



Friends Provident Reinsurance Services Limited

Annual Return
as at
31st December 2009

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

Appendices 9.1, 9.3, 9.4 and 9.6

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

Friends Provident Reinsurance Services Limited

Year ended 31st December 2009

Contents

	Page	
Appendix 9.1		
Form 2	Long term insurance business: Statement of solvency	3
	Covering sheet to Form 2	4
Form 3	Components of capital resources	5
Form 13	Analysis of admissible assets	8
Form 14	Long term insurance business liabilities and margins	14
Form 15	Liabilities (other than long term insurance business)	15
Form 16	Profit and loss account (non-technical account)	16
Appendix 9.3		
Form 40	Long term insurance business: Revenue account	17
Form 41	Long term insurance business: Analysis of premiums	18
Form 43	Long term insurance business: Analysis of expenses	19
Form 48	Long term insurance business: Non-linked assets	20
Form 50	Long term insurance business: Summary of mathematical reserves	21
Form 51	Long term insurance business: Valuation summary of non-linked contracts (other than accumulating with-profits contracts)	22
Form 58	Long term insurance business: Distribution of surplus	23
Form 60	Long term insurance capital requirement	24
	Notes to the Return	25
	Additional Information on Derivative Contracts	30
	Additional Information on Controllers	31
Appendix 9.4		
	Abstract of Valuation Report	32
Appendix 9.6		
	Directors' Certificate	35
	Auditors' Report	36

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

Global business

Financial year ended **31 December 2009**

Solo solvency calculation

R2	Company registration number	GL/UK/CM	day	month	year	Units
	5165822	GL	31	12	2009	£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	14935	35841
Capital resources allocated towards long-term insurance business arising outside the long-term insurance fund	12	37015	11842
Capital resources available to cover long-term insurance business capital resources requirement (11+12)	13	51950	47683

Guarantee fund

Guarantee fund requirement	21	3128	2518
Excess (deficiency) of available capital resources to cover guarantee fund requirement	22	48822	45165

Minimum capital requirement (MCR)

Long-term insurance capital requirement	31	21	5179
Resilience capital requirement	32		
Base capital resources requirement	33	3128	2518
Individual minimum capital requirement	34	3128	5179
Capital requirements of regulated related undertakings	35		
Minimum capital requirement (34+35)	36	3128	5179
Excess (deficiency) of available capital resources to cover 50% of MCR	37	50386	45094
Excess (deficiency) of available capital resources to cover 75% of MCR	38	49604	43799

Enhanced capital requirement

With-profits insurance capital component	39		
Enhanced capital requirement	40	21	5179

Capital resources requirement (CRR)

Capital resources requirement (greater of 36 and 40)	41	3128	5179
Excess (deficiency) of available capital resources to cover long-term insurance business CRR (13-41)	42	48822	42504

Contingent liabilities

Quantifiable contingent liabilities in respect of long-term insurance business as shown in a supplementary note to Form 14	51		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 2009**

..... **T.J. Matthews** **Director**

..... **E.B. Bourke** **Director**

..... **D. Monger** **Secretary**

23-Mar-10

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

Global business

Financial year ended **31 December 2009**

Company registration number	GL/UK/CM	day	month	year	Units	
R3	5165822	GL	31	12	2009	£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		21950	21950	(104910)
Share premium account	13				
Positive valuation differences	14				122593
Fund for future appropriations	15				
Core tier one capital in related undertakings	16				
Core tier one capital (sum of 11 to 16)	19		51950	51950	47683

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		51950	51950	47683
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		51950	51950	47683

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

Global business

Financial year ended **31 December 2009**

	Company registration number	GL/ UK/ CM	day month year			Units	
	R3	5165822	GL	31	12	2009	£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 resources

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

Global business

Financial year ended **31 December 2009**

	Company registration number	GL/ UK/ CM	day	month	year	Units	
	R3	5165822	GL	31	12	2009	£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			51950	51950	47683
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			51950	51950	47683

Available capital resources for GENPRU/INSRU tests

Available capital resources for guarantee fund requirement	81			51950	51950	47683
Available capital resources for 50% MCR requirement	82			51950	51950	47683
Available capital resources for 75% MCR requirement	83			51950	51950	47683

