

# **Friends Life Company Limited**

**(formerly AXA Sun Life Plc)**

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



(Appendices 9.1, 9.3, 9.4, 9.6)

# Friends Life Company Limited

Year ended 31st December 2010

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# Friends Life Company Limited

Year ended 31st December 2010

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**Statement of solvency - long-term insurance business**
**Form 2**

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 Name of insurer **Friends Life Company Limited**

Global business

 Financial year ended **31st December 2010**

Adjusted solo solvency calculation

	Company registration number	GL/UK/CM	day	month	year	units	
	<b>R2</b>	<b>3291349</b>	<b>GL</b>	<b>31</b>	<b>12</b>	<b>2010</b>	<b>£000</b>
				As at end of this financial year		As at end of the previous year	
				<b>1</b>		<b>2</b>	

**Capital resources**

Capital resources arising within the long-term insurance fund	<b>11</b>	1845333	2274265
Capital resources allocated towards long-term insurance business arising outside the long-term insurance fund	<b>12</b>	1139840	129866
Capital resources available to cover long-term insurance business capital resources requirement (11+12)	<b>13</b>	2985173	2404131

**Guarantee fund**

Guarantee fund requirement	<b>21</b>	184267	169417
Excess (deficiency) of available capital resources to cover guarantee fund requirement	<b>22</b>	2800906	2234714

**Minimum capital requirement (MCR)**

Long-term insurance capital requirement	<b>31</b>	552801	508252
Resilience capital requirement	<b>32</b>		
Base capital resources requirement	<b>33</b>	3040	3128
Individual minimum capital requirement	<b>34</b>	552801	508252
Capital requirements of regulated related undertakings	<b>35</b>		
Minimum capital requirement (34+35)	<b>36</b>	552801	508252
Excess (deficiency) of available capital resources to cover 50% of MCR	<b>37</b>	2708773	2150005
Excess (deficiency) of available capital resources to cover 75% of MCR	<b>38</b>	2570572	2022942

**Enhanced capital requirement**

With-profits insurance capital component	<b>39</b>	1196294	768650
Enhanced capital requirement	<b>40</b>	1749095	1276902

**Capital resources requirement (CRR)**

Capital resources requirement (greater of 36 and 40)	<b>41</b>	1749095	1276902
Excess (deficiency) of available capital resources to cover long-term insurance business CRR (13-41)	<b>42</b>	1236078	1127229

**Contingent liabilities**

Quantifiable contingent liabilities in respect of long-term insurance business as shown in a supplementary note to Form 14	<b>51</b>	87799	156859
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**Covering sheet to Form 2**

**Form 2**

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Name of insurer **Friends Life Company 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 Company Limited**

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Global business

 Financial year ended **31st December 2010**

	Company registration number	GL/UK/CM	day	month	year	units	
	R3	3291349	GL	31	12	2010	£000
	1	2	3			4	
	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	

**Core tier one capital**

Permanent share capital	11		92500	92500	92500
Profit and loss account and other reserves	12		2431297	2431297	2848768
Share premium account	13				
Positive valuation differences	14		1697668	1697668	1286082
Fund for future appropriations	15		580943	580943	855849
Core tier one capital in related undertakings	16				(19472)
Core tier one capital (sum of 11 to 16)	19		4802408	4802408	5063727

**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				

<b>Total tier one capital before deductions</b> (19+24+25+26+27+28)	31		4802408	4802408	5063727
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				
<b>Total tier one capital after deductions</b> (31-37)	39		4802408	4802408	5063727

**Components of capital resources**

**Form 3  
(Sheet 2)**

Name of insurer **Friends Life Company Limited**

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Global business

Financial year ended **31st December 2010**

	Company registration number	GL/UK/CM	day	month	year	units	
	<b>R3</b>	<b>3291349</b>	<b>GL</b>	<b>31</b>	<b>12</b>	<b>2010</b>	<b>£000</b>
	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			
	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>			

**Tier two capital**

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

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

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

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

 Name of insurer **Friends Life Company Limited**

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Global business

 Financial year ended **31st December 2010**

	Company registration number	GL/UK/CM	day	month	year	units	
	R3	3291349	GL	31	12	2010	£000
	1	2	3	Total as at the end of this financial year		Total as at the end of the previous year	

**Total capital resources**

Positive adjustments for regulated non-insurance related undertakings	71					
<b>Total capital resources before deductions (39+69+71)</b>	<b>72</b>		4802408	4802408	5063727	
Inadmissible assets other than intangibles and own shares	73		1644508	1644508	1610558	
Assets in excess of market risk and counterparty limits	74		172727	172727	1049038	
Deductions for related ancillary services undertakings	75					
Deductions for regulated non-insurance related undertakings	76					
Deductions of ineligible surplus capital	77					
<b>Total capital resources after deductions (72-73-74-75-76-77)</b>	<b>79</b>		2985173	2985173	2404131	

**Available capital resources for GENPRU/INSRU tests**

Available capital resources for guarantee fund requirement	81		2985173	2985173	2404131	
Available capital resources for 50% MCR requirement	82		2985173	2985173	2404131	
Available capital resources for 75% MCR requirement	83		2985173	2985173	2404131	

**Financial engineering adjustments**

Implicit items	91					
Financial reinsurance – ceded	92		61233	61233	78054	
Financial reinsurance – accepted	93					
Outstanding contingent loans	94		87799	87799	156859	
Any other charges on future profits	95					
<b>Sum of financial engineering adjustments (91+92-93+94+95)</b>	<b>96</b>		149032	149032	234913	



Calculation of general insurance capital requirement - premiums amount and brought forward amount

Form 11

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Name of insurer **Friends Life Company Limited**

Global business

Financial year ended **31st December 2010**

Long-term insurance business

	Company registration number	GL/UK/CM	day	month	year	units	
	R11	3291349	GL	31	12	2010	£000
			This financial year		Previous year		
			1		2		
Gross premiums written			11			17629	19659
Premiums taxes and levies (included in line 11)			12				
Premiums written net of taxes and levies (11-12)			13			17629	19659
Premiums for classes 11, 12 or 13 (included in line 13)			14				
Premiums for "actuarial health insurance" (included in line 13)			15			7557	10640
<b>Sub-total A</b> (13 + 1/2 14 - 2/3 15)			16			12591	12566
Gross premiums earned			21			23294	26463
Premium taxes and levies (included in line 21)			22				
Premiums earned net of taxes and levies (21-22)			23			23294	26463
Premiums for classes 11, 12 or 13 (included in line 23)			24				
Premiums for "actuarial health insurance" (included in line 23)			25			10220	13240
<b>Sub-total H</b> (23 + 1/2 24 - 2/3 25)			26			16481	17636
<b>Sub-total I</b> (higher of sub-total A and sub-total H)			30			16481	17636
<b>Adjusted sub-total I</b> if financial year is not a 12 month period to produce an annual figure			31				
Division of gross adjusted premiums amount: sub-total I (or adjusted sub-total I if appropriate)	x 0.18		32			2967	3174
	Excess (if any) over 57.5M EURO x 0.02		33				
<b>Sub-total J</b> (32-33)			34			2967	3174
Claims paid in period of 3 financial years			41			83275	118332
Claims outstanding carried forward at the end of the 3 year period	For insurance business accounted for on an underwriting year basis		42				
	For insurance business accounted for on an accident year basis		43			101796	110967
Claims outstanding brought forward at the beginning of the 3 year period	For insurance business accounted for on an underwriting year basis		44				
	For insurance business accounted for on an accident year basis		45			124610	131757
<b>Sub-total C</b> (41+42+43-44-45)			46			60461	97542
Amounts recoverable from reinsurers in respect of claims included in Sub-total C			47			21397	46330
<b>Sub-total D</b> (46-47)			48			39064	51212
<b>Reinsurance ratio</b> (Sub-total D / sub-total C or, if more, 0.50 or, if less, 1.00)			49			0.65	0.53
<b>Premiums amount</b> (Sub-total J x reinsurance ratio)			50			1917	1666
Provisions for claims outstanding (before discounting and net of reinsurance)			51			58657	66400
Provisions for claims outstanding (before discounting and gross of reinsurance) if both 51.1 and 51.2 are zero, otherwise zero			52				
Brought forward amount (see instruction 4)			53			3870	4381
Greater of lines 50 and 53			54			3870	4381

**Calculation of general insurance capital requirement - claims amount and result**
**Form 12**

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 Name of insurer **Friends Life Company Limited**

Global business

 Financial year ended **31st December 2010**

Long-term insurance business

		Company registration number	GL/ UK/ CM	day	month	year	units	
		R12	3291349	GL	31	12	2010	€000
				This financial year		Previous year		
				1		2		
Reference period (No. of months) See <i>INSPRU</i> 1.1.63R		11		36		36		
Claims paid in reference period		21		83275		118332		
Claims outstanding carried forward at the end of the reference period	For insurance business accounted for on an underwriting year basis	22						
	For insurance business accounted for on an accident year basis	23		101796		110967		
Claims outstanding brought forward at the beginning of the reference period	For insurance business accounted for on an underwriting year basis	24						
	For insurance business accounted for on an accident year basis	25		124610		131757		
Claims incurred in reference period (21+22+23-24-25)		26		60461		97542		
Claims incurred for classes 11, 12 or 13 (included in 26)		27						
Claims incurred for "actuarial health insurance" (included in 26)		28		53273		55176		
<b>Sub-total E</b> (26 + 1/2 27 - 2/3 28)		29		24946		60758		
<b>Sub-total F</b> - Conversion of sub-total E to annual figure (multiply by 12 and divide by number of months in the reference period)		31		8315		20253		
Division of sub-total F (gross adjusted claims amount)	X 0.26	32		2162		5266		
	Excess (if any) over 40.3M EURO x 0.03	33						
<b>Sub-total G</b> (32 - 33)		39		2162		5266		
<b>Claims amount</b> Sub-total G x <b>reinsurance ratio</b> (11.49)		41		1397		2765		
Higher of <b>premiums amount</b> and <b>brought forward amount</b> (11.54)		42		3870		4381		
<b>General insurance capital requirement</b> (higher of lines 41 and 42)		43		3870		4381		

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

 Name of insurer **Friends Life Company 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	
	<b>R13</b>	<b>3291349</b>	<b>GL</b>	<b>31</b>	<b>12</b>	<b>2010</b>	<b>£000</b>	<b>1</b>
						As at end of this financial year	As at end of the previous year	
						<b>1</b>	<b>2</b>	
Land and buildings			<b>11</b>					

**Investments in group undertakings and participating interests**

UK insurance dependants	shares	<b>21</b>	249658	211528
	debts and loans	<b>22</b>		
Other insurance dependants	shares	<b>23</b>		
	debts and loans	<b>24</b>		
Non-insurance dependants	shares	<b>25</b>		
	debts and loans	<b>26</b>		
Other group undertakings	shares	<b>27</b>		
	debts and loans	<b>28</b>	129957	
Participating interests	shares	<b>29</b>		
	debts and loans	<b>30</b>		

**Other financial investments**

Equity shares	<b>41</b>		
Other shares and other variable yield participations	<b>42</b>		
Holdings in collective investment schemes	<b>43</b>	253550	11850
Rights under derivative contracts	<b>44</b>		
Fixed interest securities	Approved	<b>45</b>	
	Other	<b>46</b>	
Variable interest securities	Approved	<b>47</b>	
	Other	<b>48</b>	
Participation in investment pools	<b>49</b>		
Loans secured by mortgages	<b>50</b>		
Loans to public or local authorities and nationalised industries or undertakings	<b>51</b>		
Loans secured by policies of insurance issued by the company	<b>52</b>		
Other loans	<b>53</b>	599783	
Bank and approved credit & financial institution deposits	One month or less withdrawal	<b>54</b>	
	More than one month withdrawal	<b>55</b>	
Other financial investments	<b>56</b>		

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

 Name of insurer **Friends Life Company Limited**

Printed 24/03/2011 10:15:57

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	
	<b>R13</b>	<b>3291349</b>	<b>GL</b>	<b>31</b>	<b>12</b>	<b>2010</b>	<b>£000</b>	<b>1</b>
						As at end of this financial year	As at end of the previous year	
						<b>1</b>	<b>2</b>	
Deposits with ceding undertakings						<b>57</b>		
Assets held to match linked liabilities	Index linked				<b>58</b>			
	Property linked				<b>59</b>			

**Reinsurers' share of technical provisions**

Provision for unearned premiums	<b>60</b>		
Claims outstanding	<b>61</b>		
Provision for unexpired risks	<b>62</b>		
Other	<b>63</b>		

**Debtors and salvage**

Direct insurance business	Policyholders	<b>71</b>		
	Intermediaries	<b>72</b>		
Salvage and subrogation recoveries		<b>73</b>		
Reinsurance	Accepted	<b>74</b>		
	Ceded	<b>75</b>		
Dependants	due in 12 months or less	<b>76</b>		
	due in more than 12 months	<b>77</b>		
Other	due in 12 months or less	<b>78</b>	6	152
	due in more than 12 months	<b>79</b>		

**Other assets**

Tangible assets	<b>80</b>		
Deposits not subject to time restriction on withdrawal with approved institutions	<b>81</b>	55388	44853
Cash in hand	<b>82</b>		
Other assets (particulars to be specified by way of supplementary note)	<b>83</b>		
Accrued interest and rent	<b>84</b>	1189	
Deferred acquisition costs (general business only)	<b>85</b>		
Other prepayments and accrued income	<b>86</b>		

Deductions from the aggregate value of assets	<b>87</b>		
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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)	<b>89</b>	1289531	268383
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**Analysis of admissible assets**

**Form 13  
(Sheet 3)**

Name of insurer **Friends Life Company Limited**

Printed 24/03/2011 10:15:57

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	
	<b>R13</b>	<b>3291349</b>	<b>GL</b>	<b>31</b>	<b>12</b>	<b>2010</b>	<b>£000</b>	<b>1</b>
						As at end of this financial year	As at end of the previous year	
						<b>1</b>	<b>2</b>	

**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)	<b>91</b>	1289531	268383
Admissible assets in excess of market and counterparty limits	<b>92</b>	172727	687972
Inadmissible assets directly held	<b>93</b>		
Capital resources requirement deduction of regulated related undertakings	<b>94</b>		
Ineligible surplus capital and restricted assets in regulated related insurance undertakings	<b>95</b>		
Inadmissible assets of regulated related undertakings	<b>96</b>		
Book value of related ancillary services undertakings	<b>97</b>		
Other differences in the valuation of assets (other than for assets not valued above)	<b>98</b>		19472
Deferred acquisition costs excluded from line 89	<b>99</b>		
Reinsurers' share of technical provisions excluded from line 89	<b>100</b>		
Other asset adjustments (may be negative)	<b>101</b>	(4556)	
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)	<b>102</b>	1457702	975827
Amounts included in line 89 attributable to debts due from related insurers, other than those under contracts of insurance or reinsurance	<b>103</b>		



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

 Name of insurer **Friends Life Company 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	
	<b>R13</b>	<b>3291349</b>	<b>GL</b>	<b>31</b>	<b>12</b>	<b>2010</b>	<b>£000</b>	<b>10</b>
						As at end of this financial year	As at end of the previous year	
						<b>1</b>	<b>2</b>	
Deposits with ceding undertakings			<b>57</b>					
Assets held to match linked liabilities	Index linked		<b>58</b>		206829		201949	
	Property linked		<b>59</b>		28632404		27343067	

**Reinsurers' share of technical provisions**

Provision for unearned premiums	<b>60</b>						
Claims outstanding	<b>61</b>						
Provision for unexpired risks	<b>62</b>						
Other	<b>63</b>						

**Debtors and salvage**

Direct insurance business	Policyholders	<b>71</b>		23026		9041
	Intermediaries	<b>72</b>		9160		10069
Salvage and subrogation recoveries		<b>73</b>				
Reinsurance	Accepted	<b>74</b>		14117		7328
	Ceded	<b>75</b>		1221		
Dependants	due in 12 months or less	<b>76</b>				971
	due in more than 12 months	<b>77</b>				
Other	due in 12 months or less	<b>78</b>		308751		99719
	due in more than 12 months	<b>79</b>				

**Other assets**

Tangible assets	<b>80</b>					
Deposits not subject to time restriction on withdrawal with approved institutions	<b>81</b>			125023		91485
Cash in hand	<b>82</b>					
Other assets (particulars to be specified by way of supplementary note)	<b>83</b>					
Accrued interest and rent	<b>84</b>			66963		56000
Deferred acquisition costs (general business only)	<b>85</b>					
Other prepayments and accrued income	<b>86</b>			5029		3430

Deductions from the aggregate value of assets	<b>87</b>					
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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)	<b>89</b>			37838928		36511524
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**Analysis of admissible assets**

**Form 13  
(Sheet 3)**

Name of insurer **Friends Life Company 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	
	<b>R13</b>	<b>3291349</b>	<b>GL</b>	<b>31</b>	<b>12</b>	<b>2010</b>	<b>£000</b>	<b>10</b>
						As at end of this financial year	As at end of the previous year	
						<b>1</b>	<b>2</b>	

**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)	<b>91</b>	37838928	36511524
Admissible assets in excess of market and counterparty limits	<b>92</b>		361066
Inadmissible assets directly held	<b>93</b>	361316	292816
Capital resources requirement deduction of regulated related undertakings	<b>94</b>		
Ineligible surplus capital and restricted assets in regulated related insurance undertakings	<b>95</b>		
Inadmissible assets of regulated related undertakings	<b>96</b>		
Book value of related ancillary services undertakings	<b>97</b>		
Other differences in the valuation of assets (other than for assets not valued above)	<b>98</b>		5413
Deferred acquisition costs excluded from line 89	<b>99</b>	1460874	1495152
Reinsurers' share of technical provisions excluded from line 89	<b>100</b>	5479255	5188097
Other asset adjustments (may be negative)	<b>101</b>	(551569)	(322731)
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)	<b>102</b>	44588804	43531337
Amounts included in line 89 attributable to debts due from related insurers, other than those under contracts of insurance or reinsurance	<b>103</b>		



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

 Name of insurer **Friends Life Company Limited**

Printed 24/03/2011 10:15:59

Global business

 Financial year ended **31st December 2010**

 Category of assets **Old With Profits Fund**

	Company registration number	GL/UK/CM	day	month	year	units	Category of assets	
	R13	3291349	GL	31	12	2010	£000	11
						As at end of this financial year	As at end of the previous year	
						1	2	
Land and buildings						149032		118836

**Investments in group undertakings and participating interests**

UK insurance dependants	shares	21		
	debts and loans	22		
Other insurance dependants	shares	23		
	debts and loans	24		
Non-insurance dependants	shares	25		
	debts and loans	26		
Other group undertakings	shares	27	11106	12232
	debts and loans	28	1077	
Participating interests	shares	29		
	debts and loans	30		

**Other financial investments**

Equity shares	41	563936	505678	
Other shares and other variable yield participations	42	86179	88319	
Holdings in collective investment schemes	43	49161	206951	
Rights under derivative contracts	44	24095	24328	
Fixed interest securities	Approved	45	173248	121222
	Other	46	373134	269691
Variable interest securities	Approved	47	3301	8392
	Other	48	4134	5371
Participation in investment pools	49			
Loans secured by mortgages	50	8	10	
Loans to public or local authorities and nationalised industries or undertakings	51			
Loans secured by policies of insurance issued by the company	52	2323	3059	
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 Company Limited**

Printed 24/03/2011 10:15:59

Global business

 Financial year ended **31st December 2010**

 Category of assets **Old With Profits Fund**

	Company registration number	GL/UK/CM	day	month	year	units	Category of assets	
	<b>R13</b>	<b>3291349</b>	<b>GL</b>	<b>31</b>	<b>12</b>	<b>2010</b>	<b>£000</b>	<b>11</b>
						As at end of this financial year	As at end of the previous year	
						<b>1</b>	<b>2</b>	
Deposits with ceding undertakings								
Assets held to match linked liabilities	Index linked					2661		2278
	Property linked							

**Reinsurers' share of technical provisions**

Provision for unearned premiums	<b>60</b>		
Claims outstanding	<b>61</b>		
Provision for unexpired risks	<b>62</b>		
Other	<b>63</b>		

**Debtors and salvage**

Direct insurance business	Policyholders	<b>71</b>	385	1568
	Intermediaries	<b>72</b>	4	1550
Salvage and subrogation recoveries		<b>73</b>		
Reinsurance	Accepted	<b>74</b>	2045	84
	Ceded	<b>75</b>		
Dependants	due in 12 months or less	<b>76</b>		12
	due in more than 12 months	<b>77</b>		
Other	due in 12 months or less	<b>78</b>	40459	31035
	due in more than 12 months	<b>79</b>		

**Other assets**

Tangible assets	<b>80</b>		
Deposits not subject to time restriction on withdrawal with approved institutions	<b>81</b>		4023
Cash in hand	<b>82</b>		
Other assets (particulars to be specified by way of supplementary note)	<b>83</b>		
Accrued interest and rent	<b>84</b>	10810	7879
Deferred acquisition costs (general business only)	<b>85</b>		
Other prepayments and accrued income	<b>86</b>		

Deductions from the aggregate value of assets	<b>87</b>		
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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)	<b>89</b>	1497098	1412518
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**Analysis of admissible assets**
**Form 13  
(Sheet 3)**

 Name of insurer **Friends Life Company Limited**

Printed 24/03/2011 10:15:59

Global business

 Financial year ended **31st December 2010**

 Category of assets **Old With Profits Fund**

	Company registration number	GL/ UK/ CM	day	month	year	units	Category of assets	
	<b>R13</b>	<b>3291349</b>	<b>GL</b>	<b>31</b>	<b>12</b>	<b>2010</b>	<b>£000</b>	<b>11</b>
						As at end of this financial year	As at end of the previous year	
						<b>1</b>	<b>2</b>	

**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)	<b>91</b>	1497098	1412518
Admissible assets in excess of market and counterparty limits	<b>92</b>		
Inadmissible assets directly held	<b>93</b>	22182	16203
Capital resources requirement deduction of regulated related undertakings	<b>94</b>		
Ineligible surplus capital and restricted assets in regulated related insurance undertakings	<b>95</b>		
Inadmissible assets of regulated related undertakings	<b>96</b>		
Book value of related ancillary services undertakings	<b>97</b>		
Other differences in the valuation of assets (other than for assets not valued above)	<b>98</b>		
Deferred acquisition costs excluded from line 89	<b>99</b>		
Reinsurers' share of technical provisions excluded from line 89	<b>100</b>	160	165
Other asset adjustments (may be negative)	<b>101</b>	(17515)	(1395)
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)	<b>102</b>	1501925	1427491
Amounts included in line 89 attributable to debts due from related insurers, other than those under contracts of insurance or reinsurance	<b>103</b>		

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

 Name of insurer **Friends Life Company Limited**

Printed 24/03/2011 10:15:59

Global business

 Financial year ended **31st December 2010**

 Category of assets **New With Profits Fund**

	Company registration number	GL/ UK/ CM	day	month	year	units	Category of assets	
	<b>R13</b>	<b>3291349</b>	<b>GL</b>	<b>31</b>	<b>12</b>	<b>2010</b>	<b>£000</b>	<b>12</b>
						As at end of this financial year	As at end of the previous year	
						<b>1</b>	<b>2</b>	
Land and buildings				<b>11</b>		601508		588867

**Investments in group undertakings and participating interests**

UK insurance dependants	shares	<b>21</b>				
	debts and loans	<b>22</b>				
Other insurance dependants	shares	<b>23</b>				
	debts and loans	<b>24</b>				
Non-insurance dependants	shares	<b>25</b>				
	debts and loans	<b>26</b>				
Other group undertakings	shares	<b>27</b>			44787	29157
	debts and loans	<b>28</b>			4307	
Participating interests	shares	<b>29</b>				
	debts and loans	<b>30</b>				

**Other financial investments**

Equity shares	<b>41</b>		2276260	2144375
Other shares and other variable yield participations	<b>42</b>		347776	210520
Holdings in collective investment schemes	<b>43</b>		207902	533411
Rights under derivative contracts	<b>44</b>		105421	97727
Fixed interest securities	Approved	<b>45</b>	769133	651115
	Other	<b>46</b>	1649615	1431571
Variable interest securities	Approved	<b>47</b>	12848	41642
	Other	<b>48</b>	20594	21576
Participation in investment pools	<b>49</b>			
Loans secured by mortgages	<b>50</b>		30	41
Loans to public or local authorities and nationalised industries or undertakings	<b>51</b>			
Loans secured by policies of insurance issued by the company	<b>52</b>		9229	12347
Other loans	<b>53</b>			
Bank and approved credit & financial institution deposits	One month or less withdrawal	<b>54</b>		
	More than one month withdrawal	<b>55</b>		
Other financial investments	<b>56</b>			

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

 Name of insurer **Friends Life Company Limited**

Printed 24/03/2011 10:15:59

Global business

 Financial year ended **31st December 2010**

 Category of assets **New With Profits Fund**

	Company registration number	GL/UK/CM	day	month	year	units	Category of assets	
	<b>R13</b>	<b>3291349</b>	<b>GL</b>	<b>31</b>	<b>12</b>	<b>2010</b>	<b>£000</b>	<b>12</b>
						As at end of this financial year	As at end of the previous year	
						<b>1</b>	<b>2</b>	
Deposits with ceding undertakings			<b>57</b>					
Assets held to match linked liabilities	Index linked		<b>58</b>			16705	15172	
	Property linked		<b>59</b>					

**Reinsurers' share of technical provisions**

Provision for unearned premiums	<b>60</b>		
Claims outstanding	<b>61</b>		
Provision for unexpired risks	<b>62</b>		
Other	<b>63</b>		

**Debtors and salvage**

Direct insurance business	Policyholders	<b>71</b>	3207	7316
	Intermediaries	<b>72</b>	46	7932
Salvage and subrogation recoveries	<b>73</b>			
Reinsurance	Accepted	<b>74</b>	3834	
	Ceded	<b>75</b>		
Dependants	due in 12 months or less	<b>76</b>		47
	due in more than 12 months	<b>77</b>		
Other	due in 12 months or less	<b>78</b>	45586	18573
	due in more than 12 months	<b>79</b>		

**Other assets**

Tangible assets	<b>80</b>		
Deposits not subject to time restriction on withdrawal with approved institutions	<b>81</b>	63683	23954
Cash in hand	<b>82</b>		
Other assets (particulars to be specified by way of supplementary note)	<b>83</b>		
Accrued interest and rent	<b>84</b>	48903	42209
Deferred acquisition costs (general business only)	<b>85</b>		
Other prepayments and accrued income	<b>86</b>		

Deductions from the aggregate value of assets	<b>87</b>		
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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)	<b>89</b>	6231374	5877552
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**Analysis of admissible assets**

**Form 13  
(Sheet 3)**

Name of insurer **Friends Life Company Limited**

Printed 24/03/2011 10:16:00

Global business

Financial year ended **31st December 2010**

Category of assets **New With Profits Fund**

	Company registration number	GL/UK/CM	day	month	year	units	Category of assets	
	<b>R13</b>	<b>3291349</b>	<b>GL</b>	<b>31</b>	<b>12</b>	<b>2010</b>	<b>£000</b>	<b>12</b>
						As at end of this financial year	As at end of the previous year	
						<b>1</b>	<b>2</b>	

**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)	<b>91</b>	6231374	5877552
Admissible assets in excess of market and counterparty limits	<b>92</b>		
Inadmissible assets directly held	<b>93</b>	161196	110591
Capital resources requirement deduction of regulated related undertakings	<b>94</b>		
Ineligible surplus capital and restricted assets in regulated related insurance undertakings	<b>95</b>		
Inadmissible assets of regulated related undertakings	<b>96</b>		
Book value of related ancillary services undertakings	<b>97</b>		
Other differences in the valuation of assets (other than for assets not valued above)	<b>98</b>		
Deferred acquisition costs excluded from line 89	<b>99</b>		
Reinsurers' share of technical provisions excluded from line 89	<b>100</b>	212	221
Other asset adjustments (may be negative)	<b>101</b>	(74395)	(11491)
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)	<b>102</b>	6318387	5976873
Amounts included in line 89 attributable to debts due from related insurers, other than those under contracts of insurance or reinsurance	<b>103</b>		

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

 Name of insurer **Friends Life Company Limited**

Printed 24/03/2011 10:16:00

Global business

 Financial year ended **31st December 2010**

 Category of assets **Non Profit Fund One**

	Company registration number	GL/ UK/ CM	day	month	year	units	Category of assets	
	<b>R13</b>	<b>3291349</b>	<b>GL</b>	<b>31</b>	<b>12</b>	<b>2010</b>	<b>£000</b>	<b>13</b>
						As at end of this financial year	As at end of the previous year	
						<b>1</b>	<b>2</b>	
Land and buildings				<b>11</b>				

**Investments in group undertakings and participating interests**

UK insurance dependants	shares	<b>21</b>				
	debts and loans	<b>22</b>				
Other insurance dependants	shares	<b>23</b>				
	debts and loans	<b>24</b>				
Non-insurance dependants	shares	<b>25</b>				
	debts and loans	<b>26</b>				
Other group undertakings	shares	<b>27</b>			2233	465770
	debts and loans	<b>28</b>				160549
Participating interests	shares	<b>29</b>				
	debts and loans	<b>30</b>				

**Other financial investments**

Equity shares	<b>41</b>		2168	62535
Other shares and other variable yield participations	<b>42</b>			
Holdings in collective investment schemes	<b>43</b>		154276	235972
Rights under derivative contracts	<b>44</b>		678	1461
Fixed interest securities	Approved	<b>45</b>	117307	134062
	Other	<b>46</b>	143405	51657
Variable interest securities	Approved	<b>47</b>	84887	75549
	Other	<b>48</b>	5352	102092
Participation in investment pools	<b>49</b>			
Loans secured by mortgages	<b>50</b>			
Loans to public or local authorities and nationalised industries or undertakings	<b>51</b>			
Loans secured by policies of insurance issued by the company	<b>52</b>			
Other loans	<b>53</b>			
Bank and approved credit & financial institution deposits	One month or less withdrawal	<b>54</b>		
	More than one month withdrawal	<b>55</b>	50000	
Other financial investments	<b>56</b>			

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

 Name of insurer **Friends Life Company Limited**

Printed 24/03/2011 10:16:00

Global business

 Financial year ended **31st December 2010**

 Category of assets **Non Profit Fund One**

	Company registration number	GL/UK/CM	day	month	year	units	Category of assets	
	R13	3291349	GL	31	12	2010	£000	13
						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	61860	59556	
	Property linked				59	13740117	13121836	

**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	7637	
	Intermediaries	72	5031	557
Salvage and subrogation recoveries		73		
Reinsurance	Accepted	74	7208	7142
	Ceded	75	1093	
Dependants	due in 12 months or less	76		
	due in more than 12 months	77		
Other	due in 12 months or less	78	133289	50111
	due in more than 12 months	79		

**Other assets**

Tangible assets	80		
Deposits not subject to time restriction on withdrawal with approved institutions	81	61340	36925
Cash in hand	82		
Other assets (particulars to be specified by way of supplementary note)	83		
Accrued interest and rent	84	3890	3230
Deferred acquisition costs (general business only)	85		
Other prepayments and accrued income	86	1722	478

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	14583493	14569482
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**Analysis of admissible assets**
**Form 13  
(Sheet 3)**

 Name of insurer **Friends Life Company Limited**

Printed 24/03/2011 10:16:00

Global business

 Financial year ended **31st December 2010**

 Category of assets **Non Profit Fund One**

	Company registration number	GL/ UK/ CM	day	month	year	units	Category of assets
<b>R13</b>	<b>3291349</b>	<b>GL</b>	<b>31</b>	<b>12</b>	<b>2010</b>	<b>£000</b>	<b>13</b>
						As at end of this financial year	As at end of the previous year
						<b>1</b>	<b>2</b>

