	93		
Capital resources requirement deduction of regulated related undertakings	94		
Ineligible surplus capital and restricted assets in regulated related insurance undertakings	95		
Inadmissible assets of regulated related undertakings	96		
Book value of related ancillary services undertakings	97		
Other differences in the valuation of assets (other than for assets not valued above)	98		
Deferred acquisition costs excluded from line 89	99		
Reinsurers' share of technical provisions excluded from line 89	100		
Other asset adjustments (may be negative)	101		
Total assets determined in accordance with the insurance accounts rules or international accounting standards as applicable to the firm for the purpose of its external financial reporting (91 to 101)	102	11845	11535
Amounts included in line 89 attributable to debts due from related insurers, other than those under contracts of insurance or reinsurance	103		

Analysis of admissible assetsName of insurer **Friends Provident Reinsurance Services Limited**

Global business

Financial year ended **31 December 2008**Category of assets **Total long term insurance business assets**

	Company registration number	GL/ UK/ CM	day	month	year	Units	Category of assets
R13	5165822	GL	31	12	2008	£000	10
						As at end of this financial year	As at end of the previous year
						1	2
Land and buildings			11				

Investments in group undertakings and participating interests

UK insurance dependants	Shares	21		
	Debts and loans	22		
Other insurance dependants	Shares	23		
	Debts and loans	24		
Non-insurance dependants	Shares	25		
	Debts and loans	26		
Other group undertakings	Shares	27		
	Debts and loans	28		
Participating interests	Shares	29		
	Debts and loans	30		

Other financial investments

Equity shares	41		
Other shares and other variable yield participations	42		
Holdings in collective investment schemes	43		
Rights under derivative contracts	44		
Fixed interest securities	Approved	45	
	Other	46	
Variable interest securities	Approved	47	
	Other	48	68329 105966
Participation in investment pools	49		
Loans secured by mortgages	50		
Loans to public or local authorities and nationalised industries or undertakings	51		
Loans secured by policies of insurance issued by the company	52		
Other loans	53		
Bank and approved credit & financial institution deposits	One month or less withdrawal	54	9470 12655
	More than one month withdrawal	55	85946 73864
Other financial investments	56		
Deposits with ceding undertakings	57		
Assets held to match linked liabilities	Index linked	58	
	Property linked	59	

Analysis of admissible assetsName of insurer **Friends Provident Reinsurance Services Limited**

Global business

Financial year ended **31 December 2008**Category of assets **Total long term insurance business assets**

Company registration number	GL/UK/CM	day	month	year	Units	Category of assets	
R13	5165822	GL	31	12	2008	£000	10
					As at end of this financial year	As at end of the previous year	
					1	2	

Reinsurers' share of technical provisions

Provision for unearned premiums	60		
Claims outstanding	61		
Provision for unexpired risks	62		
Other	63		

Debtors and salvage

Direct insurance business	Policyholders	71		
	Intermediaries	72		
Salvage and subrogation recoveries		73		
Reinsurance	Accepted	74	2497	4195
	Ceded	75		
Dependants	due in 12 months or less	76		
	due in more than 12 months	77		
Other	due in 12 months or less	78	96	
	due in more than 12 months	79		

Other assets

Tangible assets	80		
Deposits not subject to time restriction on withdrawal with approved institutions	81	126	97
Cash in hand	82		
Other assets (particulars to be specified by way of supplementary note)	83		
Accrued interest and rent	84	3460	4691
Deferred acquisition costs (general business only)	85		
Other prepayments and accrued income	86		
Deductions from the aggregate value of assets	87		
Grand total of admissible assets after deduction of admissible assets in excess of market risk and counterparty limits (11 to 86 less 87)	89	169924	201468

Analysis of admissible assetsName of insurer **Friends Provident Reinsurance Services Limited**

Global business

Financial year ended **31 December 2008**Category of assets **Total long term insurance business assets**

	Company registration number	GL/ UK/ CM	day month year			Units	Category of assets
R13	5165822	GL	31	12	2008	£000	10
					As at end of this financial year	As at end of the previous year	
					1	2	

Reconciliation to asset values determined in accordance with the insurance accounts rules or international accounting standards as applicable to the firm for the purpose of its external financial reporting

Total admissible assets after deduction of admissible assets in excess of market risk and counterparty limits (as per line 89 above)	91	169924	201468
Admissible assets in excess of market and counterparty limits	92		
Inadmissible assets directly held	93		
Capital resources requirement deduction of regulated related undertakings	94		
Ineligible surplus capital and restricted assets in regulated related insurance undertakings	95		
Inadmissible assets of regulated related undertakings	96		
Book value of related ancillary services undertakings	97		
Other differences in the valuation of assets (other than for assets not valued above)	98		
Deferred acquisition costs excluded from line 89	99		
Reinsurers' share of technical provisions excluded from line 89	100		
Other asset adjustments (may be negative)	101		
Total assets determined in accordance with the insurance accounts rules or international accounting standards as applicable to the firm for the purpose of its external financial reporting (91 to 101)	102	169924	201468
Amounts included in line 89 attributable to debts due from related insurers, other than those under contracts of insurance or reinsurance	103		

Long term insurance business liabilities and marginsName of insurer **Friends Provident Reinsurance Services Limited**

Global business

Financial year ended **31 December 2008**Total business/Sub fund **31 Total Long Term Insurance Business**Units **£000**