Financial engineering adjustments

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

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

Global business

Financial year ended **31 December 2009**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	2009	£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	1049	250
	Other	46		
Variable interest securities	Approved	47		
	Other	48	27750	3037
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	620	1210
	More than one month withdrawal	55	7644	7218
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 2009**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	2009	£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	17	61
Cash in hand	82		
Other assets (particulars to be specified by way of supplementary note)	83		
Accrued interest and rent	84	7	69
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	37087	11845

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

Global business

Financial year ended **31 December 2009**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	2009	£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	37087	11845
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	37087	11845
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 2009**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	2009	£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	5946
	Other	46	
Variable interest securities	Approved	47	
	Other	48	18027
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	7320
	More than one month withdrawal	55	114957
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 2009**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	2009	£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	6970	2497
	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	75	126
Cash in hand	82		
Other assets (particulars to be specified by way of supplementary note)	83		
Accrued interest and rent	84	4600	3460
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	157895	169924

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

Global business

Financial year ended **31 December 2009**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	2009	£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	157895	169924
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	157895	169924
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 2009**Total business/Sub fund **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	517	129473
Cash bonuses which had not been paid to policyholders prior to end of the financial year	12		
Balance of surplus/(valuation deficit)	13	14935	35841
Long term insurance business fund carried forward (11 to 13)	14	15452	165314
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	122593
	Unsecured	35	
Amounts owed to credit institutions	36		
Creditors	Taxation	37	8472
	Other	38	11378
Accruals and deferred income	39		
Provision for "reasonably foreseeable adverse variations"	41		
Total other insurance and non-insurance liabilities (17 to 41)	49	142443	4610
Excess of the value of net admissible assets	51		
Total liabilities and margins	59	157895	169924

Amounts included in line 59 attributable to liabilities to related companies, other than those under contracts of insurance or reinsurance	61	11206	4601
Amounts included in line 59 attributable to liabilities in respect of property linked benefits	62		

Total liabilities (11+12+49)	71	142960	134083
Increase to liabilities - DAC related	72		
Reinsurers' share of technical provisions	73		
Other adjustments to liabilities (may be negative)	74		122593
Capital and reserves and fund for future appropriations	75	14935	(86752)
Total liabilities under insurance accounts rules or international accounting standards as applicable to the firm for the purpose of its external financial reporting (71 to 75)	76	157895	169924

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

Global business

Financial year ended **31 December 2009**

Company registration number	GL/UK/CM	day	month	year	Units	
R15	5165822	GL	31	12	2009	£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	68	
	Foreseeable dividend	48		
	Other	49	3	3
Accruals and deferred income		51		
Total (19 to 51)		59	71	3
Provision for "reasonably foreseeable adverse variations"		61		
Cumulative preference share capital		62		
Subordinated loan capital		63		
Total (59 to 63)		69	71	3

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	37016	11842
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	37087	11845

Profit and loss account (non-technical account)Name of insurer **Friends Provident Reinsurance Services Limited**

Global business

Financial year ended **31 December 2009**

		Company registration number	GL/ UK/ CM	day	month	year	Units	
		R16	5165822	GL	31	12	2009	£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			25000		
Investment income	Income		14			143	729	
	Value re-adjustments on investments		15			218		
	Gains on the realisation of investments		16					
Investment charges	Investment management charges, including interest		17			7	8	
	Value re-adjustments on investments		18				217	
	Loss on the realisation of investments		19			112	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			25242	309	
Tax on profit or loss on ordinary activities			31			68		
Profit or loss on ordinary activities after tax (29-31)			39			25174	309	
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			25174	309	
Dividends (paid or foreseeable)			51					
Profit or loss retained for the financial year (49-51)			59			25174	309	

Long-term insurance business : Revenue account

Name of insurer **Friends Provident Reinsurance Services Limited**
 Total business / subfund **Total Long Term Insurance Business**
 Financial year ended **31 December 2009**
 Units **£000**

Financial year	Previous year
1	2

Income

Earned premiums	11	4473	2497
Investment income receivable before deduction of tax	12	6423	8753
Increase (decrease) in the value of non-linked assets brought into account	13	2020	(2506)
Increase (decrease) in the value of linked assets	14		
Other income	15		
Total income	19	12916	8744

