

Friends Life Assurance Society Limited

(formerly Sun Life Assurance Society Plc)

**Annual FSA Insurance Returns for the year ended
31st December 2010**



(Appendices 9.1, 9.3, 9.4, 9.6)

Friends Life Assurance Society Limited

Year ended 31st December 2010

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Friends Life Assurance Society Limited

Year ended 31st December 2010

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Statement of solvency - long-term insurance business

Form 2

Printed 24/03/2011 10:23:48

Name of insurer **Friends Life Assurance Society Limited**

Global business

Financial year ended **31st December 2010**

Solo solvency calculation

	Company registration number	GL/UK/CM	day	month	year	units	
	R2	776273	GL	31	12	2010	£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	1219981	933646
Capital resources allocated towards long-term insurance business arising outside the long-term insurance fund	12	304475	246156
Capital resources available to cover long-term insurance business capital resources requirement (11+12)	13	1524456	1179802

Guarantee fund

Guarantee fund requirement	21	112939	110259
Excess (deficiency) of available capital resources to cover guarantee fund requirement	22	1411517	1069543

Minimum capital requirement (MCR)

Long-term insurance capital requirement	31	338818	330777
Resilience capital requirement	32		
Base capital resources requirement	33	3040	3128
Individual minimum capital requirement	34	338818	330777
Capital requirements of regulated related undertakings	35		
Minimum capital requirement (34+35)	36	338818	330777
Excess (deficiency) of available capital resources to cover 50% of MCR	37	1355047	1014413
Excess (deficiency) of available capital resources to cover 75% of MCR	38	1270342	931719

Enhanced capital requirement

With-profits insurance capital component	39	737563	490433
Enhanced capital requirement	40	1076381	821210

Capital resources requirement (CRR)

Capital resources requirement (greater of 36 and 40)	41	1076381	821210
Excess (deficiency) of available capital resources to cover long-term insurance business CRR (13-41)	42	448075	358592

Contingent liabilities

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

Form 2

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Name of insurer **Friends Life Assurance Society Limited**

Global business

Financial year ended **31st December 2010**

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

..... **A. M. Parsons** **Director**

..... **R. Yeoman** **Secretary**

London 22 March 2011

Components of capital resources
**Form 3
(Sheet 1)**

 Name of insurer **Friends Life Assurance Society Limited**

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Global business

 Financial year ended **31st December 2010**

	Company registration number	GL/ UK/ CM	day	month	year	units	
	R3	776273	GL	31	12	2010	£000
	General insurance business 1	Long-term insurance business 2	Total as at the end of this financial year 3		Total as at the end of the previous year 4		

Core tier one capital

Permanent share capital	11		2973	2973	2973
Profit and loss account and other reserves	12		323238	323238	331381
Share premium account	13		4023	4023	4023
Positive valuation differences	14		1252140	1252140	1013297
Fund for future appropriations	15		240916	240916	293871
Core tier one capital in related undertakings	16				
Core tier one capital (sum of 11 to 16)	19		1823290	1823290	1645545

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		1823290	1823290	1645545
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		1823290	1823290	1645545

Components of capital resources

**Form 3
(Sheet 2)**

Name of insurer **Friends Life Assurance Society Limited**

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Global business

Financial year ended **31st December 2010**

	Company registration number	GL/UK/CM	day	month	year	units	
	R3	776273	GL	31	12	2010	£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
**Form 3
(Sheet 3)**

 Name of insurer **Friends Life Assurance Society Limited**

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Global business

 Financial year ended **31st December 2010**

	Company registration number	GL/UK/CM	day	month	year	units	
	R3	776273	GL	31	12	2010	£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		1823290	1823290	1645545	
Inadmissible assets other than intangibles and own shares	73		271895	271895	364882	
Assets in excess of market risk and counterparty limits	74		26938	26938	100854	
Deductions for related ancillary services undertakings	75		1	1	7	
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		1524456	1524456	1179802	

Available capital resources for GENPRU/INSRU tests

Available capital resources for guarantee fund requirement	81		1524456	1524456	1179802	
Available capital resources for 50% MCR requirement	82		1524456	1524456	1179802	
Available capital resources for 75% MCR requirement	83		1524456	1524456	1179802	

Financial engineering adjustments

Implicit items	91					
Financial reinsurance – ceded	92					
Financial reinsurance – accepted	93		61233	61233	78054	
Outstanding contingent loans	94					
Any other charges on future profits	95					
Sum of financial engineering adjustments (91+92-93+94+95)	96		(61233)	(61233)	(78054)	

Analysis of admissible assets
**Form 13
(Sheet 1)**

 Name of insurer **Friends Life Assurance Society Limited**

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Global business

 Financial year ended **31st December 2010**

 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	776273	GL	31	12	2010	£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	224	223
	debts and loans	26		
Other group undertakings	shares	27		
	debts and loans	28	227746	186423
Participating interests	shares	29		
	debts and loans	30		

Other financial investments

Equity shares	41		62
Other shares and other variable yield participations	42		
Holdings in collective investment schemes	43	7053	5094
Rights under derivative contracts	44		
Fixed interest securities	Approved	45	49282
	Other	46	
Variable interest securities	Approved	47	
	Other	48	
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	
	More than one month withdrawal	55	
Other financial investments	56		

Analysis of admissible assets
**Form 13
(Sheet 2)**

 Name of insurer **Friends Life Assurance Society Limited**

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Global business

 Financial year ended **31st December 2010**

 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	776273	GL	31	12	2010	£000	1
							As at end of this financial year	As at end of the previous year
							1	2
Deposits with ceding undertakings							57	
Assets held to match linked liabilities	Index linked						58	
	Property linked						59	

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	3	4440
	due in more than 12 months	79		

Other assets

Tangible assets	80		
Deposits not subject to time restriction on withdrawal with approved institutions	81	21661	3665
Cash in hand	82		
Other assets (particulars to be specified by way of supplementary note)	83		
Accrued interest and rent	84	546	520
Deferred acquisition costs (general business only)	85		
Other prepayments and accrued income	86		

Deductions from the aggregate value of assets	87		
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Grand total of admissible assets after deduction of admissible assets in excess of market risk and counterparty limits (11 to 86 less 87)	89	306515	249824
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Analysis of admissible assets

**Form 13
(Sheet 3)**

Name of insurer **Friends Life Assurance Society Limited**

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Global business

Financial year ended **31st December 2010**

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	776273	GL	31	12	2010	£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	306515	249824
Admissible assets in excess of market and counterparty limits	92	25759	92221
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	332274	342045
Amounts included in line 89 attributable to debts due from related insurers, other than those under contracts of insurance or reinsurance	103	135805	109001

Analysis of admissible assets
**Form 13
(Sheet 2)**

 Name of insurer **Friends Life Assurance Society Limited**

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Global business

 Financial year ended **31st December 2010**

 Category of assets **Total Long-term insurance business assets**

	Company registration number	GL/UK/CM	day	month	year	units	Category of assets	
	R13	776273	GL	31	12	2010	£000	10
						As at end of this financial year	As at end of the previous year	
						1	2	
Deposits with ceding undertakings			57					
Assets held to match linked liabilities	Index linked		58		522307		528153	
	Property linked		59		25039		23791	

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		8234	8233
	Intermediaries	72			3
Salvage and subrogation recoveries		73			
Reinsurance	Accepted	74			
	Ceded	75		958	864
Dependants	due in 12 months or less	76			
	due in more than 12 months	77			
Other	due in 12 months or less	78		73864	63163
	due in more than 12 months	79			

Other assets

Tangible assets	80			
Deposits not subject to time restriction on withdrawal with approved institutions	81		25104	27954
Cash in hand	82			
Other assets (particulars to be specified by way of supplementary note)	83			
Accrued interest and rent	84		81178	93362
Deferred acquisition costs (general business only)	85			
Other prepayments and accrued income	86		631	1850

Deductions from the aggregate value of assets	87			
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Grand total of admissible assets after deduction of admissible assets in excess of market risk and counterparty limits (11 to 86 less 87)	89		8225122	7961439
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Analysis of admissible assets
**Form 13
(Sheet 3)**

 Name of insurer **Friends Life Assurance Society Limited**

Printed 24/03/2011 10:23:52

Global business

 Financial year ended **31st December 2010**

 Category of assets **Total Long-term insurance business assets**

	Company registration number	GL/ UK/ CM	day	month	year	units	Category of assets	
	R13	776273	GL	31	12	2010	£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	8225122	7961439
Admissible assets in excess of market and counterparty limits	92	1179	8633
Inadmissible assets directly held	93	271895	364882
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	1	7
Other differences in the valuation of assets (other than for assets not valued above)	98	61233	78054
Deferred acquisition costs excluded from line 89	99		
Reinsurers' share of technical provisions excluded from line 89	100	10144420	9951913
Other asset adjustments (may be negative)	101	6168	
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	18710018	18364928
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 margins
Form 14

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 Name of insurer **Friends Life Assurance Society Limited**

Global business

 Financial year ended **31st December 2010**

 Fund **Total Long-term insurance business**

 Units **£000**

		As at the end of this financial year	As at the end of the previous year	
		1	2	
Mathematical reserves, after distribution of surplus		11	6731195	6843805
Cash bonuses which had not been paid to policyholders prior to end of the financial year		12		
Balance of surplus / (valuation deficit)		13		12292
Long term insurance business fund carried forward (11 to 13)		14	6731195	6856097
Claims outstanding	Gross	15	62010	63653
	Reinsurers' share	16		
	Net (15-16)	17	62010	63653
Provisions	Taxation	21	9288	297
	Other risks and charges	22	54374	5930
Deposits received from reinsurers		23		
Creditors	Direct insurance business	31	680	518
	Reinsurance accepted	32	1711	1540
	Reinsurance ceded	33	813	928
Debenture loans	Secured	34		
	Unsecured	35		
Amounts owed to credit institutions		36		
Creditors	Taxation	37		
	Other	38	139585	105969
Accruals and deferred income		39	5485	5153
Provision for "reasonably foreseeable adverse variations"		41		
Total other insurance and non-insurance liabilities (17 to 41)		49	273946	183988
Excess of the value of net admissible assets		51	1219981	921354
Total liabilities and margins		59	8225122	7961439

Amounts included in line 59 attributable to liabilities to related companies, other than those under contracts of insurance or reinsurance	61	106133	99817
Amounts included in line 59 attributable to liabilities in respect of property linked benefits	62	25039	23791

Total liabilities (11+12+49)	71	7005141	7027793
Increase to liabilities – DAC related	72		
Reinsurers' share of technical provisions	73	10144420	9951913
Other adjustments to liabilities (may be negative)	74	1319541	1091351
Capital and reserves and fund for future appropriations	75	240916	293871
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	18710018	18364928

Liabilities (other than long-term insurance business)
Form 15

Printed 24/03/2011 10:23:53

 Name of insurer **Friends Life Assurance Society Limited**

Global business

 Financial year ended **31st December 2010**

	Company registration number	GL/UK/CM	day	month	year	units	
	R15	776273	GL	31	12	2010	£000
					As at the end of this financial year	As at the end of the previous year	
					1	2	

Technical provisions (gross amount)

Provision 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		133	133
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		1886	
	Foreseeable dividend	48			
	Other	49		21	3535
Accruals and deferred income		51			
Total (19 to 51)		59		2040	3668
Provision for "reasonably foreseeable adverse variations"		61			
Cumulative preference share capital		62			
Subordinated loan capital		63			
Total (59 to 63)		69		2040	3668

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			330234	338377
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			332274	342045

Profit and loss account (non-technical account)

Form 16

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Name of insurer **Friends Life Assurance Society Limited**

Global business

Financial year ended **31st December 2010**

		Company registration number	GL/UK/CM	day	month	year	units
		R16	776273	GL	31	12	2010
				£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			16547		12708
Investment income	Income	14			8366		4311
	Value re-adjustments on investments	15			224		
	Gains on the realisation of investments	16					149
Investment charges	Investment management charges, including interest	17			76		30
	Value re-adjustments on investments	18					247
	Loss on the realisation of investments	19			1747		
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			23314		16891
Tax on profit or loss on ordinary activities		31			1457		108
Profit or loss on ordinary activities after tax (29-31)		39			21857		16783
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			21857		16783
Dividends (paid or foreseeable)		51			30000		
Profit or loss retained for the financial year (49-51)		59			(8143)		16783

Analysis of derivative contracts
Form 17

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 Name of insurer **Friends Life Assurance Society Limited**

Global business

 Financial year ended **31st December 2010**

 Category of assets **Total Long-term insurance business assets**

		Company registration number	GL/ UK/ CM	day	month	year	units	Category of assets	
		R17	776273	GL	31	12	2010	£000	10
Derivative contracts		Value as at the end of this financial year			Notional amount as at the end of this financial year				
		Assets 1		Liabilities 2		Bought / Long 3		Sold / Short 4	
Futures and contracts for differences	Fixed-interest securities	11		575				51739	
	Interest rates	12	39700	11865		550803		310845	
	Inflation	13	716	8178		567329			
	Credit index / basket	14							
	Credit single name	15	7311	1341				273660	
	Equity index	16	101	3861		10254		322936	
	Equity stock	17							
	Land	18							
	Currencies	19	758	7334				317809	
	Mortality	20							
	Other	21							
In the money options	Swaptions	31	7796			67444			
	Equity index calls	32							
	Equity stock calls	33							
	Equity index puts	34							
	Equity stock puts	35							
	Other	36							
Out of the money options	Swaptions	41							
	Equity index calls	42							
	Equity stock calls	43							
	Equity index puts	44	23970					248505	
	Equity stock puts	45							
	Other	46							
Total (11 to 46)		51	80352	33154		1195830		1525494	
Adjustment for variation margin		52	(101)	(6169)					
Total (51 + 52)		53	80251	26985					

THE NOTIONAL AMOUNTS IN COLUMNS 3 AND 4 ARE NOT A MEASURE OF EXPOSURE. Please see instructions 11 and 12 to this Form for the meaning of these figures

With-profits insurance capital component for the fund
Form 18

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 Name of insurer **Friends Life Assurance Society Limited**

Global business

 Financial year ended **31st December 2010**

 With-profits fund **Ordinary Long Term 1**

 Units **£000**

	As at end of this financial year	As at end of the previous year
	1	2

Regulatory excess capital

Regulatory value of assets	Long-term admissible assets of the fund	11	8225122	7961439
	Implicit items allocated to the fund	12		
	Mathematical reserves in respect of the fund's non-profit insurance contracts	13	3688484	3639713
	Long-term admissible assets of the fund covering the LTICR of the fund's non-profit insurance contracts	14	220008	205513
	Long-term admissible assets of the fund covering the RCR of the fund's non-profit insurance contracts	15		
	Total (11+12-(13+14+15))	19	4316630	4116213
Regulatory value of liabilities	Mathematical reserves (after distribution of surplus) in respect of the fund's with-profit insurance contracts	21	3042711	3204092
	Regulatory current liabilities of the fund	22	273946	183988
	Total (21+22)	29	3316657	3388080
Long-term insurance capital requirement in respect of the fund's with-profits insurance contracts		31	118810	125264
Resilience capital requirement in respect of the fund's with-profits insurance contracts		32		
Sum of regulatory value of liabilities, LTICR and RCR (29+31+32)		39	3435467	3513344
Regulatory excess capital (19-39)		49	881163	602869

Realistic excess capital

Realistic excess capital	51		
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Excess assets allocated to with-profits insurance business

Excess (deficiency) of assets allocated to with-profits insurance business in fund (49-51)	61	881163	602869
Face amount of capital instruments attributed to the fund and included in the capital resources (unstressed)	62		
Realistic amount of capital instruments attributed to the fund and included in the capital resources (stressed)	63		
Present value of future shareholder transfers arising from distribution of surplus	64	143600	112436
Present value of other future internal transfers not already taken into account	65		
With-profits insurance capital component for fund (if 62 exceeds 63, greater of 61+62-63-64-65 and zero; else greater of 61-64-65 and zero)	66	737563	490433

Realistic balance sheet
Form 19
(Sheet 1)

 Name of insurer **Friends Life Assurance Society Limited**

Printed 24/03/2011 10:23:56

Global business

 Financial year ended **31st December 2010**

 With-profits fund **Ordinary Long Term 1**

 Units **£000**

	As at end of this financial year	As at end of the previous year
	1	2

Realistic value of assets available to the fund

Regulatory value of assets	11	4316630	4116213
Implicit items allocated to the fund	12		
Value of shares in subsidiaries held in the fund (regulatory)	13		
Excess admissible assets	21	1179	8633
Present value of future profits (or losses) on non-profit insurance contracts written in the fund	22	484780	563689
Value of derivatives and quasi-derivatives not already reflected in lines 11 to 22	23		901
Value of shares in subsidiaries held in the fund (realistic)	24		
Prepayments made from the fund	25		
Realistic value of assets of the fund (11+21+22+23+24+25-(12+13))	26	4802589	4689436
Support arrangement assets	27		
Assets available to the fund (26+27)	29	4802589	4689436

Realistic value of liabilities of fund

With-profits benefits reserve	31	3298011	3362908	
Future policy related liabilities	Past miscellaneous surplus attributed to with-profits benefits reserve	32		
	Past miscellaneous deficit attributed to with-profits benefits reserve	33		
	Planned enhancements to with-profits benefits reserve	34	808655	745201
	Planned deductions for the cost of guarantees, options and smoothing from with-profits benefits reserve	35		
	Planned deductions for other costs deemed chargeable to with-profits benefits reserve	36		
	Future costs of contractual guarantees (other than financial options)	41	293619	318604
	Future costs of non-contractual commitments	42		
	Future costs of financial options	43	119985	112864
	Future costs of smoothing (possibly negative)	44	(4422)	(1694)
	Financing costs	45	(61233)	(78054)
	Any other liabilities related to regulatory duty to treat customers fairly	46		
	Other long-term insurance liabilities	47	37543	11330
Total (32+34+41+42+43+44+45+46+47-(33+35+36))	49	1194147	1108251	
Realistic current liabilities of the fund	51	310431	218277	
Realistic value of liabilities of the fund (31+49+51)	59	4802589	4689436	

Realistic balance sheet**Form 19
(Sheet 2)**Name of insurer **Friends Life Assurance Society Limited**

Printed 24/03/2011 10:23:56

Global business

Financial year ended **31st December 2010**With-profits fund **Ordinary Long Term 1**Units **£000**