**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)	<b>91</b>	14583493	14569482
Admissible assets in excess of market and counterparty limits	<b>92</b>		360462
Inadmissible assets directly held	<b>93</b>	123515	143305
Capital resources requirement deduction of regulated related undertakings	<b>94</b>		
Ineligible surplus capital and restricted assets in regulated related insurance undertakings	<b>95</b>		
Inadmissible assets of regulated related undertakings	<b>96</b>		
Book value of related ancillary services undertakings	<b>97</b>		
Other differences in the valuation of assets (other than for assets not valued above)	<b>98</b>		5413
Deferred acquisition costs excluded from line 89	<b>99</b>	916845	862814
Reinsurers' share of technical provisions excluded from line 89	<b>100</b>	266533	446582
Other asset adjustments (may be negative)	<b>101</b>	(235862)	(204021)
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)	<b>102</b>	15654524	16184037
Amounts included in line 89 attributable to debts due from related insurers, other than those under contracts of insurance or reinsurance	<b>103</b>		

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

 Name of insurer **Friends Life Company Limited**

Printed 24/03/2011 10:16:01

Global business

 Financial year ended **31st December 2010**

 Category of assets **Non Profit Fund Two**

	Company registration number	GL/ UK/ CM	day	month	year	units	Category of assets	
	<b>R13</b>	<b>3291349</b>	<b>GL</b>	<b>31</b>	<b>12</b>	<b>2010</b>	<b>£000</b>	<b>14</b>
						As at end of this financial year	As at end of the previous year	
						<b>1</b>	<b>2</b>	
Land and buildings								
				<b>11</b>				

**Investments in group undertakings and participating interests**

UK insurance dependants	shares	<b>21</b>		
	debts and loans	<b>22</b>		
Other insurance dependants	shares	<b>23</b>		
	debts and loans	<b>24</b>		
Non-insurance dependants	shares	<b>25</b>		
	debts and loans	<b>26</b>		
Other group undertakings	shares	<b>27</b>		
	debts and loans	<b>28</b>		
Participating interests	shares	<b>29</b>		
	debts and loans	<b>30</b>		

**Other financial investments**

Equity shares	<b>41</b>			
Other shares and other variable yield participations	<b>42</b>			
Holdings in collective investment schemes	<b>43</b>	64782	16937	
Rights under derivative contracts	<b>44</b>	90	438	
Fixed interest securities	Approved	<b>45</b>	110666	88746
	Other	<b>46</b>	135286	76385
Variable interest securities	Approved	<b>47</b>	80082	69714
	Other	<b>48</b>	5049	20160
Participation in investment pools	<b>49</b>			
Loans secured by mortgages	<b>50</b>			
Loans to public or local authorities and nationalised industries or undertakings	<b>51</b>			
Loans secured by policies of insurance issued by the company	<b>52</b>			
Other loans	<b>53</b>			
Bank and approved credit & financial institution deposits	One month or less withdrawal	<b>54</b>		
	More than one month withdrawal	<b>55</b>		
Other financial investments	<b>56</b>			

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

 Name of insurer **Friends Life Company Limited**

Printed 24/03/2011 10:16:01

Global business

 Financial year ended **31st December 2010**

 Category of assets **Non Profit Fund Two**

	Company registration number	GL/UK/CM	day	month	year	units	Category of assets	
	<b>R13</b>	<b>3291349</b>	<b>GL</b>	<b>31</b>	<b>12</b>	<b>2010</b>	<b>£000</b>	<b>14</b>
						As at end of this financial year	As at end of the previous year	
						<b>1</b>	<b>2</b>	
Deposits with ceding undertakings			<b>57</b>					
Assets held to match linked liabilities	Index linked		<b>58</b>			125603		124943
	Property linked		<b>59</b>			14892287		14221231

**Reinsurers' share of technical provisions**

Provision for unearned premiums	<b>60</b>		
Claims outstanding	<b>61</b>		
Provision for unexpired risks	<b>62</b>		
Other	<b>63</b>		

**Debtors and salvage**

Direct insurance business	Policyholders	<b>71</b>	11797	157
	Intermediaries	<b>72</b>	4079	30
Salvage and subrogation recoveries		<b>73</b>		
Reinsurance	Accepted	<b>74</b>	1030	102
	Ceded	<b>75</b>	128	
Dependants	due in 12 months or less	<b>76</b>		912
	due in more than 12 months	<b>77</b>		
Other	due in 12 months or less	<b>78</b>	89417	
	due in more than 12 months	<b>79</b>		

**Other assets**

Tangible assets	<b>80</b>		
Deposits not subject to time restriction on withdrawal with approved institutions	<b>81</b>		26583
Cash in hand	<b>82</b>		
Other assets (particulars to be specified by way of supplementary note)	<b>83</b>		
Accrued interest and rent	<b>84</b>	3360	2682
Deferred acquisition costs (general business only)	<b>85</b>		
Other prepayments and accrued income	<b>86</b>	3307	2952

Deductions from the aggregate value of assets	<b>87</b>		
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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)	<b>89</b>	15526963	14651972
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**Analysis of admissible assets**
**Form 13  
(Sheet 3)**

 Name of insurer **Friends Life Company Limited**

Printed 24/03/2011 10:16:01

Global business

 Financial year ended **31st December 2010**

 Category of assets **Non Profit Fund Two**

	Company registration number	GL/UK/CM	day	month	year	units	Category of assets	
	<b>R13</b>	<b>3291349</b>	<b>GL</b>	<b>31</b>	<b>12</b>	<b>2010</b>	<b>£000</b>	<b>14</b>
						As at end of this financial year	As at end of the previous year	
						<b>1</b>	<b>2</b>	

**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)	<b>91</b>	15526963	14651972
Admissible assets in excess of market and counterparty limits	<b>92</b>		604
Inadmissible assets directly held	<b>93</b>	54423	22717
Capital resources requirement deduction of regulated related undertakings	<b>94</b>		
Ineligible surplus capital and restricted assets in regulated related insurance undertakings	<b>95</b>		
Inadmissible assets of regulated related undertakings	<b>96</b>		
Book value of related ancillary services undertakings	<b>97</b>		
Other differences in the valuation of assets (other than for assets not valued above)	<b>98</b>		
Deferred acquisition costs excluded from line 89	<b>99</b>	544029	632338
Reinsurers' share of technical provisions excluded from line 89	<b>100</b>	5212350	4741129
Other asset adjustments (may be negative)	<b>101</b>	(223797)	(105824)
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)	<b>102</b>	21113968	19942936
Amounts included in line 89 attributable to debts due from related insurers, other than those under contracts of insurance or reinsurance	<b>103</b>		

**Long-term insurance business liabilities and margins**
**Form 14**

Printed 24/03/2011 10:16:02

Name of insurer **Friends Life Company 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
		<b>1</b>	<b>2</b>
Mathematical reserves, after distribution of surplus	<b>11</b>	35123094	33655588
Cash bonuses which had not been paid to policyholders prior to end of the financial year	<b>12</b>	18	20
Balance of surplus / (valuation deficit)	<b>13</b>	20500	800000
Long term insurance business fund carried forward (11 to 13)	<b>14</b>	35143612	34455608
Claims outstanding	Gross	<b>15</b>	116226
	Reinsurers' share	<b>16</b>	
	Net (15-16)	<b>17</b>	116226
Provisions	Taxation	<b>21</b>	45198
	Other risks and charges	<b>22</b>	62610
Deposits received from reinsurers	<b>23</b>		
Creditors	Direct insurance business	<b>31</b>	35509
	Reinsurance accepted	<b>32</b>	
	Reinsurance ceded	<b>33</b>	56146
Debenture loans	Secured	<b>34</b>	
	Unsecured	<b>35</b>	
Amounts owed to credit institutions	<b>36</b>	3767	
Creditors	Taxation	<b>37</b>	153191
	Other	<b>38</b>	367636
Accruals and deferred income	<b>39</b>	30200	27442
Provision for "reasonably foreseeable adverse variations"	<b>41</b>		
Total other insurance and non-insurance liabilities (17 to 41)	<b>49</b>	870483	581651
Excess of the value of net admissible assets	<b>51</b>	1824833	1474265
Total liabilities and margins	<b>59</b>	37838928	36511524
Amounts included in line 59 attributable to liabilities to related companies, other than those under contracts of insurance or reinsurance	<b>61</b>	50409	68134
Amounts included in line 59 attributable to liabilities in respect of property linked benefits	<b>62</b>	28485092	27252044
Total liabilities (11+12+49)	<b>71</b>	35993595	34237259
Increase to liabilities – DAC related	<b>72</b>	177683	177410
Reinsurers' share of technical provisions	<b>73</b>	5479255	5188097
Other adjustments to liabilities (may be negative)	<b>74</b>	1146099	968764
Capital and reserves and fund for future appropriations	<b>75</b>	1792172	2959807
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)	<b>76</b>	44588804	43531337

**Long-term insurance business liabilities and margins**
**Form 14**

Printed 24/03/2011 10:16:03

 Name of insurer **Friends Life Company Limited**

Global business

 Financial year ended **31st December 2010**

 Fund **Old With Profits Fund**

 Units **£000**

		As at the end of this financial year	As at the end of the previous year
		<b>1</b>	<b>2</b>
Mathematical reserves, after distribution of surplus	<b>11</b>	1072807	920721
Cash bonuses which had not been paid to policyholders prior to end of the financial year	<b>12</b>		
Balance of surplus / (valuation deficit)	<b>13</b>		
Long term insurance business fund carried forward (11 to 13)	<b>14</b>	1072807	920721
Claims outstanding	Gross	2538	10140
	Reinsurers' share		
	Net (15-16)	2538	10140
Provisions	Taxation	24652	11646
	Other risks and charges	7	
Deposits received from reinsurers	<b>23</b>		
Creditors	Direct insurance business	505	7914
	Reinsurance accepted		
	Reinsurance ceded		1001
Debenture loans	Secured		
	Unsecured		
Amounts owed to credit institutions	<b>36</b>		
Creditors	Taxation	2965	1437
	Other	24259	16188
Accruals and deferred income	<b>39</b>	2026	1728
Provision for "reasonably foreseeable adverse variations"	<b>41</b>		
Total other insurance and non-insurance liabilities (17 to 41)	<b>49</b>	56952	50054
Excess of the value of net admissible assets	<b>51</b>	367339	441743
Total liabilities and margins	<b>59</b>	1497098	1412518
Amounts included in line 59 attributable to liabilities to related companies, other than those under contracts of insurance or reinsurance	<b>61</b>	145	4969
Amounts included in line 59 attributable to liabilities in respect of property linked benefits	<b>62</b>		
Total liabilities (11+12+49)	<b>71</b>	1129759	970775
Increase to liabilities – DAC related	<b>72</b>		
Reinsurers' share of technical provisions	<b>73</b>		
Other adjustments to liabilities (may be negative)	<b>74</b>		
Capital and reserves and fund for future appropriations	<b>75</b>		
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)	<b>76</b>		

**Long-term insurance business liabilities and margins**
**Form 14**

Printed 24/03/2011 10:16:03

 Name of insurer **Friends Life Company Limited**

Global business

 Financial year ended **31st December 2010**

 Fund **New With Profits Fund**

 Units **£000**

		As at the end of this financial year	As at the end of the previous year
		<b>1</b>	<b>2</b>
Mathematical reserves, after distribution of surplus	<b>11</b>	4707601	4733611
Cash bonuses which had not been paid to policyholders prior to end of the financial year	<b>12</b>	18	20
Balance of surplus / (valuation deficit)	<b>13</b>		
Long term insurance business fund carried forward (11 to 13)	<b>14</b>	4707619	4733631
Claims outstanding	Gross	23510	51887
	Reinsurers' share		
	Net (15-16)	23510	51887
Provisions	Taxation	20546	
	Other risks and charges	30	
Deposits received from reinsurers	<b>23</b>		
Creditors	Direct insurance business	2727	40494
	Reinsurance accepted		371
	Reinsurance ceded		5122
Debenture loans	Secured		
	Unsecured		
Amounts owed to credit institutions	<b>36</b>		
Creditors	Taxation	72414	8858
	Other	89634	82188
Accruals and deferred income	<b>39</b>	9682	9314
Provision for "reasonably foreseeable adverse variations"	<b>41</b>		
Total other insurance and non-insurance liabilities (17 to 41)	<b>49</b>	218543	198234
Excess of the value of net admissible assets	<b>51</b>	1305212	945687
Total liabilities and margins	<b>59</b>	6231374	5877552
Amounts included in line 59 attributable to liabilities to related companies, other than those under contracts of insurance or reinsurance	<b>61</b>	481	25227
Amounts included in line 59 attributable to liabilities in respect of property linked benefits	<b>62</b>		
Total liabilities (11+12+49)	<b>71</b>	4926162	4931865
Increase to liabilities – DAC related	<b>72</b>		
Reinsurers' share of technical provisions	<b>73</b>		
Other adjustments to liabilities (may be negative)	<b>74</b>		
Capital and reserves and fund for future appropriations	<b>75</b>		
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)	<b>76</b>		

**Long-term insurance business liabilities and margins**
**Form 14**

Printed 24/03/2011 10:16:04

 Name of insurer **Friends Life Company Limited**

Global business

 Financial year ended **31st December 2010**

 Fund **Non Profit Fund One**

 Units **£000**

		As at the end of this financial year	As at the end of the previous year	
		<b>1</b>	<b>2</b>	
Mathematical reserves, after distribution of surplus		<b>11</b>	14128692	13430440
Cash bonuses which had not been paid to policyholders prior to end of the financial year		<b>12</b>		
Balance of surplus / (valuation deficit)		<b>13</b>	20500	800000
Long term insurance business fund carried forward (11 to 13)		<b>14</b>	14149192	14230440
Claims outstanding	Gross	<b>15</b>	67681	59638
	Reinsurers' share	<b>16</b>		
	Net (15-16)	<b>17</b>	67681	59638
Provisions	Taxation	<b>21</b>		
	Other risks and charges	<b>22</b>	7486	16374
Deposits received from reinsurers		<b>23</b>		
Creditors	Direct insurance business	<b>31</b>	12717	35180
	Reinsurance accepted	<b>32</b>		
	Reinsurance ceded	<b>33</b>	45964	23977
Debenture loans	Secured	<b>34</b>		
	Unsecured	<b>35</b>		
Amounts owed to credit institutions		<b>36</b>		
Creditors	Taxation	<b>37</b>	62141	20155
	Other	<b>38</b>	76250	87323
Accruals and deferred income		<b>39</b>	9780	9560
Provision for "reasonably foreseeable adverse variations"		<b>41</b>		
Total other insurance and non-insurance liabilities (17 to 41)		<b>49</b>	282019	252207
Excess of the value of net admissible assets		<b>51</b>	152282	86835
Total liabilities and margins		<b>59</b>	14583493	14569482
Amounts included in line 59 attributable to liabilities to related companies, other than those under contracts of insurance or reinsurance		<b>61</b>	28351	26803
Amounts included in line 59 attributable to liabilities in respect of property linked benefits		<b>62</b>	13699835	13080794
Total liabilities (11+12+49)		<b>71</b>	14410711	13682647
Increase to liabilities – DAC related		<b>72</b>		
Reinsurers' share of technical provisions		<b>73</b>		
Other adjustments to liabilities (may be negative)		<b>74</b>		
Capital and reserves and fund for future appropriations		<b>75</b>		
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)		<b>76</b>		



**Long-term insurance business liabilities and margins**
**Form 14**

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 Name of insurer **Friends Life Company Limited**

Global business

 Financial year ended **31st December 2010**

 Fund **Non Profit Fund Two**

 Units **£000**

		As at the end of this financial year	As at the end of the previous year	
		<b>1</b>	<b>2</b>	
Mathematical reserves, after distribution of surplus		<b>11</b>	15213994	14570816
Cash bonuses which had not been paid to policyholders prior to end of the financial year		<b>12</b>		
Balance of surplus / (valuation deficit)		<b>13</b>		
Long term insurance business fund carried forward (11 to 13)		<b>14</b>	15213994	14570816
Claims outstanding	Gross	<b>15</b>	22497	5120
	Reinsurers' share	<b>16</b>		
	Net (15-16)	<b>17</b>	22497	5120
Provisions	Taxation	<b>21</b>		
	Other risks and charges	<b>22</b>	55087	1686
Deposits received from reinsurers		<b>23</b>		
Creditors	Direct insurance business	<b>31</b>	19560	1611
	Reinsurance accepted	<b>32</b>		
	Reinsurance ceded	<b>33</b>	10182	21522
Debenture loans	Secured	<b>34</b>		
	Unsecured	<b>35</b>		
Amounts owed to credit institutions		<b>36</b>	3767	
Creditors	Taxation	<b>37</b>	15671	8097
	Other	<b>38</b>	177493	36280
Accruals and deferred income		<b>39</b>	8712	6840
Provision for "reasonably foreseeable adverse variations"		<b>41</b>		
Total other insurance and non-insurance liabilities (17 to 41)		<b>49</b>	312969	81156
Excess of the value of net admissible assets		<b>51</b>		
Total liabilities and margins		<b>59</b>	15526963	14651972

Amounts included in line 59 attributable to liabilities to related companies, other than those under contracts of insurance or reinsurance	<b>61</b>	21432	11135
Amounts included in line 59 attributable to liabilities in respect of property linked benefits	<b>62</b>	14785257	14171250

Total liabilities (11+12+49)	<b>71</b>	15526963	14651972
Increase to liabilities – DAC related	<b>72</b>		
Reinsurers' share of technical provisions	<b>73</b>		
Other adjustments to liabilities (may be negative)	<b>74</b>		
Capital and reserves and fund for future appropriations	<b>75</b>		
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)	<b>76</b>		

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

Printed 24/03/2011 10:16:05

 Name of insurer **Friends Life Company Limited**

Global business

 Financial year ended **31st December 2010**

	Company registration number	GL/UK/CM	day	month	year	units	
	<b>R15</b>	<b>3291349</b>	<b>GL</b>	<b>31</b>	<b>12</b>	<b>2010</b>	<b>£000</b>
						As at the end of this financial year	As at the end of the previous year
						<b>1</b>	<b>2</b>

**Technical provisions (gross amount)**

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

**Provisions and creditors**

Provisions	Taxation	<b>21</b>		
	Other risks and charges	<b>22</b>		
Deposits received from reinsurers		<b>31</b>		
Creditors	Direct insurance business	<b>41</b>		
	Reinsurance accepted	<b>42</b>		
	Reinsurance ceded	<b>43</b>		
Debenture loans	Secured	<b>44</b>		
	Unsecured	<b>45</b>		
Amounts owed to credit institutions		<b>46</b>		
Creditors	Taxation	<b>47</b>	4556	4889
	Foreseeable dividend	<b>48</b>		
	Other	<b>49</b>	145135	133628
Accruals and deferred income		<b>51</b>		
Total (19 to 51)		<b>59</b>	149691	138517
Provision for "reasonably foreseeable adverse variations"		<b>61</b>		
Cumulative preference share capital		<b>62</b>		
Subordinated loan capital		<b>63</b>		
Total (59 to 63)		<b>69</b>	149691	138517

Amounts included in line 69 attributable to liabilities to related insurers, other than those under contracts of insurance or reinsurance	<b>71</b>	135806	129750
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Amounts deducted from technical provisions for discounting	<b>82</b>		
Other adjustments (may be negative)	<b>83</b>	(4556)	
Capital and reserves	<b>84</b>	1312567	837310
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)	<b>85</b>	1457702	975827

**Profit and loss account (non-technical account)**

**Form 16**

Printed 24/03/2011 10:16:06

Name of insurer **Friends Life Company Limited**

Global business

Financial year ended **31st December 2010**

		Company registration number	GL/UK/CM	day	month	year	units	
		R16	3291349	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		1002561			14761	
Investment income	Income	14		26304			24714	
	Value re-adjustments on investments	15						
	Gains on the realisation of investments	16		225				
Investment charges	Investment management charges, including interest	17		6085			1827	
	Value re-adjustments on investments	18						
	Loss on the realisation of investments	19						
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		(270)			(359)	
Profit or loss on ordinary activities before tax (11+12+13+14+15+16-17-18-19-20+21)		29		1022735			37289	
Tax on profit or loss on ordinary activities		31		5375			10368	
Profit or loss on ordinary activities after tax (29-31)		39		1017360			26921	
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		1017360			26921	
Dividends (paid or foreseeable)		51		598000				
Profit or loss retained for the financial year (49-51)		59		419360			26921	

**Analysis of derivative contracts**
**Form 17**

Printed 24/03/2011 10:16:07

 Name of insurer **Friends Life Company 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	
		<b>R17</b>	<b>3291349</b>	<b>GL</b>	<b>31</b>	<b>12</b>	<b>2010</b>	<b>£000</b>	<b>10</b>
<b>Derivative contracts</b>		Value as at the end of this financial year			Notional amount as at the end of this financial year				
		Assets <b>1</b>		Liabilities <b>2</b>		Bought / Long <b>3</b>		Sold / Short <b>4</b>	
Futures and contracts for differences	Fixed-interest securities	<b>11</b>	61	1838			129156		
	Interest rates	<b>12</b>	25941	3419		415500	16584		
	Inflation	<b>13</b>							
	Credit index / basket	<b>14</b>		346		64369			
	Credit single name	<b>15</b>	5863	2367			196740		
	Equity index	<b>16</b>	161	6145		224364	204840		
	Equity stock	<b>17</b>							
	Land	<b>18</b>							
	Currencies	<b>19</b>	4939	48461			1000845		
	Mortality	<b>20</b>							
	Other	<b>21</b>							
In the money options	Swaptions	<b>31</b>	34893			307618			
	Equity index calls	<b>32</b>							
	Equity stock calls	<b>33</b>							
	Equity index puts	<b>34</b>							
	Equity stock puts	<b>35</b>							
	Other	<b>36</b>							
Out of the money options	Swaptions	<b>41</b>							
	Equity index calls	<b>42</b>							
	Equity stock calls	<b>43</b>							
	Equity index puts	<b>44</b>	57327				1351920		
	Equity stock puts	<b>45</b>							
	Other	<b>46</b>							
Total (11 to 46)		<b>51</b>	129185	62576		1011851	2900085		
Adjustment for variation margin		<b>52</b>	1099	(7216)					
Total (51 + 52)		<b>53</b>	130284	55360					

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

**Analysis of derivative contracts**
**Form 17**

Printed 24/03/2011 10:16:07

 Name of insurer **Friends Life Company Limited**

Global business

 Financial year ended **31st December 2010**

 Category of assets **Old With Profits Fund**

		Company registration number	GL/ UK/ CM	day	month	year	units	Category of assets	
		R17	3291349	GL	31	12	2010	£000	11
<b>Derivative contracts</b>		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	11	343				24069	
	Interest rates	12	4810	634		77045		3075	
	Inflation	13							
	Credit index / basket	14							
	Credit single name	15	734	296				24620	
	Equity index	16	32	1206		44032		40200	
	Equity stock	17							
	Land	18							
	Currencies	19	759	6173				168604	
	Mortality	20							
	Other	21							
In the money options	Swaptions	31	6634			58483			
	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	10899					257022	
	Equity stock puts	45							
	Other	46							
Total (11 to 46)		51	23879	8652		179560		517590	
Adjustment for variation margin		52	216	(1416)					
Total (51 + 52)		53	24095	7236					

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

**Analysis of derivative contracts**
**Form 17**

Printed 24/03/2011 10:16:08

 Name of insurer **Friends Life Company Limited**

Global business

 Financial year ended **31st December 2010**

 Category of assets **New With Profits Fund**

		Company registration number	GL/ UK/ CM	day	month	year	units	Category of assets	
		R17	3291349	GL	31	12	2010	£000	12
<b>Derivative contracts</b>		Value as at the end of this financial year			Notional amount as at the end of this financial year				
		Assets	Liabilities	Bought / Long		Sold / Short			
		1	2	3		4			
Futures and contracts for differences	Fixed-interest securities	11	50	1495				105087	
	Interest rates	12	21131	2785		338455		13509	
	Inflation	13							
	Credit index / basket	14							
	Credit single name	15	5129	2071				172120	
	Equity index	16	129	4939		180332		164640	
	Equity stock	17							
	Land	18							
	Currencies	19	3412	41069				728043	
	Mortality	20							
	Other	21							
In the money options	Swaptions	31	28259			249135			
	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	46428					1094898	
	Equity stock puts	45							
	Other	46							
Total (11 to 46)		51	104538	52359		767922		2278297	
Adjustment for variation margin		52	883	(5800)					
Total (51 + 52)		53	105421	46559					

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

**Analysis of derivative contracts**
**Form 17**

Printed 24/03/2011 10:16:09

 Name of insurer **Friends Life Company Limited**

Global business

 Financial year ended **31st December 2010**

 Category of assets **Non Profit Fund One**

		Company registration number	GL/ UK/ CM	day	month	year	units	Category of assets	
		<b>R17</b>	<b>3291349</b>	<b>GL</b>	<b>31</b>	<b>12</b>	<b>2010</b>	<b>£000</b>	<b>13</b>
<b>Derivative contracts</b>		Value as at the end of this financial year			Notional amount as at the end of this financial year				
		Assets		Liabilities		Bought / Long		Sold / Short	
		<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>				
Futures and contracts for differences	Fixed-interest securities	11							
	Interest rates	12							
	Inflation	13							
	Credit index / basket	14		346		64369			
	Credit single name	15							
	Equity index	16							
	Equity stock	17							
	Land	18							
	Currencies	19	678	1076				91986	
	Mortality	20							
	Other	21							
In the money options	Swaptions	31							
	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							
	Equity stock puts	45							
	Other	46							
Total (11 to 46)		51	678	1422		64369		91986	
Adjustment for variation margin		52							
Total (51 + 52)		53	678	1422					

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

**Analysis of derivative contracts**
**Form 17**

Printed 24/03/2011 10:16:09

 Name of insurer **Friends Life Company Limited**

Global business

 Financial year ended **31st December 2010**

 Category of assets **Non Profit Fund Two**

		Company registration number	GL/ UK/ CM	day	month	year	units	Category of assets	
		<b>R17</b>	<b>3291349</b>	<b>GL</b>	<b>31</b>	<b>12</b>	<b>2010</b>	<b>£000</b>	<b>14</b>
<b>Derivative contracts</b>		Value as at the end of this financial year			Notional amount as at the end of this financial year				
		Assets <b>1</b>		Liabilities <b>2</b>		Bought / Long <b>3</b>		Sold / Short <b>4</b>	
Futures and contracts for differences	Fixed-interest securities	<b>11</b>							
	Interest rates	<b>12</b>							
	Inflation	<b>13</b>							
	Credit index / basket	<b>14</b>							
	Credit single name	<b>15</b>							
	Equity index	<b>16</b>							
	Equity stock	<b>17</b>							
	Land	<b>18</b>							
	Currencies	<b>19</b>	90		143			12212	
	Mortality	<b>20</b>							
	Other	<b>21</b>							
In the money options	Swaptions	<b>31</b>							
	Equity index calls	<b>32</b>							
	Equity stock calls	<b>33</b>							
	Equity index puts	<b>34</b>							
	Equity stock puts	<b>35</b>							
	Other	<b>36</b>							
Out of the money options	Swaptions	<b>41</b>							
	Equity index calls	<b>42</b>							
	Equity stock calls	<b>43</b>							
	Equity index puts	<b>44</b>							
	Equity stock puts	<b>45</b>							
	Other	<b>46</b>							
Total (11 to 46)		<b>51</b>	90		143			12212	
Adjustment for variation margin		<b>52</b>							
Total (51 + 52)		<b>53</b>	90		143				

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**

Printed 24/03/2011 10:16:10

 Name of insurer **Friends Life Company Limited**

Global business

 Financial year ended **31st December 2010**

 With-profits fund **Old With Profits Fund**

 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	1497098	1412518
	Implicit items allocated to the fund	12		
	Mathematical reserves in respect of the fund's non-profit insurance contracts	13	103619	87146
	Long-term admissible assets of the fund covering the LTICR of the fund's non-profit insurance contracts	14	4099	3399
	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	1389380	1321973
Regulatory value of liabilities	Mathematical reserves (after distribution of surplus) in respect of the fund's with-profit insurance contracts	21	969188	833575
	Regulatory current liabilities of the fund	22	56952	50054
	Total (21+22)	29	1026140	883629
Long-term insurance capital requirement in respect of the fund's with-profits insurance contracts		31	38424	32671
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	1064564	916300
Regulatory excess capital (19-39)		49	324816	405673

**Realistic excess capital**

Realistic excess capital	51	44798	223277
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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	280018	182396
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	19294	16547
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	260724	165849

**With-profits insurance capital component for the fund**
**Form 18**

Printed 24/03/2011 10:16:10

 Name of insurer **Friends Life Company Limited**

Global business

 Financial year ended **31st December 2010**

 With-profits fund **New With Profits Fund**

 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	6231374	5877552
	Implicit items allocated to the fund	12		
	Mathematical reserves in respect of the fund's non-profit insurance contracts	13	716554	603017
	Long-term admissible assets of the fund covering the LTICR of the fund's non-profit insurance contracts	14	28335	23510
	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	5486485	5251025
Regulatory value of liabilities	Mathematical reserves (after distribution of surplus) in respect of the fund's with-profit insurance contracts	21	3991065	4130614
	Regulatory current liabilities of the fund	22	218542	198234
	Total (21+22)	29	4209607	4328848
Long-term insurance capital requirement in respect of the fund's with-profits insurance contracts		31	158740	161377
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	4368347	4490225
Regulatory excess capital (19-39)		49	1118138	760800

**Realistic excess capital**

Realistic excess capital	51	108664	107329
--------------------------	----	--------	--------

**Excess assets allocated to with-profits insurance business**

Excess (deficiency) of assets allocated to with-profits insurance business in fund (49-51)	61	1009474	653471
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	103289	76339
Present value of other future internal transfers not already taken into account	65	(29385)	(25670)
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	935570	602802

**Realistic balance sheet**
**Form 19  
(Sheet 1)**

 Name of insurer **Friends Life Company Limited**

Printed 24/03/2011 10:16:11

Global business

 Financial year ended **31st December 2010**

 With-profits fund **Old With Profits Fund**

 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	1389380	1321973
Implicit items allocated to the fund	12		
Value of shares in subsidiaries held in the fund (regulatory)	13		
Excess admissible assets	21		
Present value of future profits (or losses) on non-profit insurance contracts written in the fund	22	26124	17131
Value of derivatives and quasi-derivatives not already reflected in lines 11 to 22	23		2085
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	1415504	1341189
Support arrangement assets	27		
Assets available to the fund (26+27)	29	1415504	1341189

**Realistic value of liabilities of fund**

With-profits benefits reserve	31	952579	749928	
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	193309	153346
	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	65723	70953
	Future costs of non-contractual commitments	42		
	Future costs of financial options	43	46633	41953
	Future costs of smoothing (possibly negative)	44	(25820)	(26400)
	Financing costs	45		
	Any other liabilities related to regulatory duty to treat customers fairly	46		
	Other long-term insurance liabilities	47	35162	26387
Total (32+34+41+42+43+44+45+46+47-(33+35+36))	49	315007	266239	
Realistic current liabilities of the fund	51	63498	55578	
Realistic value of liabilities of the fund (31+49+51)	59	1331084	1071745	

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

Printed 24/03/2011 10:16:11

Global business

Financial year ended **31st December 2010**With-profits fund **Old With Profits Fund**Units **£000**

	As at end of this financial year	As at end of the previous year
	<b>1</b>	<b>2</b>

**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	<b>62</b>	1370706	1117912
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	<b>63</b>		
Value of relevant assets before applying the most adverse scenario (62+ 63)	<b>64</b>	1370706	1117912
Risk capital margin for fund (62-59)	<b>65</b>	39622	46167
Realistic excess capital for fund (26-(59+65))	<b>66</b>	44798	223277
Realistic excess available capital for fund (29-(59+65))	<b>67</b>	44798	223277
Working capital for for fund (29-59)	<b>68</b>	84420	269444
Working capital ratio for fund (68/29)	<b>69</b>	5.96	20.09

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

Additional amount potentially available for inclusion in line 62	<b>81</b>		
Additional amount potentially available for inclusion in line 63	<b>82</b>		