Expenditure

Claims incurred	21		
Expenses payable	22	487	1060
Interest payable before the deduction of tax	23	6226	6465
Taxation	24	8472	
Other expenditure	25	122593	
Transfer to (from) non technical account	26	25000	
Total expenditure	29	162778	7525

Business transfers - in	31		
Business transfers - out	32		
Increase (decrease) in fund in financial year (19-29+31-32)	39	(149862)	1219
Fund brought forward	49	165314	164095
Fund carried forward (39+49)	59	15452	165314

Long-term insurance business : Analysis of premiums

Name of insurer **Friends Provident Reinsurance Services Limited**
 Total business / subfund **Total Long Term Insurance Business**
 Financial year ended **31 December 2009**
 Units **£000**

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

Regular premiums	11		4473		4473	2497
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		4473		4473	2497
Single premiums	18					

Total

Gross	19		4473		4473	2497
Reinsurance	20					
Net	21		4473		4473	2497

Long-term insurance business : Analysis of expenses

Name of insurer **Friends Provident Reinsurance Services Limited**
 Total business / subfund **Total Long Term Insurance Business**
 Financial year ended **31 December 2009**
 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		487	487	1060
Management - other	15				
Total	16		487	487	1060

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		487	487	1060
Management - other	45				
Total	46		487	487	1060

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 2009**
 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	5946	5946		0.57	
Other fixed interest securities	13					
Variable interest securities	14	18073	18073	153	4.98	
UK listed equity shares	15					
Non-UK listed equity shares	16					
Unlisted equity shares	17					
Other assets	18	133876	133876	217	0.30	
Total	19	157895	157895	370	0.84	

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 : Summary of mathematical reservesName of insurer **Friends Provident Reinsurance Services Limited**Total business / subfund **Total Long Term Insurance Business**Financial year ended **31 December 2009**

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		516	516	129473
Form 52	13				
Form 53 - linked	14				
Form 53 - non-linked	15				
Form 54 - linked	16				
Form 54 - non-linked	17				
Total	18		516	516	129473

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		516	516	129473
Form 52	43				
Form 53 - linked	44				
Form 53 - non-linked	45				
Form 54 - linked	46				
Form 54 - non-linked	47				
Total	48		516	516	129473

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 **Total Long Term Insurance Business**
 Financial year ended **31 December 2009**
 Units **£000**
 UK Pension / Gross

Product code number 1	Product description 2	Number of policyholders / scheme members 3	Amount of benefit 4	Amount of annual office premiums 5	Nominal value of units 6	Discounted value of units 7	Other liabilities 8	Amount of mathematical reserves 9
440	Additional reserves non-profit OB							516

Long-term insurance business : Distribution of surplus

Name of insurer **Friends Provident Reinsurance Services Limited**
 Total business / subfund **Total Long Term Insurance Business**
 Financial year ended **31 December 2009**
 Units **£000**

Financial year	Previous year
1	2

Valuation result

Fund carried forward	11	15451	165314
Bonus payments in anticipation of a surplus	12		
Transfer to non-technical account	13	25000	
Transfer to other funds / parts of funds	14		
Subtotal (11 to 14)	15	40451	165314
Mathematical reserves	21	516	129473
Surplus including contingency and other reserves held towards the capital requirements (deficiency) (15-21)	29	39935	35841

Composition of surplus

Balance brought forward	31	35841	40137
Transfer from non-technical account	32		
Transfer from other funds / parts of fund	33		
Surplus arising since the last valuation	34	4094	(4296)
Total	39	39935	35841

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	25000	
Total distributed surplus (46+47)	48	25000	
Surplus carried forward	49	14935	35841
Total (48+49)	59	39935	35841

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 2009**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%	516	516	1.00	5
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					5
						1295

Insurance market risk capital component

Life protection and permanent health reinsurance	41	0%				
Classes I (other), II and IX	42	3%	516	516	1.00	15
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		516	516		15
						3884

Long term insurance capital requirement	51					21
						5179

Supplementary Notes to the Return
Friends Provident Reinsurance Services Limited
Global Business
Financial year ended 31 December 2009

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

	2009	2008
	£000	£000
Total Admissible Assets	194,982	181,769
Less :		
Mathematical Reserves after distribution of surplus	(517)	(129,473)
Other Insurance & non-insurance liabilities	(142,444)	(4,610)
Liabilities other than long-term business	(71)	(3)
Net Admissible Assets	51,950	47,683
Form 3 Line 79 Capital resources after deductions	51,950	47,686
Difference	0	0

***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 2009 the outstanding amount was £nil.

***0310* Valuation differences**

The comparative for the positive 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 2009 is sufficient to repay principal of £122,593,000 at the next annual payment date, leaving an outstanding contingent liability of £nil.