	As at end of this financial year	As at end of the previous year
	1	2

Realistic excess capital and additional capital available

Value of relevant assets before applying the most adverse scenario other than present value of future profits arising from business outside with-profits funds	62	4802589	4689436
Amount of present value of future profits (or losses) on long-term insurance contracts written outside the fund included in the value of relevant assets before applying most adverse scenario	63		
Value of relevant assets before applying the most adverse scenario (62+ 63)	64	4802589	4689436
Risk capital margin for fund (62-59)	65		
Realistic excess capital for fund (26-(59+65))	66		
Realistic excess available capital for fund (29-(59+65))	67		
Working capital for for fund (29-59)	68		
Working capital ratio for fund (68/29)	69		

**Other assets potentially available if required to cover
the fund's risk capital margin**

Additional amount potentially available for inclusion in line 62	81		
Additional amount potentially available for inclusion in line 63	82		

Long-term insurance business: Revenue account

Form 40

Printed 24/03/2011 10:23:56

Name of insurer **Friends Life Assurance Society Limited**
 Name and number of fund/Summary **Total Long-term insurance business**
 Financial year ended **31st December 2010**
 Units **£000**

	Financial year	Previous year
	1	2

Income

Earned premiums	11	103513	(1879905)
Investment income receivable before deduction of tax	12	372900	451003
Increase (decrease) in the value of non-linked assets brought into account	13	145550	(21844)
Increase (decrease) in the value of linked assets	14	2113	4047
Other income	15	363	858
Total income	19	624439	(1445841)

Expenditure

Claims incurred	21	621632	755533
Expenses payable	22	86404	38081
Interest payable before deduction of tax	23	735	2748
Taxation	24	24023	9627
Other expenditure	25		
Transfer to (from) non technical account	26	16547	12708
Total expenditure	29	749341	818697

Business transfers-in	31		
Business transfers-out	32		
Increase (decrease) in fund in financial year (19-29+31-32)	39	(124902)	(2264538)
Fund brought forward	49	6856097	9120635
Fund carried forward (39+49)	59	6731195	6856097

Long-term insurance business: Analysis of premiums

Form 41

Printed 24/03/2011 10:23:57

Name of insurer **Friends Life Assurance Society Limited**

Total business / subfund **Total Long-term insurance business**

Financial year ended **31st December 2010**

Units **£000**

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

Gross

Regular premiums	11	93314	123336	2504	219154	252753
Single premiums	12	10947	111646	90	122683	148603

Reinsurance - external

Regular premiums	13	2810	71209		74019	3174
Single premiums	14					

Reinsurance - intra-group

Regular premiums	15	14119	88388		102507	118013
Single premiums	16	6387	55411		61798	2160074

Net of reinsurance

Regular premiums	17	76385	(36261)	2504	42628	131566
Single premiums	18	4560	56235	90	60885	(2011471)

Total

Gross	19	104261	234982	2594	341837	401356
Reinsurance	20	23316	215008		238324	2281261
Net	21	80945	19974	2594	103513	(1879905)

Long-term insurance business: Analysis of claims

Form 42

Printed 24/03/2011 10:23:57

Name of insurer **Friends Life Assurance Society Limited**

Total business / subfund **Total Long-term insurance business**

Financial year ended **31st December 2010**

Units **£000**

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

Gross

Death or disability lump sums	11	135465	17046	74	152585	143866
Disability periodic payments	12	1338			1338	1574
Surrender or partial surrender	13	351130	615935	10726	977791	951516
Annuity payments	14	8205	332140		340345	342445
Lump sums on maturity	15	80765	104834		185599	196785
Total	16	576903	1069955	10800	1657658	1636186

Reinsurance - external

Death or disability lump sums	21	853	38		891	2246
Disability periodic payments	22	77			77	154
Surrender or partial surrender	23					
Annuity payments	24		69664		69664	
Lump sums on maturity	25					
Total	26	930	69702		70632	2400

Reinsurance - intra-group

Death or disability lump sums	31	71896	9775		81671	70913
Disability periodic payments	32					
Surrender or partial surrender	33	265834	391745		657579	644926
Annuity payments	34	8451	147836		156287	96590
Lump sums on maturity	35		69857		69857	65824
Total	36	346181	619213		965394	878253

Net of reinsurance

Death or disability lump sums	41	62716	7233	74	70023	70707
Disability periodic payments	42	1261			1261	1420
Surrender or partial surrender	43	85296	224190	10726	320212	306590
Annuity payments	44	(246)	114640		114394	245855
Lump sums on maturity	45	80765	34977		115742	130961
Total	46	229792	381040	10800	621632	755533

Long-term insurance business: Analysis of expenses

Form 43

Printed 24/03/2011 10:23:58

Name of insurer **Friends Life Assurance Society Limited**

Total business / subfund **Total Long-term insurance business**

Financial year ended **31st December 2010**

Units **£000**

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

Gross

Commission - acquisition	11	1053	2500	289	3842	3267
Commission - other	12	7342	3212	15	10569	11367
Management - acquisition	13	775	4200	6	4981	6699
Management - maintenance	14	18708	97596	251	116555	67896
Management - other	15					
Total	16	27878	107508	561	135947	89229

Reinsurance - external

Commission - acquisition	21					
Commission - other	22	3	9		12	12
Management - acquisition	23					
Management - maintenance	24					
Management - other	25					
Total	26	3	9		12	12

Reinsurance - intra-group

Commission - acquisition	31	638	1621		2259	2403
Commission - other	32	5552	2619		8171	8401
Management - acquisition	33	522	3629		4151	5737
Management - maintenance	34	9972	24844	134	34950	34595
Management - other	35					
Total	36	16684	32713	134	49531	51136

Net of reinsurance

Commission - acquisition	41	415	879	289	1583	864
Commission - other	42	1787	584	15	2386	2954
Management - acquisition	43	253	571	6	830	962
Management - maintenance	44	8736	72752	117	81605	33301
Management - other	45					
Total	46	11191	74786	427	86404	38081

Long-term insurance business: Linked funds balance sheet

Form 44

Printed 24/03/2011 10:23:59

Name of insurer **Friends Life Assurance Society Limited**

Total business

Financial year ended **31st December 2010**

Units **£000**

	Financial year 1	Previous year 2
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Internal linked funds (excluding cross investment)

Directly held assets (excluding collective investment schemes)	11		
Directly held assets in collective investment schemes of connected companies	12		
Directly held assets in other collective investment schemes	13		
Total assets (excluding cross investment) (11+12+13)	14		
Provision for tax on unrealised capital gains	15		
Secured and unsecured loans	16		
Other liabilities	17		
Total net assets (14-15-16-17)	18		

Directly held linked assets

Value of directly held linked assets	21	25185	23848
--------------------------------------	-----------	-------	-------

Total

Value of directly held linked assets and units held (18+21)	31	25185	23848
Surplus units	32	146	57
Deficit units	33		
Net unit liability (31-32+33)	34	25039	23791

Long-term insurance business: Summary of new business

Form 46

Printed 24/03/2011 10:23:59

Name of insurer **Friends Life Assurance Society Limited**

Total business

Financial year ended **31st December 2010**

Units **£000**

	UK Life 1	UK Pension 2	Overseas 3	Total Financial year 4	Total Previous year 5
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Number of new policyholders / scheme members for direct insurance business

Regular premium business	11	289	1038		1327	1527
Single premium business	12		1100		1100	1233
Total	13	289	2138		2427	2760

Amount of new regular premiums

Direct insurance business	21	416	6347		6763	7021
External reinsurance	22	4			4	2
Intra-group reinsurance	23					
Total	24	420	6347		6767	7023

Amount of new single premiums

Direct insurance business	25	10770	111048		121818	147447
External reinsurance	26	177	598	90	865	666
Intra-group reinsurance	27					490
Total	28	10947	111646	90	122683	148603

Long-term insurance business: Analysis of new business

**Form 47
(Sheet 1)**

Name of insurer **Friends Life Assurance Society Limited**

Printed 24/03/2011 10:24:00

Total business

Financial year ended **31st December 2010**

Units **£000**

UK Life / Direct insurance business

Product code number 1	Product description 2	Regular premium business		Single premium business	
		Number of policyholders / scheme members 3	Amount of premiums 4	Number of policyholders / scheme members 5	Amount of premiums 6
420	Group income protection	1	1		
500	Life UWP single premium				2734
505	Life UWP whole life regular premium	60	69		
515	Life UWP endowment regular premium - target cash	62	63		
700	Life property linked single premium				8036
710	Life property linked whole life regular premium	166	283		

Long-term insurance business: Analysis of new business

**Form 47
(Sheet 2)**

Name of insurer **Friends Life Assurance Society Limited**

Printed 24/03/2011 10:24:00

Total business

Financial year ended **31st December 2010**

Units **£000**

UK Life / Reinsurance accepted external

Product code number 1	Product description 2	Regular premium business		Single premium business	
		Number of policyholders / scheme members 3	Amount of premiums 4	Number of policyholders / scheme members 5	Amount of premiums 6
500	Life UWP single premium				177
505	Life UWP whole life regular premium		2		
710	Life property linked whole life regular premium		2		

Long-term insurance business: Analysis of new business

**Form 47
(Sheet 3)**

Name of insurer **Friends Life Assurance Society Limited**

Printed 24/03/2011 10:24:01

Total business

Financial year ended **31st December 2010**

Units **£000**

UK Pension / Direct insurance business

Product code number 1	Product description 2	Regular premium business		Single premium business	
		Number of policyholders / scheme members 3	Amount of premiums 4	Number of policyholders / scheme members 5	Amount of premiums 6
400	Annuity non-profit (CPA)			1072	6680
410	Group Life	178	17		
411	Group death in service dependants' annuities	3			
525	Individual pensions UWP	5	9	1	115
530	Individual pensions UWP - increments		122		9994
535	Group money purchase pensions UWP	76	148		
540	Group money purchase pensions UWP - increments		345		3064
565	DWP National Insurance rebates UWP				20529
571	Trustee investment plan UWP		1		111
575	Miscellaneous UWP		35		1480
725	Individual pensions property linked	8	34	16	171
730	Individual pensions property linked - increments		640		16421
735	Group money purchase pensions property linked	768	2061	10	79
740	Group money purchase pensions property linked - increments		2860		5517
745	DWP National Insurance rebates property linked				45453
750	Income drawdown property linked			1	187
755	Trustee investment plan		1		87
760	Small self administered schemes		74		1160

Long-term insurance business: Analysis of new business

**Form 47
(Sheet 4)**

Name of insurer **Friends Life Assurance Society Limited**

Printed 24/03/2011 10:24:02

Total business

Financial year ended **31st December 2010**

Units **£000**

UK Pension / Reinsurance accepted external

Product code number 1	Product description 2	Regular premium business		Single premium business	
		Number of policyholders / scheme members 3	Amount of premiums 4	Number of policyholders / scheme members 5	Amount of premiums 6
530	Individual pensions UWP - increments				40
565	DWP National Insurance rebates UWP				142
730	Individual pensions property linked - increments				1
745	DWP National Insurance rebates property linked				415

Long-term insurance business: Analysis of new business

**Form 47
(Sheet 5)**

Name of insurer **Friends Life Assurance Society Limited**

Printed 24/03/2011 10:24:02

Total business

Financial year ended **31st December 2010**

Units **£000**

Overseas / Reinsurance accepted external

Product code number	Product description	Regular premium business		Single premium business	
		Number of policyholders / scheme members	Amount of premiums	Number of policyholders / scheme members	Amount of premiums
1	2	3	4	5	6
500	Life UWP single premium				90

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

Form 48

Printed 24/03/2011 10:24:03

Name of insurer **Friends Life Assurance Society Limited**
 Financial year ended **31st December 2010**
 Category of assets **Total Long-term insurance business assets**
 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	859743	1238933	46443	2.42	
Other fixed interest securities	13	1654901	1843800	111542	6.02	
Variable interest securities	14	619037	51708	10298	1.83	
UK listed equity shares	15					
Non-UK listed equity shares	16					
Unlisted equity shares	17					
Other assets	18	227479	226719			
Total	19	3361160	3361160	168283	4.22	

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

Land and buildings	21	294115	307167	19804	6.45	11.66
Approved fixed interest securities	22	1338510	1338510	57338	2.19	6.19
Other fixed interest securities	23	562013	607304	31214	4.48	5.90
Variable interest securities	24	95574	95574	146	0.16	(2.27)
UK listed equity shares	25	1385966	1073284	29946	4.23	15.31
Non-UK listed equity shares	26	211703	213856	4932	3.43	16.24
Unlisted equity shares	27	95405	217576			20.38
Other assets	28	333330	463345	13535	2.92	0.49
Total	29	4316616	4316616	156915	3.31	9.22

Overall return on with-profits assets

Post investment costs but pre-tax	31					10.91
Return allocated to non taxable 'asset shares'	32					10.91
Return allocated to taxable 'asset shares'	33					9.25

Long-term insurance business: Fixed and variable interest assets

Form 49

Printed 24/03/2011 10:24:03

Name of insurer **Friends Life Assurance Society Limited**
 Financial year ended **31st December 2010**
 Category of assets **Total Long-term insurance business assets**
 Units **£000**

		Value of assets 1	Mean term 2	Yield before adjustment 3	Yield after adjustment 4
UK government approved fixed interest securities	11	1842547	6.75	2.43	2.43
Other approved fixed interest securities	21	734896	15.11	2.18	1.87
Other fixed interest securities					
AAA/Aaa	31	384259	25.63	2.72	2.54
AA/Aa	32	470501	10.12	5.19	4.70
A/A	33	553489	11.54	5.43	4.60
BBB/Baa	34	866209	10.34	5.84	4.19
BB/Ba	35	113531	13.11	8.35	5.26
B/B	36	34684	10.14	20.36	15.14
CCC/Caa	37	10895	12.14	33.72	18.83
Other (including unrated)	38	17536	15.09	8.17	0.23
Total other fixed interest securities	39	2451104	13.13	5.60	4.36
Approved variable interest securities	41	495644	11.83	0.39	0.37
Other variable interest securities	51	(348362)	33.69	0.95	0.93
Total (11+21+39+41+51)	61	5175829	9.63	3.80	3.17

Long-term insurance business: Summary of mathematical reserves

Form 50

Printed 24/03/2011 10:24:04

Name of insurer **Friends Life Assurance Society Limited**

Total business / subfund **Total Long-term insurance business**

Financial year ended **31st December 2010**

Units **£000**

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

Form 51 - with-profits	11	321992	468941		790933	820981
Form 51 - non-profit	12	282377	4623918	708	4907003	4831955
Form 52	13	497296	1660316	26084	2183696	2320498
Form 53 - linked	14	3571014	4358206	25039	7954259	7806904
Form 53 - non-linked	15	14649	5772	12519	32940	30662
Form 54 - linked	16	108078	823705		931783	915376
Form 54 - non-linked	17	177	6708		6885	6652
Total	18	4795583	11947566	64350	16807499	16733028

Reinsurance - external

Form 51 - with-profits	21	48			48	96
Form 51 - non-profit	22	1503	52219		53722	4919
Form 52	23					
Form 53 - linked	24					
Form 53 - non-linked	25					
Form 54 - linked	26	43858	10076		53934	39526
Form 54 - non-linked	27					
Total	28	45409	62295		107704	44541

Reinsurance - intra-group

Form 51 - with-profits	31					
Form 51 - non-profit	32	43237	1701639		1744876	1771818
Form 52	33					
Form 53 - linked	34	3571014	4358206		7929220	7783113
Form 53 - non-linked	35	2031	4877		6908	4588
Form 54 - linked	36	61582	293960		355542	347697
Form 54 - non-linked	37	170			170	155
Total	38	3678034	6358682		10036716	9907371

Net of reinsurance

Form 51 - with-profits	41	321944	468941		790885	820885
Form 51 - non-profit	42	237637	2870060	708	3108405	3055218
Form 52	43	497296	1660316	26084	2183696	2320498
Form 53 - linked	44			25039	25039	23791
Form 53 - non-linked	45	12618	895	12519	26032	26074
Form 54 - linked	46	2638	519669		522307	528153
Form 54 - non-linked	47	7	6708		6715	6497
Total	48	1072140	5526589	64350	6663079	6781116

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

**Form 51
(Sheet 1)**

Printed 24/03/2011 10:24:05

Name of insurer **Friends Life Assurance Society Limited**

Total business / subfund **Total Long-term insurance business**

Financial year ended **31st December 2010**

Units **£000**

UK Life / 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
100	Conventional whole life with-profits OB	17636	98324	2248	n/a	n/a	n/a	59310
120	Conventional endowment with-profits OB savings	35726	221497	10479	n/a	n/a	n/a	189123
125	Conventional endowment with-profits OB target cash	2851	52008	1238	n/a	n/a	n/a	46743
155	Conventional pensions endowment with-profits	3	947		n/a	n/a	n/a	2448
205	Miscellaneous conventional with-profits	30910	26762	2791	n/a	n/a	n/a	24001
210	Additional reserves with-profits OB				n/a	n/a	n/a	367
300	Regular premium non-profit WL/EA OB	245103	427960	22794	n/a	n/a	n/a	194067
390	Deferred annuity non-profit	1444	1134		n/a	n/a	n/a	8662
395	Annuity non-profit (PLA)	3260	5395		n/a	n/a	n/a	49993
410	Group Life	17	794346	4521	n/a	n/a	n/a	9032
435	Miscellaneous non-profit	11354	219443	1484	n/a	n/a	n/a	19198
440	Additional reserves non-profit OB				n/a	n/a	n/a	1425

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

**Form 51
(Sheet 2)**

Printed 24/03/2011 10:24:05

Name of insurer **Friends Life Assurance Society Limited**

Total business / subfund **Total Long-term insurance business**

Financial year ended **31st December 2010**

Units **£000**

UK Life / Reinsurance ceded external

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
100	Conventional whole life with-profits OB		66		n/a	n/a	n/a	48
300	Regular premium non-profit WL/EA OB		3		n/a	n/a	n/a	1
336	Mortality risk premium reinsurance		1383	113	n/a	n/a	n/a	311
395	Annuity non-profit (PLA)		13		n/a	n/a	n/a	687
435	Miscellaneous non-profit		13391	75	n/a	n/a	n/a	504

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

**Form 51
(Sheet 3)**

Printed 24/03/2011 10:24:06

Name of insurer **Friends Life Assurance Society Limited**

Total business / subfund **Total Long-term insurance business**

Financial year ended **31st December 2010**

Units **£000**

UK Life / Reinsurance ceded intra-group

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
395	Annuity non-profit (PLA)		5325		n/a	n/a	n/a	48913
440	Additional reserves non-profit OB				n/a	n/a	n/a	(5676)