As at end of this financial year 1	As at end of the previous year 2
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Mathematical reserves, after distribution of surplus	11	129473	123958
Cash bonuses which had not been paid to policyholders prior to end of the financial year	12		
Balance of surplus/(valuation deficit)	13	35841	40137
Long term insurance business fund carried forward (11 to 13)	14	165314	164095
Claims outstanding	Gross	15	
	Reinsurers' share	16	
	Net (15-16)	17	
Provisions	Taxation	21	
	Other risks and charges	22	
Deposits received from reinsurers	23		
Creditors	Direct insurance business	31	
	Reinsurance accepted	32	
	Reinsurance ceded	33	
Debenture loans	Secured	34	31600
	Unsecured	35	
Amounts owed to credit institutions	36		
Creditors	Taxation	37	
	Other	38	4610
Accruals and deferred income	39		
Provision for "reasonably foreseeable adverse variations"	41		
Total other insurance and non-insurance liabilities (17 to 41)	49	4610	37373
Excess of the value of net admissible assets	51		
Total liabilities and margins	59	169924	201468

Amounts included in line 59 attributable to liabilities to related companies, other than those under contracts of insurance or reinsurance	61	4601	5755
Amounts included in line 59 attributable to liabilities in respect of property linked benefits	62		

Total liabilities (11+12+49)	71	134083	161331
Increase to liabilities - DAC related	72		
Reinsurers' share of technical provisions	73		
Other adjustments to liabilities (may be negative)	74	122593	122593
Capital and reserves and fund for future appropriations	75	(86752)	(82456)
Total liabilities under insurance accounts rules or international accounting standards as applicable to the firm for the purpose its external financial reporting (71 to 75)	76	169924	201468

Liabilities (other than long term insurance business)Name of insurer **Friends Provident Reinsurance Services Limited**

Global business

Financial year ended **31 December 2008**

Company registration number	GL/UK/CM	day	month	year	Units	
R15	5165822	GL	31	12	2008	£000
					As at end of this financial year	As at end of the previous year
					1	2

Technical provisions (gross amount)

Provisions for unearned premiums	11		
Claims outstanding	12		
Provision for unexpired risks	13		
Equalisation provisions	Credit business	14	
	Other than credit business	15	
Other technical provisions	16		
Total gross technical provisions (11 to 16)	19		

Provisions and creditors

Provisions	Taxation	21		
	Other risks and charges	22		
Deposits received from reinsurers		31		
Creditors	Direct insurance business	41		
	Reinsurance accepted	42		
	Reinsurance ceded	43		
Debenture loans	Secured	44		
	Unsecured	45		
Amounts owed to credit institutions		46		
Creditors	Taxation	47		
	Foreseeable dividend	48		
	Other	49	3	2
Accruals and deferred income		51		
Total (19 to 51)		59	3	2
Provision for "reasonably foreseeable adverse variations"		61		
Cumulative preference share capital		62		
Subordinated loan capital		63		
Total (59 to 63)		69	3	2

Amounts included in line 69 attributable to liabilities to related insurers, other than those under contracts of insurance or reinsurance	71		
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Amounts deducted from technical provisions for discounting	82		
Other adjustments (may be negative)	83		
Capital and reserves	84	11842	11533
Total liabilities under insurance accounts rules or international accounting standards as applicable to the firm for the purpose of its external financial reporting (69-82+83+84)	85	11845	11535

Profit and loss account (non-technical account)

Name of insurer

Friends Provident Reinsurance Services Limited

Global business

Financial year ended

31 December 2008

		Company registration number	GL/ UK/ CM	day	month	year	Units
		R16	GL	31	12	2008	£000
				This financial year		Previous year	
				1		2	
Transfer (to)/from the general insurance business technical account	From Form 20		11				
	Equalisation provisions		12				
Transfer from the long term insurance business revenue account			13				
Investment income	Income		14			729	673
	Value re-adjustments on investments		15				
	Gains on the realisation of investments		16				
Investment charges	Investment management charges, including interest		17			8	7
	Value re-adjustments on investments		18			217	134
	Loss on the realisation of investments		19			195	
Allocated investment return transferred to the general insurance business technical account			20				
Other income and charges (particulars to be specified by way of supplementary note)			21				
Profit or loss on ordinary activities before tax (11+12+13+14+15+16-17-18-19-20+21)			29			309	532
Tax on profit or loss on ordinary activities			31				
Profit or loss on ordinary activities after tax (29-31)			39			309	532
Extraordinary profit or loss (particulars to be specified by way of supplementary note)			41				
Tax on extraordinary profit or loss			42				
Other taxes not shown under the preceding items			43				
Profit or loss for the financial year (39+41-(42+43))			49			309	532
Dividends (paid or foreseeable)			51				
Profit or loss retained for the financial year (49-51)			59			309	532

Long-term insurance business : Revenue account

Name of insurer **Friends Provident Reinsurance Services Limited**
 Total business / subfund **31 Total Long Term Insurance Business**
 Financial year ended **31 December 2008**
 Units **£000**

Financial year	Previous year
1	2

Income

Earned premiums	11	2497	4195
Investment income receivable before deduction of tax	12	8753	11681
Increase (decrease) in the value of non-linked assets brought into account	13	(2506)	(696)
Increase (decrease) in the value of linked assets	14		
Other income	15		
Total income	19	8744	15180