**Realistic balance sheet**
**Form 19  
(Sheet 1)**

 Name of insurer **Friends Life Company Limited**

Printed 24/03/2011 10:16:12

Global business

 Financial year ended **31st December 2010**

 With-profits fund **New With Profits Fund**

 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	5486485	5251025
Implicit items allocated to the fund	12		
Value of shares in subsidiaries held in the fund (regulatory)	13		
Excess admissible assets	21		
Present value of future profits (or losses) on non-profit insurance contracts written in the fund	22	188492	121658
Value of derivatives and quasi-derivatives not already reflected in lines 11 to 22	23		8341
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	5674977	5381024
Support arrangement assets	27	143399	1222212
Assets available to the fund (26+27)	29	5818376	6603236

**Realistic value of liabilities of fund**

With-profits benefits reserve	31	3749904	3680828	
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	888449	709583
	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	249310	297017
	Future costs of non-contractual commitments	42		
	Future costs of financial options	43	173388	153625
	Future costs of smoothing (possibly negative)	44	(102776)	(106171)
	Financing costs	45		
	Any other liabilities related to regulatory duty to treat customers fairly	46		
	Other long-term insurance liabilities	47	203368	160481
Total (32+34+41+42+43+44+45+46+47-(33+35+36))	49	1411739	1214535	
Realistic current liabilities of the fund	51	218545	198234	
Realistic value of liabilities of the fund (31+49+51)	59	5380188	5093597	

**Realistic balance sheet**

**Form 19  
(Sheet 2)**

Name of insurer **Friends Life Company Limited**

Printed 24/03/2011 10:16:12

Global business

Financial year ended **31st December 2010**

With-profits fund **New With Profits Fund**

Units **£000**

	As at end of this financial year	As at end of the previous year
	<b>1</b>	<b>2</b>

**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	<b>62</b>	5566313	5273695
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	<b>63</b>		
Value of relevant assets before applying the most adverse scenario (62+ 63)	<b>64</b>	5566313	5273695
Risk capital margin for fund (62-59)	<b>65</b>	186125	180098
Realistic excess capital for fund (26-(59+65))	<b>66</b>	108664	107329
Realistic excess available capital for fund (29-(59+65))	<b>67</b>	252063	1329541
Working capital for for fund (29-59)	<b>68</b>	438188	1509639
Working capital ratio for fund (68/29)	<b>69</b>	7.53	22.86

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

Additional amount potentially available for inclusion in line 62	<b>81</b>		
Additional amount potentially available for inclusion in line 63	<b>82</b>		

**Long-term insurance business: Revenue account**

**Form 40**

Printed 24/03/2011 10:16:12

Name of insurer **Friends Life Company 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	2451029	3020013
Investment income receivable before deduction of tax	12	1186274	1246495
Increase (decrease) in the value of non-linked assets brought into account	13	576455	293222
Increase (decrease) in the value of linked assets	14	2316522	2676784
Other income	15	1828	1518
<b>Total income</b>	<b>19</b>	<b>6532108</b>	<b>7238032</b>

**Expenditure**

Claims incurred	21	4173103	3968166
Expenses payable	22	584109	628704
Interest payable before deduction of tax	23	13302	18126
Taxation	24	1970	(28110)
Other expenditure	25	69059	49355
Transfer to (from) non technical account	26	1002561	14761
<b>Total expenditure</b>	<b>29</b>	<b>5844104</b>	<b>4651002</b>

Business transfers-in	31		
Business transfers-out	32		
Increase (decrease) in fund in financial year (19-29+31-32)	39	688004	2587030
Fund brought forward	49	34455608	31868578
Fund carried forward (39+49)	59	35143612	34455608

**Long-term insurance business: Revenue account**

**Form 40**

Printed 24/03/2011 10:16:13

Name of insurer **Friends Life Company Limited**  
 Name and number of fund/Summary **Old With Profits Fund**  
 Financial year ended **31st December 2010**  
 Units **£000**

	Financial year	Previous year
	1	2

**Income**

Earned premiums	11	47093	51610
Investment income receivable before deduction of tax	12	56994	54162
Increase (decrease) in the value of non-linked assets brought into account	13	161507	(14847)
Increase (decrease) in the value of linked assets	14		
Other income	15	252	120
<b>Total income</b>	<b>19</b>	<b>265846</b>	<b>91045</b>

**Expenditure**

Claims incurred	21	77413	99367
Expenses payable	22	5468	6583
Interest payable before deduction of tax	23	113	675
Taxation	24	13054	1145
Other expenditure	25		
Transfer to (from) non technical account	26	17712	2964
<b>Total expenditure</b>	<b>29</b>	<b>113760</b>	<b>110734</b>

Business transfers-in	31		
Business transfers-out	32		
Increase (decrease) in fund in financial year (19-29+31-32)	39	152086	(19689)
Fund brought forward	49	920721	940410
Fund carried forward (39+49)	59	1072807	920721



**Long-term insurance business: Revenue account**

**Form 40**

Printed 24/03/2011 10:16:13

Name of insurer **Friends Life Company Limited**  
 Name and number of fund/Summary **New With Profits Fund**  
 Financial year ended **31st December 2010**  
 Units **£000**

	Financial year	Previous year
	1	2

**Income**

Earned premiums	11	227482	255224
Investment income receivable before deduction of tax	12	243655	235330
Increase (decrease) in the value of non-linked assets brought into account	13	101317	7844
Increase (decrease) in the value of linked assets	14		
Other income	15	1576	479
<b>Total income</b>	<b>19</b>	<b>574030</b>	<b>498877</b>

**Expenditure**

Claims incurred	21	521601	584787
Expenses payable	22	32110	31408
Interest payable before deduction of tax	23	1590	1734
Taxation	24	32471	(5853)
Other expenditure	25		
Transfer to (from) non technical account	26	12270	11797
<b>Total expenditure</b>	<b>29</b>	<b>600042</b>	<b>623873</b>

Business transfers-in	31		
Business transfers-out	32		
Increase (decrease) in fund in financial year (19-29+31-32)	39	(26012)	(124996)
Fund brought forward	49	4733631	4858627
Fund carried forward (39+49)	59	4707619	4733631

**Long-term insurance business: Revenue account**

**Form 40**

Printed 24/03/2011 10:16:14

Name of insurer **Friends Life Company Limited**  
 Name and number of fund/Summary **Non Profit Fund One**  
 Financial year ended **31st December 2010**  
 Units **£000**

	Financial year	Previous year
	1	2

**Income**

Earned premiums	11	983511	1135281
Investment income receivable before deduction of tax	12	476877	512739
Increase (decrease) in the value of non-linked assets brought into account	13	203804	267572
Increase (decrease) in the value of linked assets	14	993847	1142397
Other income	15		916
<b>Total income</b>	<b>19</b>	<b>2658039</b>	<b>3058905</b>

**Expenditure**

Claims incurred	21	1422876	1341280
Expenses payable	22	313772	330571
Interest payable before deduction of tax	23	5092	8530
Taxation	24	(19635)	7507
Other expenditure	25	44603	31877
Transfer to (from) non technical account	26	972579	
<b>Total expenditure</b>	<b>29</b>	<b>2739287</b>	<b>1719765</b>

Business transfers-in	31		
Business transfers-out	32		
Increase (decrease) in fund in financial year (19-29+31-32)	39	(81248)	1339140
Fund brought forward	49	14230440	12891300
Fund carried forward (39+49)	59	14149192	14230440

**Long-term insurance business: Revenue account**

**Form 40**

Printed 24/03/2011 10:16:15

Name of insurer **Friends Life Company Limited**  
 Name and number of fund/Summary **Non Profit Fund Two**  
 Financial year ended **31st December 2010**  
 Units **£000**

	Financial year	Previous year
	1	2

**Income**

Earned premiums	11	1192943	1577898
Investment income receivable before deduction of tax	12	408748	444264
Increase (decrease) in the value of non-linked assets brought into account	13	109827	32653
Increase (decrease) in the value of linked assets	14	1322675	1534387
Other income	15		3
<b>Total income</b>	<b>19</b>	<b>3034193</b>	<b>3589205</b>

**Expenditure**

Claims incurred	21	2151213	1942732
Expenses payable	22	232759	260142
Interest payable before deduction of tax	23	6507	7187
Taxation	24	(23920)	(30909)
Other expenditure	25	24456	17478
Transfer to (from) non technical account	26		
<b>Total expenditure</b>	<b>29</b>	<b>2391015</b>	<b>2196630</b>

Business transfers-in	31		
Business transfers-out	32		
Increase (decrease) in fund in financial year (19-29+31-32)	39	643178	1392575
Fund brought forward	49	14570816	13178241
Fund carried forward (39+49)	59	15213994	14570816

**Long-term insurance business: Analysis of premiums**

**Form 41**

Printed 24/03/2011 10:16:15

Name of insurer **Friends Life Company 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	466451	752522	1500	1220473	1353941
Single premiums	12	786047	799987	77	1586111	4450968

**Reinsurance - external**

Regular premiums	13	49983	25347		75330	43190
Single premiums	14	1166	41501		42667	(78)

**Reinsurance - intra-group**

Regular premiums	15	25	52297		52322	64026
Single premiums	16	82	185154		185236	2677758

**Net of reinsurance**

Regular premiums	17	416443	674878	1500	1092821	1246725
Single premiums	18	784799	573332	77	1358208	1773288

**Total**

Gross	19	1252498	1552509	1577	2806584	5804909
Reinsurance	20	51256	304299		355555	2784896
Net	21	1201242	1248210	1577	2451029	3020013

**Long-term insurance business: Analysis of premiums**

**Form 41**

Printed 24/03/2011 10:16:16

Name of insurer **Friends Life Company Limited**

Total business / subfund **Old With Profits Fund**

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	30678	3682	65	34425	37568
Single premiums	12	157	12511		12668	14030

**Reinsurance - external**

Regular premiums	13					(12)
Single premiums	14					

**Reinsurance - intra-group**

Regular premiums	15					
Single premiums	16					

**Net of reinsurance**

Regular premiums	17	30678	3682	65	34425	37580
Single premiums	18	157	12511		12668	14030

**Total**

Gross	19	30835	16193	65	47093	51598
Reinsurance	20					(12)
Net	21	30835	16193	65	47093	51610

**Long-term insurance business: Analysis of premiums**

**Form 41**

Printed 24/03/2011 10:16:16

Name of insurer **Friends Life Company Limited**

Total business / subfund **New With Profits Fund**

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	147362	29694	1386	178442	197450
Single premiums	12	493	48471	77	49041	57710

**Reinsurance - external**

Regular premiums	13	1			1	(64)
Single premiums	14					

**Reinsurance - intra-group**

Regular premiums	15					
Single premiums	16					

**Net of reinsurance**

Regular premiums	17	147361	29694	1386	178441	197514
Single premiums	18	493	48471	77	49041	57710

**Total**

Gross	19	147855	78165	1463	227483	255160
Reinsurance	20	1			1	(64)
Net	21	147854	78165	1463	227482	255224

**Long-term insurance business: Analysis of premiums**

**Form 41**

Printed 24/03/2011 10:16:17

Name of insurer **Friends Life Company Limited**

Total business / subfund **Non Profit Fund One**

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	275878		275878	238290
Single premiums	12	750494		750494	933029

**Reinsurance - external**

Regular premiums	13	42754		42754	35933
Single premiums	14				

**Reinsurance - intra-group**

Regular premiums	15	25		25	27
Single premiums	16	82		82	78

**Net of reinsurance**

Regular premiums	17	233099		233099	202330
Single premiums	18	750412		750412	932951

**Total**

Gross	19	1026372		1026372	1171319
Reinsurance	20	42861		42861	36038
Net	21	983511		983511	1135281

**Long-term insurance business: Analysis of premiums**

**Form 41**

Printed 24/03/2011 10:16:17

Name of insurer **Friends Life Company Limited**

Total business / subfund **Non Profit Fund Two**

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	12533	719146	49	731728	880633
Single premiums	12	34903	739005		773908	3446199

**Reinsurance - external**

Regular premiums	13	7228	25347		32575	7333
Single premiums	14	1166	41501		42667	(78)

**Reinsurance - intra-group**

Regular premiums	15		52297		52297	63999
Single premiums	16		185154		185154	2677680

**Net of reinsurance**

Regular premiums	17	5305	641502	49	646856	809301
Single premiums	18	33737	512350		546087	768597

**Total**

Gross	19	47436	1458151	49	1505636	4326832
Reinsurance	20	8394	304299		312693	2748934
Net	21	39042	1153852	49	1192943	1577898



**Long-term insurance business: Analysis of claims**

**Form 42**

Printed 24/03/2011 10:16:18

Name of insurer **Friends Life Company 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	330762	40356	303	371421	354001
Disability periodic payments	12	43802		121	43923	43309
Surrender or partial surrender	13	1364340	1441398	10926	2816664	2569707
Annuity payments	14	9325	278052	430	287807	220412
Lump sums on maturity	15	77394	901243	728	979365	1049841
<b>Total</b>	<b>16</b>	<b>1825623</b>	<b>2661049</b>	<b>12508</b>	<b>4499180</b>	<b>4237270</b>

**Reinsurance - external**

Death or disability lump sums	21	30532	49		30581	7261
Disability periodic payments	22	7948			7948	8073
Surrender or partial surrender	23		16606		16606	20734
Annuity payments	24					
Lump sums on maturity	25		1191		1191	
<b>Total</b>	<b>26</b>	<b>38480</b>	<b>17846</b>		<b>56326</b>	<b>36068</b>

**Reinsurance - intra-group**

Death or disability lump sums	31		98		98	15
Disability periodic payments	32					
Surrender or partial surrender	33		21944		21944	48764
Annuity payments	34		246491		246491	180684
Lump sums on maturity	35		1218		1218	3573
<b>Total</b>	<b>36</b>		<b>269751</b>		<b>269751</b>	<b>233036</b>

**Net of reinsurance**

Death or disability lump sums	41	300230	40209	303	340742	346725
Disability periodic payments	42	35854		121	35975	35236
Surrender or partial surrender	43	1364340	1402848	10926	2778114	2500209
Annuity payments	44	9325	31561	430	41316	39728
Lump sums on maturity	45	77394	898834	728	976956	1046268
<b>Total</b>	<b>46</b>	<b>1787143</b>	<b>2373452</b>	<b>12508</b>	<b>4173103</b>	<b>3968166</b>

**Long-term insurance business: Analysis of claims**

**Form 42**

Printed 24/03/2011 10:16:19

Name of insurer **Friends Life Company Limited**

Total business / subfund **Old With Profits Fund**

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	9073	920		9993	13856
Disability periodic payments	12					
Surrender or partial surrender	13	23944	10706	1240	35890	46909
Annuity payments	14	2	4129	8	4139	3614
Lump sums on maturity	15	8682	19252	186	28120	35452
<b>Total</b>	<b>16</b>	<b>41701</b>	<b>35007</b>	<b>1434</b>	<b>78142</b>	<b>99831</b>

**Reinsurance - external**

Death or disability lump sums	21	729			729	464
Disability periodic payments	22					
Surrender or partial surrender	23					
Annuity payments	24					
Lump sums on maturity	25					
<b>Total</b>	<b>26</b>	<b>729</b>			<b>729</b>	<b>464</b>

**Reinsurance - intra-group**

Death or disability lump sums	31					
Disability periodic payments	32					
Surrender or partial surrender	33					
Annuity payments	34					
Lump sums on maturity	35					
<b>Total</b>	<b>36</b>					

**Net of reinsurance**

Death or disability lump sums	41	8344	920		9264	13392
Disability periodic payments	42					
Surrender or partial surrender	43	23944	10706	1240	35890	46909
Annuity payments	44	2	4129	8	4139	3614
Lump sums on maturity	45	8682	19252	186	28120	35452
<b>Total</b>	<b>46</b>	<b>40972</b>	<b>35007</b>	<b>1434</b>	<b>77413</b>	<b>99367</b>

**Long-term insurance business: Analysis of claims**

**Form 42**

Printed 24/03/2011 10:16:19

Name of insurer **Friends Life Company Limited**

Total business / subfund **New With Profits Fund**

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	61829	4714	300	66843	74822
Disability periodic payments	12					
Surrender or partial surrender	13	160416	58910	9686	229012	238451
Annuity payments	14	8	27651	14	27673	24827
Lump sums on maturity	15	63538	134243	512	198293	247866
<b>Total</b>	<b>16</b>	<b>285791</b>	<b>225518</b>	<b>10512</b>	<b>521821</b>	<b>585966</b>

**Reinsurance - external**

Death or disability lump sums	21	220			220	1179
Disability periodic payments	22					
Surrender or partial surrender	23					
Annuity payments	24					
Lump sums on maturity	25					
<b>Total</b>	<b>26</b>	<b>220</b>			<b>220</b>	<b>1179</b>

**Reinsurance - intra-group**

Death or disability lump sums	31					
Disability periodic payments	32					
Surrender or partial surrender	33					
Annuity payments	34					
Lump sums on maturity	35					
<b>Total</b>	<b>36</b>					

**Net of reinsurance**

Death or disability lump sums	41	61609	4714	300	66623	73643
Disability periodic payments	42					
Surrender or partial surrender	43	160416	58910	9686	229012	238451
Annuity payments	44	8	27651	14	27673	24827
Lump sums on maturity	45	63538	134243	512	198293	247866
<b>Total</b>	<b>46</b>	<b>285571</b>	<b>225518</b>	<b>10512</b>	<b>521601</b>	<b>584787</b>

**Long-term insurance business: Analysis of claims**

**Form 42**

Printed 24/03/2011 10:16:20

Name of insurer **Friends Life Company Limited**

Total business / subfund **Non Profit Fund One**

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	259310		259310	232812
Disability periodic payments	12	989		989	784
Surrender or partial surrender	13	1178971		1178971	1089909
Annuity payments	14	9315		9315	10834
Lump sums on maturity	15	5174		5174	13769
<b>Total</b>	<b>16</b>	<b>1453759</b>		<b>1453759</b>	<b>1348108</b>

**Reinsurance - external**

Death or disability lump sums	21	29583		29583	5618
Disability periodic payments	22	1300		1300	1210
Surrender or partial surrender	23				
Annuity payments	24				
Lump sums on maturity	25				
<b>Total</b>	<b>26</b>	<b>30883</b>		<b>30883</b>	<b>6828</b>

**Reinsurance - intra-group**

Death or disability lump sums	31				
Disability periodic payments	32				
Surrender or partial surrender	33				
Annuity payments	34				
Lump sums on maturity	35				
<b>Total</b>	<b>36</b>				

**Net of reinsurance**

Death or disability lump sums	41	229727		229727	227194
Disability periodic payments	42	(311)		(311)	(426)
Surrender or partial surrender	43	1178971		1178971	1089909
Annuity payments	44	9315		9315	10834
Lump sums on maturity	45	5174		5174	13769
<b>Total</b>	<b>46</b>	<b>1422876</b>		<b>1422876</b>	<b>1341280</b>

**Long-term insurance business: Analysis of claims**

**Form 42**

Printed 24/03/2011 10:16:21

Name of insurer **Friends Life Company Limited**

Total business / subfund **Non Profit Fund Two**

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	550	34722	3	35275	32511
Disability periodic payments	12	42813		121	42934	42525
Surrender or partial surrender	13	1009	1371782		1372791	1194438
Annuity payments	14		246272	408	246680	181137
Lump sums on maturity	15		747748	30	747778	752754
<b>Total</b>	<b>16</b>	<b>44372</b>	<b>2400524</b>	<b>562</b>	<b>2445458</b>	<b>2203365</b>

**Reinsurance - external**

Death or disability lump sums	21		49		49	
Disability periodic payments	22	6648			6648	6863
Surrender or partial surrender	23		16606		16606	20734
Annuity payments	24					
Lump sums on maturity	25		1191		1191	
<b>Total</b>	<b>26</b>	<b>6648</b>	<b>17846</b>		<b>24494</b>	<b>27597</b>

**Reinsurance - intra-group**

Death or disability lump sums	31		98		98	15
Disability periodic payments	32					
Surrender or partial surrender	33		21944		21944	48764
Annuity payments	34		246491		246491	180684
Lump sums on maturity	35		1218		1218	3573
<b>Total</b>	<b>36</b>		<b>269751</b>		<b>269751</b>	<b>233036</b>

**Net of reinsurance**

Death or disability lump sums	41	550	34575	3	35128	32496
Disability periodic payments	42	36165		121	36286	35662
Surrender or partial surrender	43	1009	1333232		1334241	1124940
Annuity payments	44		(219)	408	189	453
Lump sums on maturity	45		745339	30	745369	749181
<b>Total</b>	<b>46</b>	<b>37724</b>	<b>2112927</b>	<b>562</b>	<b>2151213</b>	<b>1942732</b>

**Long-term insurance business: Analysis of expenses**

**Form 43**

Printed 24/03/2011 10:16:21

Name of insurer **Friends Life Company 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	120213	10377	1168	131758	165032
Commission - other	12	24386	15371	29	39786	38510
Management - acquisition	13	97149	63102		160251	211086
Management - maintenance	14	127295	125019		252314	214076
Management - other	15					
<b>Total</b>	<b>16</b>	<b>369043</b>	<b>213869</b>	<b>1197</b>	<b>584109</b>	<b>628704</b>

**Reinsurance - external**

Commission - acquisition	21					
Commission - other	22					
Management - acquisition	23					
Management - maintenance	24					
Management - other	25					
<b>Total</b>	<b>26</b>					

**Reinsurance - intra-group**

Commission - acquisition	31					
Commission - other	32					
Management - acquisition	33					
Management - maintenance	34					
Management - other	35					
<b>Total</b>	<b>36</b>					

**Net of reinsurance**

Commission - acquisition	41	120213	10377	1168	131758	165032
Commission - other	42	24386	15371	29	39786	38510
Management - acquisition	43	97149	63102		160251	211086
Management - maintenance	44	127295	125019		252314	214076
Management - other	45					
<b>Total</b>	<b>46</b>	<b>369043</b>	<b>213869</b>	<b>1197</b>	<b>584109</b>	<b>628704</b>

**Long-term insurance business: Analysis of expenses**

**Form 43**

Printed 24/03/2011 10:16:22

Name of insurer **Friends Life Company Limited**

Total business / subfund **Old With Profits Fund**

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	83	6	149	238	464
Commission - other	12	298	100	1	399	584
Management - acquisition	13	159	58		217	277
Management - maintenance	14	3089	1525		4614	5258
Management - other	15					
<b>Total</b>	<b>16</b>	<b>3629</b>	<b>1689</b>	<b>150</b>	<b>5468</b>	<b>6583</b>

**Reinsurance - external**

Commission - acquisition	21					
Commission - other	22					
Management - acquisition	23					
Management - maintenance	24					
Management - other	25					
<b>Total</b>	<b>26</b>					

**Reinsurance - intra-group**

Commission - acquisition	31					
Commission - other	32					
Management - acquisition	33					
Management - maintenance	34					
Management - other	35					
<b>Total</b>	<b>36</b>					

**Net of reinsurance**

Commission - acquisition	41	83	6	149	238	464
Commission - other	42	298	100	1	399	584
Management - acquisition	43	159	58		217	277
Management - maintenance	44	3089	1525		4614	5258
Management - other	45					
<b>Total</b>	<b>46</b>	<b>3629</b>	<b>1689</b>	<b>150</b>	<b>5468</b>	<b>6583</b>

**Long-term insurance business: Analysis of expenses**

**Form 43**

Printed 24/03/2011 10:16:23

Name of insurer **Friends Life Company Limited**

Total business / subfund **New With Profits Fund**

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	758	225	1019	2002	2523
Commission - other	12	2460	653	28	3141	3307
Management - acquisition	13	786	677		1463	1799
Management - maintenance	14	18560	6944		25504	23779
Management - other	15					
<b>Total</b>	<b>16</b>	<b>22564</b>	<b>8499</b>	<b>1047</b>	<b>32110</b>	<b>31408</b>

**Reinsurance - external**

Commission - acquisition	21					
Commission - other	22					
Management - acquisition	23					
Management - maintenance	24					
Management - other	25					
<b>Total</b>	<b>26</b>					

**Reinsurance - intra-group**

Commission - acquisition	31					
Commission - other	32					
Management - acquisition	33					
Management - maintenance	34					
Management - other	35					
<b>Total</b>	<b>36</b>					

**Net of reinsurance**

Commission - acquisition	41	758	225	1019	2002	2523
Commission - other	42	2460	653	28	3141	3307
Management - acquisition	43	786	677		1463	1799
Management - maintenance	44	18560	6944		25504	23779
Management - other	45					
<b>Total</b>	<b>46</b>	<b>22564</b>	<b>8499</b>	<b>1047</b>	<b>32110</b>	<b>31408</b>



**Long-term insurance business: Analysis of expenses**

**Form 43**

Printed 24/03/2011 10:16:23

Name of insurer **Friends Life Company Limited**

Total business / subfund **Non Profit Fund One**

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	115588		115588	119853
Commission - other	12	21873		21873	20047
Management - acquisition	13	93025		93025	104157
Management - maintenance	14	83286		83286	86514
Management - other	15				
<b>Total</b>	<b>16</b>	<b>313772</b>		<b>313772</b>	<b>330571</b>

**Reinsurance - external**

Commission - acquisition	21				
Commission - other	22				
Management - acquisition	23				
Management - maintenance	24				
Management - other	25				
<b>Total</b>	<b>26</b>				

**Reinsurance - intra-group**

Commission - acquisition	31				
Commission - other	32				
Management - acquisition	33				
Management - maintenance	34				
Management - other	35				
<b>Total</b>	<b>36</b>				

**Net of reinsurance**

Commission - acquisition	41	115588		115588	119853
Commission - other	42	21873		21873	20047
Management - acquisition	43	93025		93025	104157
Management - maintenance	44	83286		83286	86514
Management - other	45				
<b>Total</b>	<b>46</b>	<b>313772</b>		<b>313772</b>	<b>330571</b>

**Long-term insurance business: Analysis of expenses**

**Form 43**

Printed 24/03/2011 10:16:24

Name of insurer **Friends Life Company Limited**

Total business / subfund **Non Profit Fund Two**

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	3784	10146		13930	42192
Commission - other	12	(245)	14618		14373	14572
Management - acquisition	13	3179	62367		65546	104853
Management - maintenance	14	22360	116550		138910	98525
Management - other	15					
<b>Total</b>	<b>16</b>	<b>29078</b>	<b>203681</b>		<b>232759</b>	<b>260142</b>

**Reinsurance - external**

Commission - acquisition	21					
Commission - other	22					
Management - acquisition	23					
Management - maintenance	24					
Management - other	25					
<b>Total</b>	<b>26</b>					

**Reinsurance - intra-group**

Commission - acquisition	31					
Commission - other	32					
Management - acquisition	33					
Management - maintenance	34					
Management - other	35					
<b>Total</b>	<b>36</b>					

**Net of reinsurance**

Commission - acquisition	41	3784	10146		13930	42192
Commission - other	42	(245)	14618		14373	14572
Management - acquisition	43	3179	62367		65546	104853
Management - maintenance	44	22360	116550		138910	98525
Management - other	45					
<b>Total</b>	<b>46</b>	<b>29078</b>	<b>203681</b>		<b>232759</b>	<b>260142</b>

**Long-term insurance business: Linked funds balance sheet**

**Form 44**

Printed 24/03/2011 10:16:25

Name of insurer **Friends Life Company Limited**

Total business

Financial year ended **31st December 2010**

Units **£000**

	Financial year	Previous year
	<b>1</b>	<b>2</b>

**Internal linked funds (excluding cross investment)**

Directly held assets (excluding collective investment schemes)	<b>11</b>	24405065	23640186
Directly held assets in collective investment schemes of connected companies	<b>12</b>		220524
Directly held assets in other collective investment schemes	<b>13</b>	4134596	3394214
<b>Total assets (excluding cross investment) (11+12+13)</b>	<b>14</b>	28539661	27254924
Provision for tax on unrealised capital gains	<b>15</b>		
Secured and unsecured loans	<b>16</b>	3768	4597
Other liabilities	<b>17</b>	143544	86425
<b>Total net assets (14-15-16-17)</b>	<b>18</b>	28392349	27163902

**Directly held linked assets**

Value of directly held linked assets	<b>21</b>	83808	113150
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**Total**

Value of directly held linked assets and units held (18+21)	<b>31</b>	28476157	27277052
Surplus units	<b>32</b>	22357	34190
Deficit units	<b>33</b>	31026	8980
<b>Net unit liability (31-32+33)</b>	<b>34</b>	28484826	27251842

**Long-term insurance business: revenue account for internal linked funds**

**Form 45**

Printed 24/03/2011 10:16:25

Name of insurer **Friends Life Company Limited**

Total business

Financial year ended **31st December 2010**

Units **£000**

	Financial year	Previous year
	<b>1</b>	<b>2</b>

**Income**

Value of total creation of units	<b>11</b>	3365677	3909946
Investment income attributable to the funds before deduction of tax	<b>12</b>	797593	853002
Increase (decrease) in the value of investments in the financial year	<b>13</b>	2331562	2706679
Other income	<b>14</b>	19957	19065
<b>Total income</b>	<b>19</b>	6514789	7488692

**Expenditure**

Value of total cancellation of units	<b>21</b>	4971125	4687584
Charges for management	<b>22</b>	231268	208648
Charges in respect of tax on investment income	<b>23</b>	74340	47353
Taxation on realised capital gains	<b>24</b>	9342	2382
Increase (decrease) in amount set aside for tax on capital gains not yet realised	<b>25</b>	(23569)	
Other expenditure	<b>26</b>	23836	32207
<b>Total expenditure</b>	<b>29</b>	5286342	4978174

Increase (decrease) in funds in financial year (19-29)	<b>39</b>	1228447	2510518
Internal linked fund brought forward	<b>49</b>	27163902	24653384
Internal linked funds carried forward (39+49)	<b>59</b>	28392349	27163902

**Long-term insurance business: Summary of new business**

**Form 46**

Printed 24/03/2011 10:16:26

Name of insurer **Friends Life Company Limited**

Total business

Financial year ended **31st December 2010**

Units **£000**

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

Regular premium business	<b>11</b>	256985	15185	25	272195	271929
Single premium business	<b>12</b>	15346	10431		25777	42892
<b>Total</b>	<b>13</b>	272331	25616	25	297972	314821

**Amount of new regular premiums**

Direct insurance business	<b>21</b>	70121	72862	118	143101	150328
External reinsurance	<b>22</b>					
Intra-group reinsurance	<b>23</b>	283	5670		5953	6260
<b>Total</b>	<b>24</b>	70404	78532	118	149054	156588

**Amount of new single premiums**

Direct insurance business	<b>25</b>	775457	620483	77	1396017	2284382
External reinsurance	<b>26</b>	26	118144		118170	
Intra-group reinsurance	<b>27</b>	10564	61360		71924	2166586
<b>Total</b>	<b>28</b>	786047	799987	77	1586111	4450968

**Long-term insurance business: Analysis of new business**

**Form 47  
(Sheet 1)**

Name of insurer **Friends Life Company Limited**

Printed 24/03/2011 10:16:27

Total business

Financial year ended **31st December 2010**

Units **£000**

UK Life / Direct insurance business

Product code number <b>1</b>	Product description <b>2</b>	Regular premium business		Single premium business	
		Number of policyholders / scheme members <b>3</b>	Amount of premiums <b>4</b>	Number of policyholders / scheme members <b>5</b>	Amount of premiums <b>6</b>
120	Conventional endowment with-profits OB savings	3050	793		
300	Regular premium non-profit WL/EA OB	154768	28501		
325	Level term assurance	39391	15099		
330	Decreasing term assurance	14950	3985		
335	Decreasing term assurance (rider benefits)			119	1172
340	Accelerated critical illness (guaranteed premiums)	36645	17112		
345	Accelerated critical illness (reviewable premiums)	1691	925		
350	Stand-alone critical illness (guaranteed premiums)	2294	1658		
355	Stand-alone critical illness (reviewable premiums)	156	67		
360	Income protection non-profit (guaranteed premiums)	3095	1299		
365	Income protection non-profit (reviewable premiums)	152	62		
395	Annuity non-profit (PLA)			202	27313
415	Collective Life				17306
420	Group income protection				66
500	Life UWP single premium				504
505	Life UWP whole life regular premium	23	67		
506	Life UWP whole life regular premium (ISA)	9	18		120
700	Life property linked single premium			14873	718977
705	Life property linked single premium quasi index linked			96	2308
710	Life property linked whole life regular premium	760	502		
905	Index linked annuity			56	7691
910	Miscellaneous index linked	1	33		