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

**Form 51
(Sheet 4)**

Printed 24/03/2011 10:24:06

Name of insurer **Friends Life Assurance Society Limited**

Total business / subfund **Total Long-term insurance business**

Financial year ended **31st December 2010**

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
155	Conventional pensions endowment with-profits	7264	260002	1006	n/a	n/a	n/a	348084
200	Annuity with-profits (CPA)	625	5142		n/a	n/a	n/a	66234
205	Miscellaneous conventional with-profits	285	2536	17	n/a	n/a	n/a	4100
210	Additional reserves with-profits OB				n/a	n/a	n/a	50523
300	Regular premium non-profit WL/EA OB	7	141	1	n/a	n/a	n/a	60
390	Deferred annuity non-profit	26737	42508	23	n/a	n/a	n/a	643555
400	Annuity non-profit (CPA)	100349	277049		n/a	n/a	n/a	3819884
405	Annuity non-profit (CPA impaired life)	1393	7870		n/a	n/a	n/a	103921
410	Group Life	3922	479362	798	n/a	n/a	n/a	1145
435	Miscellaneous non-profit	6699	106432	574	n/a	n/a	n/a	45079
440	Additional reserves non-profit OB				n/a	n/a	n/a	10274

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

**Form 51
(Sheet 5)**

Printed 24/03/2011 10:24:07

Name of insurer **Friends Life Assurance Society Limited**

Total business / subfund **Total Long-term insurance business**

Financial year ended **31st December 2010**

Units **£000**

UK Pension / Reinsurance ceded external

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
336	Mortality risk premium reinsurance		586	5	n/a	n/a	n/a	14
400	Annuity non-profit (CPA)		120941		n/a	n/a	n/a	51232
405	Annuity non-profit (CPA impaired life)		248		n/a	n/a	n/a	2543
410	Group Life		9385	48	n/a	n/a	n/a	12
435	Miscellaneous non-profit		1183	4	n/a	n/a	n/a	38
440	Additional reserves non-profit OB				n/a	n/a	n/a	(1620)

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

**Form 51
(Sheet 6)**

Printed 24/03/2011 10:24:07

Name of insurer **Friends Life Assurance Society Limited**

Total business / subfund **Total Long-term insurance business**

Financial year ended **31st December 2010**

Units **£000**

UK Pension / Reinsurance ceded intra-group

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
400	Annuity non-profit (CPA)		128109		n/a	n/a	n/a	1701639

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

**Form 51
(Sheet 7)**

Printed 24/03/2011 10:24:08

Name of insurer **Friends Life Assurance Society Limited**

Total business / subfund **Total Long-term insurance business**

Financial year ended **31st December 2010**

Units **£000**

Overseas / 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
410	Group Life		15255	133	n/a	n/a	n/a	708

Long-term insurance business: Valuation summary of accumulating with-profits contracts

**Form 52
(Sheet 1)**

Printed 24/03/2011 10:24:08

Name of insurer **Friends Life Assurance Society Limited**

Total business / subfund **Total Long-term insurance business**

Financial year ended **31st December 2010**

Units **£000**

UK Life / 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
500	Life UWP single premium	14147	343869		333410	331889	186	332075
505	Life UWP whole life regular premium	4321	507483	5107	36825	35595	645	36240
510	Life UWP endowment regular premium - savings	2362	64350	2051	36657	35969	5392	41361
515	Life UWP endowment regular premium ? target cash	3293	87904	2567	38182	36871	42	36913
555	Group deposit administration with-profits	26	1620	55	1620	1620		1620
574	UWP investment only reinsurance		49087		49087	49087		49087

Long-term insurance business: Valuation summary of accumulating with-profits contracts

**Form 52
(Sheet 2)**

Printed 24/03/2011 10:24:09

Name of insurer **Friends Life Assurance Society Limited**

Total business / subfund **Total Long-term insurance business**

Financial year ended **31st December 2010**

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
525	Individual pensions UWP	29816	951150	9017	880540	855490	160783	1016273
535	Group money purchase pensions UWP	16851	351481	9114	305620	293064	731	293796
555	Group deposit administration with-profits	3936	310146	12032	310146	310146	737	310883
571	Trustee investment plan UWP	61	6115	36	6115	6030	545	6575
575	Miscellaneous UWP	233	39466	570	34015	32665	123	32789

Long-term insurance business: Valuation summary of accumulating with-profits contracts

**Form 52
(Sheet 3)**

Printed 24/03/2011 10:24:09

Name of insurer **Friends Life Assurance Society Limited**

Total business / subfund **Total Long-term insurance business**

Financial year ended **31st December 2010**

Units **£000**

Overseas / 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
574	UWP investment only reinsurance		26084		26084	26084		26084

Long-term insurance business: Valuation summary of property linked contracts

**Form 53
(Sheet 1)**

Printed 24/03/2011 10:24:10

Name of insurer **Friends Life Assurance Society Limited**

Total business / subfund **Total Long-term insurance business**

Financial year ended **31st December 2010**

Units **£000**

UK Life / 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
700	Life property linked single premium	108548	3240065		3175133	3175133	3692	3178825
710	Life property linked whole life regular premium	28432	2084995	18837	166625	166625	4988	171613
715	Life property linked endowment regular premium - savings	13300	261193	7194	159449	159449	2231	161680
720	Life property linked endowment regular premium ? target cash	5419	196261	4014	69016	69016	1308	70324
795	Miscellaneous property linked	66	791		791	791	71	862
800	Additional reserves property linked						2359	2359

Long-term insurance business: Valuation summary of property linked contracts

**Form 53
(Sheet 2)**

Printed 24/03/2011 10:24:10

Name of insurer **Friends Life Assurance Society Limited**

Total business / subfund **Total Long-term insurance business**

Financial year ended **31st December 2010**

Units **£000**

UK Life / Reinsurance ceded external

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
700	Life property linked single premium		1706	39				
710	Life property linked whole life regular premium		477912	2667				
715	Life property linked endowment regular premium - savings		14063	78				

Long-term insurance business: Valuation summary of property linked contracts

**Form 53
(Sheet 3)**

Printed 24/03/2011 10:24:11

Name of insurer **Friends Life Assurance Society Limited**

Total business / subfund **Total Long-term insurance business**

Financial year ended **31st December 2010**

Units **£000**

UK Life / Reinsurance ceded intra-group

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
700	Life property linked single premium		3206884		3175133	3175133	3055	3178188
710	Life property linked whole life regular premium		188111	18837	166625	166625	(3659)	162966
715	Life property linked endowment regular premium - savings		164720	7194	159449	159449	2051	161500
720	Life property linked endowment regular premium ? target cash		73844	4014	69016	69016	584	69600
795	Miscellaneous property linked		791		791	791		791

Long-term insurance business: Valuation summary of property linked contracts

**Form 53
(Sheet 4)**

Printed 24/03/2011 10:24:11

Name of insurer **Friends Life Assurance Society Limited**

Total business / subfund **Total Long-term insurance business**

Financial year ended **31st December 2010**

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
725	Individual pensions property linked	160102	3591963	38704	3448022	3361743	3574	3365317
735	Group money purchase pensions property linked	44404	914706	48824	816749	803346	2176	805522
750	Income drawdown property linked	256	40027		40027	40027	72	40099
755	Trustee investment plan	213	16430	98	15644	15428	(6)	15422
760	Small self administered schemes	2113	165373	3555	143774	137662	(73)	137589
800	Additional reserves property linked						29	29

Long-term insurance business: Valuation summary of property linked contracts

**Form 53
(Sheet 5)**

Printed 24/03/2011 10:24:12

Name of insurer **Friends Life Assurance Society Limited**

Total business / subfund **Total Long-term insurance business**

Financial year ended **31st December 2010**

Units **£000**

UK Pension / Reinsurance ceded external

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
725	Individual pensions property linked		1225	5				

Long-term insurance business: Valuation summary of property linked contracts

**Form 53
(Sheet 6)**

Printed 24/03/2011 10:24:12

Name of insurer **Friends Life Assurance Society Limited**

Total business / subfund **Total Long-term insurance business**

Financial year ended **31st December 2010**

Units **£000**

UK Pension / Reinsurance ceded intra-group

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
725	Individual pensions property linked		3448022	38704	3448022	3361743	2840	3364583
735	Group money purchase pensions property linked		816749	48824	816749	803346	2061	805407
750	Income drawdown property linked		40027		40027	40027	72	40099
755	Trustee investment plan		15644	98	15644	15428	(7)	15421
760	Small self administered schemes		143774	3555	143774	137662	(89)	137573

Long-term insurance business: Valuation summary of property linked contracts

**Form 53
(Sheet 7)**

Printed 24/03/2011 10:24:13

Name of insurer **Friends Life Assurance Society Limited**

Total business / subfund **Total Long-term insurance business**

Financial year ended **31st December 2010**

Units **£000**

Overseas / 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
715	Life property linked endowment regular premium - savings	3710	58564	3582	25039	25039	12519	37558

Long-term insurance business: Valuation summary of index linked contracts

**Form 54
(Sheet 1)**

Printed 24/03/2011 10:24:13

Name of insurer **Friends Life Assurance Society Limited**

Total business / subfund **Total Long-term insurance business**

Financial year ended **31st December 2010**

Units **£000**

UK Life / 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
905	Index linked annuity	231	4679		113418	106856	171	107027
910	Miscellaneous index linked	1	103		1289	1222	6	1228

Long-term insurance business: Valuation summary of index linked contracts

**Form 54
(Sheet 2)**

Printed 24/03/2011 10:24:14

Name of insurer **Friends Life Assurance Society Limited**

Total business / subfund **Total Long-term insurance business**

Financial year ended **31st December 2010**

Units **£000**

UK Life / Reinsurance ceded external

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
905	Index linked annuity		1812		47769	44974		44974
915	Additional reserves index linked				(1116)	(1116)		(1116)

Long-term insurance business: Valuation summary of index linked contracts

**Form 54
(Sheet 3)**

Printed 24/03/2011 10:24:14

Name of insurer **Friends Life Assurance Society Limited**

Total business / subfund **Total Long-term insurance business**

Financial year ended **31st December 2010**

Units **£000**

UK Life / Reinsurance ceded intra-group

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
905	Index linked annuity		2753		65339	61582	170	61752

Long-term insurance business: Valuation summary of index linked contracts

**Form 54
(Sheet 4)**

Printed 24/03/2011 10:24:15

Name of insurer **Friends Life Assurance Society Limited**

Total business / subfund **Total Long-term insurance business**

Financial year ended **31st December 2010**

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
905	Index linked annuity	4091	45976		764645	720250	3922	724172
910	Miscellaneous index linked	272	4655		114103	103455	2786	106241

Long-term insurance business: Valuation summary of index linked contracts

**Form 54
(Sheet 5)**

Printed 24/03/2011 10:24:15

Name of insurer **Friends Life Assurance Society Limited**

Total business / subfund **Total Long-term insurance business**

Financial year ended **31st December 2010**

Units **£000**

UK Pension / Reinsurance ceded external

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
905	Index linked annuity		18210		10695	10076		10076

Long-term insurance business: Valuation summary of index linked contracts

**Form 54
(Sheet 6)**

Printed 24/03/2011 10:24:15

Name of insurer **Friends Life Assurance Society Limited**

Total business / subfund **Total Long-term insurance business**

Financial year ended **31st December 2010**

Units **£000**

UK Pension / Reinsurance ceded intra-group

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
905	Index linked annuity		19353		312047	293960		293960

Long-term insurance business: index linked business

Form 56

Printed 24/03/2011 10:24:16

Name of insurer **Friends Life Assurance Society Limited**

Total business

Financial year ended **31st December 2010**

Units **£000**

		Value of assets	Mean term
		1	2
Analysis of assets			
Approved variable interest securities	11	426578	15.72
Other variable interest securities	12	95719	20.51
Approved fixed interest securities	13		
Other fixed interest securities	14		
Cash and deposits	15		
Equity index derivatives	16		
Inflation swaps	17		
Other assets	18	10	
Variation margin	19		
Total (11 to 19)	20	522307	
Credit rating of other fixed interest and other variable 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 and other variable interest securities	39		

Long-term insurance business - analysis of valuation interest rate**Form 57
(Sheet 1)**Name of insurer **Friends Life Assurance Society Limited**

Printed 24/03/2011 10:24:17

Total business / subfund **Total Long-term insurance business**Financial year ended **31st December 2010**Units **£000**

Product Group 1	Net mathematical reserves 2	Net valuation interest rate 3	Gross valuation interest rate 4	Risk adjusted yield on matching assets 5
UK L&GA NP Form 51	205263	2.90		4.00
UK Pens NP Form 51	2867473		3.80	4.20
UK L&GA WP Form 51	324701	3.00		4.51
UK Pens WP Form 51	468942		4.00	4.51
UK L&GA WP Form 52	506836	3.00		4.36
UK Pens WP Form 52	1713663		3.00	3.49
Misc	96971			3.95
TOTAL	6183849	n/a	n/a	n/a

Long-term insurance business: distribution of surplus

Form 58

Printed 24/03/2011 10:24:17

Name of insurer **Friends Life Assurance Society Limited**
 Total business / subfund **Total Long-term insurance business**
 Financial year ended **31st December 2010**
 Units **£000**

	Financial year 1	Previous year 2
--	----------------------------	---------------------------

Valuation result

Fund carried forward	11	6731195	6856097
Bonus payments in anticipation of a surplus	12	80803	51686
Transfer to non-technical account	13	16547	12708
Transfer to other funds / parts of funds	14		
Subtotal (11 to 14)	15	6828545	6920491
Mathematical reserves	21	6663079	6781116
Surplus including contingency and other reserves held towards the capital requirements (deficiency) (15-21)	29	165466	139375

Composition of surplus

Balance brought forward	31	12292	25000
Transfer from non-technical account	32		
Transfer from other funds / parts of fund	33		
Surplus arising since the last valuation	34	153174	114375
Total	39	165466	139375

Distribution of surplus

Bonus paid in anticipation of a surplus	41	80803	51686
Cash bonuses	42		
Reversionary bonuses	43	68116	62689
Other bonuses	44		
Premium reductions	45		
Total allocated to policyholders (41 to 45)	46	148919	114375
Net transfer out of fund / part of fund	47	16547	12708
Total distributed surplus (46+47)	48	165466	127083
Surplus carried forward	49		12292
Total (48+49)	59	165466	139375

Percentage of distributed surplus allocated to policyholders

Current year	61	90.00	90.00
Current year - 1	62	90.00	90.00
Current year - 2	63	90.00	90.00
Current year - 3	64	90.00	90.00

Long-term insurance business: With-profits payouts on maturity (normal retirement)

Form 59A

Printed 24/03/2011 10:24:18

Name of insurer **Friends Life Assurance Society Limited**

Original insurer **Friends Life Assurance Society Limited**

Date of maturity value/open market option

Category of with-profits policy	Original term (years)	Maturity value / open market option	Terminal bonus	MVA	CWP / UWP	MVA permitted?	Death benefit
1	2	3	4	5	6	7	8
Endowment assurance	10	n/a	n/a	n/a	n/a	n/a	n/a
Endowment assurance	15	11405	294		CWP	N	11405
Endowment assurance	20	21337	3231		CWP	N	21337
Endowment assurance	25	36077	8063		CWP	N	36077
Regular premium pension	5	n/a	n/a	n/a	n/a	n/a	n/a
Regular premium pension	10	n/a	n/a	n/a	n/a	n/a	n/a
Regular premium pension	15	51472	7065		UWP	N	51472
Regular premium pension	20	93099	18978		UWP	N	93099
Single premium pension	5	n/a	n/a	n/a	n/a	n/a	n/a
Single premium pension	10	n/a	n/a	n/a	n/a	n/a	n/a
Single premium pension	15	25396	6772		UWP	N	25396
Single premium pension	20	39970	10125		UWP	N	39970

Long-term insurance business: With-profits payouts on surrender

Form 59B

Printed 24/03/2011 10:24:19

Name of insurer **Friends Life Assurance Society Limited**

Original insurer **Friends Life Assurance Society Limited**

Date of surrender value

Category of with-profits policy	Duration at surrender (years)	Surrender value	Terminal bonus	MVA	CWP/UWP	MVA permitted?	Death benefit
1	2	3	4	5	6	7	8
Endowment assurance	5	n/a	n/a	n/a	n/a	n/a	n/a
Endowment assurance	10	n/a	n/a	n/a	n/a	n/a	n/a
Endowment assurance	15	8247			CWP	N	18500
Endowment assurance	20	17068	1249		CWP	N	26670
With-profits bond	2	n/a	n/a	n/a	n/a	n/a	n/a
With-profits bond	3	n/a	n/a	n/a	n/a	n/a	n/a
With-profits bond	5	n/a	n/a	n/a	n/a	n/a	n/a
With-profits bond	10	n/a	n/a	n/a	n/a	n/a	n/a
Single premium pension	2	n/a	n/a	n/a	n/a	n/a	n/a
Single premium pension	3	n/a	n/a	n/a	n/a	n/a	n/a
Single premium pension	5	n/a	n/a	n/a	n/a	n/a	n/a
Single premium pension	10	n/a	n/a	n/a	n/a	n/a	n/a

Long-term insurance capital requirement

Form 60

Printed 24/03/2011 10:24:20

Name of insurer **Friends Life Assurance Society Limited**

Global business

Financial year ended **31st December 2010**

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%	1278848	1271113	0.99	1269
Classes I (other), II and IX	13	0.15%				
Classes I (other), II and IX	14	0.3%	1668575	1653849		4968
Classes III, VII and VIII	15	0.3%	2825458	2649292	0.94	7948
Total	16		5772881	5574254		14185
						16582

Insurance health risk and life protection reinsurance capital component

Class IV, supplementary classes 1 and 2 and life protection reinsurance	21					338
						382

Insurance expense risk capital component

Life protection and permanent health reinsurance	31	0%				
Classes I (other), II and IX	32	1%	7270857	5472510	0.85	61802
Classes III, VII and VIII (investment risk)	33	1%	1814809	1168999	0.85	15426
Classes III, VII and VIII (expenses fixed 5 yrs +)	34	1%				
Classes III, VII and VIII (other)	35	25%				12797
Class IV (other)	36	1%	10141	9841	0.97	98
Class V	37	1%				
Class VI	38	1%	54806	54806	1.00	548
Total	39					90671
						78496

Insurance market risk capital component

Life protection and permanent health reinsurance	41	0%				
Classes I (other), II and IX	42	3%	7270857	5472510	0.85	185407
Classes III, VII and VIII (investment risk)	43	3%	1814809	1168999	0.85	46278
Classes III, VII and VIII (expenses fixed 5 yrs +)	44	0%				
Classes III, VII and VIII (other)	45	0%	7725002	25039		
Class IV (other)	46	3%	10141	9841	0.97	295
Class V	47	0%				
Class VI	48	3%	54806	54806	1.00	1644
Total	49		16875615	6731195		233624
						235317

Long term insurance capital requirement	51					338818
						330777

Name of Insurer **Friends Life Assurance Society Limited**

Financial year ended **31 December 2010**

NOTES TO THE RETURN

***0201* - Directions modifying the Accounts and Statements Rules**

The FSA, on the application of the firm, made a direction under section 148 of the Financial Services and Markets Act 2000 in November 2009. The effect of the direction is to modify the provisions of INSPRU 3.1.35R and IPRU(INS) Appendix 9.3 so that a more appropriate rate of interest is used for assets taken in combination, see note 5702.