Expenditure

Claims incurred	21		
Expenses payable	22	1060	1375
Interest payable before the deduction of tax	23	6465	9613
Taxation	24		
Other expenditure	25		31600
Transfer to (from) non technical account	26		
Total expenditure	29	7525	42588

Business transfers - in	31		
Business transfers - out	32		
Increase (decrease) in fund in financial year (19-29+31-32)	39	1219	(27408)
Fund brought forward	49	164095	191503
Fund carried forward (39+49)	59	165314	164095

Long-term insurance business : Analysis of premiums

Name of insurer **Friends Provident Reinsurance Services Limited**
 Total business / subfund **31 Total Long Term Insurance Business**
 Financial year ended **31 December 2008**
 Units **£000**

UK Life	UK Pension	Overseas	Total Financial year	Total Previous year
1	2	3	4	5

Gross

Regular premiums	11		2497		2497	4195
Single premiums	12					

Reinsurance - external

Regular premiums	13					
Single premiums	14					

Reinsurance - intra-group

Regular premiums	15					
Single premiums	16					

Net of reinsurance

Regular premiums	17		2497		2497	4195
Single premiums	18					

Total

Gross	19		2497		2497	4195
Reinsurance	20					
Net	21		2497		2497	4195

Long-term insurance business : Analysis of expenses

Name of insurer **Friends Provident Reinsurance Services Limited**
 Total business / subfund **31 Total Long Term Insurance Business**
 Financial year ended **31 December 2008**
 Units **£000**

UK Life	UK Pension	Overseas	Total Financial year	Total Previous year
1	2	3	4	5

Gross

Commission - acquisition	11				
Commission - other	12				
Management - acquisition	13				
Management - maintenance	14		1060	1060	1375
Management - other	15				
Total	16		1060	1060	1375

Reinsurance - external

Commission - acquisition	21				
Commission - other	22				
Management - acquisition	23				
Management - maintenance	24				
Management - other	25				
Total	26				

Reinsurance - intra-group

Commission - acquisition	31				
Commission - other	32				
Management - acquisition	33				
Management - maintenance	34				
Management - other	35				
Total	36				

Net of reinsurance

Commission - acquisition	41				
Commission - other	42				
Management - acquisition	43				
Management - maintenance	44		1060	1060	1375
Management - other	45				
Total	46		1060	1060	1375

Long-term insurance business : Assets not held to match linked liabilities

Name of insurer **Friends Provident Reinsurance Services Limited**
 Category of assets **10 Total long term insurance business assets**
 Financial year ended **31 December 2008**
 Units **£000**

Unadjusted assets	Economic exposure	Expected income from assets in column 2	Yield before adjustment	Return on assets in financial year
1	2	3	4	5

Assets backing non-profit liabilities and non-profit capital requirements

Land and buildings	11					
Approved fixed interest securities	12					
Other fixed interest securities	13					
Variable interest securities	14	68699	68699	2268	7.60	
UK listed equity shares	15					
Non-UK listed equity shares	16					
Unlisted equity shares	17					
Other assets	18	101225	101225	3055	2.43	
Total	19	169924	169924	5323	4.52	

Assets backing with-profits liabilities and with-profits capital requirements

Land and buildings	21					
Approved fixed interest securities	22					
Other fixed interest securities	23					
Variable interest securities	24					
UK listed equity shares	25					
Non-UK listed equity shares	26					
Unlisted equity shares	27					
Other assets	28					
Total	29					

Overall return on with-profits assets

Post investment costs but pre-tax	31					
Return allocated to non taxable 'asset shares'	32					
Return allocated to taxable 'asset shares'	33					

Long-term insurance business : Fixed and variable interest assets

Name of insurer **Friends Provident Reinsurance Services Limited**
 Category of assets **10 Total long term insurance business assets**
 Financial year ended **31 December 2008**
 Units **£000**

		Value of assets 1	Mean term 2	Yield before adjustment 3	Yield after adjustment 4
UK Government approved fixed interest securities	11				
Other approved fixed interest securities	21				
Other fixed interest securities					
AAA/Aaa	31				
AA/Aa	32				
A/A	33				
BBB/Baa	34				
BB/Ba	35				
B/B	36				
CCC/Caa	37				
Other (including unrated)	38				
Total other fixed interest securities	39				
Approved variable interest securities	41				
Other variable interest securities	51	68699	3.79	7.60	4.77
Total (11+21+39+41+51)	61	68699	3.79	7.60	4.77

Long-term insurance business : Summary of mathematical reserves

Name of insurer **Friends Provident Reinsurance Services Limited**Total business / subfund **31 Total Long Term Insurance Business**Financial year ended **31 December 2008**

Units

£000

UK Life	UK Pension	Overseas	Total Financial year	Total Previous year
1	2	3	4	5

Gross

Form 51 - with-profits	11				
Form 51 - non-profit	12		129473	129473	123958
Form 52	13				
Form 53 - linked	14				
Form 53 - non-linked	15				
Form 54 - linked	16				
Form 54 - non-linked	17				
Total	18		129473	129473	123958

Reinsurance - external

Form 51 - with-profits	21				
Form 51 - non-profit	22				
Form 52	23				
Form 53 - linked	24				
Form 53 - non-linked	25				
Form 54 - linked	26				
Form 54 - non-linked	27				
Total	28				

Reinsurance - intra-group

Form 51 - with-profits	31				
Form 51 - non-profit	32				
Form 52	33				
Form 53 - linked	34				
Form 53 - non-linked	35				
Form 54 - linked	36				
Form 54 - non-linked	37				
Total	38				