**Long-term insurance business: Analysis of new business****Form 47  
(Sheet 2)**Name of insurer **Friends Life Company Limited**

Printed 24/03/2011 10:16:27

Total business

Financial year ended **31st December 2010**Units **£000**

UK Life / 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				26

**Long-term insurance business: Analysis of new business**

**Form 47  
(Sheet 3)**

Name of insurer **Friends Life Company Limited**

Printed 24/03/2011 10:16:28

Total business

Financial year ended **31st December 2010**

Units **£000**

UK Life / Reinsurance accepted intra-group

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
700	Life property linked single premium				10564
710	Life property linked whole life regular premium		283		



**Long-term insurance business: Analysis of new business**

**Form 47  
(Sheet 4)**

Name of insurer **Friends Life Company Limited**

Printed 24/03/2011 10:16:28

Total business

Financial year ended **31st December 2010**

Units **£000**

UK Pension / Direct insurance business

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
400	Annuity non-profit (CPA)			7783	162024
525	Individual pensions UWP	23	36	111	892
530	Individual pensions UWP - increments		805		1453
535	Group money purchase pensions UWP	185	167	182	191
540	Group money purchase pensions UWP - increments		277		3270
555	Group deposit administration with-profits	164	104		
565	DWP National Insurance rebates UWP				16070
570	Income drawdown UWP				420
571	Trustee investment plan UWP				11
575	Miscellaneous UWP				51
725	Individual pensions property linked	403	1396	1373	75091
730	Individual pensions property linked - increments		2090		184679
735	Group money purchase pensions property linked	14410	42601	718	20121
740	Group money purchase pensions property linked - increments		25214		75270
745	DWP National Insurance rebates property linked				37030
750	Income drawdown property linked			243	25994
755	Trustee investment plan		48	21	17609
760	Small self administered schemes		7		307
765	Group managed funds		117		

**Long-term insurance business: Analysis of new business****Form 47  
(Sheet 5)**Name of insurer **Friends Life Company Limited**

Printed 24/03/2011 10:16:29

Total business

Financial year ended **31st December 2010**Units **£000**

UK Pension / 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
794	Property linked investment only reinsurance				118144

**Long-term insurance business: Analysis of new business**

**Form 47  
(Sheet 6)**

Name of insurer **Friends Life Company Limited**

Printed 24/03/2011 10:16:29

Total business

Financial year ended **31st December 2010**

Units **£000**

UK Pension / Reinsurance accepted intra-group

Product code number <b>1</b>	Product description <b>2</b>	Regular premium business		Single premium business	
		Number of policyholders / scheme members <b>3</b>	Amount of premiums <b>4</b>	Number of policyholders / scheme members <b>5</b>	Amount of premiums <b>6</b>
725	Individual pensions property linked		34		55
730	Individual pensions property linked - increments		640		14013
735	Group money purchase pensions property linked		2061		27
740	Group money purchase pensions property linked - increments		2860		3923
745	DWP National Insurance rebates property linked				42051
750	Income drawdown property linked				182
755	Trustee investment plan		1		104
760	Small self administered schemes		74		1005

**Long-term insurance business: Analysis of new business**

**Form 47  
(Sheet 7)**

Name of insurer **Friends Life Company Limited**

Printed 24/03/2011 10:16:30

Total business

Financial year ended **31st December 2010**

Units **£000**

Overseas / Direct insurance business

Product code number <b>1</b>	Product description <b>2</b>	Regular premium business		Single premium business	
		Number of policyholders / scheme members <b>3</b>	Amount of premiums <b>4</b>	Number of policyholders / scheme members <b>5</b>	Amount of premiums <b>6</b>
175	Group conventional deferred annuity with-profits				77
555	Group deposit administration with-profits	25	118		

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

**Form 48**

Printed 24/03/2011 10:16:31

Name of insurer **Friends Life Company 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			(145)		
Approved fixed interest securities	12	449906	449906	20849	3.10	
Other fixed interest securities	13	846048	846048	47466	5.15	
Variable interest securities	14	188223	188223	6843	0.63	
UK listed equity shares	15	2098	10644			
Non-UK listed equity shares	16		34862			
Unlisted equity shares	17	2303	2303			
Other assets	18	635253	591845	444	0.08	
<b>Total</b>	<b>19</b>	<b>2123831</b>	<b>2123831</b>	<b>75457</b>	<b>2.79</b>	

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

Land and buildings	21	750540	776543	46527	5.99	12.52
Approved fixed interest securities	22	735933	735933	31930	2.84	8.95
Other fixed interest securities	23	1505400	1550639	84731	4.98	7.72
Variable interest securities	24	29171	29171	798	0.63	(0.83)
UK listed equity shares	25	2205372	2091105	61250	4.12	17.20
Non-UK listed equity shares	26	634824	873797	21036	3.23	15.28
Unlisted equity shares	27	55893	508334			10.32
Other assets	28	958731	310342	1627	0.52	3.84
<b>Total</b>	<b>29</b>	<b>6875864</b>	<b>6875864</b>	<b>247899</b>	<b>3.79</b>	<b>12.22</b>

**Overall return on with-profits assets**

Post investment costs but pre-tax	31					13.27
Return allocated to non taxable 'asset shares'	32					13.27
Return allocated to taxable 'asset shares'	33					11.11

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

**Form 48**

Printed 24/03/2011 10:16:31

Name of insurer **Friends Life Company Limited**

Financial year ended **31st December 2010**

Category of assets **Old With Profits Fund**

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	27696	27696	1309	3.01	
Other fixed interest securities	13	70613	70613	4613	5.61	
Variable interest securities	14	1497	1497		3.23	
UK listed equity shares	15					
Non-UK listed equity shares	16					
Unlisted equity shares	17					
Other assets	18	5252	5252	96	1.71	
<b>Total</b>	<b>19</b>	<b>105058</b>	<b>105058</b>	<b>6018</b>	<b>4.70</b>	

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

Land and buildings	21	149032	154185	9254	6.00	12.52
Approved fixed interest securities	22	150669	150669	6537	2.84	8.95
Other fixed interest securities	23	308115	316443	17305	5.53	7.72
Variable interest securities	24	5972	5972	163	0.63	(0.83)
UK listed equity shares	25	437888	415728	12179	4.12	17.20
Non-UK listed equity shares	26	126048	172585	4162	3.24	15.28
Unlisted equity shares	27	11106	100978			10.32
Other assets	28	200549	72819	314	0.43	3.84
<b>Total</b>	<b>29</b>	<b>1389379</b>	<b>1389379</b>	<b>49914</b>	<b>3.89</b>	<b>12.11</b>

**Overall return on with-profits assets**

Post investment costs but pre-tax	31					13.27
Return allocated to non taxable 'asset shares'	32					13.27
Return allocated to taxable 'asset shares'	33					11.11

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

**Form 48**

Printed 24/03/2011 10:16:32

Name of insurer **Friends Life Company Limited**

Financial year ended **31st December 2010**

Category of assets **New With Profits Fund**

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	192038	192038	9075	3.01	
Other fixed interest securities	13	492670	492670	32265	5.63	
Variable interest securities	14	10379	10379		3.23	
UK listed equity shares	15					
Non-UK listed equity shares	16					
Unlisted equity shares	17					
Other assets	18	33097	33097	384	1.08	
<b>Total</b>	<b>19</b>	<b>728184</b>	<b>728184</b>	<b>41724</b>	<b>4.70</b>	

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

Land and buildings	21	601508	622358	37274	5.99	12.52
Approved fixed interest securities	22	585264	585264	25393	2.84	8.95
Other fixed interest securities	23	1197285	1234196	67426	5.02	7.72
Variable interest securities	24	23199	23199	634	0.63	(0.83)
UK listed equity shares	25	1767484	1675377	49071	4.12	17.20
Non-UK listed equity shares	26	508776	701212	16875	3.23	15.28
Unlisted equity shares	27	44787	407356			10.32
Other assets	28	758182	237523	1313	0.53	3.84
<b>Total</b>	<b>29</b>	<b>5486485</b>	<b>5486485</b>	<b>197986</b>	<b>3.81</b>	<b>12.25</b>

**Overall return on with-profits assets**

Post investment costs but pre-tax	31					13.27
Return allocated to non taxable 'asset shares'	32					13.27
Return allocated to taxable 'asset shares'	33					11.11

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

**Form 48**

Printed 24/03/2011 10:16:33

Name of insurer **Friends Life Company Limited**  
 Financial year ended **31st December 2010**  
 Category of assets **Non Profit Fund One**  
 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	118492	118492	5387	3.19	
Other fixed interest securities	13	145566	145566	5451	4.19	
Variable interest securities	14	90783	90783	3523	0.45	
UK listed equity shares	15	2098	5406			
Non-UK listed equity shares	16		30940			
Unlisted equity shares	17	2303	2303			
Other assets	18	422274	388026	(35)		
<b>Total</b>	<b>19</b>	<b>781516</b>	<b>781516</b>	<b>14326</b>	<b>1.32</b>	

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

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

**Overall return on with-profits assets**

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



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

**Form 48**

Printed 24/03/2011 10:16:33

Name of insurer **Friends Life Company Limited**  
 Financial year ended **31st December 2010**  
 Category of assets **Non Profit Fund Two**  
 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			(145)		
Approved fixed interest securities	12	111680	111680	5078	3.19	
Other fixed interest securities	13	137199	137199	5137	4.19	
Variable interest securities	14	85564	85564	3320	0.45	
UK listed equity shares	15		5238			
Non-UK listed equity shares	16		3922			
Unlisted equity shares	17					
Other assets	18	174630	165470	(1)		
<b>Total</b>	<b>19</b>	<b>509073</b>	<b>509073</b>	<b>13389</b>	<b>1.90</b>	

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

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

**Overall return on with-profits assets**

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

**Long-term insurance business: Fixed and variable interest assets**

**Form 49**

Printed 24/03/2011 10:16:34

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

		Value of assets <b>1</b>	Mean term <b>2</b>	Yield before adjustment <b>3</b>	Yield after adjustment <b>4</b>
<b>UK government approved fixed interest securities</b>	<b>11</b>	913063	7.82	2.73	2.73
<b>Other approved fixed interest securities</b>	<b>21</b>	272776	7.86	0.04	0.03
<b>Other fixed interest securities</b>					
AAA/Aaa	<b>31</b>	201827	9.17	3.65	3.51
AA/Aa	<b>32</b>	540565	8.63	3.99	3.48
A/A	<b>33</b>	776623	9.80	4.92	4.09
BBB/Baa	<b>34</b>	733778	9.10	5.31	3.64
BB/Ba	<b>35</b>	117728	12.42	8.43	5.01
B/B	<b>36</b>	3601	40.00		
CCC/Caa	<b>37</b>	5649	14.72	35.14	20.74
Other (including unrated)	<b>38</b>	16916	12.53	1.26	0.48
<b>Total other fixed interest securities</b>	<b>39</b>	2396687	9.47	4.93	3.82
<b>Approved variable interest securities</b>	<b>41</b>	182198	12.47	0.33	0.33
<b>Other variable interest securities</b>	<b>51</b>	35196	18.82	1.74	0.90
<b>Total (11+21+39+41+51)</b>	<b>61</b>	3799920	9.19	3.80	3.09

**Long-term insurance business: Fixed and variable interest assets**

**Form 49**

Printed 24/03/2011 10:16:34

Name of insurer **Friends Life Company Limited**

Financial year ended **31st December 2010**

Category of assets **Old With Profits Fund**

Units **£000**

		Value of assets <b>1</b>	Mean term <b>2</b>	Yield before adjustment <b>3</b>	Yield after adjustment <b>4</b>
<b>UK government approved fixed interest securities</b>	<b>11</b>	136077	7.18	2.61	2.61
<b>Other approved fixed interest securities</b>	<b>21</b>	42288	8.10	0.04	0.03
<b>Other fixed interest securities</b>					
AAA/Aaa	<b>31</b>	35032	7.90	3.62	3.49
AA/Aa	<b>32</b>	76860	8.65	4.32	3.82
A/A	<b>33</b>	125113	9.97	4.88	4.05
BBB/Baa	<b>34</b>	124555	9.68	5.29	3.67
BB/Ba	<b>35</b>	21039	12.92	8.23	4.91
B/B	<b>36</b>	663	40.00		
CCC/Caa	<b>37</b>	779	18.25	30.20	17.81
Other (including unrated)	<b>38</b>	3015	11.69	0.39	0.16
<b>Total other fixed interest securities</b>	<b>39</b>	387056	9.67	4.98	3.87
<b>Approved variable interest securities</b>	<b>41</b>	3337	(1.22)	(0.13)	(0.13)
<b>Other variable interest securities</b>	<b>51</b>	4132	23.73	1.46	0.68
<b>Total (11+21+39+41+51)</b>	<b>61</b>	572890	9.00	4.00	3.24

**Long-term insurance business: Fixed and variable interest assets**

**Form 49**

Printed 24/03/2011 10:16:35

Name of insurer **Friends Life Company Limited**  
 Financial year ended **31st December 2010**  
 Category of assets **New With Profits Fund**  
 Units **£000**

		Value of assets <b>1</b>	Mean term <b>2</b>	Yield before adjustment <b>3</b>	Yield after adjustment <b>4</b>
<b>UK government approved fixed interest securities</b>	<b>11</b>	590357	7.25	2.62	2.62
<b>Other approved fixed interest securities</b>	<b>21</b>	186945	7.84	0.04	0.03
<b>Other fixed interest securities</b>					
AAA/Aaa	<b>31</b>	147304	8.17	3.68	3.55
AA/Aa	<b>32</b>	327613	8.63	4.40	3.91
A/A	<b>33</b>	546831	9.77	4.90	4.07
BBB/Baa	<b>34</b>	598874	8.97	5.29	3.62
BB/Ba	<b>35</b>	85798	12.93	8.25	4.94
B/B	<b>36</b>	2938	40.01		
CCC/Caa	<b>37</b>	4635	14.68	35.19	20.76
Other (including unrated)	<b>38</b>	12873	12.45	0.63	0.26
<b>Total other fixed interest securities</b>	<b>39</b>	1726866	9.38	5.04	3.89
<b>Approved variable interest securities</b>	<b>41</b>	12962	(1.22)	(0.13)	(0.13)
<b>Other variable interest securities</b>	<b>51</b>	20616	18.89	1.85	0.79
<b>Total (11+21+39+41+51)</b>	<b>61</b>	2537746	8.79	4.06	3.26

**Long-term insurance business: Fixed and variable interest assets**

**Form 49**

Printed 24/03/2011 10:16:35

Name of insurer **Friends Life Company Limited**

Financial year ended **31st December 2010**

Category of assets **Non Profit Fund One**

Units **£000**

		Value of assets	Mean term	Yield before adjustment	Yield after adjustment
		1	2	3	4
<b>UK government approved fixed interest securities</b>	<b>11</b>	96076	10.10	3.17	3.17
<b>Other approved fixed interest securities</b>	<b>21</b>	22416	7.74	0.03	0.03
<b>Other fixed interest securities</b>					
AAA/Aaa	31	10034	19.03	3.43	3.27
AA/Aa	32	70059	8.61	2.80	2.26
A/A	33	53888	9.74	5.06	4.23
BBB/Baa	34	5328	9.09	6.80	4.74
BB/Ba	35	5607	7.44	10.22	5.75
B/B	36				
CCC/Caa	37	121	3.89	50.66	29.97
Other (including unrated)	38	529	15.99	11.67	4.19
<b>Total other fixed interest securities</b>	<b>39</b>	145566	9.74	4.18	3.31
<b>Approved variable interest securities</b>	<b>41</b>	85404	13.81	0.38	0.38
<b>Other variable interest securities</b>	<b>51</b>	5379	16.75	1.65	1.19
<b>Total (11+21+39+41+51)</b>	<b>61</b>	354841	10.80	2.69	2.33

**Long-term insurance business: Fixed and variable interest assets**

**Form 49**

Printed 24/03/2011 10:16:36

Name of insurer **Friends Life Company Limited**

Financial year ended **31st December 2010**

Category of assets **Non Profit Fund Two**

Units **£000**

		Value of assets	Mean term	Yield before adjustment	Yield after adjustment
		<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>
<b>UK government approved fixed interest securities</b>	<b>11</b>	90553	10.10	3.17	3.17
<b>Other approved fixed interest securities</b>	<b>21</b>	21127	7.74	0.03	0.03
<b>Other fixed interest securities</b>					
AAA/Aaa	<b>31</b>	9457	19.03	3.43	3.27
AA/Aa	<b>32</b>	66033	8.61	2.80	2.26
A/A	<b>33</b>	50791	9.74	5.06	4.23
BBB/Baa	<b>34</b>	5021	9.09	6.80	4.74
BB/Ba	<b>35</b>	5284	7.44	10.23	5.75
B/B	<b>36</b>				
CCC/Caa	<b>37</b>	114	3.89	50.68	29.98
Other (including unrated)	<b>38</b>	499	15.97	11.66	4.19
<b>Total other fixed interest securities</b>	<b>39</b>	137199	9.74	4.18	3.31
<b>Approved variable interest securities</b>	<b>41</b>	80495	13.81	0.38	0.38
<b>Other variable interest securities</b>	<b>51</b>	5069	16.75	1.65	1.19
<b>Total (11+21+39+41+51)</b>	<b>61</b>	334443	10.80	2.69	2.33

**Long-term insurance business: Summary of mathematical reserves**

**Form 50**

Printed 24/03/2011 10:16:37

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

	UK Life <b>1</b>	UK Pension <b>2</b>	Overseas <b>3</b>	Total Financial Year <b>4</b>	Total Previous Year <b>5</b>
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**Gross**

Form 51 - with-profits	<b>11</b>	599929	331034	1192	932155	917578
Form 51 - non-profit	<b>12</b>	972405	3888217	10596	4871218	4751117
Form 52	<b>13</b>	1752526	1994659	118416	3865601	4025720
Form 53 - linked	<b>14</b>	13684859	16224314	28713	29937886	28381319
Form 53 - non-linked	<b>15</b>	61749	92302	114	154165	86498
Form 54 - linked	<b>16</b>	231583	418447	1861	651891	634563
Form 54 - non-linked	<b>17</b>	21580	5001	2	26583	25633
<b>Total</b>	<b>18</b>	17324631	22953974	160894	40439499	38822428

**Reinsurance - external**

Form 51 - with-profits	<b>21</b>	368			368	386
Form 51 - non-profit	<b>22</b>	355522			355522	529719
Form 52	<b>23</b>					
Form 53 – linked	<b>24</b>		1452794		1452794	80095
Form 53 - non-linked	<b>25</b>	751	(1926)		(1175)	934
Form 54 – linked	<b>26</b>	44466		303	44769	45088
Form 54 - non-linked	<b>27</b>					
<b>Total</b>	<b>28</b>	401107	1450868	303	1852278	656222

**Reinsurance - intra-group**

Form 51 - with-profits	<b>31</b>					
Form 51 - non-profit	<b>32</b>		3222373		3222373	3093179
Form 52	<b>33</b>					
Form 53 – linked	<b>34</b>					1049180
Form 53 - non-linked	<b>35</b>		26		26	(1420)
Form 54 – linked	<b>36</b>	1212	399081		400293	387526
Form 54 - non-linked	<b>37</b>		4280		4280	3410
<b>Total</b>	<b>38</b>	1212	3625760		3626972	4531875

**Net of reinsurance**

Form 51 - with-profits	<b>41</b>	599561	331034	1192	931787	917192
Form 51 - non-profit	<b>42</b>	616883	665844	10596	1293323	1128219
Form 52	<b>43</b>	1752526	1994659	118416	3865601	4025720
Form 53 – linked	<b>44</b>	13684859	14771520	28713	28485092	27252044
Form 53 - non-linked	<b>45</b>	60998	94202	114	155314	86984
Form 54 – linked	<b>46</b>	185905	19366	1558	206829	201949
Form 54 - non-linked	<b>47</b>	21580	721	2	22303	22223
<b>Total</b>	<b>48</b>	16922312	17877346	160591	34960249	33634331

**Long-term insurance business: Summary of mathematical reserves**

**Form 50**

Printed 24/03/2011 10:16:38

Name of insurer **Friends Life Company Limited**

Total business / subfund **Old With Profits Fund**

Financial year ended **31st December 2010**

Units **£000**

	UK Life <b>1</b>	UK Pension <b>2</b>	Overseas <b>3</b>	Total Financial Year <b>4</b>	Total Previous Year <b>5</b>
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**Gross**

Form 51 - with-profits	<b>11</b>	128369	60084	346	188799	182407
Form 51 - non-profit	<b>12</b>	23306	77337	202	100845	84780
Form 52	<b>13</b>	249083	373089	12953	635125	647225
Form 53 - linked	<b>14</b>					
Form 53 - non-linked	<b>15</b>					
Form 54 - linked	<b>16</b>		2661		2661	2278
Form 54 - non-linked	<b>17</b>		114		114	89
<b>Total</b>	<b>18</b>	400758	513285	13501	927544	916779

**Reinsurance - external**

Form 51 - with-profits	<b>21</b>	158			158	165
Form 51 - non-profit	<b>22</b>					
Form 52	<b>23</b>					
Form 53 - linked	<b>24</b>					
Form 53 - non-linked	<b>25</b>					
Form 54 - linked	<b>26</b>					
Form 54 - non-linked	<b>27</b>					
<b>Total</b>	<b>28</b>	158			158	165

**Reinsurance - intra-group**

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

**Net of reinsurance**

Form 51 - with-profits	<b>41</b>	128211	60084	346	188641	182242
Form 51 - non-profit	<b>42</b>	23306	77337	202	100845	84780
Form 52	<b>43</b>	249083	373089	12953	635125	647225
Form 53 - linked	<b>44</b>					
Form 53 - non-linked	<b>45</b>					
Form 54 - linked	<b>46</b>		2661		2661	2278
Form 54 - non-linked	<b>47</b>		114		114	89
<b>Total</b>	<b>48</b>	400600	513285	13501	927386	916614



**Long-term insurance business: Summary of mathematical reserves**

**Form 50**

Printed 24/03/2011 10:16:38

Name of insurer **Friends Life Company Limited**

Total business / subfund **New With Profits Fund**

Financial year ended **31st December 2010**

Units **£000**

	UK Life <b>1</b>	UK Pension <b>2</b>	Overseas <b>3</b>	Total Financial Year <b>4</b>	Total Previous Year <b>5</b>
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**Gross**

Form 51 - with-profits	<b>11</b>	471560	270950	846	743356	735171
Form 51 - non-profit	<b>12</b>	131490	567543	210	699243	587329
Form 52	<b>13</b>	1503443	1621570	105463	3230476	3378495
Form 53 - linked	<b>14</b>					
Form 53 - non-linked	<b>15</b>					
Form 54 - linked	<b>16</b>		16705		16705	15172
Form 54 - non-linked	<b>17</b>		607		607	515
<b>Total</b>	<b>18</b>	2106493	2477375	106519	4690387	4716682

**Reinsurance - external**

Form 51 - with-profits	<b>21</b>	210			210	221
Form 51 - non-profit	<b>22</b>					
Form 52	<b>23</b>					
Form 53 - linked	<b>24</b>					
Form 53 - non-linked	<b>25</b>					
Form 54 - linked	<b>26</b>					
Form 54 - non-linked	<b>27</b>					
<b>Total</b>	<b>28</b>	210			210	221

**Reinsurance - intra-group**

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

**Net of reinsurance**

Form 51 - with-profits	<b>41</b>	471350	270950	846	743146	734950
Form 51 - non-profit	<b>42</b>	131490	567543	210	699243	587329
Form 52	<b>43</b>	1503443	1621570	105463	3230476	3378495
Form 53 - linked	<b>44</b>					
Form 53 - non-linked	<b>45</b>					
Form 54 - linked	<b>46</b>		16705		16705	15172
Form 54 - non-linked	<b>47</b>		607		607	515
<b>Total</b>	<b>48</b>	2106283	2477375	106519	4690177	4716461

**Long-term insurance business: Summary of mathematical reserves**

**Form 50**

Printed 24/03/2011 10:16:39

Name of insurer **Friends Life Company Limited**

Total business / subfund **Non Profit Fund One**

Financial year ended **31st December 2010**

Units **£000**

	UK Life <b>1</b>	UK Pension <b>2</b>	Overseas <b>3</b>	Total Financial Year <b>4</b>	Total Previous Year <b>5</b>
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**Gross**

Form 51 - with-profits	<b>11</b>				
Form 51 - non-profit	<b>12</b>	573147		573147	704309
Form 52	<b>13</b>				
Form 53 - linked	<b>14</b>	13671404	28431	13699835	13080794
Form 53 - non-linked	<b>15</b>	60093	114	60207	32202
Form 54 - linked	<b>16</b>	61860		61860	59556
Form 54 - non-linked	<b>17</b>	176		176	161
<b>Total</b>	<b>18</b>	14366680	28545	14395225	13877022

**Reinsurance - external**

Form 51 - with-profits	<b>21</b>				
Form 51 - non-profit	<b>22</b>	266533		266533	446582
Form 52	<b>23</b>				
Form 53 - linked	<b>24</b>				
Form 53 - non-linked	<b>25</b>				
Form 54 - linked	<b>26</b>				
Form 54 - non-linked	<b>27</b>				
<b>Total</b>	<b>28</b>	266533		266533	446582

**Reinsurance - intra-group**

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

**Net of reinsurance**

Form 51 - with-profits	<b>41</b>				
Form 51 - non-profit	<b>42</b>	306614		306614	257727
Form 52	<b>43</b>				
Form 53 - linked	<b>44</b>	13671404	28431	13699835	13080794
Form 53 - non-linked	<b>45</b>	60093	114	60207	32202
Form 54 - linked	<b>46</b>	61860		61860	59556
Form 54 - non-linked	<b>47</b>	176		176	161
<b>Total</b>	<b>48</b>	14100147	28545	14128692	13430440

**Long-term insurance business: Summary of mathematical reserves**

**Form 50**

Printed 24/03/2011 10:16:40

Name of insurer **Friends Life Company Limited**

Total business / subfund **Non Profit Fund Two**

Financial year ended **31st December 2010**

Units **£000**

	UK Life <b>1</b>	UK Pension <b>2</b>	Overseas <b>3</b>	Total Financial Year <b>4</b>	Total Previous Year <b>5</b>
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**Gross**

Form 51 - with-profits	<b>11</b>				
Form 51 - non-profit	<b>12</b>	244462	3243338	10184	3497984
Form 52	<b>13</b>				
Form 53 - linked	<b>14</b>	13455	16224314	282	16238051
Form 53 - non-linked	<b>15</b>	1656	92302		93958
Form 54 - linked	<b>16</b>	169723	399081	1861	570665
Form 54 - non-linked	<b>17</b>	21404	4280	2	25686
<b>Total</b>	<b>18</b>	450700	19963315	12329	20426344

**Reinsurance - external**

Form 51 - with-profits	<b>21</b>				
Form 51 - non-profit	<b>22</b>	88989			88989
Form 52	<b>23</b>				
Form 53 - linked	<b>24</b>		1452794		1452794
Form 53 - non-linked	<b>25</b>	751	(1926)		(1175)
Form 54 - linked	<b>26</b>	44466		303	44769
Form 54 - non-linked	<b>27</b>				
<b>Total</b>	<b>28</b>	134206	1450868	303	1585377

**Reinsurance - intra-group**

Form 51 - with-profits	<b>31</b>				
Form 51 - non-profit	<b>32</b>		3222374		3222374
Form 52	<b>33</b>				
Form 53 - linked	<b>34</b>				1049180
Form 53 - non-linked	<b>35</b>		26		26
Form 54 - linked	<b>36</b>	1212	399081		400293
Form 54 - non-linked	<b>37</b>		4280		4280
<b>Total</b>	<b>38</b>	1212	3625761		3626973

**Net of reinsurance**

Form 51 - with-profits	<b>41</b>				
Form 51 - non-profit	<b>42</b>	155473	20964	10184	186621
Form 52	<b>43</b>				
Form 53 - linked	<b>44</b>	13455	14771520	282	14785257
Form 53 - non-linked	<b>45</b>	905	94202		95107
Form 54 - linked	<b>46</b>	124045		1558	125603
Form 54 - non-linked	<b>47</b>	21404		2	21406
<b>Total</b>	<b>48</b>	315282	14886686	12026	15213994

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

**Form 51  
(Sheet 1)**

Printed 24/03/2011 10:16:40

Name of insurer **Friends Life Company Limited**

Total business / subfund **Old With Profits Fund**

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	730	10962	59	n/a	n/a	n/a	6803
120	Conventional endowment with-profits OB savings	26460	191878	16592	n/a	n/a	n/a	111686
125	Conventional endowment with-profits OB target cash	93	917	14	n/a	n/a	n/a	3500
205	Miscellaneous conventional with-profits	22540	10572	1522	n/a	n/a	n/a	6380
300	Regular premium non-profit WL/EA OB	2269	94109	6057	n/a	n/a	n/a	21971
390	Deferred annuity non-profit	6	58		n/a	n/a	n/a	926
395	Annuity non-profit (PLA)	2	2		n/a	n/a	n/a	16
435	Miscellaneous non-profit	87	251		n/a	n/a	n/a	393

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

**Form 51  
(Sheet 2)**

Printed 24/03/2011 10:16:41

Name of insurer **Friends Life Company Limited**

Total business / subfund **Old With Profits Fund**

Financial year ended **31st December 2010**

Units **£000**

**UK Life / Reinsurance ceded external**

Product code number <b>1</b>	Product description <b>2</b>	Number of policyholders / scheme members <b>3</b>	Amount of benefit <b>4</b>	Amount of annual office premiums <b>5</b>	Nominal value of units <b>6</b>	Discounted value of units <b>7</b>	Other liabilities <b>8</b>	Amount of mathematical reserves <b>9</b>
100	Conventional whole life with-profits OB		303	2	n/a	n/a	n/a	158

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

**Form 51  
(Sheet 3)**

Printed 24/03/2011 10:16:41

Name of insurer **Friends Life Company Limited**

Total business / subfund **Old With Profits Fund**

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	2241	29867	44	n/a	n/a	n/a	43250
205	Miscellaneous conventional with-profits	23	248		n/a	n/a	n/a	260
210	Additional reserves with-profits OB				n/a	n/a	n/a	16574
390	Deferred annuity non-profit	10	17		n/a	n/a	n/a	312
400	Annuity non-profit (CPA)	1904	2926		n/a	n/a	n/a	51519
435	Miscellaneous non-profit	916	11726		n/a	n/a	n/a	25506

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

**Form 51  
(Sheet 4)**

Printed 24/03/2011 10:16:42

Name of insurer **Friends Life Company Limited**

Total business / subfund **Old With Profits Fund**

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
100	Conventional whole life with-profits OB	10	347	3	n/a	n/a	n/a	251
120	Conventional endowment with-profits OB savings	6	93	1	n/a	n/a	n/a	77
205	Miscellaneous conventional with-profits	4	14		n/a	n/a	n/a	18
395	Annuity non-profit (PLA)	1	8		n/a	n/a	n/a	92
435	Miscellaneous non-profit	1	107		n/a	n/a	n/a	110

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

**Form 51  
(Sheet 5)**

Printed 24/03/2011 10:16:42

Name of insurer **Friends Life Company Limited**

Total business / subfund **New With Profits Fund**

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	4717	57613	377	n/a	n/a	n/a	37180
120	Conventional endowment with-profits OB savings	169201	704681	61029	n/a	n/a	n/a	390440
125	Conventional endowment with-profits OB target cash	584	6299	97	n/a	n/a	n/a	19914
205	Miscellaneous conventional with-profits	44751	39283	5775	n/a	n/a	n/a	24026
300	Regular premium non-profit WL/EA OB	399976	624397	41587	n/a	n/a	n/a	130750
390	Deferred annuity non-profit	1	24		n/a	n/a	n/a	450
395	Annuity non-profit (PLA)	4	8		n/a	n/a	n/a	112
435	Miscellaneous non-profit	32	106		n/a	n/a	n/a	178