***0301* - Reconciliation of net admissible assets to total capital resources after deductions**

	2010	2009
	£000	£000
Grand total of admissible assets after deduction of market risk and counterparty limits – other than long term business	306,515	249,824
Grand total of admissible assets after deductions of market risk and counterparty limits – long term business	8,225,122	7,961,439
Mathematical reserves, after distribution of surplus	(6,731,195)	(6,843,805)
Total other insurance and non-insurance liabilities	(273,946)	(183,988)
Total liabilities – other than long term business	(2,040)	(3,668)
Total capital resources after deductions	<u>1,524,456</u>	<u>1,179,802</u>

***0307* - Reinsurance arrangement contributing to Form 3 Line 93**

The Society historically provided new business financing for Friends SLPM Limited (formerly Sun Life Pensions Management Ltd). This business was transferred to Friends Life Company Limited (formerly AXA Sun Life Plc), which reinsures the Society's unit linked pensions business. Although the financing was in connection with reinsurance ceded, with the agreement of the FSA the relevant amount, reflecting the financing element of this arrangement, has been shown under line 93 (Financial Reinsurance – accepted) for clarity.

As at the valuation date:

- No allowance was made for this arrangement in determining the mathematical reserves, as repayments are contingent on future profits of Friends Life Company Limited. Thus the reinsurance liability (i.e. the amount of the difference between the mathematical reserves at the valuation date allowing for the arrangement and the amount of the mathematical reserves were this arrangement to be ignored) was zero.
- The amount of the contingent asset for payment from Friends Life Company Limited under this arrangement at the valuation date was £61.2m.
- There is no formal provision to terminate this agreement for existing business, so there is no commutation value.

Name of Insurer **Friends Life Assurance Society Limited**

Financial year ended **31 December 2010**

NOTES TO THE RETURN

***0310* – Valuation Differences**

	2010	2009
	£000	£000
Difference between Long-term Business Provision calculated on a realistic basis and mathematical reserves	1,313,373	1,091,351
Amount outstanding under reinsurance contract with Friends Life Company Limited (see note 0307)	(61,233)	(78,054)
	<u>1,252,140</u>	<u>1,013,297</u>

***0313* - Reconciliation of profit and loss account and other reserves to profit or loss retained**

	2010	2009
	£000	£000
Profit and loss account and other reserves brought forward	331,381	314,598
Profit/(loss) retained for the year	(8,143)	16,783
Profit and loss account and other reserves carried forward	<u>323,238</u>	<u>331,381</u>

1304

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***1310* – Amounts set off**

Certain amounts shown in Form 13 have been set off to the extent permitted by generally accepted accounting principles.

1305

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***1319* - Maximum counterparty limits**

Under the Insurer's Investment Guidelines, the maximum exposure of individual portfolios to a single counterparty for fixed income securities depends on the rating of the counterparty. The maximum exposure is calculated by multiplying the relevant rating limit expressed as a percentage by the portfolio base.

The relevant rating limits expressed as a percentage are as follows:

RATING	Corporate	Supra National and Government Related	Non Domestic Sovereign	Domestic Sovereign
AAA	4.0%	No Limit	No Limit	No Limit
AA+	3.3%			
AA	3.0%			
AA-	2.5%			
A+	2.0%	2.0%	2.0%	
A	1.6%	1.6%	1.6%	
A-	1.2%	1.2%	1.2%	

Name of Insurer **Friends Life Assurance Society Limited**

Financial year ended **31 December 2010**

NOTES TO THE RETURN

RATING	Corporate	Supra National and Government Related	Non Domestic Sovereign	Domestic Sovereign
BBB+	1.0%	1.0%	1.0%	No Limit
BBB	0.7%	0.7%	0.7%	
BBB-	0.4%	0.4%	0.4%	
BB+	0.2%	No Limit	No Limit	
BB	0.1%			
BB-	0.05%			
Below BB-	0.05%			

The portfolio base is the total fixed income (excluding private loans) and cash portfolios for sovereign issuers. For corporate and supranational issuers, the portfolio base is calculated as the greater of the corporate bonds portfolio (excluding mortgage backed securities) or 50% of the total fixed income and cash portfolios.

The Investment Manager is authorised to select trading counterparties to be used on behalf of the Company subject to the following requirements:

- All counterparties have been formally approved by the Investment Manager's principal credit forum prior to a business relationship starting.
- No counterparty with a credit rating below A- (or equivalent) will be approved.

Limits set out in the Financial Services Authority Handbook must also be applied.

A 4.5% FTSE All Share capped benchmark ('benchmark') is adopted for equities. Within a single portfolio the UK equity concentration limit for the largest 250 FTSE stocks is set at 1.5% above benchmark and is subject to an absolute maximum of 6%. The limit for other FTSE All Share stocks is set at 1% above benchmark and is subject to an absolute maximum of 5.5%. For overseas equities the equity concentration limit is set at 1.5% above benchmark.

The maximum permitted aggregate holding across all relevant portfolios of UK equity must not exceed 10% of the free float market capitalisation ('free float') and for overseas equity must not exceed 4% of total market capitalisation. The maximum permitted exposure in respect of UK equities for the With Profits portfolios is 7% of the free float. The equity limits do not apply to holdings in collective investment vehicles and investment trusts given the inherent diversification properties of these vehicles.

For portfolios managed by the Investment Manager, Alliance Capital, the equity concentration limit has been set so that the absolute holding must not be more than 5% above benchmark.

Name of Insurer **Friends Life Assurance Society Limited**

Financial year ended **31 December 2010**

NOTES TO THE RETURN

Management of cash has been delegated to the Investment Manager via a mutual investment umbrella fund organised under the laws of Luxembourg. The concentration and counterparty exposure limits of this fund are set along two dimensions: (1) country limits and (2) individual name limits. Exposure to a particular country is limited depending on whether the issuer is a government related issuer of a particular country (10%) or a financial institution domiciled in a particular country (ranging from 25% in the UK to 2.5% in a number of European Countries). No maximum exposure limits apply to government and government related issuers in the UK. With regards to the individual name limits, investments in financial institutions are permitted into issuers deemed national champions (i.e. likely to be supported by their respective governments in a crisis) subject to a certain percentage. Investment in corporate institutions are permitted subject to a minimum credit rating of A1/P1/ AA-, a maximum exposure to individual corporate institutions of 2% and a maximum overall exposure to corporate institutions of nil.

The maximum risk adjusted exposure to a single counterparty arising from either of derivative and securities lending activity is limited to 1% of the market value of each of the individual portfolios within the Society but subject to an overall limit of 0.5% of the market value of the sum of all the individual portfolios within the Society.

During 2010 there have been no breaches in respect of the equity limits. Breaches in respect of fixed income were monitored at a total AXA UK group level until the Society was acquired by Resolution Limited on 15 September 2010. During the period to 15 September 2010 the maximum exposure limits to a single counterparty for fixed income were breached in respect of several counterparties for portfolios within the Society. Following the acquisition a decision was taken to provide blanket waivers for all fixed income breaches on the basis that the counterparty and concentration limits are in the process of being reviewed. Therefore as at 31 December 2010 there were no limits in breach in respect of fixed income.

1306

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***1312* - Exposure at year end to large counterparties**

At the year end there were no exposures, of types subject to market risk and counterparty exposure limits, which exceed 5% of the sum of the Society's base capital resources requirement and long term insurance liabilities, excluding property linked liabilities and net of reinsurance ceded.

1307

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***1313* – Aggregate value of certain fully secured rights**

The aggregate value of fully secured rights on 31 December 2010 was £36.3m (2009: £47.2m).

***1308* – Aggregate value of assets**

	2010	2009
	£000	£000
The aggregate value of:		
Unlisted investments	367,716	91,741
Listed investments which are not readily realisable	25,540	22,097
Units in collective investment schemes that are not schemes falling within the UCITS Directive	30,276	42,936

Name of Insurer **Friends Life Assurance Society Limited**

Financial year ended **31 December 2010**

NOTES TO THE RETURN

***1309* - Aggregate value of hybrid securities**

The aggregate value of hybrid securities included at line 46 and line 48 is £291.2m (2009: £543.6m).

***1318* - Other asset adjustments**

The amount included at line 101 on Form 13 is as follows:

	Long Term Fund	
	2010	2009
	£000	£000
Gross up difference on futures	6,168	-

1401

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***1501* – Provision for reasonably foreseeable adverse variations**

The Society identified and reviewed all assets which are valued by marking to model, which are subject to restrictions or agreements relating to transactions or which could potentially be subject to less liquid positions. It was determined, following consultation with the investment managers, that none of these assets required an adjustment pursuant to GENPRU 1.3.30R to GENPRU 1.3.33R.

The Society reviewed its investments to identify whether any provisions were required pursuant to INSPRU 3.2.17R and INSPRU 3.2.18R. It was determined that in each case, sufficient cover is held and no such provisions were required.

1402

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***1502* - Long term and other than long term insurance business assets / liabilities**

a) Charges on assets

No charge has been made on the assets of the Society to secure the liabilities of any other person.

b) Provision for capital gains tax

A capital gains tax liability of £16.1m (2009: £10.7m) would arise if the Society were to dispose of all of its assets.

c) Contingent liabilities

The Society had no contingent liabilities.

Name of Insurer **Friends Life Assurance Society Limited**

Financial year ended **31 December 2010**

NOTES TO THE RETURN

d) Guarantees, indemnities or other contractual commitments

The Society has provided indemnity to a fellow subsidiary, Friends Life Services Limited (formerly AXA Sun Life Services Plc) (FLS), which acts as a distributor and third party administrator for the Society's products and services. This indemnity is provided in the event of FLS becoming insolvent, to meet and deal with any civil liability which FLS has incurred to investors (i.e. policyholders) in the course of its marketing of investments which the Society is party to. Any liability arising from the indemnity would be met with other than long term fund assets.

e) Other uncertainties

Levies are made under the Financial Services Compensation Scheme (FSCS) to compensate consumers in the event of the failure of any firm authorised under the Financial Services and Markets Act 2000. At the end of the financial year, no amounts had been provided for such levies.

Provision has been made for the best estimate of the potential redress to policyholders in respect of endowment mortgage product flaws.

***1405* - Other liability adjustments**

The amounts included at line 74 of Form 14 are as follows:

	2010	2009
	£000	£000
Valuation difference (see note 0310)		
- Difference between Long-term Business Provision calculated on a realistic basis and mathematical reserves	1,313,373	1,091,351
Gross up difference on futures	6,168	-
	<u>1,379,541</u>	<u>1,091,351</u>

***1406* - Increase or decrease in the value of non-linked assets**

The value of non-linked assets increased during the year by £145.5m (2009: decrease by £21.9m).

1601

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***4005* - Basis of foreign currency conversion**

Income and expenditure in foreign currencies are translated to Sterling at the rate of exchange current at the transaction date.

***1700* - Submission of blank form**

The Society held no derivative contracts as other than long term insurance business assets at any time during the year and so no Form 17 relating to other than long term insurance business assets is required.

Name of Insurer **Friends Life Assurance Society Limited**

Financial year ended **31 December 2010**

NOTES TO THE RETURN

1701 – Variation margin

The excess variation margin (unsettled at the balance sheet date) was £1.7m (2009: £nil), none of which is offset against line 44 of Form 13.

1702 – Use of quasi derivatives

a) The aggregate value of rights in respect of assets which have the effect of derivative contracts at the end of the financial year was £975.9m (2009: £1,218.7m). The amounts contributed to each line in Form 13 in respect of quasi derivatives is as follows:

	2010	2009
	£000	£000
Line 45	37,615	42,641
Line 46	914,282	1,159,583
Line 48	24,011	16,520
	<u>975,908</u>	<u>1,218,744</u>

b) The aggregate amount of liabilities under contracts which have the effect of derivative contracts did not exceed 2.5% of the aggregate amounts shown in Form 14 lines 15 to 39 or Form 15 lines 31 to 51.

1901 - Financing costs

The entry at line 45 of Form 19 includes the impact of the arrangements with Friends Life Company Limited as described in note 0307.

4002 - Particulars of other income

	2010	2009
	£000	£000
Interest received on late premiums	101	105
Other	262	753
	<u>363</u>	<u>858</u>

4008 - Management services

During the financial year ended 31 December 2010, investment management services have been provided to the Society by subsidiaries of AXA Investment Managers UK Limited. Various other management services have been provided by Friends Life Services Limited, a fellow subsidiary company.

Name of Insurer **Friends Life Assurance Society Limited**

Financial year ended **31 December 2010**

NOTES TO THE RETURN

***4009* - Material connected party transactions**

During the financial year ended 31 December 2010 the Society carried out the following transactions with other companies in the group, which exceed 5% of the Society's liabilities arising from its long-term insurance business, excluding property linked liabilities and net of reinsurance ceded.

Transacting Party	Relationship	Type of Transaction	Amount £000
Friends Life Company Limited	Group Undertaking	Reassurance claims received	965,393

***4010* - Investment income relating to linked assets**

The amount of investment income relating to linked assets in Line 12 of Form 40 is £27.3m (2009: £34.5m).

***4201* - Analysis of claims**

The intra-group reinsurance claims reported in Form 42 are reclaimed under reinsurance arrangements with Friends Life Company Limited which is another insurance company. The analysis of claims shown reflects the nature of the claim from the perspective of the initial insurer.

***4401* - Basis for valuation of assets**

Invested assets are included at market value in accordance with the policy terms.

***4803* - Yields not determined by reference to the final redemption date**

In the case of a fixed interest security that may be redeemed at different dates at the option of the issuer, the yield is determined with reference to both the final redemption date and the first call date. The yield is taken to be the lower of the two. The total value included in Form 49 line 61 in respect of securities that may be redeemed at different dates at the option of the issuer is £533m.

***4804* - Yields of 'other assets'**

The assets included in lines 18 and 28 of Form 48 break down as follows:

	Market Value	Yield
	£m	%
Cash	209	0.00%
Derivative exposure (assumed to receive the cash return)	48	0.00%
Policy loans	1	0.65%
Miscellaneous assets bearing little or no income	432	3.12%

Name of Insurer **Friends Life Assurance Society Limited**

Financial year ended **31 December 2010**

NOTES TO THE RETURN

***4806* - Assets used to determine investment returns in column 5**

The assets included in the calculation of investment returns shown in column 5 are the assets underlying the calculation of asset shares. The asset categories used for asset share return calculations are not in all cases the same as the categories in lines 21-29 of column 2, and have been defined as follows:

Line	Assets included
21	Properties including investments in property through collective investment schemes and limited partnerships.
22 & 23	Non-index-linked gilts and corporate bonds. An approximate basis has been used to split the return between the two lines.
24	Index-linked gilts and bonds and floating rate bonds.
25-27	Equities, equity futures and collective investment schemes investing in equities. An approximate method has been used to split the return on all equities (used in asset share calculations) between these three lines.
28	All assets included in the calculation of asset shares but not included in lines 21-27, the majority of which is cash.

The weighted average in line 29 of column 5 is that applicable to asset shares of policies denominated in sterling. Other policies have a different asset mix.

***4901* - Source of credit ratings**

Credit ratings from Standard & Poor's, Moody's and Fitch are used. If more than one is available the lowest rating is used. If all three ratings are available, discretion is applied if one rating appears out of line with the other two. In the absence of all three a prudent internal rating is used.

***5103* - Products classified as miscellaneous**

The following product with reserves in excess of £10m has been classified under miscellaneous product code 205:

- Moneysaver (level term assurance with a small with profits maturity benefit)

The following product with reserves in excess of £10m has been classified under miscellaneous product code 435:

- Postponed retirements and other deferred maturities where the benefit is expressed in cash form

Name of Insurer **Friends Life Assurance Society Limited**

Financial year ended **31 December 2010**

NOTES TO THE RETURN

***5104* - Approximations in apportionments between product codes**

Conventional with profits endowment assurances have been allocated to product code 125 (target cash) if the policy record includes features generally indicative of mortgage repayment policies and to product type 120 (savings) otherwise.

With the exception of one clearly identified group scheme, with profits Pension Builders have been allocated to product code 155. It is possible that some of these policies form part of small group schemes, which should be allocated to product code 185, but it is not possible to identify such policies reliably.

***5203* - Details of policies included in the miscellaneous product code**

The following product with gross mathematical reserves in excess of £10m has been classified under miscellaneous product code 575:

- Unitised with profits partly-insured Flexible Suntrust Plans (pensions policies issued in conjunction with small self-administered schemes)

***5204* - Approximations used to apportion between product codes**

Unitised with profits endowment assurances have been allocated to product code 515 (target cash) if the policy record includes features generally indicative of mortgage repayment policies and to product code type 510 (savings) otherwise.

***5304* - Approximations used to apportion between product codes**

Unit-linked endowment assurances have been allocated to product code 720 (target cash) if the policy record includes features generally indicative of mortgage repayment policies and to product code type 715 (savings) otherwise.

***5403* - Products classified as miscellaneous**

The following product with reserves in excess of £10m has been classified under miscellaneous product code 910:

- Index-linked deferred annuity

***5702* Risk adjusted yield calculation**

On the 19 November 2009, the Company was granted a waiver to allow the risk adjusted yield in column 5 of Form 57 to be calculated based on the overall basket of assets backing product groups. The following lines within Form 57 have been calculated using this modified methodology:

Product Group	Original Risk Adjusted Yield	Modified Risk Adjusted Yield
UK Pens NP Form 51	4.00%	4.20%

Name of Insurer **Friends Life Assurance Society Limited**

Financial year ended **31 December 2010**

NOTES TO THE RETURN

***6001* - Insurance health risk and life protection reinsurance capital component**

The entry in line 21 of Form 60 is at least as large as the amount that would be obtained if Forms 11 and 12 were to be completed. The method used to estimate the entry in line 21 has followed the requirements for Form 11 and Form 12, with use of prudent estimates where data items are not available.