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

	£000
Profit and loss account reserves b/fwd	(104,910)
Profit and loss account reserves c/fwd	21,950
Movement Form 3 Line 12	126,860
Prior year rounding	1
Transfer of assets from long term fund to shareholder fund	25,000
Include UK GAAP transfer from technical account to non technical account	(126,687)
Total equalling Form 16 line 59	25,174

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

- i) There were no unlisted investments.
- ii) Lines 46 & 48 include assets to the value of £7.0m 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.

**Supplementary Notes to the Return
Friends Provident Reinsurance Services Limited
Global Business
Financial year ended 31 December 2009**

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

The company held no hybrid securities.

***1305* & *1319* Maximum permitted counterparty limits**

The Company has operated its investment guidelines throughout the period in line with INSPRU 2.1.22R. 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 2009 the company had no counterparty exposures exceeding the upper limit based on the base capital resources requirement and the long-term insurance business liabilities.

***1324* Market risk and counterparty limits**

The FSA issued to the firm in June 2009 a direction under section 148 of the Act. The direction allowed for the amendment of rule INSPRU 2.1.22R by the addition of the following subparagraph (7)

“(7) For the purpose of this rule, a group of persons is not closely related by reason of the relationship described in INSPRU 2.1.40R(1) if control is exercised by, or on behalf of, HM Treasury.”

***1401* & *1501* Provisions for reasonably foreseeable adverse variations**

The Company's assets are valued on a mark to market basis. Where this is not possible, mark to model is calculated on a prudent basis and incorporate all necessary valuation adjustments to GENPRU 1.3.30R to GENPRU 1.3.33R.

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* & *1502* 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.

Supplementary Notes to the Return
Friends Provident Reinsurance Services Limited
Global Business
Financial year ended 31 December 2009

- 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 2009 is sufficient to repay principal of £122,593,000 the next annual payment date, leaving an outstanding contingent liability of £nil.

- 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.

***1405* Other adjustments to liabilities**

	2009	2008
	£000	£000
Contingent loan	-	122,593
Total line 74	-	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**

Form 17 for the long-term business fund and other than long-term insurance business have 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.

***4002* Other income and expenditure**

Other expenditure includes £122,593,000, which relates to the surplus arising within the company & is used to recapture all of the £122,593,000 contingent liability.

**Supplementary Notes to the Return
Friends Provident Reinsurance Services Limited
Global Business
Financial year ended 31 December 2009**

***4004* Transfer from Long-term Insurance Business Fund to Shareholder Fund**

Assets transferred from long term insurance business fund to shareholder fund totalled £25m; this is reflected in Form 13 Line 48.

***4008* Management services**

Management services were provided during the year by Friends Provident Management Services Limited, a wholly owned subsidiary of Friends Provident Holdings (UK) Limited.

Investment management and advisory services were provided during the year by F&C Asset Management Limited (formerly FP Fund Managers Limited) and F&C Property Asset Management, both wholly owned subsidiaries of F&C Asset Management plc.

***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.

**Supplementary Notes to the Return
Friends Provident Reinsurance Services Limited
Global Business
Financial year ended 31 December 2009**

***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.

***4900* Forms omitted from the return**

The Long Term Fund does not contain non-linked fixed interest securities (which are not approved securities), and consequently there is no requirement to complete Form 49.

***5700* Forms omitted from the return**

Mathematical reserves for non-linked business do not exceed £100m, and consequently there is no requirement to complete Form 57.