Net of reinsurance

Form 51 - with-profits	41				
Form 51 - non-profit	42		129473	129473	123958
Form 52	43				
Form 53 - linked	44				
Form 53 - non-linked	45				
Form 54 - linked	46				
Form 54 - non-linked	47				
Total	48		129473	129473	123958

Long-term insurance business : Valuation summary of non-linked contracts (other than accumulating with-profits contracts)

Name of insurer **Friends Provident Reinsurance Services Limited**
 Total business / subfund **31 Total Long Term Insurance Business**
 Financial year ended **31 December 2008**
 Units **£000**
 UK Pension / Gross

Product code number	Product description	Number of policyholders / scheme members	Amount of benefit	Amount of annual office premiums	Nominal value of units	Discounted value of units	Other liabilities	Amount of mathematical reserves
1	2	3	4	5	6	7	8	9
400	Annuity non-profit (CPA)		204100					128485
440	Additional reserves non-profit OB							987

Long-term insurance business : Distribution of surplus

Name of insurer **Friends Provident Reinsurance Services Limited**
 Total business / subfund **31 Total Long Term Insurance Business**
 Financial year ended **31 December 2008**
 Units **£000**

Financial year	Previous year
1	2

Valuation result

Fund carried forward	11	165314	164095
Bonus payments in anticipation of a surplus	12		
Transfer to non-technical account	13		
Transfer to other funds / parts of funds	14		
Subtotal (11 to 14)	15	165314	164095
Mathematical reserves	21	129473	123958
Surplus including contingency and other reserves held towards the capital requirements (deficiency) (15-21)	29	35841	40137

Composition of surplus

Balance brought forward	31	40137	35945
Transfer from non-technical account	32		
Transfer from other funds / parts of fund	33		
Surplus arising since the last valuation	34	(4296)	4192
Total	39	35841	40137

Distribution of surplus

Bonus paid in anticipation of a surplus	41		
Cash bonuses	42		
Reversionary bonuses	43		
Other bonuses	44		
Premium reductions	45		
Total allocated to policyholders (41 to 45)	46		
Net transfer out of fund / part of fund	47		
Total distributed surplus (46+47)	48		
Surplus carried forward	49	35841	40137
Total (48+49)	59	35841	40137

Percentage of distributed surplus allocated to policyholders

Current year	61		
Current year - 1	62		
Current year - 2	63		
Current year - 3	64		

Long-term insurance capital requirementName of insurer **Friends Provident Reinsurance Services Limited**

Global business

Financial year ended **31 December 2008**Units **£000**

LTICR factor	Gross reserves / capital at risk	Net reserves / capital at risk	Reinsurance factor	LTICR Financial year	LTICR Previous year
1	2	3	4	5	6

Insurance death risk capital component

Life protection reinsurance	11	0.0%				
Classes I (other), II and IX	12	0.1%				
Classes I (other), II and IX	13	0.15%				
Classes I (other), II and IX	14	0.3%				
Classes III, VII and VIII	15	0.3%				
Total	16					

Insurance health risk and life protection reinsurance capital component

Class IV supplementary classes 1 and 2 and life protection reinsurance	21					
--	----	--	--	--	--	--

Insurance expense risk capital component

Life protection and permanent health reinsurance	31	0%				
Classes I (other), II and IX	32	1%	129473	129473	1.00	1295
Classes III, VII and VIII (investment risk)	33	1%				
Classes III, VII and VIII (expenses fixed 5 yrs +)	34	1%				
Classes III, VII and VIII (other)	35	25%				
Class IV (other)	36	1%				
Class V	37	1%				
Class VI	38	1%				
Total	39					1295

Insurance market risk capital component

Life protection and permanent health reinsurance	41	0%				
Classes I (other), II and IX	42	3%	129473	129473	1.00	3884
Classes III, VII and VIII (investment risk)	43	3%				
Classes III, VII and VIII (expenses fixed 5 yrs +)	44	0%				
Classes III, VII and VIII (other)	45	0%				
Class IV (other)	46	3%				
Class V	47	0%				
Class VI	48	3%				
Total	49		129473	129473		3884

Long term insurance capital requirement	51					5179
						4958

ABSTRACT OF VALUATION REPORT ACCORDING TO APPENDIX 9.4 OF THE INTERIM PRUDENTIAL SOURCEBOOK FOR INSURERS.

1. Introduction

Friends Provident Reinsurance Services Ltd (FP Re) was formed on 16th December 2004 as a pure reinsurer. Ownership is shared between the With Profits fund (40%) and the Shareholders' fund (60%) of Friends Provident Life and Pensions Ltd (FPLP). FP Re exists solely as a conduit for the securitisation of defined book surplus in FPLP.

- (1) The investigation relates to 31st December 2008
- (2) The previous investigation related to 31st December 2007
- (3) Not applicable

2. Product Range

FP Re only has one contract, a contract of reinsurance whereby it accepts liabilities related to a defined book of business written by Friends Provident Life Office prior to its demutualisation in 2001 and transferred at the time of the demutualisation to the With Profits Fund of FPLP. The liabilities accepted from FPLP are the last claims under the defined book of business. It consists predominantly of pensions business.

FP Re received a loan in 2004, ultimately from Box Hill Life Finance Limited (Box Hill), sufficient for it to purchase assets appropriate to match the liabilities that it has accepted. It has an interest rate swap contract with Barclays Bank plc (Barclays), which provides it with the ability to pay the fixed rate service on the loan in exchange for the variable rates received on the assets.