The gross annual premiums in force at 31 December 2010 in respect of Class IV business, life protection reinsurance business and supplementary accident and sickness insurance amount to £0.7m.

Name of Insurer: **Friends Life Assurance Society Limited**

IPRU(INS) Rule 9.31(a) and Appendix 9.4

VALUATION REPORT

Throughout this report the following notation is used:

the Society	denotes	Friends Life Assurance Society Limited (FLAS) (formerly Sun Life Assurance Society Plc)
FLS	denotes	Friends Life Services Limited (formerly AXA Sun Life Services Plc)
FLC	denotes	Friends Life Company Limited (formerly AXA Sun Life Plc)

Internal reinsurance arrangements as at 31 December 2010

The reinsurance (which commenced during 2009) of 50% of most of the non-profit pensions annuities in payment to FLC remains in force. The arrangement is closed to new business. The expense risk on the business is retained within FLAS.

The reinsurance (from 31 December 2008) of 100% of the non-profit life annuities in payment to FLC remains in force. The arrangement is closed to new business.

The reinsurance (from 1 January 2007) of unit linked business to FLC remains in force. This reinsurance includes the unit liabilities and most policy charges, but excludes most mortality risk and all morbidity risk. Expenses in respect of reinsured policies are charged to FLC.

1. Valuation date

- (1) The actuarial investigation relates to a valuation date of 31 December 2010.
- (2) The valuation date of the previous investigation was 31 December 2009.
- (3) There have been no interim valuations (for the purpose of IPRU(INS) rule 9.4) since the previous valuation date.

2. Changes to product range in 2010

There were no changes to any individual life or pensions products during 2010.

There were no new corporate pension products or changes to product features on existing products in 2010. Following the acquisition of Sun Life Assurance Society Plc by Friends Provident Holdings (UK) plc, all corporate pension products were closed to new business but remain open to new joiners and increments to existing schemes.

Statement relating to With Profits business

The Society was closed to new business except by increment with effect from 31 July 2009.

3. Discretionary charges and benefits

(1) Application of Market Value Reduction

During 2010, a Market Value Reduction (MVR) was applied on discontinuance (where permitted, and subject to relevant minima) in respect of the following unitised with profits products effected in the policy years set out below:

Product Description	Period That MVR Applied		Policy Date of Entry
	From	To	
Onshore Bonds	01/01/2010	31/12/2010	1999-2000

(2) Changes to premiums on reviewable non-linked protection policies

No reviewable non-linked protection policies were eligible for a premium review during 2010.

(3) Non-profit deposit administration benefits

The Society does not have any policies with non-profit deposit administration benefits.

(4) Service charges on linked policies

Service charges for unit-linked policies changed as follows during 2010 or with effect from 1 January 2011:

No change:

Unit-linked pensions (except where described below)

Increase of approximately 4.8% (in line with Retail Prices Index to July 2010):

Flexible Pensions (except paid-up pensions)

Increase of approximately 4.6% (in line with Retail Prices Index to September 2010):

Flexible Cover Plan
Flexible Mortgage Plan

Increase of approximately 2.5% (in line with National Average Earnings Index to July 2010):

Private pension funds

(5) Benefit charges on linked policies

No changes to mortality or morbidity charges for unit-linked policies took place during 2010.

(6) Fund management charges

During 2010, the net annual management charge (the fund charge after rebate) was changed for the following funds:

Fund	Net Annual Management Charge		Fund size at 31/12/2010 £000
	Old	New	
Baillie Gifford Managed Fund Pension	0.26%	0.25%	30,414
Close UK Escalator 100 Pension	0.39%	0.45%	6,452
Investec Cautious Managed Life	0.63%	0.75%	30,648
Investec Cautious Managed Pension	0.63%	0.75%	8,636
Investec Managed Distribution Life	0.63%	0.75%	619
Investec Managed Distribution Pension	0.63%	0.75%	637

There are no notional charges to accumulating with profits policies.

(7) Unit pricing methods

The Society does not operate internal linked funds. As indicated in the note at the start of this report, all investments in such funds are reinsured to FLC.

Gross unit linked business in FLAS adopts the unit pricing methodology as in FLC.

(8) Tax deductions from unit-linked funds

See 3.(7).

(9) Tax provisions for unit-linked funds

See 3.(7).

(10) Discounts on purchases of units

See 3.(7).

4. Valuation basis (other than for special reserves)

The valuation bases set out in section 4 relate to groups of products where the gross mathematical reserves or the gross annual premiums exceed £10m. The grouping of products is that relevant to the particular method or assumption.

(1) Valuation methods

General principles and methods used in the valuation

The valuation bases have been determined with regard to the nature and the term of the assets available to meet the liabilities valued.

The reserves were determined on a prudent basis in accordance with actuarial principles, taking account of the underlying nature of the contracts.

Full allowance has been made in the valuation for the effects of the ceding of premiums and risk under the various reinsurance arrangements in place at the valuation date.

Any negative reserves arising on any policy have been eliminated.

A provision has been made to cover the possibility of default by the internal and external reinsurers.

Conventional Business

A gross premium method of valuation has been used. No allowance for future bonuses has been made for with profits business.

For products where the reserves otherwise calculated are less than the discontinuance value for a material proportion of policies, the reserve for each policy has been increased where necessary to ensure that it is not less than the amount payable on discontinuance. Furthermore, the reserve is not less than the amount required so that, on the valuation assumptions, this condition will be satisfied at all times in the future.

It is assumed that discontinuance values are payable only in circumstances where the policyholder might reasonably expect a discontinuance value to be paid. The assumed amount of discontinuance value is determined using bases currently in force, excluding amounts arising from future bonus distributions.

For the main classes of life with profits business, an allowance for future voluntary discontinuance has been made; discontinuance values are determined in the same way as described above. No allowance has been made for voluntary discontinuance of with profits pensions business (where almost all policies have attaching Guaranteed Annuity Rates).

For non-profit pension and other annuity business, the valuation interest rate has been derived using a portfolio internal rate of return on the assets backing the liabilities. The Society has a waiver under section 148 of the Financial Services and Markets Act 2000 to perform this calculation.

Provision for investment expenses is made by way of a margin between the yield on the assets and the valuation rate of interest.

For conventional pensions policies in postponed retirement where the benefit at normal retirement date is expressed in the form of a cash sum, the reserves are equal to the value of benefit that would be payable on immediate retirement. This is equal to the cash sum payable at normal retirement date plus interest added in respect of the period of postponement.

Unit-linked Business

For each unit-linked policy the gross reserve is the sum of:

- (i) the value of units allocated at the valuation date, discounted, in the case of capital units and certain accumulation units subject to a discontinuance charge, at a rate not exceeding the rate of future annual management charge or other periodic charges; and
- (ii) a non-unit reserve.

For most unit-linked business, unit liabilities are reassured to FLC, and the net unit reserve is zero.

For each individual policy the non-unit reserve is determined by discounting the expected future net cash flow determined on a set of assumptions relating to mortality, interest, expenses and future unit prices. Unit prices are assumed to grow from the prices calculated on the valuation date. Regard is had in the calculations to present and future discontinuance values under each policy so that the total reserve for each policy is adequate for the discontinuance value to be met at any time.

For classes where it is prudent to do so (mainly group pensions business), the payment of future premiums is ignored in determining the non-unit reserve.

Unitised With Profits and Deposit Administration Business

The reserve for each plan is calculated using a gross premium valuation method, with no allowance for future bonuses except where guaranteed. Allowance is made for guaranteed minimum annual rates of return for deposit administration business.

The reserve is subject to a minimum to ensure that it is not less than the amount payable on discontinuance. Furthermore, the reserve is not less than the amount required so that, on the valuation assumptions, this condition will be satisfied at all times in the future. In determining the assumed current and future discontinuance values, allowance is made for Market Value Reductions (MVR) where they were actively being applied at the valuation date (Section 3(1)).

For most classes, the calculation of the reserves makes an allowance for future voluntary discontinuance. The assumed amount payable on discontinuance is the same as is used to determine the minimum reserves, as described above.

Provision for investment expenses is made by way of a margin between the yield on the assets and the valuation rate of interest.

(2) Valuation interest rates

The FSA, on the application of the firm, made a direction under section 148 of the Financial Services and Markets Act 2000 in November 2009. The effect of the direction is to modify the provisions of *INSPRU* 3.1.35R and *IPRU(INS)* Appendix 9.3 so that a more appropriate rate of interest is used for assets taken in combination.

In line with the above direction, the valuation interest rate for non-profit pension and other annuity business has been derived using a Portfolio Internal Rate of Return calculation.

	31 December 2010	31 December 2009
	%	%
Unitised with profits and deposit administration	3.00	3.00
Conventional with profits life	3.00	3.00
Conventional with profits pensions and with profits annuities	4.00	4.00
Non-profit life	2.90	3.35
Non-profit pensions and other annuities (in-payment and deferred)	3.80	4.35
Life Annuity business reinsured to FLC	3.00	3.55
RPI-linked benefits	0.40	0.55
Unit-linked life	2.90	3.35
Unit-linked pensions	3.65	4.20
Annuity guarantees in payment (except where valued using stochastic methods)	3.30	3.70

(3) Risk adjustments to yields

In determining risk adjusted yields reported in Form 57, the following adjustments have been made, in addition to the 2.5% reduction required by INSPRU 3.1.28R.

Fixed interest

The following deductions have been made from gross redemption yields:

Rating	Term to redemption (years)		
	<10 % p.a.	10-20 % p.a.	>20 % p.a.
AAA	0.12	0.11	0.16
AA	0.56	0.45	0.41
A	1.04	0.71	0.63
BBB	2.03	1.45	1.26
BB	3.87	2.96	2.53
B	5.44	4.22	3.84
CCC	12.80	8.30	6.86

For assets within the Non-Profit portfolio, an additional 15% margin is applied.

For subordinated debt, the above deductions are increased by a factor of 1.2.

The credit risk adjustments are subject to a maximum of the size of the spread on any individual asset.

For fixed interest stocks with a lower rating than CCC, individual deductions are calculated to reduce the gross redemption yield to the yield on a gilt of equivalent term.

For fixed interest stocks with a rating of D, the gross redemption yield is set to zero.

The risk adjusted yields on individual bonds are subject to a cap of 30%.

Equities

Yields have been reduced by 0.1% and have been constrained not to exceed 7.50% p.a.

Property

A deduction of 2.5% of the yield applies.

(4) Mortality

Product group	31 December 2010		31 December 2009	
	Males	Females	Males	Females
With profits endowment assurance (Moneysaver)	155% AMC00 ult	130% AFC00 ult	90% AM80 sel	90% AF80 sel
With profits endowment assurance (Top Flight)	140% AMC00 ult	125% AFC00 ult	160% AMC00	155% AFC00
Other with profits endowment assurance	90% AMC00 ult	95% AFC00 ult	57.5% AM92 ult	75% AF92 ult
With profits whole life	95% AMC00 ult	95% AFC00 ult	85% AM92 ult	100% AF92 ult
Non-profit endowment assurance	65% AM92 ult	65% AF92 ult	65% AM92 ult	65% AF92 ult
Guaranteed Over 50 Plan	modified ELT14M	modified ELT14F	modified ELT14M	modified ELT14F

Product group	31 December 2010		31 December 2009	
	Males	Females	Males	Females
Other non-profit whole life	105% AM92 ult	135% AF92 ult	105% AM92 ult	135% AF92 ult
Conventional pensions in deferment	75% AM92 ult	75% AF92 ult	75% AM92 ult	75% AF92 ult
Pensions annuities in payment	90.5% PCMA00 2000-2010 100% medium cohort with 1.5% floor Post 2010 100% medium cohort with 2.1% floor	90.5% PCFA00 2000-2010 75% medium cohort with 1.25% floor Post 2010 75% medium cohort with 1.8% floor	82.5% PCMA00 2000-2004 100% medium cohort Post 2004 100% medium cohort with 1.7% floor	82.5% PCFA00 2000-2004 100% medium cohort Post 2004 75% medium cohort with 1.5% floor
Non-pensions annuities in payment	75% IM80 C=2010	75% IF80 C=2010	75% IM80 C=2010	75% IF80 C=2010
Deferred pensions annuities and annuity guarantees (after deferment)	90.5% PCMA00 2000-2010 100% medium cohort with 1.5% floor Post 2010 100% medium cohort with 2.1% floor	90.5% PCFA00 2000-2010 75% medium cohort with 1.25% floor Post 2010 75% medium cohort with 1.8% floor	80.0% PCMA00 2000-2004 100% medium cohort Post 2004 100% medium cohort with 1.7% floor	80.0% PCFA00 2000-2004 100% medium cohort Post 2004 75% medium cohort with 1.5% floor
Bonds	105% AMC00 ult	120% AFC00 ult	105% AMC00 ult	120% AFC00 ult
Other unit-linked and unitised with profits life	modified AM80 sel	modified AF80 sel	modified AM80 sel	modified AF80 sel
Flexible pensions (group personal pensions)	modified AM80 ult	modified AF80 ult	modified AM80 ult	modified AF80 ult
Flexible pensions (other)	modified AM80 sel	modified AF80 sel	modified AM80 sel	modified AF80 sel
Other unit-linked pensions	modified A67/70 ult	modified AF80 ult	modified A67/70 ult	modified AF80 ult

Where the mortality table is described above as modified, the following are specimen mortality rates used at 31 December 2010:

Age	Males			Females		
	Non-smoker	Smoker	Aggregate	Non-smoker	Smoker	Aggregate
<u>Guaranteed Over 50 Plan</u>						
25	n/a	n/a	0.00089	n/a	n/a	0.00043
35	n/a	n/a	0.00124	n/a	n/a	0.00086
45	n/a	n/a	0.00365	n/a	n/a	0.00241
55	n/a	n/a	0.01546	n/a	n/a	0.00940
<u>Other unit-linked and unitised with profits life</u>						
25	0.00049	0.00072	n/a	0.00024	0.00034	n/a
35	0.00056	0.00082	n/a	0.00046	0.00066	n/a
45	0.00169	0.00246	n/a	0.00118	0.00171	n/a
55	0.00549	0.00802	n/a	0.00325	0.00470	n/a
<u>Flexible pensions (group personal pensions)</u>						
25	n/a	n/a	0.00050	n/a	n/a	0.00023
35	n/a	n/a	0.00057	n/a	n/a	0.00045
45	n/a	n/a	0.00171	n/a	n/a	0.00116
55	n/a	n/a	0.00556	n/a	n/a	0.00318
<u>Flexible pensions (other)</u>						
25	0.00048	0.00071	0.00053	0.00023	0.00034	0.00026
35	0.00055	0.00080	0.00060	0.00045	0.00064	0.00049
45	0.00165	0.00241	0.00181	0.00116	0.00167	0.00127
55	0.00537	0.00784	0.00591	0.00318	0.00459	0.00350
<u>Other unit-linked pensions</u>						
25	0.00057	0.00087	0.00066	0.00023	0.00032	0.00026
35	0.00058	0.00103	0.00072	0.00040	0.00059	0.00045
45	0.00170	0.00308	0.00212	0.00099	0.00157	0.00116
55	0.00550	0.00996	0.00687	0.00278	0.00418	0.00319

For annuities in payment and deferred annuities, expectations of life are as follows:

Product group	Current age	Age at which expectation is determined	31 December 2010		31 December 2009	
			Males years	Females Years	Males years	Females years
Pensions annuities in payment		65	25.4	26.7	25.2	27.0
		75	15.7	16.9	15.8	17.3
Non-pensions annuities in payment		65*	20.0	23.1	20.0	23.1
		75	12.9	14.9	12.9	14.9
Deferred pensions annuities	45	65	30.2	30.5	29.2	30.3
	55	65	27.7	28.6	27.3	28.8
Annuity guarantees	45	65	24.9	26.9	26.0	28.0
	55	65	24.9	26.9	26.0	28.0

* There is little non-pensions annuity business at this age; the average age of annuitants exceeds 80.

Additional reserves totalling £4.1m have been included on account of the increased risk associated with HIV/AIDS. They have been determined having regard to the assumptions corresponding to one third of Projection R6A of the Institute of Actuaries AIDS Working Party.

No additional reserves are held in respect of the possible detrimental impact of other changes in the incidence of disease or developments in medical science.

(5) Morbidity

FLAS does not contain morbidity liabilities which exceed £10m.

(6) Expenses

Gross annual per policy expense levels assumed for specified products are set out below. These are based on the actual fees payable to Friends Life Services Limited under the Management Services Agreement, and have been uplifted in respect of expenses not covered by the Agreement. A further uplift has been included to make prudent allowance for the outcome of a fee review under the terms of the Agreement, which is due to be implemented during 2013.

Product	Product codes	31 December 2010 £ p.a.	31 December 2009 £ p.a.
Conventional With Profits			
Endowment (savings)	120	16.28	15.03
Endowment (target cash)	125	16.28	15.03
Pensions	155, 165	217.06	200.42
Non-profit			
Annuity	400	27.13	25.05
Unitised With Profits			
Bonds	500	54.26	50.10
Endowment (savings)	510	54.26	50.10
Endowment (target cash)	515	54.26	50.10
Individual pensions (regular premium)	525	108.53	100.21
Individual pensions (single premium)	525	27.13	25.05
Group pensions (regular premium)	535	108.53	100.21
Group pensions (single premium)	535	27.13	25.05
Unit-linked			
Bonds	700	54.26	50.10
Endowment (savings)	715	54.26	50.10
Endowment (target cash)	720	54.26	50.10
Individual pensions (regular premium)	725	108.53	100.21
Individual pensions (single premium)	725	27.13	25.05
Group pensions (regular premium)	735	108.53	100.21
Group pensions (single premium)	735	27.13	25.05

Where different expense assumptions apply to groups of policies within the above product types, the assumption shown is that relating to the largest group by number of policies at 31 December 2010. In the case of individual and group pensions, paid-up policies have been treated as single premium, as the expense assumptions are the same for these groups.

For with profits and non-profit business, provision for gross investment expenses is made by way of a margin between the yield on the assets and the valuation rate of interest. The margins are:

With profits business 0.21% p.a.
Non-profit business 0.14% p.a.

For unit-linked business, the assumed gross investment expenses are the following percentages of fund size:

Life business 0.19% p.a.
Pensions business 0.19% p.a.