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

**Form 51  
(Sheet 6)**

Printed 24/03/2011 10:16:43

Name of insurer **Friends Life Company Limited**

Total business / subfund **New With Profits Fund**

Financial year ended **31st December 2010**

Units **£000**

**UK Life / Reinsurance ceded external**

Product code number <b>1</b>	Product description <b>2</b>	Number of policyholders / scheme members <b>3</b>	Amount of benefit <b>4</b>	Amount of annual office premiums <b>5</b>	Nominal value of units <b>6</b>	Discounted value of units <b>7</b>	Other liabilities <b>8</b>	Amount of mathematical reserves <b>9</b>
100	Conventional whole life with-profits OB		87		n/a	n/a	n/a	210

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

**Form 51  
(Sheet 7)**

Printed 24/03/2011 10:16:43

Name of insurer **Friends Life Company Limited**

Total business / subfund **New With Profits Fund**

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	3529	113333	383	n/a	n/a	n/a	164443
205	Miscellaneous conventional with-profits	67	1941	228	n/a	n/a	n/a	7276
210	Additional reserves with-profits OB				n/a	n/a	n/a	99231
390	Deferred annuity non-profit	102	530		n/a	n/a	n/a	14796
400	Annuity non-profit (CPA)	13322	29098		n/a	n/a	n/a	511923
435	Miscellaneous non-profit	634	19807		n/a	n/a	n/a	40824

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

**Form 51  
(Sheet 8)**

Printed 24/03/2011 10:16:44

Name of insurer **Friends Life Company Limited**

Total business / subfund **New With Profits Fund**

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
100	Conventional whole life with-profits OB	13	639	11	n/a	n/a	n/a	401
120	Conventional endowment with-profits OB savings	30	409	5	n/a	n/a	n/a	373
205	Miscellaneous conventional with-profits	7	70	1	n/a	n/a	n/a	72
395	Annuity non-profit (PLA)	8	14		n/a	n/a	n/a	174
435	Miscellaneous non-profit	1	29		n/a	n/a	n/a	36

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

**Form 51  
(Sheet 9)**

Printed 24/03/2011 10:16:44

Name of insurer **Friends Life Company Limited**

Total business / subfund **Non Profit Fund One**

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
300	Regular premium non-profit WL/EA OB	549466	1416851	91574	n/a	n/a	n/a	134519
325	Level term assurance	104106	17959937	35358	n/a	n/a	n/a	196220
330	Decreasing term assurance	58410	5912684	13336	n/a	n/a	n/a	45173
340	Accelerated critical illness (guaranteed premiums)	113328	10145567	50887	n/a	n/a	n/a	119702
345	Accelerated critical illness (reviewable premiums)	9094	878656	4819	n/a	n/a	n/a	13116
390	Deferred annuity non-profit	145	98		n/a	n/a	n/a	1603
395	Annuity non-profit (PLA)	828	6255		n/a	n/a	n/a	57905
435	Miscellaneous non-profit	163	475759	28	n/a	n/a	n/a	1135
440	Additional reserves non-profit OB				n/a	n/a	n/a	3774

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

**Form 51  
(Sheet 10)**

Printed 24/03/2011 10:16:45

Name of insurer **Friends Life Company Limited**

Total business / subfund **Non Profit Fund One**

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
300	Regular premium non-profit WL/EA OB		2413	26	n/a	n/a	n/a	640
325	Level term assurance		16016905	11404	n/a	n/a	n/a	154170
330	Decreasing term assurance		5231489	5107	n/a	n/a	n/a	35834
340	Accelerated critical illness (guaranteed premiums)		8027723	21377	n/a	n/a	n/a	78728
345	Accelerated critical illness (reviewable premiums)		695031	1989	n/a	n/a	n/a	9509
435	Miscellaneous non-profit		31		n/a	n/a	n/a	
440	Additional reserves non-profit OB				n/a	n/a	n/a	(12348)

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

**Form 51  
(Sheet 11)**

Printed 24/03/2011 10:16:45

Name of insurer **Friends Life Company Limited**

Total business / subfund **Non Profit Fund Two**

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
300	Regular premium non-profit WL/EA OB	12	31		n/a	n/a	n/a	30
330	Decreasing term assurance	8	3	2	n/a	n/a	n/a	
360	Income protection non-profit (guaranteed premiums)	9996	141467	4521	n/a	n/a	n/a	18013
365	Income protection non-profit (reviewable premiums)	3126	48185	1355	n/a	n/a	n/a	12008
370	Long-term care policy	5137	66588	3712	n/a	n/a	n/a	136475
390	Deferred annuity non-profit	28	608		n/a	n/a	n/a	1291
395	Annuity non-profit (PLA)	729	17287		n/a	n/a	n/a	61480
435	Miscellaneous non-profit	9888	697911	4407	n/a	n/a	n/a	10626
440	Additional reserves non-profit OB				n/a	n/a	n/a	4539

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

**Form 51  
(Sheet 12)**

Printed 24/03/2011 10:16:46

Name of insurer **Friends Life Company Limited**

Total business / subfund **Non Profit Fund Two**

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
360	Income protection non-profit (guaranteed premiums)		110841	2021	n/a	n/a	n/a	14658
365	Income protection non-profit (reviewable premiums)		34069	831	n/a	n/a	n/a	7954
370	Long-term care policy		35717	2672	n/a	n/a	n/a	59076
435	Miscellaneous non-profit		548404	2030	n/a	n/a	n/a	7301

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

**Form 51  
(Sheet 13)**

Printed 24/03/2011 10:16:46

Name of insurer **Friends Life Company Limited**

Total business / subfund **Non Profit Fund Two**

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
300	Regular premium non-profit WL/EA OB	69	42		n/a	n/a	n/a	116
315	Individual deposit administration non-profit	416	6261	15	n/a	n/a	n/a	6261
325	Level term assurance	470	19974	78	n/a	n/a	n/a	765
390	Deferred annuity non-profit	11446	6841	9	n/a	n/a	n/a	116078
400	Annuity non-profit (CPA)	87308	222782		n/a	n/a	n/a	3075816
435	Miscellaneous non-profit	953	9588	25	n/a	n/a	n/a	13061
440	Additional reserves non-profit OB				n/a	n/a	n/a	31241



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

**Form 51  
(Sheet 14)**

Printed 24/03/2011 10:16:47

Name of insurer **Friends Life Company Limited**

Total business / subfund **Non Profit Fund Two**

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
390	Deferred annuity non-profit		6794	9	n/a	n/a	n/a	114026
400	Annuity non-profit (CPA)		222782		n/a	n/a	n/a	3075816
435	Miscellaneous non-profit		291		n/a	n/a	n/a	1332
440	Additional reserves non-profit OB				n/a	n/a	n/a	31200

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

**Form 51  
(Sheet 15)**

Printed 24/03/2011 10:16:47

Name of insurer **Friends Life Company Limited**

Total business / subfund **Non Profit Fund Two**

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
300	Regular premium non-profit WL/EA OB	61	623	16	n/a	n/a	n/a	457
325	Level term assurance	4	168	1	n/a	n/a	n/a	6
330	Decreasing term assurance	3	29		n/a	n/a	n/a	
390	Deferred annuity non-profit	61	121	770	n/a	n/a	n/a	4609
395	Annuity non-profit (PLA)	121	379		n/a	n/a	n/a	5018
435	Miscellaneous non-profit		20909	161	n/a	n/a	n/a	94

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

**Form 52  
(Sheet 1)**

Printed 24/03/2011 10:16:48

Name of insurer **Friends Life Company Limited**

Total business / subfund **Old With Profits Fund**

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	3460	155249		149953	143919	9038	152957
505	Life UWP whole life regular premium	1371	174523	1041	2515	2515	116	2631
510	Life UWP endowment regular premium - savings	120	4543	189	2620	2620	17	2637
515	Life UWP endowment regular premium ? target cash	7371	210020	4177	81975	81975	1087	83062
574	UWP investment only reinsurance		6212		6212	6212		6212
575	Miscellaneous UWP	356	1435	52	1421	1421	163	1584

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

**Form 52  
(Sheet 2)**

Printed 24/03/2011 10:16:48

Name of insurer **Friends Life Company Limited**

Total business / subfund **Old With Profits Fund**

Financial year ended **31st December 2010**

Units **£000**

**UK Life / Reinsurance ceded external**

Product code number <b>1</b>	Product description <b>2</b>	Number of policyholders / scheme members <b>3</b>	Amount of benefit <b>4</b>	Amount of annual office premiums <b>5</b>	Nominal value of units <b>6</b>	Discounted value of units <b>7</b>	Other liabilities <b>8</b>	Amount of mathematical reserves <b>9</b>
505	Life UWP whole life regular premium		9221	36				

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

**Form 52  
(Sheet 3)**

Printed 24/03/2011 10:16:49

Name of insurer **Friends Life Company Limited**

Total business / subfund **Old With Profits Fund**

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	12462	263044	2374	247326	247290	49235	296525
535	Group money purchase pensions UWP	1284	44486	1256	42701	42701	591	43291
555	Group deposit administration with-profits	2196	16554	59	16554	16554	2139	18693
570	Income drawdown UWP	9	6447		6447	6447	2	6449
571	Trustee investment plan UWP	50	7763	9	7763	7759	1	7760
575	Miscellaneous UWP	7	322	4	267	267	2	269
610	Additional reserves UWP						102	102

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

**Form 52  
(Sheet 4)**

Printed 24/03/2011 10:16:49

Name of insurer **Friends Life Company Limited**

Total business / subfund **Old With Profits Fund**

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
525	Individual pensions UWP		25					

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

**Form 52  
(Sheet 5)**

Printed 24/03/2011 10:16:50

Name of insurer **Friends Life Company Limited**

Total business / subfund **Old With Profits Fund**

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
500	Life UWP single premium	10	133		132	132		132
505	Life UWP whole life regular premium	12	4767	17	64	64	3	66
510	Life UWP endowment regular premium - savings	2	171	9	162	162		163
515	Life UWP endowment regular premium ? target cash	41	1765	30	610	610	3	613
555	Group deposit administration with-profits	18	534		534	534	15	549
574	UWP investment only reinsurance		11430		11430	11430		11430

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

**Form 52  
(Sheet 6)**

Printed 24/03/2011 10:16:50

Name of insurer **Friends Life Company Limited**

Total business / subfund **New With Profits Fund**

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	32829	940634		921848	907598	47757	955355
505	Life UWP whole life regular premium	9968	953508	6381	12849	12849	647	13496
510	Life UWP endowment regular premium - savings	574	13883	840	12116	12115	87	12202
515	Life UWP endowment regular premium ? target cash	34608	1179152	25431	449780	449780	6336	456116
574	UWP investment only reinsurance		55479		55479	55479	91	55570
575	Miscellaneous UWP	5347	9908	52	9815	9815	889	10704



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

**Form 52  
(Sheet 7)**

Printed 24/03/2011 10:16:51

Name of insurer **Friends Life Company Limited**

Total business / subfund **New With Profits Fund**

Financial year ended **31st December 2010**

Units **£000**

**UK Life / Reinsurance ceded external**

Product code number <b>1</b>	Product description <b>2</b>	Number of policyholders / scheme members <b>3</b>	Amount of benefit <b>4</b>	Amount of annual office premiums <b>5</b>	Nominal value of units <b>6</b>	Discounted value of units <b>7</b>	Other liabilities <b>8</b>	Amount of mathematical reserves <b>9</b>
505	Life UWP whole life regular premium		19670	74				

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

**Form 52  
(Sheet 8)**

Printed 24/03/2011 10:16:51

Name of insurer **Friends Life Company Limited**

Total business / subfund **New With Profits Fund**

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	38166	1085504	16931	973698	973501	198790	1172290
535	Group money purchase pensions UWP	6695	139790	6409	135964	135964	1814	137778
555	Group deposit administration with-profits	13494	248279	5977	248279	248279	24331	272609
570	Income drawdown UWP	68	21154		21154	21150	6	21156
571	Trustee investment plan UWP	129	15882	9	15879	15853	2	15855
575	Miscellaneous UWP	15	1196	51	1183	1183	1	1184
610	Additional reserves UWP						698	698

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

**Form 52  
(Sheet 9)**

Printed 24/03/2011 10:16:52

Name of insurer **Friends Life Company Limited**

Total business / subfund **New With Profits Fund**

Financial year ended **31st December 2010**

Units **£000**

**UK Pension / Reinsurance ceded external**

Product code number <b>1</b>	Product description <b>2</b>	Number of policyholders / scheme members <b>3</b>	Amount of benefit <b>4</b>	Amount of annual office premiums <b>5</b>	Nominal value of units <b>6</b>	Discounted value of units <b>7</b>	Other liabilities <b>8</b>	Amount of mathematical reserves <b>9</b>
525	Individual pensions UWP		54					

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

**Form 52  
(Sheet 10)**

Printed 24/03/2011 10:16:52

Name of insurer **Friends Life Company Limited**

Total business / subfund **New With Profits Fund**

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
500	Life UWP single premium	125	5477		5450	5432		5432
505	Life UWP whole life regular premium	212	30614	171	909	909	17	926
510	Life UWP endowment regular premium - savings	13	461	29	450	450	2	452
515	Life UWP endowment regular premium ? target cash	164	11514	214	3367	3367	14	3381
555	Group deposit administration with-profits	421	15883	851	15883	15883	908	16791
574	UWP investment only reinsurance		78481		78481	78481		78481

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

**Form 53  
(Sheet 1)**

Printed 24/03/2011 10:16:53

Name of insurer **Friends Life Company Limited**

Total business / subfund **Non Profit Fund One**

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	233455	12766196		12647351	12551890	(1708)	12550182
710	Life property linked whole life regular premium	119472	8800680	78663	676733	676733	8369	685102
715	Life property linked endowment regular premium - savings	5456	280726	11971	252701	252701	2457	255158
720	Life property linked endowment regular premium ? target cash	8107	346958	10483	178464	178464	6103	184567
795	Miscellaneous property linked	12639	11667	8365	11616	11616	83	11699
800	Additional reserves property linked						44789	44789

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

**Form 53  
(Sheet 2)**

Printed 24/03/2011 10:16:53

Name of insurer **Friends Life Company Limited**

Total business / subfund **Non Profit Fund One**

Financial year ended **31st December 2010**

Units **£000**

**UK Life / Reinsurance ceded external**

Product code number <b>1</b>	Product description <b>2</b>	Number of policyholders / scheme members <b>3</b>	Amount of benefit <b>4</b>	Amount of annual office premiums <b>5</b>	Nominal value of units <b>6</b>	Discounted value of units <b>7</b>	Other liabilities <b>8</b>	Amount of mathematical reserves <b>9</b>
710	Life property linked whole life regular premium		176009	659				

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

**Form 53  
(Sheet 3)**

Printed 24/03/2011 10:16:54

Name of insurer **Friends Life Company Limited**

Total business / subfund **Non Profit Fund One**

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
700	Life property linked single premium	70	2757		2731	2731	4	2735
710	Life property linked whole life regular premium	1691	254723	1583	20470	20470	98	20568
715	Life property linked endowment regular premium - savings	100	4085	197	3905	3905	8	3913
720	Life property linked endowment regular premium ? target cash	41	2180	42	823	823	1	824
795	Miscellaneous property linked	398	503	371	502	502	3	505

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

**Form 53  
(Sheet 4)**

Printed 24/03/2011 10:16:54

Name of insurer **Friends Life Company Limited**

Total business / subfund **Non Profit Fund Two**

Financial year ended **31st December 2010**

Units **£000**

**UK Life / Gross**

Product code number <b>1</b>	Product description <b>2</b>	Number of policyholders / scheme members <b>3</b>	Amount of benefit <b>4</b>	Amount of annual office premiums <b>5</b>	Nominal value of units <b>6</b>	Discounted value of units <b>7</b>	Other liabilities <b>8</b>	Amount of mathematical reserves <b>9</b>
795	Miscellaneous property linked	509	6159		13455	13455	1656	15111



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

**Form 53  
(Sheet 5)**

Printed 24/03/2011 10:16:55

Name of insurer **Friends Life Company Limited**

Total business / subfund **Non Profit Fund Two**

Financial year ended **31st December 2010**

Units **£000**

**UK Life / Reinsurance ceded external**

Product code number <b>1</b>	Product description <b>2</b>	Number of policyholders / scheme members <b>3</b>	Amount of benefit <b>4</b>	Amount of annual office premiums <b>5</b>	Nominal value of units <b>6</b>	Discounted value of units <b>7</b>	Other liabilities <b>8</b>	Amount of mathematical reserves <b>9</b>
795	Miscellaneous property linked		3066				751	751

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

**Form 53  
(Sheet 6)**

Printed 24/03/2011 10:16:55

Name of insurer **Friends Life Company Limited**

Total business / subfund **Non Profit Fund Two**

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	213564	8941107	221829	8783511	8691349	10083	8701431
735	Group money purchase pensions property linked	188194	4478946	383372	4470880	4457256	69245	4526501
750	Income drawdown property linked	5807	866386		866386	866386	3480	869866
755	Trustee investment plan	2442	1032631	1636	1209461	1209185	(460)	1208726
760	Small self administered schemes	400	171166	4113	170568	163766	(29)	163738
765	Group managed fund	148	702188		702188	702188		702188
794	Property-linked investment only reinsurance		134184		134184	134184	(17)	134166
800	Additional reserves property linked						10000	10000

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

Name of insurer **Friends Life Company Limited**

Total business / subfund **Non Profit Fund Two**

Financial year ended **31st December 2010**

Units **£000**

**UK Pension / Reinsurance ceded external**

**Form 53  
(Sheet 7)**

Printed 24/03/2011 10:16:56

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		483	4				
735	Group money purchase pensions property linked		586543		586543	586543		586543
755	Trustee investment plan		866251		866251	866251		866251
800	Additional reserves property linked						(1926)	(1926)

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

**Form 53  
(Sheet 8)**

Printed 24/03/2011 10:16:56

Name of insurer **Friends Life Company Limited**

Total business / subfund **Non Profit Fund Two**

Financial year ended **31st December 2010**

Units **£000**

**UK Pension / Reinsurance ceded intra-group**

Product code number <b>1</b>	Product description <b>2</b>	Number of policyholders / scheme members <b>3</b>	Amount of benefit <b>4</b>	Amount of annual office premiums <b>5</b>	Nominal value of units <b>6</b>	Discounted value of units <b>7</b>	Other liabilities <b>8</b>	Amount of mathematical reserves <b>9</b>
725	Individual pensions property linked						26	26

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

**Form 53  
(Sheet 9)**

Printed 24/03/2011 10:16:57

Name of insurer **Friends Life Company Limited**

Total business / subfund **Non Profit Fund Two**

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
710	Life property linked whole life regular premium	4	182	1	182	182		182
715	Life property linked endowment regular premium - savings	2	100		100	100		100

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

**Form 54  
(Sheet 1)**

Printed 24/03/2011 10:16:57

Name of insurer **Friends Life Company Limited**

Total business / subfund **Old With Profits Fund**

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	126	118		2825	2661	114	2775

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

**Form 54  
(Sheet 2)**

Printed 24/03/2011 10:16:58

Name of insurer **Friends Life Company Limited**

Total business / subfund **New With Profits Fund**

Financial year ended **31st December 2010**

Units **£000**

**UK Pension / Gross**

Product code number <b>1</b>	Product description <b>2</b>	Number of policyholders / scheme members <b>3</b>	Amount of benefit <b>4</b>	Amount of annual office premiums <b>5</b>	Nominal value of units <b>6</b>	Discounted value of units <b>7</b>	Other liabilities <b>8</b>	Amount of mathematical reserves <b>9</b>
905	Index linked annuity	606	710		17742	16705	607	17312

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

**Form 54  
(Sheet 3)**

Printed 24/03/2011 10:16:58

Name of insurer **Friends Life Company Limited**

Total business / subfund **Non Profit Fund One**

Financial year ended **31st December 2010**

Units **£000**

**UK Life / Gross**

Product code number <b>1</b>	Product description <b>2</b>	Number of policyholders / scheme members <b>3</b>	Amount of benefit <b>4</b>	Amount of annual office premiums <b>5</b>	Nominal value of units <b>6</b>	Discounted value of units <b>7</b>	Other liabilities <b>8</b>	Amount of mathematical reserves <b>9</b>
905	Index linked annuity	19	2772		65629	61860	176	62036



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

**Form 54  
(Sheet 4)**

Printed 24/03/2011 10:16:59

Name of insurer **Friends Life Company Limited**

Total business / subfund **Non Profit Fund Two**

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
901	Index linked income protection claims in payment		4268		32057	28825		28825
905	Index linked annuity	212	5825		21130	21324	191	21515
910	Miscellaneous index linked	5648	337048	3857	126657	119574	21213	140787

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

**Form 54  
(Sheet 5)**

Printed 24/03/2011 10:16:59

Name of insurer **Friends Life Company Limited**

Total business / subfund **Non Profit Fund Two**

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
901	Index linked income protection claims in payment		1067		6701	7206		7206
910	Miscellaneous index linked		101497	3803	39817	37260		37260

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

**Form 54  
(Sheet 6)**

Printed 24/03/2011 10:17:00

Name of insurer **Friends Life Company Limited**

Total business / subfund **Non Profit Fund Two**

Financial year ended **31st December 2010**

Units **£000**

**UK Life / Reinsurance ceded intra-group**

Product code number <b>1</b>	Product description <b>2</b>	Number of policyholders / scheme members <b>3</b>	Amount of benefit <b>4</b>	Amount of annual office premiums <b>5</b>	Nominal value of units <b>6</b>	Discounted value of units <b>7</b>	Other liabilities <b>8</b>	Amount of mathematical reserves <b>9</b>
901	Index linked income protection claims in payment		104		1279	1212		1212

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

**Form 54  
(Sheet 7)**

Printed 24/03/2011 10:17:00

Name of insurer **Friends Life Company Limited**

Total business / subfund **Non Profit Fund Two**

Financial year ended **31st December 2010**

Units **£000**

**UK Pension / Gross**

Product code number <b>1</b>	Product description <b>2</b>	Number of policyholders / scheme members <b>3</b>	Amount of benefit <b>4</b>	Amount of annual office premiums <b>5</b>	Nominal value of units <b>6</b>	Discounted value of units <b>7</b>	Other liabilities <b>8</b>	Amount of mathematical reserves <b>9</b>
905	Index linked annuity	4471	24749		423543	399081	4280	403361

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

**Form 54  
(Sheet 8)**

Printed 24/03/2011 10:17:01

Name of insurer **Friends Life Company Limited**

Total business / subfund **Non Profit Fund Two**

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		24749		863137	399081	4280	403361

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

**Form 54  
(Sheet 9)**

Printed 24/03/2011 10:17:01

Name of insurer **Friends Life Company Limited**

Total business / subfund **Non Profit Fund Two**

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
901	Index linked income protection claims in payment		110		1016	958		958
905	Index linked annuity	3	35		680	650	2	652
910	Miscellaneous index linked		11725		253	253		253

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

**Form 54  
(Sheet 10)**

Printed 24/03/2011 10:17:01

Name of insurer **Friends Life Company Limited**

Total business / subfund **Non Profit Fund Two**

Financial year ended **31st December 2010**

Units **£000**

**Overseas / 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
901	Index linked income protection claims in payment		27		254	240		240
910	Miscellaneous index linked		2757		63	63		63

**Long-term insurance business: Unit prices for internal linked funds**

**Form 55**

Printed 24/03/2011 10:17:02

Name of insurer **Friends Life Company Limited**

Total business

Financial year ended **31st December 2010**

Units **£000**

Fund name 1	Type of fund 2	Net assets 3	Main series 4	Unit mgmt charge 5	Price at previous valuation date 6	Price at current valuation date 7	Change in price during year 8
Individual Managed	12 - individual pension - balanced managed fund	3906036	Issue 23	1.00	24.0360	26.9180	11.99
Individual Property	17 - individual pension - property	440720	Issue 58	1.00	11.0290	12.6180	14.41
Individual Equity	15 - individual pension - UK equity	1003656	Issue 23	1.00	41.6320	47.0170	12.93
Individual UK Bond	14 - individual pension - other managed fund	225011	Issue 23	1.00	11.4730	12.3290	7.46
Individual Cash	14 - individual pension - other managed fund	599034	Issue 23	1.00	7.9370	7.9080	(0.37)
Individual Global Equity	16 - individual pension - overseas equity	197677	Issue 23	1.00	11.1010	12.8000	15.30
Individual Pacific	16 - individual pension - overseas equity	147633	Issue 23	1.00	12.1170	15.3740	26.88
Individual European	16 - individual pension - overseas equity	197156	Issue 23	1.00	5.8160	6.3450	9.10
Individual Retirement Distribution	14 - individual pension - other managed fund	2311346	Issue 23	1.00	4.3140	4.7750	10.69
Individual Higher Income	15 - individual pension - UK equity	271740	Issue 42	1.00	9.3330	10.5280	12.80
Individual Global Managed	11 - individual pension - stock market managed fund	152203	Issue 33	1.00	3.5440	4.0170	13.35
Individual Reserve	13 - individual pension - defensive managed fund	240236	Issue 65	1.00	1.4840	1.6120	8.63
Framlington Managed Bal	12 - individual pension - balanced managed fund	104266	Issue 12	1.00	2.1950	2.5730	17.22
Individual Global Distribution	16 - individual pension - overseas equity	108670	Issue 04	1.00	1.4750	1.6750	13.56
Individual Retirement 2015	11 - individual pension - stock market managed fund	167459	Issue 65	1.00	1.1700	1.3090	11.88
Individual Retirement 2020	11 - individual pension - stock market managed fund	206804	Issue 65	1.00	1.1270	1.2910	14.55
Individual Retirement 2025	11 - individual pension - stock market managed fund	258757	Issue 65	1.00	1.1330	1.3020	14.92
Individual Retirement 2030	11 - individual pension - stock market managed fund	262487	Issue 65	1.00	1.1330	1.3020	14.92
Individual Retirement 2035	11 - individual pension - stock market managed fund	224661	Issue 65	1.00	1.1300	1.2990	14.96
Individual Retirement 2040	11 - individual pension - stock market managed fund	232019	Issue 65	1.00	1.1260	1.2950	15.01
Hermes World Equity	14 - individual pension - other managed fund	119941	Issue 01	1.00	1.4940	1.7190	15.06
Group Mixed	22 - group managed fund - balanced managed fund	174608	Group Managed Fund	1.00	53.9070	61.5720	14.22
Managed	02 - life - balanced managed fund	936431	Issue 83	1.00	13.9910	15.6370	11.76
Property	07 - life - property	424994	Issue 87	1.00	1.1640	1.2990	11.60
Equity	05 - life - UK equity	125914	Issue 83	1.00	19.7050	22.5470	14.42
Cash	04 - life - other managed fund	141635	Issue 87	1.00	1.1980	1.1930	(0.42)
Distribution	04 - life - other managed fund	5025460	Issue 14	1.00	3.6840	3.8250	3.83
Deferred Distribution	04 - life - other managed fund	3172768	Issue 14	1.00	4.0630	4.4270	8.96
Higher Income	05 - life - UK equity	163800	Issue 83	1.00	26.5770	30.1210	13.33
Reserve	03 - life - defensive managed fund	479897	Issue 87	1.00	1.1230	1.1980	6.68



**Long-term insurance business: Unit prices for internal linked funds**

Name of insurer **Friends Life Company Limited**

Total business

Financial year ended **31st December 2010**

Units **£000**

**Form 55**  
**(continuation sheet)**

Printed 24/03/2011 10:17:02

Fund name <b>1</b>	Type of fund <b>2</b>	Net assets <b>3</b>	Main series <b>4</b>	Unit mgmt charge <b>5</b>	Price at previous valuation date <b>6</b>	Price at current valuation date <b>7</b>	Change in price during year <b>8</b>
Higher Yield Distribution	04 - life - other managed fund	658853	Issue 87	1.00	0.8140	0.8620	5.90
Global Distribution	06 - life - overseas equity	126801	Issue 12	1.00	1.4670	1.6250	10.77
Active Protector 80	04 - life - other managed fund	133310	Issue 87	1.00	1.2040	1.2330	2.41
Extra income	04 - life - other managed fund	192261	Issue 01	1.00	0.9880	1.0560	6.88
Monthly Distribution	04 - life - other managed fund	210827	Issue 01	1.00	0.9530	0.9960	4.51

**Long-term insurance business: index linked business**

**Form 56**

Printed 24/03/2011 10:17:03

Name of insurer **Friends Life Company Limited**

Total business

Financial year ended **31st December 2010**

Units **£000**

		<b>Value of assets</b>	<b>Mean term</b>
		<b>1</b>	<b>2</b>
<b>Analysis of assets</b>			
Approved variable interest securities	<b>11</b>	157981	16.76
Other variable interest securities	<b>12</b>	48849	11.68
Approved fixed interest securities	<b>13</b>		
Other fixed interest securities	<b>14</b>		
Cash and deposits	<b>15</b>		
Equity index derivatives	<b>16</b>		
Inflation swaps	<b>17</b>		
Other assets	<b>18</b>		
Variation margin	<b>19</b>		
<b>Total (11 to 19)</b>	<b>20</b>	206830	
<b>Credit rating of other fixed interest and other variable interest securities</b>			
AAA/Aaa	<b>31</b>		
AA/Aa	<b>32</b>		
A/A	<b>33</b>		
BBB/Baa	<b>34</b>		
BB/Ba	<b>35</b>		
B/B	<b>36</b>		
CCC/Caa	<b>37</b>		
Other (including unrated)	<b>38</b>		
<b>Total other fixed interest and other variable interest securities</b>	<b>39</b>		

**Long-term insurance business - analysis of valuation interest rate**

**Form 57  
(Sheet 1)**

Name of insurer **Friends Life Company Limited**

Printed 24/03/2011 10:17:04

Total business / subfund **Old With Profits Fund**

Financial year ended **31st December 2010**

Units **£000**

Product Group <b>1</b>	Net mathematical reserves <b>2</b>	Net valuation interest rate <b>3</b>	Gross valuation interest rate <b>4</b>	Risk adjusted yield on matching assets <b>5</b>
UK Pens NP Form 51	77337		3.00	3.29
UK Life WP Form 51	153213	3.00		5.09
UK Pens WP Form 51	65533		4.00	5.09
UK Life WP Form 52	292910	3.00		5.08
UK PBF WP Form 52	149615		3.00	4.06
UK PBF WP Form 52 Guarenteed 4%	292287		4.00	4.06
Misc	39250			3.96
<b>TOTAL</b>	<b>1070145</b>	<b>n/a</b>	<b>n/a</b>	<b>n/a</b>

**Long-term insurance business - analysis of valuation interest rate**

**Form 57  
(Sheet 2)**

Name of insurer **Friends Life Company Limited**

Printed 24/03/2011 10:17:04

Total business / subfund **New With Profits Fund**

Financial year ended **31st December 2010**

Units **£000**

Product Group <b>1</b>	Net mathematical reserves <b>2</b>	Net valuation interest rate <b>3</b>	Gross valuation interest rate <b>4</b>	Risk adjusted yield on matching assets <b>5</b>
UK Pens NP Form 51	567543		3.00	3.29
UK Life WP Form 51	483466	3.00		5.09
UK Pens WP Form 51	270950		4.00	5.09
UK Life WP Form 52	1492738	3.00		5.08
UK PBF WP Form 52	825791		3.00	4.06
UK PBF WP Form 52 Guarenteed 4%	800776		4.00	4.06
Misc	249632			4.09
<b>TOTAL</b>	<b>4690896</b>	<b>n/a</b>	<b>n/a</b>	<b>n/a</b>