Surplus arising within FPLP from the defined book of business is used to pay premiums to FP Re and may, subject to the terms of the reinsurance, recapture liabilities from FP Re. From the premiums, FP Re meets its expenses and its obligations under the loan. Any excess surplus is used to liquidate part of the loan from Box Hill, thereby releasing liabilities back to FPLP. It is expected that liabilities will be released back to FPLP before claims under them become due for payment.

There have been no changes to this contract over the financial year

3. Discretionary charges and benefits

- (1) There are no products to which a market value reduction can be applied.
- (2) There are no reviewable protection contracts.
- (3) There are no non-profit deposit administration contracts.
- (4) There are no linked contracts.
- (5) There are no linked contracts.
- (6) There are no accumulating with profits contracts.
- (7) There are no linked contracts.
- (8) There are no linked contracts.
- (9) There are no linked contracts.
- (10) There are no linked contracts.

4. Valuation basis (other than for special reserves)

(1) The value of the contract is the value of the benefits expected still to be in force at the end of the term of the loan on the assumption that no surplus arises on the defined book, discounted to the valuation date at the valuation rate of interest. A provision is added for the expenses of FP Re.

(2) Valuation interest rates

	31/12/2008	31/12/2007
Valuation interest rate	4.6%	4.6%

(3) The interest payable on the loan is fixed at outset, based on the costs incurred by Box Hill of acquiring the underlying capital. The valuation has been carried out at a rate derived from this by:

(i) taking a margin of 0.175% to cover the risks described in 9(2)(p)(ii),

(ii) applying the interest rate margin specified in INSPRU 3.1.28R and

(iii) rounding down to the next 0.1%.

(4) There being only one contract where, on the assumption that no surplus arises on the defined book, the only cash flow valued under the reinsurance treaty is the single payment due at the end of its term. Accordingly, mortality is not relevant.

(5) Morbidity is not relevant for the same reason set out in 4(4) above.

(6) Payments to FP Re from FPLP will be made as surplus arises in the defined book of business. Expenses in FP Re will be a variable, though generally a very small proportion of those payments. These expenses have been provided for explicitly. Payments will only cease when the contract has been fully recaptured or terminated.

	31 December 2008	31 December 2007
Base Assumption	Expense £100,000 p.a.	£100,000 p.a.

(7) No unit growth rates are assumed. An expense inflation rate of 3.7% (2007: 4.5%) per annum has been assumed.

(8) The contract does not participate in profits, hence no future bonus rates are assumed.

(9) No assumptions are made regarding lapses, surrenders or paid ups.

(10) There are no other material basis assumptions that have not been stated elsewhere.

(11) The only derivative contract effected is an interest rate swap contract with Barclays. This results in the assets of FP Re producing a fixed return. This rate is used as the basis for the determination of the valuation interest rate.

(12) Not applicable.

5. Options and guarantees

(5) There are no options or guarantees.

6. Expense reserves

- (1) The expenses of the Company are minimal and are provided for explicitly. The expenses of administering the defined book of business are met within FPLP. Expenses expected to arise in FP Re in the next 12 months are £100,000, made up of £50,000 of external Trustee fees and £50,000 of internal expenses.
- (2) There is no implicit allowance for expenses.
- (3) The expenses within line 14 of Form 43 include the payment of interest of £1.0m to Box Hill Finance. The ongoing maintenance expense element within line 14 is less than £5,000.
- (4) FP Re is not authorised to transact any new business.
- (5) The Company is not transacting any new business and hence there are no expenses directly attributable to closing to new business.
- (6) There is only one policy and all expenses have been attributable to that policy.

7. Mismatching reserves

- (1) The value of mathematical reserves is £129.5m, denominated entirely in sterling. No deposits were received from reinsurers. The assets of the company are also denominated in sterling.
- (2) As noted above, FP Re has no liabilities denominated in currencies other than sterling.
- (3) No reserve for currency mismatching is necessary since all assets and liabilities are denominated entirely in sterling.
- (4) The more onerous of the two scenarios detailed in INSPRU 3.1.16R (3) is:
 - A rise in yields on all fixed interest securities of 0.75% pa. The company has no property or equity assets.
- (5) No assets are invested outside the United Kingdom, therefore the same scenario as in (4) above has been used.
- (6) Under the most onerous scenario specified in 7(4) above
 - (a) The resilience capital requirement is zero.
 - (b) The aggregate amount of the long term insurance liabilities decreased by £10.8m.
 - (c) The aggregate value of the assets allocated to match these liabilities decreased by £9.1m from that shown in Form 13.
- (7) There has been no mismatching reserve set up as the assets are closely matched to the liabilities.

8. Other special reserves

- (a) There are no other special reserves.

9. Reinsurance

(1) There are no reinsurance treaties.

(2)

(p) The only financing arrangement is the loan received, ultimately from Box Hill.

(i) The amount of the undischarged obligation is the principal and accrued interest under the loan. The loan will be liquidated out of the surplus received from FPLP after expenses and costs of servicing the loan.

(ii) Contingencies associated with the financing arrangement have been allowed for within the valuation by a margin of 17.5 basis points taken in the valuation interest rate to cover the risk that the asset proceeds may not adequately match the LIBOR target for the swap, the default risk on the swap and include an element allowing for resilience.