For life business, tax relief on the above expense assumptions is assumed at the rate of 20%.

(7) Inflation rate and unit growth rates

The future inflation rate assumed in the valuation is 3.75% per annum for annuity business and 3.50% per annum for non-annuity business.

Expense inflation is assumed to be 4.75% per annum for annuity business and 4.50% per annum for non-annuity business.

The unit growth rates assumed in the calculation of non-unit reserves for unit-linked business are:

Life business 5.10% p.a. (net of tax)
Pensions business 6.00% p.a.

(8) Future bonus rates

No future bonus rates have been assumed in the gross premium valuation of conventional With Profits business or in the valuation of unitised with profits business except where guaranteed.

(9) Lapse, surrender and conversion to paid-up

The following average annual rates of lapse, surrender and conversion to paid-up have been assumed:

Product		Average lapse / surrender / paid-up rate for the policy years			
		1-5 % p.a.	6-10 % p.a.	11-15 % p.a.	16-20 % p.a.
CWP savings endowment	surrender	n/a	5.6	2.9	1.7
CWP target cash endowment	surrender	n/a	n/a	2.3	2.3
UWP savings endowment	surrender	3.3	3.9	8.7	6.7
UWP target cash endowment	surrender	3.3	3.9	8.7	6.7
UL savings endowment	surrender	3.3	3.9	8.7	6.7
UL target cash endowment	surrender	3.3	3.9	8.7	6.7
UWP Bond – with surrender penalty	surrender	1.5	6.7	6.7	6.7
UWP Bond – without surrender penalty	surrender	6.7	6.7	6.7	6.7
UWP Bond	automatic withdrawals	100% of current	100% of current	100% of current	100% of current
UL Bond	surrender	6.7	6.7	6.7	6.7
UL Bond	automatic withdrawals	100% of current	100% of current	100% of current	100% of current

Product		Average lapse / surrender / paid-up rate for the policy years			
		1-5 % p.a.	6-10 % p.a.	11-15 % p.a.	16-20 % p.a.
CWP pension regular premium	PUP	0	0	0	0
CWP pension regular premium	surrender	0	0	0	0
CWP pension single premium	surrender	0	0	0	0
UWP individual pension regular premium	PUP	0	0	0	0
UWP individual pension regular premium	surrender	See note 1.			
UWP individual pension single premium	surrender	See note 1.			
UL individual pension regular premium	PUP	0	0	0	0
UL individual pension regular premium	surrender	See note 1.			
UL group. pension regular premium	PUP	0	0	0	0
UL group pension regular premium	surrender	See note 1.			
UL individual pension single premium	surrender	See note 1.			

1. The surrender rates used for UWP/UL pension products vary between term gone and term-to-go. It is not representative to combine the rates for these different products in the format required.

Where different persistency assumptions apply to groups of policies within the above product types, the assumptions shown relate to a group which represents more than 50% of the total reserves for the product type.

For classes where it is prudent to do so (mainly group pensions business), the payment of future premiums is ignored in determining the non-unit reserve. Other than this, no allowance is made for conversion to paid-up.

(10) Other material assumptions

There are no assumptions not stated elsewhere that are considered to be material to the results of the valuation.

(11) Derivative contracts

The Society uses derivatives to hedge the Guaranteed Annuity Options on its WP deferred annuity business. Since the time value of the derivatives is significantly higher than that reflected in the valuation of the liabilities, an additional liability equal to the time value of the derivatives is held in the Long Term Fund (£26.5m).

The Society holds equity futures within the Long Term Fund. For the purposes of calculating valuation rates of interest, a cash yield has been assumed for the proportion of equities covered by the future contracts.

(12) Impact of changes in valuation rules effective from 31 December 2006

No further changes have been made since the previous valuation.

5. Options and guarantees

The valuation bases set out in section 5 relate to options and guarantees in respect of groups of products where the basic reserves exceed £10m. The grouping of products is that relevant to the particular option or guarantee.

(1) Guaranteed Annuity Rate options

- (a) For most pensions contracts with a Guaranteed Annuity Rate option at retirement, a stochastic model has been used to value the option. The model used is the same as that used in the realistic valuation and described in the report on that valuation, and the economic scenario generation assumptions were calibrated to 97.5% of risk-free yields, in line with requirements for yields used in regulatory valuations. The assumed take-up rate for the option, when in the money, is 95% at all durations in all scenarios. The assumed mortality basis in payment for males is based on 90.5% of PCMA00 with improvements of 100% medium cohort subject to a 1.50% floor for 2000-2010 and a 2.1% floor post-2010. The assumed mortality basis in payment for females is based on 90.5% of PCFA00 with 75% medium cohort improvements subject to a 1.25% floor for 2000-2010 and a 1.8% floor post-2010. For practical reasons an equivalent one-dimensional table is used.

For a few minor classes the stochastic model is not used, and the liabilities are taken as the result of a deterministic valuation using corresponding assumptions, but assuming 100% take-up.

- (b)

Product	Basic reserve £m	Outstanding durations (years)			Guarantee reserve £m	Guaranteed annuity rate (annuity p.a. per £100 cash sum)	Open to increments
		Minimum	Median	Maximum			
Pension Builder	128	0	6	28	111	11.11	In certain circumstances
Retirement Annuity (1976 series)	45	0	9	25	39	11.11	In certain circumstances
Deposit Administration	1	n/a	n/a	n/a	1	10.00	No

The specimen guaranteed annuity rates shown above are for a male aged 65. The annuity is a non-increasing single life annuity, payable monthly in advance for a minimum period of five years. Most guarantees are in this form, though some policies have guaranteed annuities with a fixed increase rate or on a joint lives basis, or payable annually in arrear. In normal circumstances, an alternative form of annuity would be available on equivalent terms.

Guaranteed annuity rates are applicable only on retirement at the normal retirement date or selected retirement date specified in the policy, or, in the case of Retirement Annuity (1976 series) at the alternative retirement date specified in the policy.

(2) Guaranteed surrender and unit-linked maturity values

- (a) Unitised with profits Bonds effected since 1996 include a provision that no market value reduction (MVR) will be applied on discontinuance on the tenth policy anniversary. The method used to determine the basic reserves, described in (4).(1), explicitly makes allowance for this provision, and no separate additional reserve is required.

Unitised with profits pensions policies invested in the Group with profits Fund include a provision that no MVR will apply on discontinuance in certain specified circumstances, for example on early retirement or following leaving service. In consequence, the basic reserves for policies invested in this fund make no allowance for the application of MVR at any time, and no separate additional reserve is required in respect of the provision.

Certain Flexible Mortgage Plans (including some plans marketed as Comprehensive Savings Plans) include a provision whereby a guaranteed amount may be payable on the Guarantee Date stated in the policy. The guarantee may be selected five years before the Guarantee Date, and is subject to conditions: in particular the premium must be increased where necessary to a level advised by the Society. All plans are switched to unitised with profits five years before the Guarantee Date. For plans with this guarantee currently in force (i.e. plans within five years of the Guarantee Date where the premium is at the level advised by the Society), an additional reserve is held equal to the difference between the discounted value of the guaranteed benefits (determined using normal assumptions applicable to unitised with profits policies) and the basic reserve. This calculation makes no allowance for any terminal bonuses which are expected to offset the cost of the guarantee. In the case of plans that are more than five years from the Guarantee Date, including plans currently invested in unit-linked funds, the terms on which the increase in premium is determined if the guarantee is selected is kept under review in order to ensure that no additional reserve will be necessary at the time the guarantee comes into force. It is therefore considered necessary to hold only a small additional reserve in respect of the prospective guarantee for such plans. Further information is set out in (b) below.

(b)

Product	Basic reserve £m	Outstanding durations (years)			Guarantee reserve £m	Guaranteed amount £m	Annual premiums £m
		Minimum	Median	Maximum			
Flexible Mortgage Plan – guarantee in force	5.7	0	0	1	1.0	6.2	0.3
Flexible Mortgage Plan – potential future guarantee	81.7	4	8	26	3.5	231.1	5.4

For plans with a potential future guarantee, the basic reserve stated above includes the value of investments currently in unit-linked funds.

The above policies are free of MVR on death, critical illness claim (where appropriate) and on the Guarantee Date.

Increments to the above policies may be made prior to the guarantee coming into force.

As described in (a), all other guaranteed surrender values affecting groups of policies where the basic reserve exceeds £10m have been explicitly valued within the calculation of the basic reserve.

(3) Guaranteed insurability options

(a) The main guaranteed insurability options permit the increase or replacement of cover under unit-linked and unitised with profits policies, subject to specific conditions, for example when the maturity value of an endowment assurance is increased in respect of a mortgage advance, or on the birth of a child to the policyholder. No additional reserve is deemed necessary for such options for the following reasons:

- the conditions for the exercise of each option are limited to specified circumstances, which might normally imply good health
- mortality charges include a prudent margin which would cover a worsening of experience
- policy conditions permit future amendments to mortality charges based on experience

(b) There are no conversion or renewal options where the total sum assured exceeds £1bn.

(4) Other guarantees and options

Certain with profits Flexible T-Plans and Pension Builders include a provision that the annuity secured on retirement at State Pensionable Age will not be less than the amount of Guaranteed Minimum Pension accrued in respect of contracting out of the State Earnings Related Pension Scheme.

These guarantees are generally significantly in the money, and additional reserves are determined for each policy equal to the excess of the value of the annuity over the basic reserve. The assumed mortality basis in payment for males is based on 90.5% of PCMA00 with improvements of 100% medium cohort subject to a 1.50% floor for 2000-2010 and a 2.1% floor post-2010. The assumed mortality basis in payment for females is based on 90.5% of PCFA00 with 75% medium cohort improvements subject to a 1.25% floor for 2000-2010 and a 1.8% floor post-2010. For practical reasons, an equivalent one-dimensional table is used. Interest in payment is 3.30% p.a. The assumed take-up rate for the guarantee is 100%. The basis during deferment is the normal basis for the relevant type of policy.

Basic with profits reserve for policies with the guarantee:
£115m

Additional reserve in respect of the guarantee:
£167m

6. Expense reserves

(1) Expense loadings

The aggregate amount (gross of tax) arising during the year following the valuation date from implicit and explicit reserves made in the valuation to meet expenses in fulfilling contracts in force at the valuation date is £27.5m, after allowing for expenses recovered through the internal reinsurance arrangements. This amount arises from the following sources:

- (i) explicit expense assumptions in the valuation amounting to £15.9m; and
- (ii) the amount implicitly provided for investment expenses by deductions from yields when establishing the valuation interest rates, amounting to £11.6m.

Renewal commission is not included in this amount.

(2) Implicit expense allowances

The implicit allowance in respect of investment expenses was determined by multiplying the relevant amounts of reserves by the rates of deduction from yields.

(3) Comparison with Form 43

The introduction of Financial Reporting Standard 26 in 2006 requires initial transaction costs on assets to be shown as investment expenses in the statutory accounts and, these expenses, amounting to £5.3m, have been included in line 44 of Form 43. The valuation implicitly assumes that there will be no future asset turnover, so no allowance is made for expenses of this nature.

An accounting provision in respect of potential costs arising as a result of reviewing administrative procedures was increased during 2010 by £49.3m (2009 £2.5m) and this amount is included at line 44 of Form 43. The Society regards this increase as an extraordinary expense for the year, and so no allowance is made for any future increase in this provision.

After allowing for initial transaction costs on assets and the increase in the accounting provision, the amount of maintenance expenses (£27.0m) included in line 44 of Form 43 is slightly lower than the expense loadings (£27.5m) disclosed in section 6(1) above.

The difference from line 14 is due to the reinsurance arrangements with FLC, which transfer expenses from the Society to FLC.

(4) New business expense overrun

Current product terms are sufficient to recover expenses in respect of new business, and no new business expense overrun reserve is required in respect of the expenses of continuing to transact new business during the 12 months following the valuation date.

(5) Maintenance expense overrun

There is evidence of an expense overrun in Friends Life Services Limited that would be likely to affect the With Profits Fund of the Society at the next review if no future savings were achieved. Therefore, an additional reserve has been established at 31 December 2010 of £20m which for practical purposes is held at an aggregate level pending a more detailed review in 2011.

It is assumed that the same level of per policy expenses would apply following closure to new business and no additional expense reserve is deemed necessary for such an event. No redundancy costs have been allowed for, as these would be met by FLS. The costs of terminating the management services agreement with FLS have not been allowed for as it is assumed that the agreement will continue in force.

(6) Non-attributable expenses

The expenses associated with the project to implement Solvency II have been treated as non-attributable expenses within the valuation and an additional expense reserve of £4m has been set up in the With Profits Fund to provide for the expected future costs of completing the project.

7. Mismatching reserves

(1) Analysis of reserves by currency

The mathematical reserves in respect of liabilities denominated in sterling (other than liabilities for property linked benefits) amount to £6,628m. An analysis by currency of the matching assets is set out in the following table.

Currency of asset	Value of assets £m
Sterling	6,197
U.S. Dollar	156
Euro	99
Japanese Yen	56
Other	120
Total	6,628

(2) Other currency exposures

The mathematical reserves in respect of liabilities denominated in currencies other than sterling amount to £10m. In view of the small amounts, non-sterling liabilities are not considered separately for asset backing purposes, and the assets regarded as backing these liabilities do not include a specific allocation of assets in the currency of the liabilities. However, for each currency in which these liabilities are denominated, the long-term fund includes assets denominated in that currency in excess of the amount of reserves.

(3) Currency mismatching reserve

The reserves for non-sterling liabilities are prudently determined, and in view of the small amounts, no additional reserve is deemed necessary in respect of currency mismatching.

(4) Most onerous scenario under INSPRU 3.1.16R

INSPRU 3.1.16R does not apply to the Society. See 7.(6).

(5) Most onerous scenarios under INSPRU 3.1.23R

INSPRU 3.1.23R does not apply to the Society. See 7.(6).

(6) Amount of resilience capital requirement

The Society is not required to determine a resilience capital requirement, as it is not a regulatory basis only life firm.

(7) Additional reserve arising from INSPRU 1.1.34(2)

Based on an analysis of expected cash inflows from assets held and future regular premiums and expected cash outflows from insurance liabilities as they fall due, it is believed that the assets held to cover the technical provisions and other long-term insurance liabilities are of a sufficient amount, and of an appropriate currency and term, to ensure that the cash inflows will meet the expected cash outflows without requiring any additional reserve.

8. Other special reserves

There are no special reserves exceeding £10m.

9. Reinsurance

(1) Facultative reinsurance to reinsurers not authorised in the UK

During 2010 no reinsurance business was ceded on a facultative basis to reinsurers not authorised to carry on insurance business in the UK.

(2) Reinsurance treaties

Details of reinsurance treaties under which the Society is the cedant and either the premiums payable to the reinsurer during 2010 or the reduction in mathematical reserves in respect of the reinsurance exceed £10m are contained in the following table.

Reinsurer	Nature and extent of cover	Premiums payable during 2010 £m	Whether treaty closed to new business	Reduction in mathematical reserves £m
FLC	Reassurance of all unit liabilities for unit-linked life and pensions contracts.	164	No	7,935
FLC	Reassurance of all non-profit life annuities in payment	0	Yes	105
FLC	Reassurance of 50% of most of the non-profit pensions annuities in payment	0	Yes	1,996
Partner Re RGA Re RGA Intl	Reassurance of 47.50% of most of the non-profit pensions annuities in payment	71	Yes	62
Munich Re	Single premium structured settlement annuities on an original terms quota share basis for 50% of the benefits underwritten.	0	Yes	46

In respect of these treaties:

- No amounts have been deposited under any deposit back arrangements.
- There are no undischarged obligations of the Society other than outstanding reinsurance premiums.

FLC is connected with the Society, and is authorised to carry out insurance business in the UK.

There are no legal disputes at the present time in connection with the Society's reinsurance treaties, and it is not believed that these treaties present any material legal risk or other risks.

No provision is made for the liability of the Society to refund any amounts of reinsurance commission in the event of lapse or surrender of contracts, as in each case the amount of such refund is less than the amount of premium refundable, if any, by the reinsurer.

The Society has no obligations under any financing arrangements.

10. Regular bonus

Name of Bonus Series	Mathematical Reserves £m	Bonus Rate for 2010	Bonus Rate for 2009	Guaranteed Rate for 2010
<i>Conventional With Profits</i>				
Life Compound Series	248	1.25%	1.25%	-
Ten Plus Series 1	12	1.25%	1.25%	-
Ten Plus Series 2 ⁵	50	1.25%/1.75%	1.25%/1.75%	-
Pension Builder and Retirement Annuity (1976 Series)	355	0.00%	0.00%	-
With profits Annuity	66	1.67%	4.00%	-
<i>Unitised With Profits</i>				
Life	448	2.25%	2.25%	-
Pensions:				
Group WP fund	36	3.00%	3.00%	-
with GMP guarantee	259	2.50%	2.50%	-
Other ^{1, 2}	1055	3.00%	3.00%	-
AXA Isle of Man Bonds ³ :				
Series 1	33	2.00%	2.17%	-
Series 2 (Sterling)	43	2.75%	2.92%	-
<i>Deposit Administration</i>				
Deposit Administration Plan ⁴	313	7.00%	7.00%	see 4

Notes:

- ¹ The rates stated above are for accumulation units. The corresponding rates for capital units were 0.00% for 2010 and 2009.
- ² For certain Personal Pension plans, bonus rates were 1.5% lower than the rates above.
- ³ For AXA Isle of Man Bonds, bonus rates correspond to the increase in unit price during the year. Where bonus rates have changed during the year, the rate stated therefore represents an average of bonus rates weighted by period in force.
- ⁴ For a few Deposit Administration plans, certain tranches are subject to a guaranteed minimum annual rate of return of 4.5% p.a. Where such a guarantee applies, the bonus rate is reduced by the guaranteed rate of return. The above bonus rates include the guaranteed return where relevant.
- ⁵ For Ten Plus Series 2, the rate of bonus is a percentage of sum assured dependent on the age of the policyholder at outset. The rates stated above are weighted averages. The second rate stated is the rate of bonus on attaching bonus.

NAME OF INSURER: FRIENDS LIFE ASSURANCE SOCIETY LIMITED

IPRU(INS) RULE 9.31(b) - APPENDIX 9.4A

ABSTRACT OF VALUATION REPORT FOR REALISTIC VALUATION

1. Introduction

- (1) The actuarial investigation relates to a valuation date of 31 December 2010.
- (2) The valuation date of the previous valuation was 31 December 2009.
- (3) An interim valuation was carried out on 30 June 2010.