**Long-term insurance business - analysis of valuation interest rate**

**Form 57  
(Sheet 3)**

Name of insurer **Friends Life Company Limited**

Printed 24/03/2011 10:17:05

Total business / subfund **Non Profit Fund One**

Financial year ended **31st December 2010**

Units **£000**

Product Group <b>1</b>	Net mathematical reserves <b>2</b>	Net valuation interest rate <b>3</b>	Gross valuation interest rate <b>4</b>	Risk adjusted yield on matching assets <b>5</b>
UK L&GA NP Form 51	230161	2.05		2.81
UK L&GA NP Form 51 Additional Reserves	16032	2.65		3.66
UK L&GA NP Form 51 SLAS GAF Transfer	48913		3.00	3.29
UK L&GA NP Form 53 Additional Reserves	44789	2.65		3.66
Misc	27103			3.57
<b>TOTAL</b>	<b>366998</b>	<b>n/a</b>	<b>n/a</b>	<b>n/a</b>

**Long-term insurance business - analysis of valuation interest rate**

**Form 57  
(Sheet 4)**

Name of insurer **Friends Life Company Limited**

Printed 24/03/2011 10:17:05

Total business / subfund **Non Profit Fund Two**

Financial year ended **31st December 2010**

Units **£000**

Product Group <b>1</b>	Net mathematical reserves <b>2</b>	Net valuation interest rate <b>3</b>	Gross valuation interest rate <b>4</b>	Risk adjusted yield on matching assets <b>5</b>
UK L&GA NP Form 51 Additional Reserves	4539		3.30	3.66
UK L&GA NP Form 51 PHI	150804		4.40	4.74
UK Pens NP Form 51	14485		2.55	2.81
UK Pens NP Form 53	82275		3.85	4.13
UK L&GA NP Form 54 PHI	21404		4.40	4.74
Misc	29627			3.40
<b>TOTAL</b>	<b>303134</b>	<b>n/a</b>	<b>n/a</b>	<b>n/a</b>

**Long-term insurance business: distribution of surplus**

**Form 58**

Printed 24/03/2011 10:17:06

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

	Financial year <b>1</b>	Previous year <b>2</b>
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**Valuation result**

Fund carried forward	<b>11</b>	35143612	34455608
Bonus payments in anticipation of a surplus	<b>12</b>	106977	111569
Transfer to non-technical account	<b>13</b>	1002561	14761
Transfer to other funds / parts of funds	<b>14</b>		
Subtotal (11 to 14)	<b>15</b>	36253150	34581938
Mathematical reserves	<b>21</b>	34960249	33634331
Surplus including contingency and other reserves held towards the capital requirements (deficiency) (15-21)	<b>29</b>	1292901	947607

**Composition of surplus**

Balance brought forward	<b>31</b>	800000	600000
Transfer from non-technical account	<b>32</b>		
Transfer from other funds / parts of fund	<b>33</b>		
Surplus arising since the last valuation	<b>34</b>	492901	347607
Total	<b>39</b>	1292901	947607

**Distribution of surplus**

Bonus paid in anticipation of a surplus	<b>41</b>	106977	111569
Cash bonuses	<b>42</b>	18	20
Reversionary bonuses	<b>43</b>	162845	21257
Other bonuses	<b>44</b>		
Premium reductions	<b>45</b>		
Total allocated to policyholders (41 to 45)	<b>46</b>	269840	132846
Net transfer out of fund / part of fund	<b>47</b>	1002561	14761
Total distributed surplus (46+47)	<b>48</b>	1272401	147607
Surplus carried forward	<b>49</b>	20500	800000
Total (48+49)	<b>59</b>	1292901	947607

**Percentage of distributed surplus allocated to policyholders**

Current year	<b>61</b>		
Current year - 1	<b>62</b>		
Current year - 2	<b>63</b>		
Current year - 3	<b>64</b>		

**Long-term insurance business: distribution of surplus**

**Form 58**

Printed 24/03/2011 10:17:06

Name of insurer **Friends Life Company Limited**  
 Total business / subfund **Old With Profits Fund**  
 Financial year ended **31st December 2010**  
 Units **£000**

	Financial year <b>1</b>	Previous year <b>2</b>
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**Valuation result**

Fund carried forward	<b>11</b>	1072807	920721
Bonus payments in anticipation of a surplus	<b>12</b>	13989	22572
Transfer to non-technical account	<b>13</b>	17712	2964
Transfer to other funds / parts of funds	<b>14</b>		
Subtotal (11 to 14)	<b>15</b>	1104508	946257
Mathematical reserves	<b>21</b>	927386	916614
Surplus including contingency and other reserves held towards the capital requirements (deficiency) (15-21)	<b>29</b>	177122	29643

**Composition of surplus**

Balance brought forward	<b>31</b>		
Transfer from non-technical account	<b>32</b>		
Transfer from other funds / parts of fund	<b>33</b>		
Surplus arising since the last valuation	<b>34</b>	177122	29643
Total	<b>39</b>	177122	29643

**Distribution of surplus**

Bonus paid in anticipation of a surplus	<b>41</b>	13989	22572
Cash bonuses	<b>42</b>		
Reversionary bonuses	<b>43</b>	145421	4107
Other bonuses	<b>44</b>		
Premium reductions	<b>45</b>		
Total allocated to policyholders (41 to 45)	<b>46</b>	159410	26679
Net transfer out of fund / part of fund	<b>47</b>	17712	2964
Total distributed surplus (46+47)	<b>48</b>	177122	29643
Surplus carried forward	<b>49</b>		
Total (48+49)	<b>59</b>	177122	29643

**Percentage of distributed surplus allocated to policyholders**

Current year	<b>61</b>	90.00	90.00
Current year - 1	<b>62</b>	90.00	90.00
Current year - 2	<b>63</b>	90.00	90.00
Current year - 3	<b>64</b>	90.00	90.00



**Long-term insurance business: distribution of surplus**

**Form 58**

Printed 24/03/2011 10:17:07

Name of insurer **Friends Life Company Limited**  
 Total business / subfund **New With Profits Fund**  
 Financial year ended **31st December 2010**  
 Units **£000**

	Financial year <b>1</b>	Previous year <b>2</b>
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**Valuation result**

Fund carried forward	<b>11</b>	4707619	4733631
Bonus payments in anticipation of a surplus	<b>12</b>	92988	88997
Transfer to non-technical account	<b>13</b>	12270	11797
Transfer to other funds / parts of funds	<b>14</b>		
Subtotal (11 to 14)	<b>15</b>	4812877	4834425
Mathematical reserves	<b>21</b>	4690177	4716461
Surplus including contingency and other reserves held towards the capital requirements (deficiency) (15-21)	<b>29</b>	122700	117964

**Composition of surplus**

Balance brought forward	<b>31</b>		
Transfer from non-technical account	<b>32</b>		
Transfer from other funds / parts of fund	<b>33</b>		
Surplus arising since the last valuation	<b>34</b>	122700	117964
Total	<b>39</b>	122700	117964

**Distribution of surplus**

Bonus paid in anticipation of a surplus	<b>41</b>	92988	88997
Cash bonuses	<b>42</b>	18	20
Reversionary bonuses	<b>43</b>	17424	17150
Other bonuses	<b>44</b>		
Premium reductions	<b>45</b>		
Total allocated to policyholders (41 to 45)	<b>46</b>	110430	106167
Net transfer out of fund / part of fund	<b>47</b>	12270	11797
Total distributed surplus (46+47)	<b>48</b>	122700	117964
Surplus carried forward	<b>49</b>		
Total (48+49)	<b>59</b>	122700	117964

**Percentage of distributed surplus allocated to policyholders**

Current year	<b>61</b>	90.00	90.00
Current year - 1	<b>62</b>	90.00	90.00
Current year - 2	<b>63</b>	90.00	90.00
Current year - 3	<b>64</b>	90.00	90.00

**Long-term insurance business: distribution of surplus**

**Form 58**

Printed 24/03/2011 10:17:08

Name of insurer **Friends Life Company Limited**  
 Total business / subfund **Non Profit Fund One**  
 Financial year ended **31st December 2010**  
 Units **£000**

	Financial year <b>1</b>	Previous year <b>2</b>
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**Valuation result**

Fund carried forward	<b>11</b>	14149192	14230440
Bonus payments in anticipation of a surplus	<b>12</b>		
Transfer to non-technical account	<b>13</b>	972579	
Transfer to other funds / parts of funds	<b>14</b>		
Subtotal (11 to 14)	<b>15</b>	15121771	14230440
Mathematical reserves	<b>21</b>	14128692	13430440
Surplus including contingency and other reserves held towards the capital requirements (deficiency) (15-21)	<b>29</b>	993079	800000

**Composition of surplus**

Balance brought forward	<b>31</b>	800000	600000
Transfer from non-technical account	<b>32</b>		
Transfer from other funds / parts of fund	<b>33</b>		
Surplus arising since the last valuation	<b>34</b>	193079	200000
Total	<b>39</b>	993079	800000

**Distribution of surplus**

Bonus paid in anticipation of a surplus	<b>41</b>		
Cash bonuses	<b>42</b>		
Reversionary bonuses	<b>43</b>		
Other bonuses	<b>44</b>		
Premium reductions	<b>45</b>		
Total allocated to policyholders (41 to 45)	<b>46</b>		
Net transfer out of fund / part of fund	<b>47</b>	972579	
Total distributed surplus (46+47)	<b>48</b>	972579	
Surplus carried forward	<b>49</b>	20500	800000
Total (48+49)	<b>59</b>	993079	800000

**Percentage of distributed surplus allocated to policyholders**

Current year	<b>61</b>		
Current year - 1	<b>62</b>		
Current year - 2	<b>63</b>		
Current year - 3	<b>64</b>		

**Long-term insurance business: distribution of surplus**

**Form 58**

Printed 24/03/2011 10:17:08

Name of insurer **Friends Life Company Limited**  
 Total business / subfund **Non Profit Fund Two**  
 Financial year ended **31st December 2010**  
 Units **£000**

	Financial year <b>1</b>	Previous year <b>2</b>
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**Valuation result**

Fund carried forward	<b>11</b>	15213994	14570816
Bonus payments in anticipation of a surplus	<b>12</b>		
Transfer to non-technical account	<b>13</b>		
Transfer to other funds / parts of funds	<b>14</b>		
Subtotal (11 to 14)	<b>15</b>	15213994	14570816
Mathematical reserves	<b>21</b>	15213994	14570816
Surplus including contingency and other reserves held towards the capital requirements (deficiency) (15-21)	<b>29</b>		

**Composition of surplus**

Balance brought forward	<b>31</b>		
Transfer from non-technical account	<b>32</b>		
Transfer from other funds / parts of fund	<b>33</b>		
Surplus arising since the last valuation	<b>34</b>		
Total	<b>39</b>		

**Distribution of surplus**

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

**Percentage of distributed surplus allocated to policyholders**

Current year	<b>61</b>		
Current year - 1	<b>62</b>		
Current year - 2	<b>63</b>		
Current year - 3	<b>64</b>		

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

**Form 59A**

Printed 24/03/2011 10:17:09

Name of insurer **Friends Life Company Limited**

Original insurer **Friends Life Company 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	7503	1501		UWP	N	7503
Endowment assurance	15	n/a	n/a	n/a	n/a	n/a	n/a
Endowment assurance	20	n/a	n/a	n/a	n/a	n/a	n/a
Endowment assurance	25	n/a	n/a	n/a	n/a	n/a	n/a
Regular premium pension	5	15279	2546		UWP	N	15279
Regular premium pension	10	36569	9481		UWP	N	36569
Regular premium pension	15	n/a	n/a	n/a	n/a	n/a	n/a
Regular premium pension	20	n/a	n/a	n/a	n/a	n/a	n/a
Single premium pension	5	13571	2262		UWP	N	13571
Single premium pension	10	17573	4556		UWP	N	17573
Single premium pension	15	n/a	n/a	n/a	n/a	n/a	n/a
Single premium pension	20	n/a	n/a	n/a	n/a	n/a	n/a

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

**Form 59A**

Printed 24/03/2011 10:17:10

Name of insurer **Friends Life Company Limited**

Original insurer **Friends AELLAS Limited (formerly AXA Equity & Law)**

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	12578	2903		UWP	N	12578
Endowment assurance	20	21845	6242		UWP	N	21845
Endowment assurance	25	34695	9913		UWP	N	34695
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	52516	11766		UWP	N	52516
Regular premium pension	20	93656	18731		UWP	N	93656
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	21944	4917		UWP	N	21944
Single premium pension	20	37874	7575		UWP	N	37874

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

**Form 59B**

Printed 24/03/2011 10:17:10

Name of insurer **Friends Life Company Limited**

Original insurer **Friends Life Company 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	5636	512		UWP	Y	11250
Endowment assurance	15	n/a	n/a	n/a	n/a	n/a	n/a
Endowment assurance	20	n/a	n/a	n/a	n/a	n/a	n/a
With-profits bond	2	9595			UWP	Y	10534
With-profits bond	3	10104			UWP	Y	10856
With-profits bond	5	11200			UWP	Y	11312
With-profits bond	10	12169		640	UWP	Y	12938
Single premium pension	2	10513	111		UWP	Y	11442
Single premium pension	3	10965	257		UWP	Y	12314
Single premium pension	5	11912	603		UWP	Y	13571
Single premium pension	10	14328	1774		UWP	Y	16634

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

**Form 59B**

Printed 24/03/2011 10:17:11

Name of insurer **Friends Life Company Limited**

Original insurer **Friends AELLAS Limited (formerly AXA Equity & Law)**

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	10672	1628		UWP	Y	11758
Endowment assurance	20	19600	4751		UWP	Y	20788
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 10:17:12

Name of insurer **Friends Life Company 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%	20828	20828			
Classes I (other), II and IX	12	0.1%	86544	13014	0.50	43	
Classes I (other), II and IX	13	0.15%	3183489	327770		2388	1611
Classes I (other), II and IX	14	0.3%	36661459	9828984		54992	42056
Classes III, VII and VIII	15	0.3%	9471275	9295311	0.98	27886	30407
<b>Total</b>	<b>16</b>		<b>49423595</b>	<b>19485907</b>		<b>85309</b>	<b>74112</b>

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

Class IV, supplementary classes 1 and 2 and life protection reinsurance	21					3870	4381
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**Insurance expense risk capital component**

Life protection and permanent health reinsurance	31	0%					
Classes I (other), II and IX	32	1%	9083862	8739430	0.96	87394	83767
Classes III, VII and VIII (investment risk)	33	1%	1249915	1233525	0.99	12335	11618
Classes III, VII and VIII (expenses fixed 5 yrs +)	34	1%	1589681	1589681	1.00	15897	14218
Classes III, VII and VIII (other)	35	25%				37180	21223
Class IV (other)	36	1%	341948	211981	0.85	2907	3194
Class V	37	1%					
Class VI	38	1%					
<b>Total</b>	<b>39</b>					<b>155713</b>	<b>134020</b>

**Insurance market risk capital component**

Life protection and permanent health reinsurance	41	0%	80	80			
Classes I (other), II and IX	42	3%	9083862	8739430	0.96	262183	251301
Classes III, VII and VIII (investment risk)	43	3%	1249915	1233525	0.99	37006	34855
Classes III, VII and VIII (expenses fixed 5 yrs +)	44	0%	1589681	1589681			
Classes III, VII and VIII (other)	45	0%	28336863	26884069			
Class IV (other)	46	3%	341948	211981	0.85	8720	9583
Class V	47	0%					
Class VI	48	3%					
<b>Total</b>	<b>49</b>		<b>40602349</b>	<b>38658766</b>		<b>307909</b>	<b>295739</b>

<b>Long term insurance capital requirement</b>	<b>51</b>					<b>552801</b>	<b>508252</b>
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Name of Insurer **Friends Life Company Limited**

Financial year ended **31 December 2010**

## **NOTES TO THE RETURN**

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

The Financial Services Authority (FSA), on application of the firm, made a direction effective November 2007 under section 148 of the Financial Services and Markets Act 2000 (the Act). The effect of this direction is stated in notes 1322 and 1901.

The FSA, on the application of the firm, made a direction in October 2008, under section 148 of the Act. The effect of the direction was to allow the firm to:

- (i) take full credit when calculating its mathematical reserves in accordance with INSPRU 1.2 for its reinsurance with the intra-group Insurance Special Purpose Vehicle (ISPV), Friends Annuities Limited (formerly AXA Annuity Company Limited) (FAL), in respect of the In-Force Intra-Group Reassurance Agreement dated 18 December 2007 (as amended), the New Business Intra-Group Reassurance Agreement dated 18 December 2007 (as amended) and, from the date on which it takes effect, the further In-Force Intra- Group Reassurance Agreement; and
- (ii) to allow the reinsurance debts owed to the firm by the ISPV to be admissible.

The FSA, on the application of the firm, made a direction under section 148 of the Act 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.

### **\*0204\* - Distribution of the inherited estate and interfund transfer**

#### *Distribution of the inherited estate*

As set out in the scheme governing the financial reorganisation of Friends Life Company Limited (formerly AXA Sun Life Plc) in 2001 (the "Scheme") a five year test has been performed at 31 December 2010 to establish whether part of the attributed inherited estate held within the non-profit funds of the Company can be transferred to the shareholders fund.

Following the results of the five year test and in accordance with the Scheme the Company's directors have declared that an amount of the reattributed inherited estate of £1,010.0m is available for transfer from the long term fund to the shareholder fund as at the end of 2010. The available amount is comprised of £842.6m of financial assets and £167.4m of loans to group holding companies. £37.4m of the group loans transferred are in excess of counterparty limits, giving a net transfer value of £972.6m.

The directors have declared that a further amount may be transferred to the shareholders fund of the Company in future years up until the end of 2015. These amounts will only be transferred if certain other tests within the Scheme are passed. The most onerous of these tests is the ability of the Company's long term fund to continue to cover its mathematical reserves with admissible assets. These tests will be applied annually and further transfers made accordingly.

In addition to the transfer of the inherited estate the Scheme requires the five year test at 31 December 2010 to determine whether there are excess assets in the Company's Old With Profits Fund. As a result of the five year test it has been determined that a special bonus of £157.0m will be paid to these policyholders of which the shareholder will receive a 10% share in line with the normal approach of apportioning bonus payments to with-profits policyholders.

Name of Insurer **Friends Life Company Limited**

Financial year ended **31 December 2010**

## **NOTES TO THE RETURN**

### *Support arrangements and interfund transfer*

The Scheme also details the arrangements under which assets from the inherited estate, attributed to the shareholder through the reorganisation, may be transferred on a temporary or permanent basis to the with-profits funds as required to support the capital requirements of these funds as determined under the Scheme.

These arrangements continue to exist subsequent to the declaration of the amount of the inherited estate available for transfer to the shareholder as noted above.

The Directors have agreed that an amount capped at £406.0m will be retained to provide support under this part of the Scheme (“the Support Arrangement”). This amount will be retained in the shareholder's fund to the extent that it is not available in the non-profit funds.

In the case of a temporary transfer to with-profits funds being required, assets and related investment income would remain attributable to the shareholder. They would be returned when they are no longer required to support the capital requirements of the with-profits funds, under the tests set out in the Scheme.

If all or part of the assets transferred are unlikely to be returned in the foreseeable future (taking into consideration the duration of the in force with-profits policies), then the relevant part of the transfer would be designated permanent. Only a permanent transfer to the with-profits funds would result in a charge against the non-profit fund.

As at 31 December 2010 the transfer to the with-profits funds has a nil value. Under the rules of the Scheme an annual test (‘the Test’) must be performed at least once in a 12 month period and may result in an additional transfer. The completion of the Test, based on an effective date of 1 January 2011, may lead to a transfer, although it is not practicable at this time to quantify the size of any possible transfer. Any such transfer is not expected to be permanent.

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

	<b>2010</b>	2009
	<b>£000</b>	£000
Grand total of admissible assets after deduction of market risk and counterparty limits – other than long term business (F13 OTLT L89)	<b>1,289,531</b>	268,383
Grand total of admissible assets after deduction of market risk and counterparty limits – long term business (F13 LT L89)	<b>37,838,928</b>	36,511,524
Mathematical reserves, after distribution of surplus (F14 L11)	<b>(35,123,094)</b>	(33,655,588)
Cash bonuses which had not been paid to policyholders prior to end of the financial year (F14 L12)	<b>(18)</b>	(20)
Total other insurance and non-insurance liabilities (F14 L49)	<b>(870,483)</b>	(581,651)
Total liabilities – other than long term business (F15 L69)	<b>(149,691)</b>	(138,517)
Total capital resources after deductions (F3 L79)	<b>2,985,173</b>	2,404,131

Name of Insurer **Friends Life Company Limited**

Financial year ended **31 December 2010**

## NOTES TO THE RETURN

### **\*0306\* - Reinsurance arrangement contributing to Form 3 Line 92**

Friends Life Assurance Society Limited (formerly Sun Life Assurance Society plc) (FLAS) has provided new business financing in respect of business reinsured from FLAS to the Company. Although the financing is in connection with reinsurance accepted, with the agreement of the FSA the relevant amount, reflecting the financing element of this arrangement, has been shown in line 92 (Financial Reinsurance – ceded) for clarity.

As at the valuation date:

- No allowance is made for this arrangement in the mathematical reserves at the valuation date as repayments are contingent on future profits of the Company. Thus the reinsurance offset (i.e. the amount of the difference between the mathematical reserves at the valuation date were this arrangement to be ignored and the amount of the mathematical reserves after deducting the reserves reinsured) was zero.
- The amount of the Company's contingent liability 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.

### **\*0308\* - Contingent loan contributing to Form 3 Line 94**

The Company has an outstanding contingent loan provided by Friends ASLH Limited (formerly AXA Sun Life Holdings plc) (ASLH), to be repaid out of surpluses emerging on business transferred in from Friends SLUA Limited (formerly Sun Life Unit Assurance Limited) (SLUA), Friends SLPM Limited (formerly Sun Life Pensions Management Limited) (SLPM) and Friends PPPLTC Limited (formerly PPP lifetime care plc) (PPPLTC) in 2008. This arrangement is reported in line 94 (Outstanding contingent loans). As at the valuation date the amount still to be repaid was £87.8m. The commutation value (the amount payable to ASLH to terminate the arrangement) was the same amount. It is expected that the outstanding loan will be repaid in full in the course of 2011.

### **\*0310\* - Valuation differences**

The amounts included at line 14 on Form 3 are as follows:

	<b>2010</b>	2009
	<b>£000</b>	£000
Difference between mathematical and realistic reserves	<b>1,275,291</b>	794,591
Differences arising on the valuation of provisions, deferred income and reserves arising from the implementation of FRS 26	<b>208,759</b>	261,991
Valuation differences on tax	<b>64,586</b>	-
Amount due under reinsurance contract with FLAS (Note 0306)	<b>61,233</b>	78,054
Contingent loan (Note 0308)	<b>87,799</b>	156,859
Valuation differences on liabilities (Note 1405)	<b>1,697,668</b>	1,291,495
Valuation difference on AXA Asia Pacific Holding NPV	-	(5,413)
	<b>1,697,668</b>	1,286,082

Name of Insurer **Friends Life Company Limited**

Financial year ended **31 December 2010**

## **NOTES TO THE RETURN**

The reduction in the valuation of equity holding in AXA Asia Pacific Holdings NPV reflected the amount recoverable under terms of an agreement giving pre-emptive rights to AXA SA. The holding was sold during 2010.

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

	<b>2010</b>	2009
	<b>£000</b>	£000
Profit and loss account and other reserves brought forward	<b>2,848,768</b>	2,542,557
Profit retained for the financial year (F16 L59)	<b>419,360</b>	26,921
Profits recognised in the statutory accounts under the modified statutory basis retained in the long term fund for FSA reporting	<b>165,730</b>	294,051
Surplus arising in the long term fund transferred to other than long term fund for FSA reporting (F40 L26)	<b>(1,002,561)</b>	(14,761)
Profit and loss account and other reserves carried forward (F3 L12)	<b>2,431,297</b>	2,848,768

Profits retained for the 2010 financial year included £972.6m transferred in from the long term fund on 31 December 2010 as discussed in note 0204.

### **\*1104\* - Description of any amounts that are discounted**

Provisions held in line 51 are discounted where they are in respect of claims in payment that are calculated using annuity factors.

### **\*1301\***

**&**

### **\*1308\* - Aggregate value of assets**

	<b>2010</b>	2009
	<b>£000</b>	£000
The aggregate value of:-		
(i) Unlisted investments	<b>444,319</b>	309,457
(ii) Investments which are not readily realisable	<b>21,483</b>	17,137
(iii) Units in collective investment schemes that are not schemes falling within the UCITS Directive	<b>44,489</b>	52,588

### **\*1304\***

**&**

### **\*1310\*- Amounts set off**

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

Name of Insurer **Friends Life Company Limited**

Financial year ended **31 December 2010**

## NOTES TO THE RETURN

**\*1305\***

**&**

**\*1319\* - Maximum counterparty limits**

Under the Insurer's Investment Guidelines, the maximum exposure of unit linked funds ('funds') to a single counterparty for all investment types vary depending on the individual fund. If any counterparty limits are greater than allowed under the 'permitted links' rules then the latter must apply.

In respect of the non unit linked funds ('portfolios'), 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%	
BBB+	1.0%	1.0%	1.0%	
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

Name of Insurer **Friends Life Company Limited**

Financial year ended **31 December 2010**

## **NOTES TO THE RETURN**

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.

Management of cash on behalf of the portfolios and the funds 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. Investment in corporate institutions is not permitted in the variable NAV fund.

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 Company but subject to an overall limit of 0.5% of the market value of the sum of all the individual portfolios within the Company.

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 Company 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 Company. 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\***

**&**

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

At the year end, there were no exposures in excess of 5% of the sum of the Insurer's base capital resources requirement and Insurer's long term insurance liabilities, excluding property linked liabilities and net of reinsurance ceded after assets in excess of counterparty limits have been deducted.

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

The aggregate value of hybrid securities included at line 46 and 48 is £296.9m (2009: £369.3m).

Name of Insurer **Friends Life Company Limited**

Financial year ended **31 December 2010**

## NOTES TO THE RETURN

### **\*1313\* - Aggregate value of certain fully secured rights**

The aggregate value of fully secured rights on 31 December 2010 was £734.8m (2009: £79.1m).

### **\*1318\* - Other asset adjustments**

The amounts included at line 101 on Form 13 are as follows:

	<b>Other than Long Term Fund</b>		<b>Long Term Fund</b>	
	<b>2010</b>	2009	<b>2010</b>	2009
	<b>£000</b>	£000	<b>£000</b>	£000
Gross up of liabilities within the internal linked funds	-	-	<b>(147,312)</b>	(91,022)
Other gross ups	<b>(4,556)</b>	-	<b>(404,257)</b>	(231,709)
	<b>(4,556)</b>	-	<b>(551,569)</b>	(322,731)

### **\*1321\* - Allocation of Assets**

Non Profit invested assets are allocated to the correct fund at source. With Profits invested assets are allocated to the With Profits fund however notionally allocated between the Old With Profits and New With Profits sub-funds. This allocation is in accordance with the Scheme Document approved by the High Court in December 2000.

The apportionment of current assets and current liabilities between subfunds is also notional, rather than being allocated to the subfund in which a transaction first gave rise to the asset or liability.

All allocations are carried out by a method which preserves the correct total value of the net assets of each subfund.

### **\*1322\* - Direction modifying the Accounts and Statement Rules**

The FSA issued to the firm, in November 2007, a direction under section 148 of the Act. The effect of the direction is to allow the firm to include assets available to support the New With Profits Funds in its realistic balance sheet (at line 27 of Form 19), in accordance with the firm's Reorganisation Scheme. Those assets are comprised of the amount of £143.4m which is included at line 89 and the amount £nil which is included at line 92 of this form.

Following the five year test performed as at 31 December 2010 consistent with FLC 2000 Court Scheme, the FLC Board subsequently approved a revised support arrangement of up to £406m conditional upon support being required by the Scheme. The shareholder's fund provides support to the extent that the Non Profits Fund is not able to meet support requirements up to £406m. In accordance with the current direction we have only shown the support assets from Non Profit Fund 1 as being available to support the New With Profits Fund.

Name of Insurer **Friends Life Company Limited**

Financial year ended **31 December 2010**

## **NOTES TO THE RETURN**

**\*1401\***

**&**

**\*1501\*- Provision for reasonably foreseeable adverse variations**

The Insurer 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 Insurer 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\***

**&**

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

a) Charges on assets

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

b) Provision for capital gains tax

A capital gains tax liability of £27.2m (2009: £5.4m) would arise if the Insurer was to dispose of all its non unit linked assets. This liability has been included within Form 14 Line 21.

Current tax of £240.9m (2009: £164.8m) would arise if the Insurer disposed of its unit linked assets. No explicit provision is made for this taxation because it will be borne by the unit linked funds and the mathematical reserves are sufficient to cover both liabilities to policyholder and deferred tax on unit linked assets.

A credit of £23.6m (2009: £nil) has been made in unit pricing for the value of tax losses carried within the unit linked funds; this value is included within long term Form 13 Line 59.

c) Contingent liabilities

On 27 December 2007 the Company issued £300m of contingent loan notes at 5.7%, which were purchased by ASLH (Note 0308). The repayment and interest is contingent on profits arising on the business transferred under the Part VII scheme from SLUA, SLPM and PPPLTC from 1 January 2008. During the year a repayment of £77.0m (2009: £62.0m) including interest was made. The remaining contingent loan balance at the end of the year was £87.8m (2009: £156.9m). It is expected that this outstanding loan will be repaid in full in the course of 2011.

d) Guarantees, indemnities or other contractual commitments

The Company 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 Company'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 Company is party to. Any liability arising from the indemnity would be met with other than long term fund assets.



Name of Insurer **Friends Life Company Limited**

Financial year ended **31 December 2010**

## NOTES TO THE RETURN

### 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 as the proposed levies for insurance firms in 2011 are not significant.

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 amount included at line 74 of Form 14 is as follows:

	<b>2010</b>	2009
	<b>£000</b>	£000
Gross up of liabilities within the internal linked funds	<b>(147,312)</b>	(91,022)
Other gross ups	<b>(404,257)</b>	(231,709)
Valuation differences (note 0310)	<b>1,697,668</b>	1,291,495
	<b>1,146,099</b>	968,794

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

The value of non-linked assets in the Old With Profits Fund increased during the year by £161.8m (2009: £14.8m decrease). For the New With Profits Fund there was an increase during the year of £101.3m (2009: £7.8m increase).

### **\*1507\* - Other liability adjustments**

The amount included at line 83 of Form 15 is as follows:

	<b>2010</b>	2009
	<b>£000</b>	£000
Other gross ups	<b>(4,556)</b>	-

### **\*1601\***

**&**

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

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

Name of Insurer **Friends Life Company Limited**

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## NOTES TO THE RETURN

### **\*1603\* - Other charges**

The amount included at line 21 relates to:

	<b>2010</b>	2009
	<b>£000</b>	£000
Increase in provisions for bad debt	<b>(270)</b>	(359)

### **\*1700\* - Submission of blank form**

The Insurer 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.

### **\*1701\* - Variation margin**

The excess variation margin (unsettled at the balance sheet date) was £1.3m 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 £1,021.1m (2009: £1,016.3m). The amounts contributed to each line in Form 13 in respect of quasi derivatives is as follows:

	<b>2010</b>	2009
	<b>£000</b>	£000
Line 45	<b>2,631</b>	12,195
Line 46	<b>1,007,224</b>	892,407
Line 48	<b>11,281</b>	111,705
	<b><u>1,021,136</u></b>	<u>1,016,307</u>

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

### **\*1812\* - Form 18 Line 65**

The amount included in Form 18 Line 65 for the New With-Profits Fund represents the present value of tax on future shareholder transfers that, in accordance with the Reorganisation Scheme, is not required to be included in Form 19 Line 51.

### **\*1901\* - Direction modifying the Accounts and Statement Rules**

The FSA issued to the firm, effective November 2007, a direction under section 148 of the Act. The effect of the direction is to allow the firm to include assets available to support the New With Profits Fund in its realistic balance sheet (at line 27), in accordance with the firm's Reorganisation Scheme. These assets are also included in 89 and line 92 (if applicable) of Form 13 for the Non Profit Fund One and Non Profit Fund Two.