10. Reversionary bonus

The contract does not participate in profits.

Notes to the Return

Friends Provident Reinsurance Services Limited

Global Business

Financial period ended 31 December 2008

***0301* Reconciliation of Net Admissible Assets to Total Capital Resources**

	2008	2007
	£000	£000
Total Admissible Assets	181,769	213,003
Less :		
Mathematical Reserves after distribution of surplus	(129,473)	(123,958)
Other Insurance & non-insurance liabilities	(4,610)	(37,375)
Net Admissible Assets	<u>47,686</u>	<u>51,670</u>

***0308* Outstanding contingent loans**

On 16 December 2004 the company entered into a loan agreement with Box Hill Loan Finance Limited, a special purpose vehicle owned by a charitable trust, under which Box Hill Loan Finance Limited advanced £380,000,000 to enable the company to acquire eligible investments to be held as reserves in respect of its liabilities under the Reinsurance Agreement with Friends Provident Life & Pensions Limited.

The obligation to pay interest, ongoing commitment fees and principal on any loan interest payment date is contingent on the amount of available surplus on the company at the end of the calculation period immediately prior to such loan interest payment date.

At 31 December 2008 the outstanding amount was £122,593,000 and is included in line 14 of form 3.

***0310* Valuation differences**

The valuation difference included within line 14 relates to the £380m loan from Box Hill Loan Finance Limited, repayment of which is contingent on surplus arising within the company.

The surplus arising during 2008 is sufficient to repay principal of £nil at the next annual payment date, leaving an outstanding contingent liability of £122,593,000.

***0313* Reconciliation of profit and loss account and other reserves**

	£000
Movement Form 3 Line 12	(3,986)
Include UK GAAP transfer from technical account to non technical account	4,295
Total equalling Form 16 line 59	<u>309</u>

***1301* & *1308* Aggregate value of investments**

- i) There were no unlisted investments.
- ii) Lines 46 & 48 include assets to the value of £15m where, due to market conditions the latest valuation available did not reflect active trading as at the valuation date.
- iii) There were no units or beneficial interests in collective schemes, which were not UCITS or authorised schemes.
- iv) There were no reversionary interests or remainders in property other than land or buildings.

***1302* & *1309* Hybrid securities**

The company held no hybrid securities.

Notes to the Return

Friends Provident Reinsurance Services Limited

Global Business

Financial period ended 31 December 2008

***1305* & *1311* Maximum permitted counterparty limits**

The Company has operated its investment guidelines throughout the period in line with relevant insurance companies legislation and the Prudential Sourcebook. Investments are managed with reference to the limits prescribed by counterparty and asset exposure limits. Circumstances can exist where, on occasion, the Company maintains holdings in excess of permitted asset and counterparty exposure limits; in these cases, the continued holding has to be reported to the Investment Committee and Actuarial Function Holder of the Company. The Company's principal fund manager, F&C Asset Management plc (F&C), maintains a list of approved counterparties with limits based on the degree of risk inherent in each counterparty. F&C monitors regularly that actual exposures fall within approved limits. These restrictions apply equally to counterparties other than approved counterparties.

Actual counterparty exposure is regularly monitored through reports to the investment committee.

***1306* & *1312* Exposure to large counterparties**

At 31 December 2008 the company had no counterparty exposures exceeding the upper limit based on the base capital resources requirement and the long-term insurance business liabilities.

***1401* Provisions for reasonably foreseeable adverse variations**

All obligations arising out of derivative contracts were required to be covered and accordingly no provision was made for any adverse change in the value of assets, of indices of assets to which the contract relates or for any change in the value of any assets held by the company.

***1402* Contingent Liabilities**

- i) Friends Provident Reinsurance Services Limited entered into a Deed of Charge dated 16 December 2004 in favour of, inter alia, the Bank of New York (London Branch) as reinsurer security trustee for the purpose of securing all monies due or to become due from the Company to any reinsurer secured creditor in accordance with the terms of the Charge.

The Charge has been registered at Companies House against the company.

- ii) There are no potential capital gains tax liabilities
- iii) On 16 December 2004 the company entered into a loan agreement with Box Hill Loan Finance Limited, a special purpose vehicle owned by a charitable trust, under which Box Hill Loan Finance Limited advanced £380,000,000 to enable the company to acquire eligible investments to be held as reserves in respect of its liabilities under the Reinsurance Agreement.

The obligation to pay interest, ongoing commitment fees and principal on any loan interest payment date is contingent on the amount of available surplus on the company at the end of the calculation period immediately prior to such loan interest payment date.

The surplus arising during 2008 is sufficient to repay principal of £nil the next annual payment date, leaving an outstanding contingent liability of £122,593,000.

- iv) The company is not aware of any fundamental uncertainties.
- v) There are no guarantees, indemnities or other contractual commitments effected other than in the ordinary course of insurance business.

Notes to the Return

Friends Provident Reinsurance Services Limited

Global Business

Financial period ended 31 December 2008

***1405* Other adjustments to liabilities**

	2008	2007
	£000	£000
Contingent loan	122,593	154,193
Loan repayment due 15 April 2009	-	(31,600)
Total line 74	122,593	122,593

***1601* & *4005* Basis of conversion for foreign currency**

Rates of exchange prevailing at the time of the transaction have been used to translate amounts of income and expenditure in overseas currencies relating to long-term insurance business. Other amounts are included in the return at the rates of exchange ruling at the end of the year.