**Additional information on derivative and quasi-derivative contracts
(IPRU (INS) rule 9.29)
Friends Provident Reinsurance Services Limited
Financial year ended 31 December 2009**

Derivative Contracts

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

- a) **Investment Guidelines.**
Investment guidelines operated by the company during 2009 were to use derivative contracts only for the purpose of efficient portfolio management or a reduction in investment risk. Derivatives are not permitted to be used without specific authority of senior management. All obligations arising out of derivative contracts are required to be covered.
- b) **Guidelines in respect of derivatives not likely to be exercised.**
The guidelines make no explicit 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. Therefore, providing such derivatives meet the over arching investment guidelines stated above, that they are held for efficient portfolio management or a reduction in investment risks, they are permitted.
- c) **Use of derivatives not likely to be exercised.**
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. No other contracts were entered into during the financial year that were not, at the time of entry, reasonably likely to be exercised.
- d) **The Company held no derivative contracts during the financial year other than permitted derivative contracts under permitted links rules, and nor did any contracts require 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.**

Returns under the Interim Prudential Sourcebook for Insurers

Statement of additional information on controllers required by IPRU (INS) 9.30 Friends Provident Reinsurance Services Limited Financial year ended 31 December 2009

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

(a) The persons who, to the knowledge of the Company, were controllers at any time during the financial year were:

- (i) Friends Provident Life and Pensions Limited
- (ii) Friends Provident plc
- (iii) Friends Provident Group plc
- (iv) Friends Provident Limited
- (v) Friends Provident Holdings (UK) Limited
- (vi) Resolution Holdings (Guernsey) Limited – from 4 November 2009
- (vii) Resolution Holdco No1LP – from 4 November 2009
- (viii) Resolution Limited – from 4 November 2009

(b) The persons who, to the knowledge of the Company, were controllers at the end of the financial year were:

- (i) Resolution Limited

As at 31 December 2009, Resolution Limited owned 99.99% of the Shares of Resolution Holdco No1LP, a company of which Friends Provident Reinsurance Services Limited is a subsidiary undertaking and was able to exercise 100% of the voting power at any general meeting.

No shareholder owns 10% or more of the shares or votes in Resolution Limited.

- (ii) Resolution Holdco No1LP

As at 31 December 2009, Resolution Holdco No1LP owned 100% of the Shares of Resolution Holdings (Guernsey) Limited, a company of which Friends Provident Reinsurance Services Limited is a subsidiary undertaking and was able to exercise 100% of the voting power at any general meeting.

- (iii) Resolution Holdings (Guernsey) Limited

As at 31 December 2009, Resolution Holdings (Guernsey) Limited owned 100% of the Shares of Friends Provident Holdings (UK) Limited, a company of which Friends Provident Reinsurance Services Limited is a subsidiary undertaking and was able to exercise 100% of the voting power at any general meeting.

- (iv) Friends Provident Holdings (UK) Limited

As at 31 December 2009, Friends Provident Holdings (UK) Limited owned 100% of the Shares of Friends Provident Group plc, a company of which Friends Provident Reinsurance Services Limited is a subsidiary undertaking and was able to exercise 100% of the voting power at any general meeting.

- (v) Friends Provident Group plc

As at 31 December 2009, Friends Provident Group plc owned 100% of the Shares of Friends Provident Limited, a company of which Friends Provident Reinsurance Services Limited is a subsidiary undertaking and was able to exercise 100% of the voting power at any general meeting.

- (vi) Friends Provident Limited

As at 31 December 2009, Friends Provident Limited owned 100% of the Shares of Friends Provident Life and Pensions Limited, a company of which Friends Provident Reinsurance Services Limited is a subsidiary undertaking and was able to exercise 100% of the voting power at any general meeting.

- (vii) Friends Provident Life and Pensions Limited

As at 31 December 2009, Friends Provident Life and Pensions Limited owned 100% of Friends Provident Reinsurance Services Limited and was able to exercise 100% of the voting power at any general meeting.

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.

At 31 December 2009, sufficient surplus was generated within the defined book to pay off the securitisation, hence the only remaining actuarial liability is an expense reserve.

- (1) The investigation relates to 31st December 2009
- (2) The previous investigation related to 31st December 2008
- (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.

At 31 December 2009, sufficient surplus was generated within the defined book to pay off the securitisation.