Name of Insurer **Friends Life Company Limited**

Financial year ended **31 December 2010**

## **NOTES TO THE RETURN**

Following the five year test performed as at 31 December 2010 consistent with FLC's 2000 Court Scheme, the FLC Board subsequently approved a revised support arrangement of up to £406m conditional upon support being required by the Scheme. The shareholder's fund provides support to the extent that the Non Profits Fund is not able to meet support requirements up to £406m. In accordance with the current direction we have only shown the support assets from Non Profit Fund 1 as being available to support the New With Profits Fund.

### **\*4002\* - Other income and expenditure**

	<b>2010</b>	2009
	<b>£000</b>	£000
<b>Other income</b>		
Rebated unit trust charges	<b>1,828</b>	1,518
<b>Other expenditure</b>		
Contingent loan repayment	<b>69,059</b>	49,355

In December 2007 the Company issued £300m of contingent loan notes, which were purchased by ASLH. Repayment is contingent on surplus arising on the business transferred to the Company under the Part VII scheme (note 0308). Under INSPRU 1.2.79(2) this liability does not need to be separately valued and as such the proceeds received from the issue were recognised as income in Form 40 line 15. In the year to 31 December 2010 a repayment of £69.1m (2009: £49.4m) has been recognised in Form 40 line 25 and interest payable on the loan of £9.7m (2009: £14.1m) recognised in Form 40 line 23. It is expected that the outstanding loan will be repaid in full in the course of 2011.

### **\*4006\* - Apportionment between notional sub-funds**

The principles and methods of apportionment applied in Form 40 in respect of the long term insurance business funds are as follows:

- (i) Investment income arising from assets notionally identified to the Old With Profits, New With Profits, Non Profit One and Non Profit Two sub-funds respectively has been allocated to those sub-funds;
- (ii) The increase/decrease in the value of non-linked assets is the amount required so that the fund corresponds to the mathematical reserves except in the case of Non Profit Fund 1 where surplus of £20.5m is carried forward unappropriated;
- (iii) Commission has been allocated according to the nature of the relevant contract;
- (iv) Expenses are directly allocated to the relevant sub-fund according to the nature of individual contracts; and,
- (v) United Kingdom taxation has been allocated based on separate tax calculations for each sub-fund.

### **\*4008\* - Management services**

During the financial year ended 31 December 2010 investment management services have been provided to the Company by AXA Investment Managers UK Limited. Various other management services have been provided by Friends Life Services Limited (formerly AXA Sun Life Services plc) (FLS), a fellow subsidiary company.

Name of Insurer **Friends Life Company 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 Insurer carried out the following transactions which exceed 5% of the Insurer's liabilities arising from its long-term insurance business, excluding property linked liabilities and net of reinsurance ceded.

<b>Transacting Party</b>	<b>Relationship</b>	<b>Type of Transaction</b>	<b>Amount £000</b>
Friends Life Assurance Society Limited (formerly Sun Life Assurance Society plc)	Group Undertaking	Reassurance claims paid	965,394

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

The amount of investment income relating to linked assets in Line 12 of Form 40 for the Old With Profits Fund is £0.1m (2009: £nil). For the New With Profits Fund it is £0.6m (2009: £0.1m).

### **\*4012\* - Transfer from the New With Profits Fund into the non technical account**

The transfer from the New With Profits Fund into the non technical account constitutes a distribution of surplus of £12.3m (2009: £11.8m).

### **\*4013\* - Difference in treatment from accounts prepared under Companies Act 2006**

Financial Reporting Standard 26 has been adopted in the Insurer's accounts prepared under Companies Act 2006 ('the financial statements'). As a consequence, in the financial statements, direct written contracts which do not transfer significant insurance risk have not been accounted for as insurance contracts and no premiums or claims are recorded in respect of these contracts. However, in accordance with paragraph 8 of Appendix 9.3 of IPRU(INS), for the purpose of these returns these contracts continue to be treated as insurance. Due to this difference in treatment certain items in Form 40, Form 41 and Form 42 will not correspond with the amounts reported in the financial statements.

### **\*4201\* - Analysis of Claims**

A proportion of the claims reported in Form 42 are paid under reinsurance arrangements to Friends Life Assurance Society Limited (formerly Sun Life Assurance Society plc) (FLAS) 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 including land and buildings are shown at market value in accordance with the policy terms.

### **\*4402\* - Aggregate value of derivative contracts**

The gross aggregate value of rights under derivative contracts, or in respect of assets which have the effect of a derivative contract, held by the property linked funds, was £448.5m (£444.0m excluding variation margins).

Name of Insurer **Friends Life Company Limited**

Financial year ended **31 December 2010**

## NOTES TO THE RETURN

### **\*4412\* - Provisions for tax on unrealised capital gains**

The provision for tax on unrealised capital gains on assets held within the unit linked funds is reflected in the amount reported as net unit liability and not therefore reported on line 15 of Form 44 as a separate reduction in the value of assets that cover those liabilities.

### **\*4502\* - Other income and expenditure**

The amount at line 14 relates to:

	<b>2010</b>	2009
	<b>£000</b>	£000
Rebated unit trust charges	<b>18,553</b>	14,698
Other	<b>1,404</b>	4,367
	<b>19,957</b>	19,065

The amount at line 26 relates to:

	<b>2010</b>	2009
	<b>£000</b>	£000
Investment management expenses	<b>2,950</b>	4,068
Transaction costs on investment purchases	<b>20,886</b>	28,139
	<b>23,836</b>	32,207

### **\*4801\* - Investment mix assumed in asset share calculations**

(a) The following are the bonus series that have an asset share philosophy which assumes a variation of asset mix by duration of policy:

Low-Cost Homebuyers' Plan  
Homebuyers' Investment Plan  
Multivestor  
Multipension Series 2  
Multipension Series 3  
Flexible Pensions  
Pensions 1997 Series  
Pensions 1999 Series  
Pensions 2000 and 2002 Series  
Retirement Investment and Income Plan

(b) For conventional with profits business the asset mix used as at 31 December 2010 was as follows:

UK Equities	37.5%
Overseas Equities	15.0%
Properties	11.6%
Fixed Interest	35.3%
Other	0.6%

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## **NOTES TO THE RETURN**

This applies to the following bonus series:

Conventional Life Series 1  
Conventional Life Series 2  
Conventional Pensions  
Top Flight, Moneysaver and Postal Staff Scheme

For unitised with profits policies with either no maturity date or more than one third of the term remaining the asset mix used as at 31 December 2010 was as follows:

UK Equities	50.7%
Overseas Equities	19.4%
Properties	15.5%
Fixed Interest	14.2%
Other	0.2%

This applies to the following bonus series:

Investment Bond and Flexible Bond  
With Profits Income Bond  
Individual Savings Account  
Low-Cost Homebuyers' Plan  
Homebuyers' Investment Plan  
Multivestor  
Multiplan  
Multipension Series 2  
Multipension Series 3  
Flexible Pensions  
Trustee Plan  
Pensions 1997 Series  
Pensions 1999 Series  
Pensions 2000 & 2002 Series  
Retirement Investment and Income Plan  
Amulet  
AXA Isle of Man Bond (Sterling)

For Retirement Savings Schemes, the asset mix used as at 31 December 2010 was as follows:

UK Equities	25.4%
Overseas Equities	9.7%
Properties	7.8%
Fixed Interest	56.3%
Other	0.9%

Other parts of the unitised with profits business have different asset mixes; such parts each represent less than 10% of total with profits mathematical reserves.



Name of Insurer **Friends Life Company Limited**

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## **NOTES TO THE RETURN**

### **\*5103\* - Products classified as miscellaneous**

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

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

The following product with reserves not 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

### **\*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.

### **\*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 ISA (single premium)

### **\*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.

### **\*5301\* – Number of group scheme with no member records**

The following product codes contain large group schemes where the member details are not known.

735 Group money purchase pensions property linked	114 schemes
755 Trustee investment plan	12 schemes
765 Group Managed Fund	113 schemes

### **\*5303\* - 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 795:

- Health Care Income Plan (unit-linked income protection)
- Lifetime Care Bond



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## **NOTES TO THE RETURN**

### **\*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 Individual Lifetime Care Plans

### **\*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. However for the current valuation, the Company has maintained the methodology of using the arithmetic mean of the individual assets backing the liabilities. This gives a more prudent result.

### **\*6002\* - Reconciliation with Form 50 and Form 58**

The net reserves included in line 49 of Form 60 do not reconcile with the sum of Form 50 Line 48 and Form 58 Line 43. This is due to the reinsurance of annuity reserves to FAL (the intra-group ISPV). The reinsured reserves of £3,535.7m are recaptured in Form 60 for the purpose of calculating the reinsurance ratio in accordance with INSPRU 1.1.92A.

Name of Insurer: **Friends Life Company Limited**

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

### **VALUATION REPORT**

Throughout this report the following notation is used:

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

#### Internal reinsurance arrangements as at 31 December 2010

The reinsurance (which commenced during 2007) of the non-profit pensions annuities in payment business written directly by FLC to FAL remains in force. The arrangement is open to new business. This arrangement is referred to as FAL 2007 reinsurance in this report.

The reinsurance (which commenced during 2009) of 50% of most of the FLAS non-profit pensions annuities in payment to FLC remains in force. The arrangement is closed to new business. The reinsurance was accepted into Non Profit Fund Two of FLC. This business was then reinsured onwards to FAL. The expense risk associated with the business is retained within FLAS. This arrangement is referred to as FAL 2009 reinsurance in this report.

The reinsurance (from 31 December 2008) of 100% of FLAS 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 FLAS 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.

The information included in the FLC insurance return makes allowance for the business within FAL where appropriate and is in line with the relevant sections of INSPRU.

#### **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 the Company 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*

Both of the Company's with profits subfunds (the Old With Profits Fund and the New With Profits Fund) are open to new with profits business.

### **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.

<b>Product Description</b>	<b>Period That MVR Applied</b>		<b>Policy Dates of Entry</b>
	From	To	
Sterling onshore bonds	01/01/2010	21/02/2010	1997-2001
	22/02/2010	01/08/2010	1998-2001
	02/08/2010	31/12/2010	1999-2001
Dollar offshore bonds	01/01/2010	21/02/2010	2004 -2005
	22/02/2010	01/08/2010	2005-2006
	02/08/2010	31/12/2010	2001 & 2004-2006
Euro bonds	01/01/2010	31/12/2010	2001-2002 & 2005-2006

For Bonds, MVR rates vary by quarter of entry. For some quarters in the above years, MVR adjustments did not apply.

For certain other unitised with profits contracts, an MVR may have been applied based on an individual policy calculation at the time of discontinuance. General information on policy years of entry of affected policies is not available.

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

##### **Individual Lifetime Care Plans**

The mathematical reserves, net of reinsurance, held for this business at the valuation date are £168m.

All reviewable contracts that reached a review date in 2010 have been reviewed, this totals £66m of net mathematical reserves. The reviewability of a policy is determined by the following conditions:

- Contracts written prior to 1 September 1994 may be reviewed at any time.
- For contracts written after 1 September 1994 but before 1 July 1996, the first review will take place after 10 years with subsequent reviews taking place annually;
- For those written after 1 July 1996 but before 1 May 2003, the first review will take place after 10 years with subsequent reviews being 5 yearly;
- For contracts written after 1 May 2003, the reviews will take place every 5 years.
- For single premium contracts written after 19 June 2000 (or with application date after 1 June 2000) but before 1 May 2003, no reviews will take place after age 70;

- For single premium contracts written after 1 May 2003 no reviews will take place after age 85;
- For regular premium contracts written after 19 June 2000 (or with application date after 1 June 2000) no reviews will take place after age 89.

At review policyholders are given, as appropriate, options of amending premium amounts to maintain the current benefit level, or selecting an equivalent amendment to the benefits under the contract. The following tables provide “quoted” premium changes for policies where a policy review initiated during 2010.

#### *Reviews during 2010*

4,600 reviews were initiated during 2010.

415 of these were “first reviews”, typically falling 10 years after a policy was sold. First review results were as follows:		
Favourable: 2 (0.5%)	Neutral: 1 (0.2%)	Unfavourable: 412 (99.3%)
Largest premium increase:	173% (regular premium), 121% (single premium)	
Largest premium decrease:	15% (regular premium)	

4,185 were “subsequent reviews”, as many policies continue to be reviewable after the first review. Results of the subsequent reviews were as follows:		
Favourable: 1,236 (29.5%)	Neutral: 997 (23.8%)	Unfavourable: 1,952(46.7%)
Largest premium increase:	25% (regular premium), 23% (single premium)	
Largest premium decrease:	10% (regular premium)	

It should be noted that the premium increase option quoted may not have been chosen in all cases.

For neutral or favourable reviews there was often no change to premiums quoted, instead the benefits under the contracts remained the same or increased.

#### **Individual Critical Illness and Individual Permanent Health Insurance**

The premiums for these contracts can be reviewed at any time. However, no reviews took place in 2010 and there is currently no intention to review these products in the future.

The total mathematical reserves for this business are £4.8m.

#### **AXA Protection Account**

The first review takes place after 5 years. Subsequent reviews then take place annually, unless the premium changes as a result of the review in which case the premium is then guaranteed for a further 5 years.

The outcome of the review is determined by the following conditions:

- If the review shows a premium reduction of more than 10%, the premium is automatically reduced.
- If the review shows a premium increase of more than 10%, the default option is to increase the premium, but the policyholder has the option to reduce the sum assured and keep the premium unchanged.
- If the review outcome would mean that the premium increase/decrease would not exceed 10%, no change is made to the premium.

The mathematical reserves net of reinsurance held for this business at the valuation date is £4.1m. 1221 contracts reached a review date in 2010 and the net mathematical reserves for these contracts totalled £0.8m. The premiums on these policies did not change because the increase/reduction was within +/- 10% of the current premium.

### **(3) Non-profit deposit administration benefits**

The annualised rates of interest added to non-profit deposit administration benefits during 2010 were:

Period		Rate of Interest
From	To	
01/01/2010	31/12/2010	1.00%

These rates were before deduction of the rate of annual fund management charge relevant to the policy.

### **(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:

Low-cost Homebuyers Plan  
 Multivestor  
 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)  
 Health Care Income Plan  
 Multiplan

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

Flexible Cover Plan  
 Flexible Mortgage Plan

#### Increase of approximately 4.5% (in line with Retail Prices Index to October 2010):

Individual Lifetime Care Bond

#### Increase in line with Retail Prices Index dependent on policy anniversary date:

Homebuyers' Investment 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**

### ***Homebuyers Investment Plan, Investment Bond with Life Cover, Low Cost Homebuyers Plan, Multiplan Inheritance Protector and MultiVestor***

During 2010, the mortality and morbidity charges on these policies were reviewed. The total reserves net of reinsurance for these products at the valuation date are £721m.

Overall, the impact of the review resulted in a decrease in mortality charges of approximately 20% and an increase in morbidity charges of approximately 10%. For individual policies, the range of changes to the charges were from -30% to +80%

No other 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:

<b>Fund</b>	<b>Net Annual Management Charge</b>		<b>Fund size at 31/12/2010 £000</b>
	<b>Old</b>	<b>New</b>	
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**

### ***Funds other than Group Managed Funds and Ex-PPP Lifetime Care Funds***

For each fund other than Private Funds, asset prices are normally obtained at 2 pm on each business day. For funds which invest in external OEICs, the assets are valued by the OEIC provider and the latest published prices available are used. Private Funds are valued less frequently – usually monthly or quarterly for large Funds and yearly for small Funds.

The assets are normally valued on a creation basis (i.e. the price at which assets could be bought), unless it is known that there is a net outflow, in which case the assets are normally valued on a cancellation basis (i.e. the price at which assets could be sold). However, judgement is exercised by the Company as to which basis to use, or whether to use an intermediate basis, depending on the expected trend of net inflows and outflows, to ensure fairness to incoming, outgoing and continuing unit holders. In each case allowance is made for dealing costs, accrued income and any tax implications.

The creation or cancellation price, as appropriate, is then calculated by dividing the net asset value by the number of units.

If a creation price basis is being used, the offer price is derived by multiplying the creation price by an offer price factor, with an adjustment for fund management charges. If a cancellation price basis is being used, the offer price is derived by multiplying the cancellation price by an offer price factor, with an adjustment for fund management charges. The bid price is the resulting offer price multiplied by the reciprocal of the offer price factor.

For funds with a 5% bid-offer spread, the offer price factor is 100/95. For funds with no bid-offer spread, the offer price factor is 1.

Except for switches, units are allocated to a policy at offer price and cancelled at bid price.

Normally, for new business and payment of regular premiums for existing business, the price used is on a historic basis, i.e. that derived from the asset valuation at 2 pm on the previous business day. For all other transactions the price used is on a forward basis, i.e. that derived at 2 pm on the same day, except for certain switches, where the price used is that derived at 2 pm on the following day. For Premium Select Bond, all transactions into or out of the externally managed funds are priced on a forward basis.

Notwithstanding the normal rules as described above, the policies give the right in certain circumstances to defer transactions for up to one month (or up to six months for Property Fund units). At the end of such periods of deferral the unit prices used in such deferrals will be those determined immediately following such period.

### ***Group Managed Funds***

For each group managed fund, unit prices are calculated once a week (the “dealing” day). Ordinarily the dealing day is on a Thursday, but at month ends it is the last business day of the month whilst at the beginning of April it is on the fifth (or equivalent business day). On the dealing day asset prices are normally obtained at close of business on that day. For each fund unit prices are obtained by dividing the middle market prices of the underlying assets by the number of units, with an adjustment for fund management charges.

All purchases and sales of units (including switches) take place at the unit prices adjusted upwards for the average expenses of purchase or downwards for the average expenses of sale. These expenses are based on actual dealing costs and are regularly reviewed. Adjustment may also be made on account of income accrued but not received and expenses incurred but not paid (including provision for any potential liability for tax or other statutory payments).

### ***Ex-PPP Lifetime Care Funds***

For internal linked funds available to the Individual Lifetime Care Bond and the Money Market Fund available to the Triple Bonus Bond, prices are determined on a daily basis. For the Balanced Fund available to the Special Investment Bond, unit prices are determined on the first working day of the month.

The Money Market Fund and the Long Term Care Deposit Fund are invested in short term deposits and cash. The remainder of the unit funds are directly invested in unit trusts.

The assets are normally valued on a creation basis (i.e. the price at which assets could be bought), unless it is known that there is a net outflow, in which case the assets are normally valued on a cancellation basis (i.e. the price at which assets could be sold). However, judgement is exercised by the Company as to which basis to use, or whether to use an intermediate basis, depending on the expected trend of net inflows and outflows, to ensure fairness to incoming, outgoing and continuing unit holders.

Units are created or cancelled within each fund at the valuation bid price. This price is determined by taking the value of unit trust units and adjusting for any allowance for distributed income notified but not paid, any associated tax credits, and any investment management charges. This total fund value is divided by the number of units.

Units are purchased by the fund from policyholders at the bid price, which is calculated as the valuation bid price rounded to the lower 0.1p. Units are sold to policyholders at the offer price that is calculated as the bid price multiplied by 100/95 and rounded to the higher 0.1p.

The unit trust assets are valued using the creation price or cancellation price set by the underlying unit trust company on the day of valuation. In general these prices are set at or around 12.00 noon. On any given day the Company deals at the internal prices calculated at the next public valuation which is at 5.00pm.

## **(8) Tax deductions from unit-linked funds**

### Life Funds

Tax is provided for on realised capital gains at a rate of 20% immediately on realisation. For this purpose, one seventh of the unrealised gains in the period on collective investment schemes is treated as a realised capital gain. The tax due is withdrawn from the funds annually at the end of the financial accounting period.

Provision is made in the unit pricing for the potential tax liability on unrealised gains (including gains on collective investment schemes that are not treated as realised gains) at rates between 15% and 17.5% for funds priced on an offer basis and 20% for funds priced on a bid basis. No money is removed from the funds in respect of these provisions.

Both realised and unrealised capital gains include an allowance for indexation. Tax is provided for in the unit prices on a daily basis.

Tax relief for losses is given if there are sufficient gains within the same investment fund against which to offset the loss. If there are insufficient gains then the losses are carried forward within the same fund to be utilised at a later date. Credit may be given in the unit price for losses (realised and unrealised) carried forward within the funds at rates of up to 10% (dependent on the amount of losses relative to the value of the fund and the pricing basis of the fund).

### Other Funds

The only other funds are pension and PHI business, where no tax on capital gains is payable.

## **(9) Tax provisions for unit-linked funds**

See section 3.(8).

## **(10) Discounts on purchases of units**

### ***Ex-PPP Lifetime Care Funds***

The arrangements in place with the fund managers allow for unit purchases and sales to be transacted at their creation or cancellation prices respectively. The Company receives no commission payments for unit trust purchases. An exception to this agreement is with Close Fund Managers where a 0.5% initial charge is levied on unit purchases.

An arrangement is in place with certain fund managers whereby the internal funds receive a rebate on the annual management charge levied by the underlying unit trust:

- Lifetime Care JPMF Balanced Fund A	0.75% pa
- Lifetime Care JPMF Balanced Fund B	0.50% pa

These rebates are reflected in the unit price offered to policyholders.



### **Other Funds**

The MLC Bond can be invested in funds managed by external fund managers. Where this is the case, part of the discount received from the fund manager is retained by the Company.

In most other instances, discounts and rebates accrue to the benefit of the policyholders. However, policies which invest in these funds are subject to a higher fund management charge than other similar policies. There are no other discounts etc. allowed on purchases, sale or holding of these types of unit. There are a number of fund managers with whom the Company has negotiated improved rebates and the Company has retained the additional amount.

<b>Fund manager</b>	<b>Discount on Initial Charge</b>	<b>Discount on Management Charge for benefit of policyholders</b>	<b>Discount on Management Charge for benefit of the Company</b>
	<b>%</b>	<b>%</b>	<b>%</b>
Aberdeen Asset Management	4.25	0.75	
Allianz	4.00	0.893	
Architas Multi-Manager	4.00 - 5.00	0.31 - 1.30	
Artemis Fund Managers Ltd	5.00 - 5.25	0.50 - 0.75	
Aviva Investors	4.50 - 5.00	0.50 - 0.625	0.125 - 0.25
AXA Framlington	5.25 - 5.50	0.50 - 1.00	
AXA World Funds	5.00	0.75	
Ballie Gifford	1.00	Up to 0.15	
Barclays Investor Services	4.00	0.50	
BGI	0	0	
BlackRock Merrill Lynch	5.00	0.75 - 0.875	
Cazenove	5.00	0.50 - 0.75	
CF Danske	3.75	0.625 - 0.75	
CF Midas	4.50	0.70	
CF Miton	5.00	0.50	
CF OPM	3.75	0.50 - 0.70	
Close	3.00	0.5	
Credit Suisse	4.00	0.75	
EFA	4.20 - 5.00	0.60	
F & C	5.00	0.60 - 0.75	
Fidelity	3.50 - 5.25	0.30 - 0.77	
First State Investment Ltd	4.00	0.50	0.25
Franklin Templeton Investment Ltd	5.00	0.75	
Gartmore Investment Management	5.00	0.50 - 0.75	
Hargreaves Lansdown	5.00	0.50	
Henderson	0	0	
HSBC	Up to 4.00	Up to 0.625	
IFSL Sinfonia	5.50	0.75	
Ignis	4.25	0.55	
Insight	4.00	0.75	
INSYNERGY	4.75	0.54 - 0.90	
Invesco Perpetual Fund Managers Ltd	5.00	0.30 - 0.75	
Investec	4.50	0.625 - 0.75	
JP Morgan	Up to 5.50	Up to 0.75	
Jupiter Unit Trust Managers	4.00 - 5.50	0.24 - 0.75	0.25
L & G (Barclays)	1.00 - 2.50	0.50	
Legg Mason Investments	4.25	0.75	
M & G	4.00 - 5.00	0.15 - 0.75	
Margetts	4.00	0.50	

<b>Fund manager</b>	<b>Discount on Initial Charge</b>	<b>Discount on Management Charge for benefit of policyholders</b>	<b>Discount on Management Charge for benefit of the Company</b>
	<b>%</b>	<b>%</b>	<b>%</b>
Margetts Greystone	3.00	0.60	
MLC Trust Management	4.50	1.00	
Neptune	5.00	0.80 - 0.875	
New Star Investment Funds Ltd	4.25 - 5.25	0.50 - 0.875	0.05 – 0.075
Newton	3.00 - 4.00	0.50 - 0.75	
Old Mutual	3.50 - 4.00	0.55 - 0.75	
Psigma	5.25	0.75	
River & Mercantile	5.00	0.60	
Sarasin	5.00	Up to 0.75	
Schroders Investments Ltd	3.25 - 5.25	Up to 0.75	0.1
Standard Life Investments Ltd	3.00 - 4.00	0.475 - 0.75	
T Bailey	5.00	0.75	
Threadneedle Asset Management Ltd	Up to 3.75	0.20 - 0.75	
UBS	4.00	0.90	

Where more than one rate of discount is shown, the rate varies either by the individual fund selected or by product type.

#### **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***

For the majority of 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 pensions annuities in payment written directly by the Company, the valuation interest rate has been derived using a portfolio internal rate of return on the assets backing the liabilities. The Company has a waiver under section 148 of the Financial Services and Markets Act 2000 to perform this calculation.

For Individual Lifetime Care Plans and Immediate Lifetime Care Plans, the reserves have been calculated using a discounted cash flow method. The cash flows are derived using a multiple state model allowing for the various possible states of the contract. In addition, a provision has been made in respect of potential claims based on the estimated claims outstanding and probability of payment.

For Individual Permanent Health Insurance contracts, the reserve is set equal to the accumulation of a proportion of the premiums received from inception to the valuation date for all active policies. Reserves are also held for claims in payment and notified claims that have not been admitted.

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 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 Multiplans, net cash flows are considered for each year up to and including that of the next expected policy review date. For qualifying policies, consideration is also given to the years beyond this date.

For Individual Lifetime Care Bonds, a traditional cash flow approach to calculating the non-unit reserve was not required due to the close matching of income and expenditure, and the ability to review the risk charging basis for morbidity experience and associated costs. The non-unit liability was calculated as six months risk charges, reduced for the effects of reinsurance. A separate reserve is held for claims in payment.

For the main classes of pensions business, a prudent allowance for future voluntary discontinuance has been made.

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.

For Healthcare Income Plans an additional reserve is held for unexpired morbidity charges, for claims assumed to be incurred but not yet reported and for current claims in payment.

### ***Unitised With Profits Business and Retirement Savings Schemes***

The reserve for each plan is calculated using a gross premium valuation method, with no allowance for non guaranteed future bonuses. For contracts with a Guaranteed Interest Rate, the valuation interest rate is not less than that rate.

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) that were in force at the valuation date.

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. No allowance has been made for voluntary discontinuance of policies subject to a Guaranteed Interest Rate or with an attaching Guaranteed Annuity Rate.

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**

	<b>31 December 2010</b>	<b>31 December 2009</b>
	<b>%</b>	<b>%</b>
<b><i>With Profit Business</i></b>		
Unitised With Profits (except Multipension Series 2) and Retirement Savings Scheme	3.00	3.00
Multipension Series 2	4.00	4.00
Conventional With Profits Life	3.00	3.00
Conventional With Profits Pensions	4.00	4.00
Annuity guarantees in payment (except where valued using stochastic methods)	3.30	3.70
<b><i>Non Profit Business written in WP funds</i></b>		
Over 50 Plan	2.40	2.90
NP Life (other than Over 50 Plan)	2.40	3.00
NP Pensions	3.00	3.80
<b><i>Non Profit Business written in NP funds</i></b>		
Over 50 Plan	2.05	2.30
Additional Life reserves	2.65	2.95
Other NP Life	2.05	2.30
PHI business	4.40	4.70
Pension Annuities in Payment reinsured to FAL (2007 reinsurance)	4.25	4.75

	31 December 2010 %	31 December 2009 %
Pension Annuities in Payment (RPI-linked) reinsured to FAL (2007 reinsurance)	0.20	0.65
Pension Annuities in Payment reinsured to FAL (2009 reinsurance)	4.00	4.50
Pensions Annuities in Payment (RPI-linked) reinsured to FAL (2009 reinsurance)	0.60	1.20
Life Annuity business reinsured from FLAS	3.00	3.55
Unclassified Pension reserves	3.30	3.70
Other NP Pensions	2.55	2.90
RPI-linked benefits	0.40	0.80
Unit-linked life	3.10	3.25
Unit-linked pensions	3.85	4.10

### (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 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 5% of the yield applies.

#### (4) Mortality

Product group	31 December 2010		31 December 2009	
	Males	Females	Males	Females
With profits endowment assurance (Top Flight)	140% AMC00	125% AFC00	160% AMC00	155% AFC00
With profits endowment assurance (Postal Staff Scheme)	90% AMC00 ult	95% AFC00 ult	57.5% AM92 ult	75% AF92 ult
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	100% AM92 ult	120% 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
Other non-profit whole life	105% AM92 ult	135% AF92 ult	105% AM92 ult	135% AF92 ult
Term assurance (AXA Protection Account)	modified TM00 ult	modified TF00 ult	modified TM92 ult	modified TF92 ult
Other term assurance life	modified AM80 ult	modified AF80 ult	modified AM80 ult	modified AF80 ult
Conventional pensions in deferment	75% AM92 ult	75% AF92 ult	75% AM92 ult	75% AF92 ult
Pensions annuities in payment	93.0% PCMA00 <b>2000-2010</b> 100% medium cohort with 1.5% floor <b>Post 2010</b> 100% medium cohort with 2.1% floor	90.5% PCFA00 <b>2000-2010</b> 75% medium cohort with 1.25% floor <b>Post 2010</b> 75% medium cohort with 1.8% floor	85% PCMA00 <b>2000-2004</b> 100% medium cohort <b>Post 2004</b> 100% medium cohort with 1.7% floor	82.5% PCFA00 <b>2000-2004</b> 100% medium cohort <b>Post 2004</b> 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)	93.0% PCMA00 <b>2000-2010</b> 100% medium cohort with 1.5% floor <b>Post 2010</b> 100% medium cohort with 2.1% floor	90.5% PCFA00 <b>2000-2010</b> 75% medium cohort with 1.25% floor <b>Post 2010</b> 75% medium cohort with 1.8% floor	82.5% PCMA00 <b>2000-2004</b> 100% medium cohort <b>Post 2004</b> 100% medium cohort with 1.7% floor	80.0% PCFA00 <b>2000-2004</b> 100% medium cohort <b>Post 2004</b> 75% medium cohort with 1.5% floor
Bonds & Individual Savings Accounts	105% AMC00 ult	120% AFC00 ult	105% AMC00 ult	120% AFC00 ult
Low-Cost Homebuyers' Plan & Homebuyers' Investment Plan	modified AM80 ult	modified AF80 ult	modified AM80 ult	modified AF80 ult
Multiplan & Maximum Cover Plan	modified AM80 sel	modified AF80 sel	modified AM80 sel	modified AF80 sel
Multivestor	modified A67/70 ult	modified AF80 ult	modified A67/70 ult	modified AF80 ult
Whole Life Investment Plan	modified A67/70 sel	modified A67/70sel	modified A67/70 sel	modified A67/70 sel
Other unit-linked 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
Group pensions (2002 series)	90.91% AM80 ult	90.91% AF80 ult	90.91% AM80 ult	90.91% AF80 ult
Multipension (series 2)	modified A67/70 ult	modified AF80 ult	modified A67/70 ult	modified AF80 ult
Other unit-linked & unitised with profits 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>Term assurance (AXA Protection Account)</u>						
25	0.00033	0.00067	n/a	0.00015	0.00021	n/a
35	0.00047	0.00092	n/a	0.00028	0.00041	n/a
45	0.00092	0.00195	n/a	0.00068	0.00136	n/a
55	0.00233	0.00575	n/a	0.00197	0.00502	n/a
<u>Other term assurance life</u>						
25	0.00043	0.00055	n/a	0.00020	0.00027	n/a
35	0.00044	0.00073	n/a	0.00037	0.00061	n/a
45	0.00125	0.00266	n/a	0.00090	0.00175	n/a
55	0.00407	0.00917	n/a	0.00233	0.00510	n/a
<u>Low Cost Homebuyers' Plan, Homebuyers' Investment Plan, Multiplan &amp; Maximum Cover Plan – with Lifecare</u>						
25	0.00042	0.00066	0.00049	0.00021	0.00029	0.00023
35	0.00044	0.00080	0.00055	0.00038	0.00057	0.00044
45	0.00133	0.00242	0.00167	0.00096	0.00153	0.00113
55	0.00435	0.00788	0.00543	0.00272	0.00404	0.00311
<u>Low-Cost Homebuyers' Plan &amp; Homebuyers' Investment Plan – without Lifecare</u>						
25	0.00031	0.00049	0.00037	0.00015	0.00021	0.00017
35	0.00033	0.00060	0.00042	0.00029	0.00043	0.00033
45	0.00100	0.00181	0.00125	0.00072	0.00115	0.00085
55	0.00326	0.00591	0.00407	0.00204	0.00303	0.00233
<u>Multiplan &amp; Maximum Cover Plan – without Lifecare</u>						
25	0.00034	0.00054	0.00040	0.00017	0.00023	0.00019
35	0.00036	0.00065	0.00045	0.00031	0.00046	0.00035
45	0.00108	0.00196	0.00135	0.00078	0.00124	0.00092
55	0.00353	0.00640	0.00441	0.00221	0.00328	0.00253
<u>Multivestor - with Lifetime care</u>						
25	0.00050	0.00077	0.00058	0.00020	0.00028	0.00022
35	0.00051	0.00090	0.00063	0.00035	0.00052	0.00040
45	0.00149	0.00271	0.00187	0.00087	0.00138	0.00102
55	0.00484	0.00876	0.00604	0.00244	0.00368	0.00281
<u>Multivestor- without Lifetime care</u>						
25	0.00037	0.00058	0.00043	0.00015	0.00021	0.00017
35	0.00038	0.00068	0.00047	0.00026	0.00039	0.00030
45	0.00112	0.00203	0.00140	0.00065	0.00104	0.00077
55	0.00363	0.00657	0.00453	0.00183	0.00276	0.00211
<u>Whole Life Investment Plan</u>						
25	0.00059	0.00094	0.00069	0.00063	0.00087	0.00069
35	0.00068	0.00124	0.00086	0.00075	0.00111	0.00086
45	0.00211	0.00382	0.00264	0.00224	0.00356	0.00264
55	0.00675	0.01224	0.00844	0.00739	0.01097	0.00844
<u>Other unit-linked 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

Age	Males			Females		
	Non-smoker	Smoker	Aggregate	Non-smoker	Smoker	Aggregate
<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>Multipension (series 2)</u>						
25	0.00027	0.00042	0.00032	0.00011	0.00015	0.00012
35	0.00028	0.00050	0.00035	0.00019	0.00028	0.00022
45	0.00082	0.00149	0.00103	0.00048	0.00076	0.00056
55	0.00266	0.00482	0.00332	0.00134	0.00202	0.00154
<u>Other unit-linked and unitised with profits 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	25.1	26.7	24.9	27.0
		75	15.4	16.9	15.5	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	29.9	30.5	28.9	30.3
	55	65	27.4	28.6	27.0	28.8
Annuity guarantees	45	65	24.6	26.9	25.7	28.0
	55	65	24.6	26.9	25.7	28.0

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

Additional reserves totalling £1.0m 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.