***1700* Forms omitted from the return**

As the company has adopted a hedge accounting policy the derivatives have been excluded from the Forms therefore Form 17 for the Other than long-term insurance business has been omitted because all entries would be blank.

***1701* Variation margin**

The aggregate amount of excess variation margin needed to be repaid due to underlying market movements is £nil. Variation margin of £nil has been included in form 13 line 44.

***1702* Quasi-derivatives**

The aggregate value of quasi derivatives did not exceed 2.5 per cent of the assets at line 89 form 13.

***4008* Management services**

Management services were provided during the year by Friends Provident Management Services Limited, a wholly owned subsidiary of Friends Provident plc.

Investment management and advisory services were provided during the period by F&C Asset Managers Limited. Friends Provident plc directly holds 52.19% of the ordinary share capital of F&C.

Notes to the Return

Friends Provident Reinsurance Services Limited
Global Business
Financial period ended 31 December 2008

***4009* Material connected party transactions**

Reinsurance agreement with Friends Provident Life & Pensions Limited (FPLP)

Friends Provident Reinsurance Services Limited is a wholly owned subsidiary of Friends Provident Life & Pensions Limited (FPLP).

On 16 December 2004, the company entered into a loan agreement with Box Hill Loan Finance Limited, a special purpose company owned by a charitable trust established to provide loan finance to the company, with an amount of £380,000,000 being advanced to the company.

In addition, on 16 December 2004, the company entered into a reinsurance agreement with FPLP, and accepted reinsurance of pension business liabilities in an initial amount of £380,000,000.

The advance of £380,000,000 to the company from Box Hill Loan Finance Limited was to enable the company to acquire eligible investments to back the liabilities accepted from FPLP.

During the year the company received £4.2m with respect to the reinsurance agreement between the company and FPLP.

***4200* Forms omitted from the return**

Form 42 has been omitted because all entries would be blank.

***4400* Forms omitted from the return**

Form 44 has been omitted because all entries would be blank.

***4500* Forms omitted from the return**

Form 45 has been omitted because all entries would be blank.

***4600* Forms omitted from the return**

Form 46 has been omitted because all entries would be blank.

***4802* Interest in default**

Where the payment of income is in default, the expected income in Form 48 is nil.

***4804* Swap yield**

An interest rate swap is in place that converts £123m of assets in Form 48 from variable to fixed rate 4.906%. Hedge accounting has been adopted for the preparation of the financial statements and as a result the interest rate swap has not been reflected in Form 48.

***4901* Rating agencies**

Where applicable, the majority of ratings used in Form 49 are provided by either Standard and Poor's or Moody's. Where ratings were not available from these agencies, ratings provided by Fitch rating agency are used where available.

**Directors' Certificate required by rule 9.34 of the Accounts and Statement Rules
Friends Provident Reinsurance Services Limited
Financial year ended 31st December 2008
Global Business**

We certify:

1. (a) that the return has been properly prepared in accordance with the requirements in IPRU(INS), GENPRU and INSPRU; and:
 - (b) we are satisfied that:
 - (i) throughout the financial year in question, the insurer has complied in all material respects with the requirements of SYSC and PRIN as well as the provisions of IPRU(INS), GENPRU and INSPRU; and
 - (ii) it is reasonable to believe that the insurer has continued so to comply subsequently, and will continue so to comply in future.
2. (a) that in our opinion, premiums for contracts entered into during the financial year and the resulting income earned are sufficient, under reasonable actuarial methods and assumptions, and taking into account the other financial resources of the insurer that are available for the purpose, to enable the insurer to meet its obligations in respect of those contracts and, in particular, to establish adequate mathematical reserves;
- (b) that the sum of the mathematical reserves and the deposits received for reinsurers as shown in Form 14 constitute proper provision at the end of the financial year in question for the long-term insurance liabilities (including all liabilities arising from deposit back arrangements, but excluding other liabilities which had fallen due before the end of the financial year) including any increase in those liabilities arising from a distribution of surplus as a result of an actuarial investigation as at that date into the financial condition of the long-term insurance business;
- (c) that we have, in preparing the return, taken and paid due regard to advice in preparing the return from every actuary appointed by the insurer to perform the actuarial function in accordance with SUP 4.3.13R.

T.J. MATTHEWS
Director

R.G. ELLIS
Secretary

C.A.J. BELLRINGER
Director

25 March 2009

**Report of the auditor to the Directors pursuant to rule 9.35 of IPRU (INS) the Interim Prudential Sourcebook for Insurers
Friends Provident Reinsurance Services Limited
Financial year ended 31 December 2008**

We have examined the following documents prepared by the Company pursuant to the Accounts and Statements Rules set out in part I and part IV of chapter 9 to IPRU(INS) the Interim Prudential Sourcebook for Insurers, GENPRU the General Prudential Sourcebook and INSPRU the Insurance Prudential Sourcebook, (“the Rules”) made by the Financial Services Authority under section 138 of the Financial Services and Markets Act 2000:

- Forms 2, 3, 13 to 16, 40 to 43, 48, 49, 58 and 60, (including the supplementary notes) on pages 1, 3 to 5, 6 to 14, 15 to 17, 18, 19, 23, 24 and 29 to 32 (‘the Forms’);
- the statement required by IPRU(INS) rule 9.29 on page 36 (‘the Statement’);
- the valuation report required by rule IPRU(INS) 9.31(a) (‘the valuation report’).