2. Assets

- (1) The economic assumptions used in calculating the future profits on non-profit business are as follows:

This financial year	
Investment return	Risk-free rate calibrated to the gilt yield curve. For fixed interest assets matching annuities in payment, a + 50 basis point liquidity premium has been added to the risk-free rate
Expense inflation	Price inflation + 1% p.a., where the price inflation curve is calibrated to RPI
Discount rate	For profits emerging on non-profit business: risk-free rate + 100 basis points p.a. + 50 basis points p.a. for annuities in payment. For release of long-term insurance capital component: risk-free rate + 50 basis points p.a. for annuities in payment.

Preceding financial year	
Investment return	Risk-free rate calibrated to the gilt yield curve plus 10 basis points. For fixed interest assets matching annuities in payment, a 65 basis point liquidity premium has been added to the risk-free rate
Expense inflation	Price inflation + 1% p.a., where the price inflation curve is calibrated to RPI
Discount rate	For profits emerging on non-profit business: risk-free rate + 150 basis points p.a. + 65 basis points p.a. for annuities in payment. For release of long-term insurance capital component: risk-free rate + 65 basis points p.a. for annuities in payment.

Note: 1 basis point = 0.01%

- (2) No amounts have been included in the realistic value of assets under INSPRU 1.3.33R(2).
- (3) No business is written outside the With Profits fund.
- (4) A single set of economic assumptions has been used in valuing the non-profit contracts.
- (5) Not applicable.

3. With Profits Benefits Reserve Liabilities

- (1) The table below shows the With Profits Benefits Reserve and the future policy related liabilities for each group of contracts with materially different guarantees and options.

	With Profits Benefits Reserve (£m)	Future policy related liabilities (£m)
Retrospective method (asset share)		
UWP Bonds (No MVA-Free date)	523	142
UWP Bonds (MVA-Free date on 10th ann)	39	14
UWP Reg Prem Life	222	69
UWP Pensions (no min bonus or GAR)	1,323	348
UWP Pensions (with GMP)	172	107
Conventional Life	497	215
Conventional Pensions	123	244
DA77	332	69
With Profits Annuity	67	9
Prospective method (regulatory reserve)		
Other	0	0
Total	3,298	1,218

- (2) The total amounts of the With Profit Benefits Reserve in the table above correspond to the amounts shown in Form 19, Line 31. The future policy related liabilities in the table above reconcile to Form 19, Line 49 as shown below. For details of the reconciling items, refer to Sections 7 and 8 of this Report.

£m	
Future Policy Related Liabilities, from above table	1,218
Financing arrangements	-61
Tax and expense on assets in excess of asset share and other provisions	38
Provisions for potential mis-selling liabilities	0
Future Policy Related Liabilities, Form 19, Line 49	1,194

4. With Profits Benefits Reserve – Retrospective method

- (1) In all cases where a retrospective method (i.e. asset share) is used, this is calculated on a policy by policy basis.
- (2) No significant changes have been made to the valuation method since the previous valuation.
- (3) The basis of allocating expenses to the With Profits funds in the valuation is given below.

Fees are paid to FLS for management, administration, marketing and sales services, as defined in the Service Agreements between FLAS and FLS. These fees are charged to asset shares and are adjusted annually as at 1 January, again as defined in the Service Agreements. The amounts of such fees, split between initial and maintenance expenses, for the full year 2010 are shown below.

Fees paid to the investment managers for the same period are also shown below. Those in respect of with profits policies are charged to asset shares, as a percentage of the asset share representing the average fee level including an allowance for performance fees.

Some expenses met directly by the fund, such as regulatory fees, are charged to asset shares. These are apportioned between individual policies using a method that is believed to be equitable.

Also shown below are the expenses that have been charged to the With Profits fund during 2010, but which are not charged to asset shares. These are mainly initial and renewal fees in respect of non-profit business, investment management fees in respect of non-profit business and other assets in excess of asset shares, plus certain exceptional costs.

Further details of the basis of allocating expenses to the With Profits fund are given in the Principles and Practices of Financial Management (PPFM).

The table below shows the expenses incurred by the fund in 2010:

£m	
Initial fees chargeable to asset shares	0.7
Maintenance fees chargeable to asset shares	5.3
Investment fees chargeable to asset shares	9.3
Other expenses chargeable to asset shares	0.0
Expenses on non-profit contracts	10.5
Other expenses not chargeable to asset shares	56.5

- (4) During 2010, no significant charges for guarantees or cost of capital have been made to asset shares. As indicated in the PPFM, this practice is reviewed periodically and is subject to change.
- (5) No charges have been deducted from the funds for non-insurance risk.
- (6) The ratio of claims paid to underlying asset shares for with profits insurance contracts over the three year period are:

Year	Average Payout ratio
2010	102%
2009	107%
2008	104%

- (7) For the full year 2010 the investment return applied to the asset share for each policy was 10.9% (before tax and expenses).

Further details of how returns are applied to asset shares are given in the PPFM.

5. With Profits Benefits Reserve – Prospective method

Where a prospective method is used rather than asset shares, the with profits benefit reserve is set equal to the regulatory reserve.

6. Costs of guarantees, options and smoothing

- (1) Not applicable.
- (2) For all products where the valuation of guarantees, options and smoothing is carried out using a stochastic model, grouped data is used. Contracts are grouped according to their major product features, term gone and term to go, policyholder age and the extent to which guarantees are in or out of the money.

The total number of policies modelled in this way was 231,886, which were represented by 1,035 model points.

The results from the stochastic model using grouped data are validated against the results from a closed-form model using individual data. An approximate upward adjustment has been made to the cost of guarantees, options and smoothing to allow for the estimated grouping error.

There are some minor classes of business that are not included in the stochastic model, notably with profits annuities. For these policies the regulatory reserve exceeds the asset share in aggregate, so the total realistic liability has been set equal to the regulatory reserve.

- (3) No significant changes have been made to the liability projection model used.
- (4) (a) (i) The liabilities being valued using a full stochastic approach are:
 - The guarantee that no market value reduction will be applied on maturity or on death. The extent to which these options are in the money at the valuation date depends on the ratio of guaranteed benefits to asset share for each policy at that date, and varies both across and within lines of business. On average, the ratio of the present value of guaranteed benefits to asset share varies from around 85% for policies close to maturity to 50% for policies with more than 20 years to go.
 - Guaranteed annuity rates (GARs), which offer an annuity calculated on guaranteed terms on normal retirement. These options are currently in the money.
 - The cost of smoothing. This reflects a combination of short-term and long-term effects: in the short term the difference between payouts and the sustainable level (glidepath); and in the long term the under or overpayment of asset share.

Within the stochastic model the liabilities are valued in the following order: asset share; costs of contractual guarantees; planned enhancements; costs of smoothing. So, for instance, if guarantees bite on a claim, the excess of the claim over the asset share is attributed to costs of contractual guarantees. As smoothing is calculated last, there is a partial offset between the cost of guarantees and cost of smoothing.

- (ii) The nominal interest rate model used (Libor Market Model) is calibrated exactly to the current risk-free yield curve. The volatilities have been selected to provide a close fit to a range of swaption-implied volatilities. Equity and property returns are based on short term rates from the interest rate model with an additional log-normal component with a mean of zero. Equity volatilities are calibrated to a term structure of FTSE option-implied volatilities. The model is arbitrage-free.

The risk-free rate in the asset model is calibrated to the gilt curve at 31 December 2010. Sample rates are shown in the table in (iii) below.

Sample volatilities are shown below for the main asset classes. These are derived from the asset model output. The volatility for fixed interest investments is the overall figure for the assumed portfolio mix of government and corporate bonds.

Volatility over period (years)	Equity	Property	Fixed Interest
5	29%	15%	6%
10	30%	16%	7%
20	31%	16%	7%

The correlations assumed between the main assets classes are:

Correlation between:	
Equities and medium term fixed interest assets	35%
Equities and property	22%
Medium term fixed interest assets and property	23%

- (iii) The table below shows the annualised compound equivalent of the risk-free rate assumed for each duration (n) and values derived from the asset model of specified assets/options.

Row 1 shows the value of cash payments of £1,000,000 due n years after the valuation date.

Rows 2 to 15 inclusive show, for the appropriate asset classes, the value of a put option on a portfolio worth £1,000,000 on the valuation date exercisable n years after the valuation date, with strike price of $K * £1,000,000 * (1+r)^n$.

Row 16 shows the value of sterling receiver swaptions with a strike of 5% exercisable n years after the valuation date with swap durations on exercise of L years, expressed as a percentage of nominal.

	K	0.75			
<i>n</i>	<i>Duration (n)</i>	5	15	25	35
<i>r</i>	<i>Annualised compound equivalent of the risk-free rate assumed for the period (r)</i>	2.39%	4.27%	4.49%	4.34%
1	<i>Risk-Free Zero Coupon Bond</i>	£888,798	£534,225	£333,354	£226,086
2	<i>FTSE All Share Index (p=1)</i>	£101,585	£253,507	£365,942	£448,121
3	<i>FTSE All Share Index (p=0.8)</i>	£94,286	£201,703	£264,674	£303,368
4	<i>Property (p=1)</i>	£29,357	£112,572	£184,501	£257,213
5	<i>Property (p=0.8)</i>	£25,465	£76,882	£110,109	£144,938
6	<i>15yr Risk-Free ZCBs (p=1)</i>	£9,602	£21,362	£14,583	£24,744
7	<i>15yr Risk-Free ZCBs (p=0.8)</i>	£8,090	£12,554	£5,417	£4,754
8	<i>15yr Corporate Bonds (p=1)</i>	£15,457	£34,557	£34,175	£51,496
9	<i>15yr Corporate Bonds (p=0.8)</i>	£13,096	£20,112	£11,929	£12,248

K		0.75			
<i>n</i>	<i>Duration (n)</i>	5	15	25	35
10	<i>Portfolio 1 (p=1)</i>	£51,478	£162,851	£252,723	£333,978
11	<i>Portfolio 1 (p=0.8)</i>	£46,101	£120,924	£167,606	£208,890
12	<i>Portfolio 2 (p=1)</i>	£44,779	£141,404	£221,851	£294,745
13	<i>Portfolio 2 (p=0.8)</i>	£39,814	£101,897	£141,670	£177,053
14	<i>Portfolio 3 (p=1)</i>	£18,963	£75,008	£129,273	£190,276
15	<i>Portfolio 3 (p=0.8)</i>	£15,950	£45,834	£68,969	£93,750
	<i>Sterling Receiver Swaptions</i>	<i>L = 15</i>			
16		5.40%	6.86%	6.78%	5.45%

K		1.00			
<i>n</i>	<i>Duration (n)</i>	5	15	25	35
<i>r</i>	<i>Annualised compound equivalent of the risk-free rate assumed for the period (r)</i>	x	x	x	x
1	<i>Risk-Free Zero Coupon Bond</i>	x	x	x	x
2	<i>FTSE All Share Index (p=1)</i>	£233,735	£418,983	£552,901	£649,993
3	<i>FTSE All Share Index (p=0.8)</i>	£219,606	£339,695	£406,566	£445,376
4	<i>Property (p=1)</i>	£130,589	£248,370	£341,080	£432,153
5	<i>Property (p=0.8)</i>	£117,762	£180,177	£216,367	£254,963
6	<i>15yr Risk-Free ZCBs (p=1)</i>	£74,726	£84,476	£84,253	£139,502
7	<i>15yr Risk-Free ZCBs (p=0.8)</i>	£64,415	£45,846	£21,133	£23,923
8	<i>15yr Corporate Bonds (p=1)</i>	£91,094	£118,574	£125,080	£167,438
9	<i>15yr Corporate Bonds (p=0.8)</i>	£80,089	£70,910	£48,185	£50,410
10	<i>Portfolio 1 (p=1)</i>	£166,553	£309,192	£421,621	£515,932
11	<i>Portfolio 1 (p=0.8)</i>	£153,245	£237,041	£288,188	£331,571
12	<i>Portfolio 2 (p=1)</i>	£156,695	£282,996	£384,825	£470,456
13	<i>Portfolio 2 (p=0.8)</i>	£143,321	£212,353	£255,713	£292,435
14	<i>Portfolio 3 (p=1)</i>	£111,439	£197,310	£271,749	£348,674
15	<i>Portfolio 3 (p=0.8)</i>	£98,856	£133,552	£157,068	£188,292
	<i>Sterling Receiver Swaptions</i>	<i>L = 20</i>			
16		6.84%	8.85%	8.45%	6.65%

K		1.50			
<i>n</i>	<i>Duration (n)</i>	5	15	25	35
<i>r</i>	<i>Annualised compound equivalent of the risk-free rate assumed for the period (r)</i>	x	x	x	x
1	<i>Risk-Free Zero Coupon Bond</i>	x	x	x	x
2	<i>FTSE All Share Index (p=1)</i>	£605,644	£799,750	£958,604	£1,076,749
3	<i>FTSE All Share Index (p=0.8)</i>	£576,703	£661,496	£717,905	£750,056
4	<i>Property (p=1)</i>	£523,922	£617,744	£725,849	£835,962
5	<i>Property (p=0.8)</i>	£492,205	£477,844	£492,619	£523,620
6	<i>15yr Risk-Free ZCBs (p=1)</i>	£498,952	£500,021	£507,474	£549,033
7	<i>15yr Risk-Free ZCBs (p=0.8)</i>	£464,357	£328,450	£237,241	£222,842
8	<i>15yr Corporate Bonds (p=1)</i>	£498,366	£498,090	£513,129	£556,082
9	<i>15yr Corporate Bonds (p=0.8)</i>	£464,509	£339,068	£260,813	£246,349

	K	1.50			
<i>n</i>	<i>Duration (n)</i>	5	15	25	35
10	<i>Portfolio 1 (p=1)</i>	£547,734	£679,372	£813,026	£919,274
11	<i>Portfolio 1 (p=0.8)</i>	£517,258	£541,790	£578,511	£608,584
12	<i>Portfolio 2 (p=1)</i>	£540,436	£651,880	£767,003	£867,773
13	<i>Portfolio 2 (p=0.8)</i>	£509,762	£514,392	£537,416	£561,176
14	<i>Portfolio 3 (p=1)</i>	£511,584	£567,496	£649,658	£733,217
15	<i>Portfolio 3 (p=0.8)</i>	£479,046	£425,158	£418,696	£434,147
	<i>Sterling Receiver Swaptions</i>	<i>L=25</i>			
16		8.36%	10.64%	9.84%	7.58%

- (iv) The initial UK equity yield assumed is 3.05% and the initial UK property yield assumed is 4.3%.
- (v) No asset classes outside the UK are modelled separately.
- (vi) The average outstanding term of with profits liabilities is approximately 8 years. A breakdown for selected product types is shown in the table below.

Outstanding term (yrs)	
Bonds	6
Conventional Pensions	5
Conventional Life	3
UWP Life	16
UWP Pensions	9

Term is the outstanding term of the contract weighted by the asset share.

The outstanding duration of with profits guarantees is fairly evenly spread over the term of the liabilities. The outstanding duration of GAR benefits is shorter but still evenly spread.

The model was calibrated to a moneyness of between 85% for short durations to 50% for longer terms. The table below shows the extent of the fit of the modelled equity volatilities to market implied volatility.

Term (years)	Strike	Market Equity Volatility	Modelled Equity Volatility
1	85%	25.1%	25.7%
2	80%	26.4%	26.1%
3	80%	26.6%	26.4%
5	80%	26.9%	26.9%
10	70%	28.3%	28.0%
20	50%	28.8%	29.3%

- (vii) We have checked that the asset model reproduces the current asset values for the different types of assets modelled when the future income, gains and losses are projected and discounted to the valuation date.

- (viii) The valuation is based on 2,000 simulations of the asset model. Asset shares are accumulated and discounted back to the valuation date and the average across all simulations is compared against the starting value. Other policy related liabilities are similarly accumulated and discounted. Using results from the individual simulations, we plot a running average as the number of simulations increases, applying statistical theory to demonstrate convergence.
 - (b) None of the costs of guarantees, options and smoothing has been valued using the market costs of hedging.
 - (c) None of the cost of guarantees, options and smoothing has been valued using a series of deterministic projections with attributed probabilities.
- (5)
- (a) The management actions assumed in the projection of assets and liabilities are derived from the PPFM, as set out below. The actions modelled below are consistent with the PPFM, although the PPFM does allow for larger movements in regular bonus rates and payouts when solvency is at risk.

Regular bonuses

Sustainable regular bonuses in the valuation for each modelled bonus series have been derived from the gross redemption yield on long-dated gilts, with deductions for guaranteed interest rates, tax, expenses, shareholder transfers, and a contingency margin to reflect the extent of existing guarantees. The bonus rate in a given year is targeted at this sustainable level, but is constrained to move by no more than 1% upwards or downwards from the previous year's rate. Additionally, the bonus rate is constrained not to increase if the guaranteed benefits exceed the asset share at that point in the projection.

Terminal bonuses

The model determines a scale of terminal bonus rates for maturing policies (surrendering policies for bonds). These are also used to derive rates for death and surrender. Terminal bonus rates are set for a cohort of similar policies in the same bonus series. For a given group of policies, the payout on an identical maturing policy is restricted to move by a maximum of 15% in either direction from year to year. The implied payout ratios are assumed to start from forecast values and move to sustainable levels over time.

For all policies with a maturity date, and those without a maturity date but which have been in force a specified length of time, the sustainable payouts assumed in the valuation allow for a level of uplift to asset share, consistent with the PPFM.

Market value reduction (MVR)

For unitised with profits business, where a policy is assumed to surrender, and where the asset share is below the face value of the units an MVR is applied so that the payout is equal to the asset share plus a defined percentage (10% for bonds and trustee plans, and 15% for other pensions) of the face value; subject to an overall maximum of the face value of units. No MVRs are assumed to be applied for regular premium life business.

Asset allocation

The asset mix of the With Profits fund is assumed to remain constant throughout the projection.