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) Not applicable.
- (2) Not applicable.
- (3) Not applicable.
- (4) Not applicable.
- (5) Not applicable.
- (6) Not applicable.
- (7) Not applicable.
- (8) Not applicable.
- (9) Not applicable.
- (10) Not applicable.
- (11) Not applicable.
- (12) Not applicable.

5. Options and Guarantees

- (5) There are no options or guarantees.

6. Expense Reserves

- (1) There is an expense reserve of £516,000 which is intended to cover any future costs of the company as a “shell” company, including the potential cost of discontinuance.
- (2) There is no implicit allowance for expenses.
- (3) The expenses within line 14 of Form 43 relate almost entirely to cost of servicing structures that will no longer be required with effect from 1 January 2010, due to the repayment of the securitisation.
- (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) Not applicable.

7. Mismatching Reserves

- (1) The value of mathematical reserves is £516,000 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 0.89% 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)
 - (a) The resilience capital requirement is zero.
 - (b) The aggregate amount of long term insurance liabilities reduces by £3,000 due to the release of some prudence in the expense provision
 - (c) The aggregate value of assets allocated to match the expense reserve decreased by £3,000 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)
 - (i) The only financing arrangement was the loan received, ultimately from Box Hill. At 31 December 2009, sufficient surplus was generated within the defined book to pay off the loan from Box Hill.

10. Reversionary Bonus

The contract does not participate in profits.

**Directors' Certificate required by rule 9.34 of the Accounts and Statement Rules
Friends Provident Reinsurance Services Limited
Financial year ended 31st December 2009
Global Business**

We certify:

1. (a) that the return has been properly prepared in accordance with the requirements in IPRU(INS), GENPRU and INSPRU as modified by the waiver dated 10 June 2009 issued under section 148 of the Financial Services and Markets Act 2000; 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

D. MONGER
Secretary

E.B. BOURKE
Director

23 March 2010

Independent auditors' report to the directors pursuant to rule 9.35 of the Interim Prudential Sourcebook for Insurers

Friends Provident Reinsurance Services Limited

Global business

Financial year ended 31 December 2009

We have examined the following documents prepared by the insurer pursuant to the Accounts and Statements Rules set out in Chapter 9 of IPRU(INS) the Interim Prudential Sourcebook for Insurers, GENPRU the General Prudential Sourcebook and INSPRU the Prudential Sourcebook for Insurers ("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, 41, 43, 48, 58 and 60 (including the supplementary notes) ("the Forms");
- the statement required by IPRU(INS) rule 9.29 ("the statement"); and
- the report required by IPRU(INS) rule 9.31(a) ("the valuation report").

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

- Forms 50 and 51 (including the supplementary notes);
- the statement required by IPRU(INS) rule 9.30; and
- the certificate signed in accordance with IPRU(INS) rule 9.34(1).

This report is made solely to the insurer's directors, in accordance with IPRU(INS) rule 9.35. Our examination has been undertaken so that we might state to the insurer's directors those matters we are required by the Rules to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the insurer for our examination, for this report, or for the opinions we have formed.

Respective responsibilities of the insurer and its auditors

The insurer is responsible for the preparation of an annual return (including the Forms, the statement and the valuation reports) under the provisions of the Rules. The requirements of the Rules have been modified by the direction issued under section 148 of the Act referred to in supplementary note 1324. Under IPRU(INS) rule 9.11 the Forms, the statement and the valuation report 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 insurer and used to perform the actuarial investigation as set out in the valuation report prepared in accordance with IPRU(INS) rule 9.31(a) 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 and the valuation report meet these requirements, and to report our opinion to you. We also report to you if, in our opinion, the insurer has not kept adequate 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 (revised)' 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 insurer for the financial year on which we reported on 23 March 2010. It also included an assessment of the significant estimates and judgments made by the insurer in the preparation of the Forms, the statement and the valuation report.

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 and 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 IPRU(INS) rule 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 insurer.

Opinion

In our opinion:

- (a) 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
- (b) the methods and assumptions determined by the insurer and used to perform the actuarial investigation as set out in the valuation report appropriately reflect the requirements of INSPRU 1.2.

Ernst & Young LLP

Registered Auditor

London

23 March 2010