We are not required to examine and do not express an opinion on:

- Forms 50 to 51 and 57 (including the supplementary notes) on pages 20, 21 and 22;
- the statement[s] required by IPRU(INS) rules 9.30 on page 37;
- the certificate required by IPRU(INS) rule 9.34 on page 33 (‘the certificate’).

This report is made solely to the company’s directors as a body, in accordance with the requirements of IPRU(INS) rule 9.35. We acknowledge that the directors are required to submit this report to the FSA, to enable the FSA to verify that an auditor’s report has been commissioned by the company’s directors and issued in accordance with the requirements of IPRU(INS) rule 9.35 and to facilitate the discharge by the FSA of its regulatory functions in respect of the company conferred on the FSA by or under the Financial Services and Markets Act 2000.

Our audit work has been undertaken so that we might state to the company’s directors those matters we are required to state to them in an auditor’s report issued pursuant to IPRU(INS) rule 9.35 and for no other purpose.

To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company’s directors as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the company and its auditors

The company is responsible for the preparation of an annual return (including the Forms, the Statement, the valuation report and the forms and statements not examined by us and the certificate) under the provisions of the Rules. Under IPRU(INS) rule 9.11, the Forms, the Statement, the valuation report, the forms and statements not examined by us and the certificate are required to be prepared in the manner specified by the Rules and to state fairly the information provided on the basis required by the Rules.

The methods and assumptions determined by the company and used to perform the actuarial investigation as set out in the valuation report and prepared in accordance with IPRU(INS) rule 9.31 are required to reflect appropriately the requirements of INSPRU 1.2

It is our responsibility to form an independent opinion as to whether the Forms, the Statement, the valuation report meet these requirements, and to report our opinions to you. We also report to you if, in our opinion, the company has not kept proper accounting records or if we have not received all the information we require for our examination.

Basis of opinion

We conducted our work in accordance with Practice Note 20 ‘The audit of insurers in the United Kingdom’ issued by the Auditing Practices Board. Our work included examination, on a test basis, of evidence relevant to the amounts and disclosures in the Forms, the Statement and the valuation report. The evidence included that previously obtained by us relating to the audit of the financial statements of the company for the financial year. It also included an assessment of the significant estimates and judgements made by the company in the preparation of the Forms, the Statement and the valuation report.

**Report of the auditor to the Directors pursuant to rule 9.35 of IPRU (INS) the Interim Prudential Sourcebook for Insurers
Friends Provident Reinsurance Services Limited
Financial year ended 31 December 2008**

We planned and performed our work so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Forms, the Statement, the valuation report are free from material misstatement, whether caused by fraud or other irregularity or error, and comply with IPRU(INS) rule 9.11.

In accordance with IPRU(INS) rule 9.35(1A), to the extent that any document, Form, Statement, analysis or report to be examined under rule IPRU(INS) 9.35(1) contains amounts or information abstracted from the actuarial investigation performed pursuant to IPRU(INS) rule 9.4, we have obtained and paid due regard to advice from a suitably qualified actuary who is independent of the company.

Opinion

In our opinion:

- i) the Forms, the Statement and the valuation report fairly state the information provided on the basis required by the Rules as modified and have been properly prepared in accordance with the provisions of those Rules; and
- ii) the methods and assumptions determined by the company and used to perform the actuarial investigation as set out in the valuation report prepared in accordance with IPRU(INS) rule 9.31 appropriately reflect the requirements of INSPRU 1.2

KPMG Audit Plc
Registered Auditor
London
25 March 2009

**Additional information on derivative and quasi-derivative contracts
(IPRU (INS) rule 9.29)
Friends Provident Reinsurance Services Limited
Financial year ended 31 December 2008**

Derivative Contracts

The following information is included pursuant to IPRU (INS) 9.29.

- a) Investment Guidelines.
Investment guidelines operated by the company during 2008 were to use derivative contracts only for the purpose of efficient portfolio management or a reduction in investment risk. No swaps or other OTC derivatives were permitted without specific authority of senior management. All obligations arising out of derivative contracts were required to be covered.
- b) Guidelines in respect of derivatives not likely to be exercised.
The guidelines make no provision for the use of derivatives which the Company has a right or obligation to acquire or dispose of assets which are not, at the time when the contract is entered into, reasonably likely to be exercised. However the guidelines only allow the use of derivatives for the purpose of efficient portfolio management or a reduction in investment risks.

The long term fund held derivatives during the year, which at the time when acquired were not likely to be exercised. These were held for purpose of protecting the fund from interest rate sensitivity.
- c) Use of derivatives not likely to be exercised.
The maximum exposure during the year on derivatives was £20.8m.
No other contracts were entered into which were not, at the time of entry, reasonably likely to be exercised.
- d) The Company held no derivative contracts during the financial period other than permitted derivative contracts within GENPRU 2 Annex 7R, or any contracts that required a significant provision to be made under INSPRU 3.2.17R.
- e) The company did not grant rights under derivative contracts during the financial year.

Statement of additional information on shareholder controllers required by IPRU (INS) 9.30
Friends Provident Reinsurance Services Limited
Global Business
Financial period ended 31 December 2008

Shareholder Controller

The following information is included pursuant to IPRU (INS) 9.30.

- (a) The shareholder controller throughout the year was Friends Provident plc.
- (b) At the end of the financial year Friends Provident plc held 100% of the issued share capital of Friends Provident life & Pensions Limited, which held 100% of the issued share capital of the company.