- (b) Best estimates of the future proportions of assets backing the with profits benefit reserves and future bonus rates under specified scenarios are:

Return	Risk-Free Rate unadjusted			Risk-Free Rate reduced by 0.70% p.a			Risk-Free Rate increased by 0.70% p.a.		
	Current	5	10	Current	5	10	Current	5	10
Years into projection									
Equity backing ratio	50%	50%	50%	50%	50%	50%	50%	50%	50%
Annual bonus rate Bond	2.25%	3.00%	3.00%	2.25%	2.50%	2.50%	2.25%	3.50%	3.50%
Annual Bonus rate UWP Pension (effected 1994)	3.00%	2.75%	2.75%	3.00%	2.00%	2.25%	3.00%	3.25%	3.50%

Note: Equity backing ratio includes equities and property

- (6) The persistency assumptions used for the main classes of business are:

Product		Average lapse / surrender /paid-up rate for the policy years			
		1 - 5 % p.a.	6 - 10 % p.a.	11 - 15 % p.a.	16 - 20 % p.a.
CWP pension regular premium	surrender	1.5	1.5	1.5	1.5
CWP pension single premium	surrender	1.5	1.5	1.5	1.5
UWP individual pension regular premium	PUP	6.5	6.5	5.0	8.0
UWP individual pension regular premium	surrender	5.5	5.5	6.0	8.4
UWP individual pension single premium	surrender	5.5	5.5	6.0	8.4
CWP savings endowment	surrender	8.0	6.0	3.6	2.0
CWP target cash endowment	surrender	11.2	4.4	3.5	3.5
UWP savings endowment	surrender	5.2	4.5	8.4	6
UWP target cash endowment	surrender	5.2	4.5	8.4	6
UWP Bond	surrender	10	10	10	10
UWP Bond	automatic withdrawals	100% of current	100% of current	100% of current	100% of current
CWP pension regular premium	PUP	5	5	5	5

The take-up rates on GARs are assumed to vary with scenario. When the option is in the money, the take-up rate varies between 75% and 80%, depending on the relative values of tax relief on the tax free cash and the option.

The mortality assumption in possession of any guaranteed annuity options is assumed to be 97.5% PCMA00 100% medium cohort with 1.5% floor for males. For female, the mortality assumption is assumed to be 97.5% PCFA00 75% medium cohort with 1.25% floor. For practical reasons, an equivalent one-dimensional table has been used.

- (7) Policyholder lapse and paid-up rates are not assumed to vary with scenario in the calculations. The policyholder take-up rates on GARs are described in (6) above.

7. Financing costs

FLAS reinsures most of its unit-linked business to FLC. In accordance with the terms of the reinsurance agreement, FLAS provided financing in respect of part of the acquisition expenses that would otherwise have been charged to FLC in respect of the reinsured business. The financing is repaid by applying specified repayments to reduce the accumulated financing balance, and will be fully repaid when the balance is extinguished. Interest is charged at the rate of an average of 3 month LIBOR, and is rolled up within the financing balance. No additional fees are payable. Total repayments of £16.8m were made from FLC to FLAS during 2010. The balance of financing outstanding at 31 December 2010 is £61.2m. The arrangement has been closed to new business since 31 December 2006.

8. Other long-term insurance liabilities

Line 47 includes the value of the future tax and investment expenses on the assets backing the future policy related liabilities in excess of asset share. It also includes provisions held in respect of potential mis-selling liabilities.

9. Realistic current liabilities

The realistic current liabilities are equal to the regulatory current liabilities plus an amount reflecting the tax liability on future shareholder transfers.

10. Risk Capital Margin

- (a) The Risk Capital Margin is £0m.

The most adverse scenario is the combination of events described below.

- (i) Equity values are assumed to fall by 20.0%. Property values are assumed to fall by 12.5%. No separate assumption is made for non-UK assets.
- (ii) Fixed interest yields are assumed to rise by the amounts shown in the table below. The percentage change in yields is 17.5%.

Currency	Long term yield (annualised)	Nominal rise in yields
Sterling	3.99%	0.70%

- (iii) In respect of credit risk, average changes in spread and consequent changes in asset value are as follows:

- (a) The average (weighted by value) change in spread for bonds, and the percentage changes in asset value arising from the credit risk scenario are given below. These are the percentage changes applying to the corporate bond investments of the funds in the most adverse scenario. No other asset values are adjusted in the credit risk scenario.

	Average change in spread (basis points)	Percentage change in asset values
With profits portfolio	53	-3.7%
Non-profit portfolio	61	-4.7%

- (b) Not applicable.
- (c) Not applicable.
- (d) Not applicable.
- (e) Credit default swaps are held to adjust credit exposure on selected corporate bonds within the non-profit portfolio. The average (weighted by notional) change in spread is 138 bps, resulting in an increase in the value of these assets of 493%.

No other asset values are adjusted in the credit risk scenario.

- (iv) The overall percentage change in the realistic value of liabilities that results from applying the persistency risk scenario, assuming that the market and credit risk stress scenarios have occurred, is 1.4%.
- (v) Not applicable.
- (b)
- (i) In the stress scenario that defines the Risk Capital Margin it is assumed that planned enhancements will be able to be reduced so that no RCM is required.
- There are no further changes to assumptions, other than those that result directly from the events of the stress scenario itself.
- (ii) The total impact of the change in management actions on the Risk Capital Margin is £467m.
- (iii) No changes would apply to the table in 6 (5) (b) if the management actions assumed within the Risk Capital Margin were also assumed within the base scenario.
- (iv) Not relevant since it is not assumed that such charges are taken.
- (c)
- (i) All the assets required by the With Profits fund to cover the Risk Capital Margin are held within the With Profits fund.

11. Tax

- (i) Tax on assets backing the with profits benefit reserve (asset share) is charged to the asset share.
- (ii) The liability for future tax on assets backing the future policy related liabilities is calculated separately and included on the balance sheet in Form 19, Line 47. The calculation assumes that these assets are locked in for the mean term of the policy liabilities, and incur tax on the investment return over that term. Tax is only incurred on the BLAGAB proportion of the assets.
- (iii) There is no liability assumed for tax on the assets backing realistic current liabilities.

12. Derivatives

Derivatives held as at 31 December 2010 are as follows:

Sterling and overseas interest rate receiver swaps are held for the purpose of hedging interest rate risk. The swaps held have maturity dates between 2013 and 2046, a total notional of £347.0m, and a total market value of £27.9m.

Sterling and overseas interest rate payer swaps are held for the purpose of hedging interest rate risk. The swaps held have maturity dates between 2013 and 2049, a total notional of £310.8m, and a total market value of -£10.5m.

A set of asset swaps is held with an obligation to pay inflation linked cashflow in exchange for receiving fixed cashflow. These asset swaps are held in conjunction with a set of index-linked bonds, with the purpose that the net cashflow from the bonds together with the swaps is appropriate to back a set of fixed liabilities. The swaps held have maturity dates between 2017 and 2047, a total notional of £567.3m, and a total market value of -£7.5m.

Sterling receiver swaptions are held for the purpose of hedging interest rate risk. These have exercise dates ranging from 2011 to 2023, all have a tenor of 20 years and a strike rate of 5%. They have a total notional of £67.4m and a total market value of £7.8m.

Equity put options are held for the purpose of hedging embedded equity risk in the asset portfolio. These are out of the money put options on FTSE 100 with maturity dates ranging from 2012 to 2015 with a strike of 5200. There is a total notional of £248.5m for a total market value of £24.0m

Single name credit default swaps are held to hedge against credit risk on identified bonds. There is £273.7m of notional bought protection. They are maturing between 2013 and 2020.

Futures are held as set out in the table below:

Future	Bought / Sold	Purpose	Maturity Date	Exposure
FTSE 100	Bought	Increase economic exposure to UK equities	18 March 2011	£10.3m
FTSE 100	Sold	Reduce economic exposure to UK equities	18 March 2011	£322.9m
Long (10y) Gilt	Sold	Duration management	29 March 2011	£51.7m

Cross currency swaps are held to hedge overseas currencies exposure. They have a total notional of £122.2m and a market value of -£4.2m.

Currency forwards are held for the purpose of portfolio management to hedge overseas currencies exposure back to Sterling. There is £195.6m exposure to Euro, USD and JPY back to Sterling.

Sterling Total Return Swaps (TRS) are held to reduce the risk to the fund of gilt/swap spreads returning to normal. They consist of receiving Gilt total return and paying fixed rate equal to the LIBOR 6m at settlement. The notional is £203.8m for a Market value of £10.4m. They are expiring in February 2011.

13. Analysis of change in working capital

£m	
Realistic working capital 31 December 2009	0
Opening Adjustments to valuation of WP liabilities	0
Model & Methodology Changes on valuation of WP liabilities	16
Return on Working Capital	28
Mismatch profits on assets backing the future policyholder related liabilities	65
Changes to persistency & mortality assumptions	15
Changes to economic assumptions	-12
Changes to non-economic assumptions	-115
New Business	0
Profit from Non-Profit business in the With Profit Fund	-25
Changes in other liabilities of lines 47 and 51 of Form 19	-99
Allocate F19 L65 excess to planned enhancements	86
Other	41
Realistic working capital 31 December 2010	0

The main components of the changes to non-economic assumptions item is the increase in the level of uplift to asset share in the sustainable payouts assumed in the valuation.

The change in other liabilities reflect additional provisions for certain exceptional expenses (Solvency II and Service Company over-runs) and additional provision for compensation payments due to advice given on pension scheme equalisation.

Name of Insurer **Friends Life Assurance Society Limited**

IPRU(INS) RULE 9.29 - STATEMENT ON DERIVATIVE CONTRACTS

Financial year ended 31 December 2010

a) **Investment Guidelines**

The investment guidelines of Friends Life Assurance Society Limited allow for the use of derivative contracts for the purposes of efficient portfolio management, the generation of additional capital or income or the reduction of investment risk.

The guidelines restrict the investment in derivative contracts to specified exchange traded derivatives on a limited number of markets, plus the following non exchange traded derivatives: forward foreign exchange contracts, credit default swaps, interest rate swaps and inflation rate swaps.

The counterparties through whom such transactions can be made are restricted, as are the counterparty exposures that may be built up using derivatives. Prudent limits have also been set on the extent to which derivatives may be used within a given portfolio. Derivatives must not be used to gear the portfolio.

The use of non exchange traded derivatives, with the exception of the derivative contracts noted above, is not permitted without the prior approval of the Group Finance Director or the Chief Investment Officer.

b) **Guidelines in respect of derivatives not likely to be exercised**

The investment guidelines do not explicitly allow or exclude the use of derivatives which create rights or obligations which are not, at the time the contract is entered into, reasonably likely to be exercised.

c) **Derivatives not likely to be exercised**

During the year, no contracts were entered into which were not, at the time of entry, reasonably likely to be exercised.

d) **No other instrument, whether it be a derivative or an instrument of similar nature was used which required a significant provision under INSPRU 3.2.17R, or where appropriate, did not fall within the definition of a permitted derivative contract.**

e) **There were no rights granted under derivative contracts, or instruments of similar nature, for which fixed consideration was received by the Insurer during the year.**

Name of Insurer **Friends Life Assurance Society Limited**

IPRU (INS) RULE 9.30 - STATEMENT OF CONTROLLERS OF FRIENDS LIFE ASSURANCE SOCIETY PLC

Up to 15 September 2010

Controller	Shareholding/Voting Rights						
Friends ASLH Limited (formerly AXA Sun Life Holdings plc) Pixham End, Dorking, RH4 1QA Incorporated in England Registered No: 3479251	100% shareholding in Friends Life Assurance Society Limited (formerly Sun Life Assurance Society plc)						
AXA UK plc 5 Old Broad Street, London, EC2N 1AD Incorporated in England Registered No: 2937724	100% shareholding in Friends ASLH Limited (formerly AXA Sun Life Holdings plc)						
AXA 25 avenue Matignon, 75008 Paris Incorporated in France Registered No: 572093920	100% shareholding in AXA UK plc split as follows: <table style="margin-left: 20px; border: none;"> <tr> <td>AXA</td> <td style="text-align: right;">78.3%</td> </tr> <tr> <td>AXA Equity & Law plc (a 99.9% owned subsidiary of AXA)</td> <td style="text-align: right;">21.7%</td> </tr> <tr> <td></td> <td style="text-align: right; border-top: 1px solid black;">100.0%</td> </tr> </table>	AXA	78.3%	AXA Equity & Law plc (a 99.9% owned subsidiary of AXA)	21.7%		100.0%
AXA	78.3%						
AXA Equity & Law plc (a 99.9% owned subsidiary of AXA)	21.7%						
	100.0%						
Mutuelles AXA: AXA Assurances Vie Mutuelle 26 rue Drouot, 75009 Paris Incorporated in France Registered No: 353457245 AXA Assurances IARD Mutuelle 26 rue Drouot, 75009 Paris Incorporated in France Registered No: 775699309	Is an association of two companies, as listed, which collectively exercised 22.2% of the voting rights of AXA up to 15 September 2010.						

Name of Insurer **Friends Life Assurance Society Limited**

IPRU (INS) RULE 9.30 - STATEMENT OF CONTROLLERS OF FRIENDS LIFE ASSURANCE SOCIETY PLC

From 15 September 2010 and as at 31 December 2010

Controller	Shareholding/Voting Rights
Friends ASLH Limited (formerly AXA Sun Life Holdings plc) Pixham End, Dorking, RH4 1QA Incorporated in England Registered No: 3479251	100% shareholding in Friends Life Assurance Society Limited (formerly Sun Life Assurance Society plc)
Friends Provident Holdings (UK) plc Pixham End, Dorking, RH4 1QA Incorporated in England Registered No: 06986155	100% shareholding in Friends ASLH Limited (formerly AXA Sun Life Holdings plc)
Resolution Holdings (Guernsey) Limited Incorporated in Guernsey	100% shareholding in Friends Provident Holdings (UK) plc
Resolution Holdco No. 1 LP	100% shareholding in Resolution Holdings (Guernsey) Limited
Resolution Limited	99.9% shareholding in Resolution Holdco No. 1 LP which exercised 100% of the voting rights at any general meeting. No shareholder owns 10% or more of the shares or votes in Resolution Limited

Name of Insurer **Friends Life Assurance Society Limited**

IPRU(INS) RULE 9.36 - STATEMENT OF INFORMATION ON THE ACTUARY APPOINTED TO PERFORM THE WITH-PROFITS ACTUARY FUNCTION

The actuary was requested to furnish the insurer with particulars specified in Rule 9.36 of the Interim Prudential Sourcebook for Insurers and he has confirmed that the information below is correct.

1. Shares

Mr Shelley had no interest in the shares of the insurer.

Mr Shelley's interests in the insurer's group up to 15 September 2010 were as follows:

- 6,308 €1.49 options (adjusted to take account of the rights issue in 2009) in AXA SA, exercisable to 8 May 2011,
- 4,206 €20.45 options (adjusted to take account of the rights issue in 2009) in AXA SA, exercisable to 26 February 2012,
- 3,154 €10.73 options (adjusted to take account of the rights issue in 2009) in AXA SA, exercisable to 13 March 2013,
- 200 shares in AXA SA Global Shareplan 2006,
- 167 shares in AXA SA Global Shareplan 2007,
- 197 shares in AXA SA Global Shareplan 2008,
- 221 shares in AXA SA Global Shareplan 2009.

2. Remuneration

In respect of 2010 Mr Shelley received management remuneration and other benefits (other than pension contributions) to the value of £175,074.

3. Pension contributions

Mr Shelley was a contributing member of the AXA UK Group Pension Scheme until 15 September 2010 at which time he became a contributing member of the Friends Pension Plan. Mr Shelley continues to have a deferred pension entitlement in respect of the AXA UK Group Pension Scheme.

Name of Insurer **Friends Life Assurance Society Limited**

IPRU(INS) 9.34(1) - DIRECTORS' CERTIFICATE

Financial year ended 31 December 2010

We certify that:

- (a) 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 Society has complied in all material respects with the requirements in SYSC and PRIN as well as the provisions of IPRU(INS), GENPRU and INSPRU; and
 - (ii) it is reasonable to believe that the Society has continued to comply subsequently and will continue so to comply in future;
- (c) 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 Society that are available for the purpose, to enable the Society to meet its obligations in respect of those contracts and, in particular, to establish adequate mathematical reserves;
- (d) the sum of the mathematical reserves as shown in Form 14 constitute proper provision at the end of the financial year in question for the long-term insurance liabilities (other than 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;
- (e) the with-profits fund has been managed in accordance with the Principles and Practices of Financial Management, as established, maintained and recorded under COBS 20.3 and;
- (f) we have, in preparing the return, taken and paid due regard to:
 - (i) advice from the actuary appointed by the Society to perform the actuarial function in accordance with SUP 4.3.13R; and
 - (ii) advice from the actuary appointed by the Society to perform the with-profits actuary function in accordance with SUP 4.3.16AR.

Signed on behalf of Friends Life Assurance Society Limited

T. J. Matthews Director

A. M. Parsons Director

R. Yeoman Secretary

22 March 2011

Name of Insurer **Friends Life Assurance Society Limited**

INDEPENDENT AUDITOR'S REPORT TO THE DIRECTORS PURSUANT TO RULE 9.35 OF THE INTERIM PRUDENTIAL SOURCEBOOK FOR INSURERS

Global business

Financial year ended 31 December 2010

We have audited the following documents prepared by the insurer pursuant to the Accounts and Statement 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 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 19, 40 to 44, 48, 49, 56, 58 and 60 (including the supplementary notes) (‘the Forms’);
- the statement required by IPRU(INS) rule 9.29 (‘the statement’);
- the valuation reports required by IPRU(INS) rule 9.31 (‘the valuation reports’).

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

- Forms 46, 47, 50 to 55, 57, 59A and 59B (including the supplementary notes);
- the statements required by IPRU(INS) rules 9.30 and 9.36; and
- the certificate required by 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 audit work 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 audit work, 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 directions issued under section 148 of the Act referred to in supplementary note 0201. Under IPRU(INS) rule 9.11 the Forms, the statement and the valuation reports 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 reports are required to reflect appropriately the requirements of INSPRU 1.2 and 1.3.

It is our responsibility to form an independent opinion as to whether the Forms, the statement and the valuation reports meet these requirements, and to report our opinion to you. We also report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited; or

Name of Insurer **Friends Life Assurance Society Limited**

INDEPENDENT AUDITOR'S REPORT TO THE DIRECTORS PURSUANT TO RULE 9.35 OF THE INTERIM PRUDENTIAL SOURCEBOOK FOR INSURERS

Global business

Financial year ended 31 December 2010

- the Forms, the statements and the valuation reports are not in agreement with the accounting records and returns; or
- we have not received all the information we require for our audit.

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 reports. 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 22 March 2011. It also included an assessment of the significant estimates and judgements made by the insurer in the preparation of the Forms, the statement and the valuation reports.

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 reports 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 reports 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 reports appropriately reflect the requirements of INSPRU 1.2 and 1.3.

Ernst & Young LLP

Statutory Auditor

London

22 March 2011