### Individual Lifetime Care Plan

This product provides long-term care benefits to the policyholder. The tables for both healthy and claim mortality used in the multi-state model to value these contracts have been constructed based on the previous experience of the office. There is an adjustment to the base tables of 1% p.a. and 0.5% p.a. for mortality improvement of healthy and claim mortality respectively. In addition to the allowances for mortality improvement, there are also prudent margins of 5% and 12% on healthy and claim mortality respectively.



## Immediate Lifetime Care Plan

This contract is essentially an impaired life annuity. The mortality table for each life is uniquely determined by applying a flat percentage to the base mortality table (IM80/IF80), using an individually assessed best estimate of life expectancy. An allowance for future mortality improvement is built into the best estimate of life expectancy, depending on the health conditions of each life. There is also a prudent margin of 10% on the mortality rates. It is not appropriate to indicate example mortality rates as they are unique to each policy.

## Individual Lifetime Care Bond

This contract provides long term care benefits to the policyholder. The mortality assumption is built into the charging annuity factors used in the calculation of the non-unit reserves. The charging annuity factors vary by age, gender, cover type and deferred period. The deferred period is defined as the number of months for which the unit fund value is estimated to last in the event of a long term care benefit claim.

### (5) Morbidity

#### *AXA Protection Account (IFA sales channel)*

Specimen critical illness inception rates used at 31 December 2010 and 31 December 2009 for term assurance with accelerated critical illness are set out in the following table. The rates are based on reinsurers' risk premium rates. The corresponding mortality rates are set out in 4.(4).

#### 2010

Age	Males			Females		
	Non-smoker	Smoker	Aggregate	Non-smoker	Smoker	Aggregate
25	0.00079	0.00091	n/a	0.00054	0.00062	n/a
35	0.00122	0.00165	n/a	0.00125	0.00167	n/a
45	0.00313	0.00538	n/a	0.00302	0.00373	n/a
55	0.00940	0.01570	n/a	0.00685	0.00961	n/a

#### 2009

Age	Males			Females		
	Non-smoker	Smoker	Aggregate	Non-smoker	Smoker	Aggregate
25	0.00046	0.00074	n/a	0.00064	0.00073	n/a
35	0.00122	0.00197	n/a	0.00178	0.00202	n/a
45	0.00387	0.00625	n/a	0.00430	0.00487	n/a
55	0.01071	0.01731	n/a	0.00905	0.01025	n/a

#### *Term assurance with accelerated critical illness benefit (other than AXA Protection Account)*

Specimen combined mortality and critical illness inception rates used at 31 December 2010 and 31 December 2009 are set out in the following table. The rates are based on reinsurers' risk premium rates.

#### 2010

Age	Males			Females		
	Non-smoker	Smoker	Aggregate	Non-smoker	Smoker	Aggregate
25	0.00090	0.00115	n/a	0.00064	0.00081	n/a
35	0.00131	0.00203	n/a	0.00139	0.00164	n/a
45	0.00307	0.00614	n/a	0.00257	0.00399	n/a
55	0.00870	0.01546	n/a	0.00622	0.00933	n/a

Age	Males			Females		
	Non-smoker	Smoker	Aggregate	Non-smoker	Smoker	Aggregate
25	0.00120	0.00196	n/a	0.00080	0.00139	n/a
35	0.00166	0.00279	n/a	0.00172	0.00302	n/a
45	0.00410	0.00812	n/a	0.00396	0.00722	n/a
55	0.01054	0.02336	n/a	0.00870	0.01813	n/a

### *Unitised policies with additional Lifecare (critical illness) benefit*

Specimen critical illness inception rates used at both 31 December 2010 and 31 December 2009 are set out in the following table. The rates are based on reinsurers' risk premium rates.

Age	Males			Females		
	Non-smoker	Smoker	Aggregate	Non-smoker	Smoker	Aggregate
<u>Low Cost Homebuyers' Plan &amp; Homebuyers' Investment Plan (pre-1998)</u>						
25	0.00038	0.00060	0.00044	0.00043	0.00059	0.00048
35	0.00080	0.00144	0.00099	0.00107	0.00159	0.00122
45	0.00289	0.00525	0.00362	0.00252	0.00400	0.00296
55	0.00829	0.01503	0.01037	0.00643	0.00955	0.00734
<u>Low Cost Homebuyers' Plan &amp; Homebuyers' Investment Plan (1998 and after)</u>						
25	0.00035	0.00055	0.00041	0.00040	0.00055	0.00044
35	0.00074	0.00133	0.00092	0.00099	0.00147	0.00113
45	0.00268	0.00486	0.00335	0.00233	0.00370	0.00274
55	0.00768	0.01392	0.00960	0.00595	0.00884	0.00680
<u>Multiplan (pre-1998)</u>						
25	0.00041	0.00063	0.00048	0.00046	0.00063	0.00051
35	0.00083	0.00147	0.00103	0.00110	0.00162	0.00125
45	0.00293	0.00528	0.00365	0.00255	0.00403	0.00299
55	0.00833	0.01507	0.01040	0.00646	0.00958	0.00738
<u>Multiplan (1998 and after)</u>						
25	0.00038	0.00059	0.00044	0.00043	0.00058	0.00047
35	0.00077	0.00137	0.00095	0.00102	0.00150	0.00116
45	0.00271	0.00489	0.00338	0.00236	0.00373	0.00277
55	0.00771	0.01395	0.00963	0.00598	0.00887	0.00683

### **Individual Lifetime Care Plan**

The tables for claim inception rates used in the multi-state model to value the long term care benefit under these contracts have been constructed based on the experience of the office for all years up to and including 2008. There is an adjustment to the base tables of 10% of the morbidity rates to act as a prudent margin. The model assumes no recoveries.

There are three claim states used within the model, defined by the state of health of each policy in claim. The state of health is assessed through the failure of a number of Activities of Daily Living (ADLs), such as washing or dressing. In addition, a life can become a claim through a cognitive impairment.

Specimen independent base morbidity rates to the three claim states for females are as follows:

Age	2ADL 2010	3ADL+ 2010	Cognitive 2010	2ADL 2009	3ADL+ 2009	Cognitive 2009
25	0.00015	0.00016	0.00025	0.00015	0.00016	0.00024
35	0.00015	0.00016	0.00025	0.00015	0.00016	0.00024
45	0.00015	0.00016	0.00025	0.00015	0.00016	0.00024
55	0.00045	0.00047	0.00073	0.00046	0.00047	0.00071

Specimen independent base morbidity rates to the three claim states for males are as follows:

Age	2ADL 2010	3ADL+ 2010	Cognitive 2010	2ADL 2009	3ADL+ 2009	Cognitive 2009
25	0.00015	0.00030	0.00019	0.00008	0.00028	0.00020
35	0.00015	0.00030	0.00019	0.00008	0.00028	0.00020
45	0.00015	0.00030	0.00019	0.00008	0.00028	0.00020
55	0.00040	0.00083	0.00053	0.00021	0.00076	0.00055

Note:- very little business is covered by the specimen rates required by IPRU(INS) Rule 9.31(a). The average age for this product is around 78. Specimen independent base morbidity rates for the average age are as follows:

Age 78	2ADL 2010	3ADL+ 2010	Cognitive 2010	2ADL 2009	3ADL+ 2009	Cognitive 2009
Female	0.00363	0.00521	0.00710	0.00427	0.00516	0.00709
Male	0.00322	0.00557	0.00601	0.00211	0.00691	0.00619

### Individual Lifetime Care Bond

The valuation model assumes there are no recoveries once in claim. This is prudent as reserves are released on recoveries.

Specimen inception rates for the provision of long term care benefits, which are the same for 2009 and 2010, are shown below split by gender and cover type.

Age	Male Diamond Cover	Male Premier Cover	Male Select Cover	Female Diamond Cover	Female Premier Cover	Female Select Cover
25	0.00045	0.00045	0.00045	0.00045	0.00045	0.00045
35	0.00045	0.00045	0.00045	0.00045	0.00045	0.00045
45	0.00045	0.00045	0.00045	0.00045	0.00045	0.00045
55	0.00139	0.00139	0.00087	0.00100	0.00100	0.00075

Note:- very little business is covered by the specimen rates required by IPRU(INS) Rule 9.31(a). The average age for this product is around 76. Specimen inception rates for the average age are as follows:

Age	Male Diamond Cover	Male Premier Cover	Male Select Cover	Female Diamond Cover	Female Premier Cover	Female Select Cover
76	0.01280	0.01280	0.00892	0.01132	0.01132	0.00842

### (6) Expenses

Gross annual per policy expense levels assumed to apply for the 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 for business within the With Profit funds 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.

During 2010, the costs associated with a number of projects were recharged back to the Life Company. However, due to the discretionary nature of the projects being recharged to FLC, no allowance is made in the reserves for future project costs.

<b>Product</b>	<b>Product codes</b>	<b>31 December 2010 £ p.a.</b>	<b>31 December 2009 £ p.a.</b>
<b><i>Conventional With Profits</i></b>			
Endowment (savings)	120	15.72	14.77
Endowment (target cash)	125	52.39	49.22
Pensions	155, 165	52.39	49.22
<b><i>Non-profit</i></b>			
Term assurance	325, 330	22.53	21.16
Critical illness	340 – 355	22.53	21.16
Income protection	360, 365	22.53	21.16
Annuity	400	26.20	24.61
<b><i>Unitised with profits</i></b>			
Bonds	500	52.39	49.22
Endowment (savings)	510	52.39	49.22
Endowment (target cash)	515	52.39	49.22
Individual pensions (regular premium)	525	104.79	98.43
Individual pensions (single premium)	525	26.20	24.61
Group pensions (regular premium)	535	104.79	98.43
Group pensions (single premium)	535	26.20	24.61
<b><i>Unit-linked</i></b>			
Bonds	700	52.39	49.22
Endowment (savings)	715	52.39	49.22
Endowment (target cash)	720	52.39	49.22
Individual pensions (regular premium)	725	52.39	49.22
Individual pensions (single premium)	725	26.20	24.61
Group pensions (regular premium)	735	52.39	49.22
Group pensions (single premium)	735	19.91	18.70

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 each product, per policy expenses are identical for unitised with profits and unit-linked policies. Differences in assumptions shown above arise where the largest group of unitised with profits is a different product from the largest group of unit-linked policies.

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	0.34% 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.
Level term	lapse	0	0	0	0
Decreasing term	lapse	0	0	0	0
Accelerated critical illness	lapse	0	0	0	0
Income Protection	lapse	0	0	0	0
CWP savings endowment	surrender	8.1	5.6	2.9	1.7
CWP target cash endowment	surrender	0.7	0.7	0.7	0.7
UWP savings endowment	surrender	5.1	5.3	6.0	5.3
UWP target cash endowment	surrender	8.3	8.5	5.9	4.0
UL savings endowment	surrender	3.3	3.9	8.7	6.7
UL target cash endowment	surrender	9.7	8.9	6.7	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	1.3	6.5	6.5	6.5
UL Bond	automatic withdrawals	100% of current	100% of current	100% of current	100% of current
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	0	0	0	0
UWP individual pension single premium	surrender	0	0	0	0
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. In particular, the surrender rates for UWP individual pensions are shown as nil, as more than 50% of reserves for such policies relate to a group of policies for which no surrender assumption is made. Surrender rates are assumed for other policies of this 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 Company 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 New With Profits Fund (£61m) and the Old With Profits Fund (£9m).

The company holds credit default swaps to hedge the credit risk on a holding of corporate bonds. In the calculation of valuation interest rates, these derivatives have been ignored and standard credit risk margins have been applied to the corporate bonds (as set out in section 4(3)). A check has been performed to ensure that this approach gives a more prudent result than if the credit default swaps had been fully reflected.

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

During 2009, the administration of traditional business within the Company was outsourced to an external partner. The costs associated with this arrangement are expected to be incurred over the next four years. For reserving purposes, these additional expenses are treated as non-attributable expenses and are considered at a homogeneous risk group level. The total reserves held for these expenses are less than £10m.

No additional 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 93.0% 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			
Endowment Plans	157	0	5	28	117	11.00	No
Multipension	274	0	9	26	143	9.39	In certain circumstances

The specimen guaranteed annuity rates shown above are for a male aged 65. The annuity is a non-increasing single life annuity, payable monthly for a minimum period of five years. Payments are in advance for conventional policies and in arrears for Multipension. Annuities on equivalent terms to those indicated above are available on an increasing or joint lives basis or with other payment frequencies or other minimum payment periods.

Guaranteed annuity rates are applicable on early or late retirement at any age permitted by the terms of the policy. The relevant rates are determined on the same basis as that applicable at the normal retirement date, allowing for the age at retirement.

## (2) Guaranteed surrender and unit-linked maturity values

- (a) Certain unitised with profits pensions policies include a provision that no market value reduction (MVR) will be applied on early retirement within five years of the normal retirement date, in respect of regular premiums that have been paid or single premiums that have been invested for at least five years at the early retirement date. 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 Low Cost Homebuyers' Plans (LCHP) and Homebuyers' Investment Plans (HIP) effected since 1998 include a provision whereby a guaranteed amount may be payable on the maturity date. The guarantee may be selected ten years before the maturity date, and if selected the premium must be increased where necessary to a level advised by the Company at the time. Furthermore, for HIP invested in unit-linked funds, the plan must be switched to unitised with profits. In the case of LCHP, for all plans where the guarantee is in force, the guaranteed amount in respect of this provision does not exceed the normal guaranteed amount at maturity, taking into account the Guaranteed Interest Rate. The basic reserves are therefore sufficient to cover the value of the guarantee. In the case of HIP, there are two plans with the guarantee in force, for which no additional reserves are required. In the case of plans that are more than ten years from the maturity date, including HIP currently invested in unit-linked funds, the terms on which the increase in premium is determined if the guarantee is selected are currently, and it is intended will remain, such as to ensure that no additional reserve will be necessary at the time the guarantee comes into force, taking into account the explicit allowance in the basic reserve for the Guaranteed Interest Rate for LCHP and the provision that no MVR will apply at maturity date. It is therefore considered that the basic reserve is sufficient to cover the value of the prospective guarantee for such plans.

- (b) All guaranteed surrender values affecting groups of policies where the basic reserve exceeds £10m have been explicitly valued within the calculation of the basic reserve, as described above.

### **(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 Multipensions 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 93.0% 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 unitised with profits pensions policies.

Basic with profits reserve for policies with the guarantee:	£13m
Additional reserve in respect of the guarantee:	£6m

## **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 £166.8m, after allowing for expenses recovered through the reinsurance arrangement with FLAS. This amount arises from the following sources:

- (i) explicit expense assumptions in the valuation amounting to £93.5m; and
- (ii) the amount implicitly provided for investment expenses by deductions from yields when establishing the valuation interest rates, amounting to £73.3m.

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 £32.5m, 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 of £43.5m in respect of potential costs arising as a result of reviewing administrative procedures was established during 2010 and this amount is included at line 44 of Form 43. The Company regards this as an extraordinary expense for the year, and so no allowance is made for any future increase in this provision.

During 2010, the costs (£33.8m) incurred on certain projects were recharged to the Company. However, due to the discretionary nature of the projects being recharged to FLC, no allowance is made in the reserves for future project costs.

After allowing for initial transaction costs on assets, the accounting provision and project costs, the amount of maintenance expenses (£142.5m) included in line 44 of Form 43 is lower than the expense loadings (£166.8m) disclosed in section 6(1) above.

### **(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 Company at the next review if no future savings were achieved. Therefore, an additional reserve has been established at 31 December 2010 of £42m 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 a project to outsource the policy administration of traditional business have been treated as non-attributable expenses within the valuation. The total costs associated with the project have been split across the main policy types in scope, weighted by the volume of business within each group. The following reserves have been set up:

<b>Homogeneous Risk Group</b>	<b>Reserves (£m)</b>
Life Annuities	0.1
Long Term Care Plans	1.1
Immediate Care Plans	0.2

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 £4.0m has been set up in the With Profits Fund and £20.0m in the Non Profit Fund to provide for the expected future costs of completing the project.

All other expenses have been treated as attributable.

## **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 £6,431m. An analysis by currency of the matching assets is set out in the following table.

<b>Currency of asset</b>	<b>Value of assets £m</b>
Sterling	4,547
Euro	597
U.S. Dollar	623
Japanese Yen	205
Other	459
<b>Total</b>	<b>6,431</b>

### **(2) Other currency exposures**

The mathematical reserves in respect of liabilities denominated in currencies other than sterling amount to £44m. The proportion of these liabilities that is matched by assets in the same currency as the liability is 73%.

### **(3) Currency mismatching reserve**

No reserve is deemed necessary in respect of currency mismatching. The backing of liabilities by assets in a different currency relates to the exposure of with profits contracts to investments in a range of currencies.

### **(4) Most onerous scenario under INSPRU 3.1.16R**

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

### **(5) Most onerous scenarios under INSPRU 3.1.23R**

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

### **(6) Amount of resilience capital requirement**

The Company 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**

The following special reserves exceed £10m.

### ***Reorganisation Bonus***

The Company has an obligation to make payments of Reorganisation Bonus, as required by the Reorganisation Scheme governing the Company. The total reserves for this liability are £143.5m. These are included within the reserves for the relevant classes of with profits business on Forms 51 and 52.

The reserves are equal to the balance of the 'RBM Account', which under the Reorganisation Scheme records the value of the obligation to policyholders in the New With Profits Fund, together with further amounts representing:

- Reorganisation Bonuses payable in respect of policies in the Old With Profits Fund; and
- the value of future transfers made subject to rule INSPRU 1.5.27R in respect of the payment of Reorganisation Bonuses.

### ***Tax Equalisation Provision***

For unit linked life contracts effected on or after 1 January 1977, the prospective liability for tax on unrealised capital gains is allowed for in the unit pricing. However a Tax Equalisation Provision of £33.1m is held to meet future liability to tax which may arise on account of timing differences in the payment of tax on disposal of investments.

### ***Reinsurance Default Provision***

A global provision is held within FLC to cover the risk of default on external reinsurance arrangements. This provision is calculated based on historic default rates by S&P rating, and adjusted to reflect any expected worsening of future conditions. The assumptions for expected future defaults is broadly in line with those used to calculate credit risk adjustments to yields in section 4(3).

At December 2010, a provision of £18.8m was held in respect of FLC external reinsurance arrangements.

## **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 Company 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
Swiss Re Life & Health Ltd	<p>A single treaty covering:</p> <p><u>Regular Premium Individual Lifetime Care Plans</u></p> <p>Benefits on an original terms quota share basis for plans written prior to 1st April 1998. Benefits on a risk premium quota share basis for plans written on or after 1st April 1998 and prior to 1 January 2002, and increments to such plans. The cover is 70% of each benefit up to £60,000 p.a., 100% of the excess over £60,000 p.a.. The cover for original terms policies following a policy review has changed to 67% of each benefit.</p> <p><u>Individual Permanent Health Insurance</u></p> <p>Benefits on an original terms, quota share and surplus basis. The cover is 2/3rds of each benefit up to £18,000 p.a., and 100% of the surplus above £18,000 p.a. to a maximum of £50,000 p.a..</p> <p><u>Individual Level Term Assurance and Individual Critical Illness</u></p> <p>Death and/or Critical illness risks on an original terms surplus basis in excess of the Company's retention of £15,000.</p>	4.2	Yes	54
Swiss Re Europe S.A. UK Branch	Unitised Income Protection 25% quota share written from 1 <sup>st</sup> July 1989 plus the excess over the Company's retention of £30,000pa on a facultative basis	1.5	Yes	13
Kolnische Ruckversicherungs-Gesellschaft AG	Single Premium Individual Lifetime Care Plans Benefits on an original terms quota share basis for plans written after 1st September 1994 and prior to 1st July 1997, and a risk premium quota share basis for plans written on or after 1st July 1997 and prior to 16th August 2004. The cover is 50% of each benefit up to £60,000 p.a., 100% of the excess over £60,000 p.a.. The cover for original terms policies following a policy review has changed to 50% of the benefit covered by the original premium.	1.0	Yes	39
SCOR Global Life Reinsurance UK Ltd	Regular Premium Term Assurance (mortality only) quota share for level and decreasing plans written from 1 <sup>st</sup> June 2006. Terms are to reinsure 50% of the first £10m.	6.5	No	99
SCOR Global Life Reinsurance UK Ltd	Regular Premium Term Assurance (stand alone or accelerated critical illness only) quota share for level and decreasing plans written from 1 <sup>st</sup> June 2006. Terms are to reinsure 40% of the first £0.5m.	9.3	No	41

Reinsurer	Nature and extent of cover	Premiums payable during 2010 £m	Whether treaty closed to new business	Reduction in mathematical reserves £m
RGA Reinsurance Company (Barbados) Ltd	Regular Premium Term Assurance (mortality only) quota share for level and decreasing plans written from 1 <sup>st</sup> June 2006. Terms are to reinsure 36% of the first £10m.	5.0	No	72
Partner Re	Regular Premium Term Assurance (stand alone or accelerated critical illness) quota share for level and decreasing plans written from 1 <sup>st</sup> June 2006. Terms are to reinsure 20% of the first £0.5m.	4.0	No	21
Pacific Life	Regular Premium Term Assurance (stand alone or accelerated critical illness) quota share for level and decreasing plans written from 1 <sup>st</sup> June 2006. Terms are to reinsure 20% of the first £0.5m.	3.8	No	21
FAL (2007 reinsurance)	Reinsurance of the non-profit pensions annuities in payment business directly written in FLC.	93	No	1,630
FAL (2009 reinsurance)	Reinsurance of the non-profit pensions annuities in payment business reinsured to FLC from FLAS.	0	Yes	1,996
Unit Reassurance	Linked benefits where the member has chosen to invest in the funds of the below companies on a 100% quota share basis: Winterthur Life UK Baillie Gifford Life Barclays Global Investors	207.8 0.0 0.7	No	1,374 53 19

In respect of the above treaties:

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

With the exceptions of Kolnische Ruckversicherungs-Gesellschaft AG and RGA Reinsurance Company (Barbados) Ltd, the above companies are authorised to carry out insurance business in the UK.

With the exception of FAL and Winterthur Life UK, the reinsurers are not connected with the Company.

The Company has credit risk exposure to each of the above reinsurers. The exposure does not exceed internal exposure limits, taking account of the rating of each reinsurer. A separate reserve is held in respect of the possibility of default of external reinsurance counterparties.

There are no legal disputes at the present time in connection with the Company'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 Company 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.

Historically FLAS has provided new business financing in respect of regular premium business reassured to the Company. The outstanding amount of the Company's undischarged obligation at the valuation date was £61.2m. This is repayable monthly out of surplus arising on the business being financed. It should be noted that this financing is provided by a company within the Group, and the disclosures in this section and in Form 3 lines 91-95 should be viewed with this in mind.

This undischarged obligation has not been taken into account in the valuation because it is repayable out of margins in the policies financed. No allowance has been made for contingencies associated with this arrangement for the purposes of the return.

## 10. Regular bonus

Name of Bonus Series	Mathematical Reserves £m	Bonus Rate for 2010	Bonus Rate for 2009	Guaranteed Rate for 2010 <sup>6</sup>
<b>Conventional With Profits</b>				
Conventional Life Series 1 <sup>1</sup>	20	1.17%/0.00%	1.18%/0.00%	
Conventional Life Series 2	79	1.00%	1.00%	
Top Flight and Moneysaver	485	2.00%	2.00%	
Postal Staff Scheme	17	2.00%	2.00%	
Conventional Pensions	216	0.00%	0.00%	
<b>Unitised With Profits<sup>2</sup></b>				
Investment Bond and Flexible Bond	1103	2.75%	2.92%	
With Profits Income Bond	11	3.25%	3.42%	
Individual Savings Account <sup>3</sup>	12	3.50%	3.67%	
Low-Cost Homebuyers' Plan	543	0.00%	0.13%	3.00%
Multivestor	15	0.50%	0.67%	1.75%
Multiplan	17	3.25%	3.42%	
Multipension Series 2	1028	0.00%	0.00%	4.00%
Multipension Series 3	301	1.50%	1.67%	
Flexible Pensions:				
Group WP fund	13	3.50%	3.50%	
with GMP guarantee	19	1.75%	1.75%	
Other <sup>4</sup>	88	2.25%	2.25%	
Other Trustee Plans	18	3.00%	3.17%	
Pensions 1997 series <sup>5</sup>	103	2.00%	2.17%	
Pensions 1999 series	40	2.00%	2.17%	
Pensions 2000 & 2002 series <sup>3</sup>	74	3.00%	3.17%	
Retirement Investment and Income Plan	18	3.50%	3.50%	
Retirement Savings Schemes	309	1.50%	1.50%	
Amulet (other than Investment Plan)	13	3.50%	3.67%	
AXA Isle of Man Bonds:				
Series 3 (Sterling)	97	3.00%	3.17%	
Series 3 (Euro)	21	2.50%	2.67%	
Series 3 (Dollar)	21	4.00%	4.00%	

### Notes:

- <sup>1</sup> For Conventional Life Series 1, 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.
- <sup>2</sup> Unitised with profits bonus rates (except for Flexible Pensions) 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.
- <sup>3</sup> The bonus rates for Individual Savings Account, Pensions 2000 and 2002 Series and Amulet (other than Investment Plan) are before deduction of management charges.
- <sup>4</sup> The rates stated above are for accumulation units. The corresponding rates for capital units were 0.00% for both 2010 and 2009.
- <sup>5</sup> For Pensions 1997 Series, where commission is payable as a defined percentage of the fund, the above bonus rate is reduced by the relevant percentage.
- <sup>6</sup> The guaranteed bonus rate is in addition to the base bonus rate declared.

Name of Insurer: **Friends Life Company Limited**

**IPRU(INS) Rule 9.31(b) and 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:

<b>This financial year</b>	
Investment return	Risk-free rate calibrated to the gilt yield curve. For fixed interest assets matching annuities in payment, a +55 basis points 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. + 55 basis points for annuities in payment. For release of long-term insurance capital component: risk-free rate + 55 basis points p.a. for annuities in payment.

<b>Preceding financial year</b>	
Investment return	Risk-free rate calibrated to the gilt yield curve plus 10 basis points. For fixed interest assets matching annuities in payment, a +35 basis points 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. + 35 basis points for annuities in payment. For release of long-term insurance capital component: risk-free rate + 35 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.

	NWPF		OWPF	
	With Profits Benefit Reserve (£m)	Future policy related liabilities (£m)	With Profits Benefit Reserve (£m)	Future policy related liabilities (£m)
<b>Retrospective method (asset share)</b>				
UWP Bonds (no MVR-free date)	1,000	246	186	37
UWP Regular Premium Life	538	186	111	31
UWP Pensions (no minimum bonuses or GARs)	637	136	182	29
UWP Pensions with minimum bonuses but no GARs	402	131	161	44
UWP Pensions with minimum bonuses and GARs	239	182	69	42
Conventional Life	598	228	211	64
Conventional Pensions	52	99	15	32
ISA	9	0	1	0
Other	0	0	0	0
<b>Prospective method (regulatory reserve)</b>				
Retirement Savings Scheme	266	0	16	0
Other	9	0	0	0
<b>Total</b>	<b>3,750</b>	<b>1,208</b>	<b>952</b>	<b>279</b>

- (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 8 and 11 of this Report.

£m	NWPF	OWPF
Future Policy Related Liabilities, from above table	1,208	279
Reorganisation Bonus	125	18
Tax and expense on assets in excess of asset share and other provisions.	78	17
Future Policy Related Liabilities, Form 19, Line 49	1,412	315

### 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 Friends Life Services Limited (formerly AXA Sun Life Services Limited) (FLS) for management, administration, marketing and sales services, as defined in the Service Agreements between FLC 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:

<b>£m</b>	<b>NWPF</b>	<b>OWPF</b>
Initial fees chargeable to asset shares	1.4	0.2
Maintenance fees chargeable to asset shares	10.0	2.0
Investment fees chargeable to asset shares	6.7	0.9
Other expenses chargeable to asset shares	0.0	0.0
Expenses on non-profit contracts	2.3	0.4
Other expenses not chargeable to asset shares	6.6	1.4

- (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:

<b>Year</b>	<b>Average Payout ratio</b>
2010	113%
2009	125%
2008	116%

- (7) For the full year 2010, the investment return before tax and expenses for both New and Old With Profits Funds was 13.3%

For most UWP policies, the gross return applied to asset shares was 14.5%. For such policies approaching the end of their policy term, a different rate was applied. This varied from 8.1% to 14.5% depending on product type and unexpired term. The return applied to conventional with profits business was 13%.

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

## **5. With Profits Benefits Reserve – Prospective method**

For Retirement Savings Scheme a prospective method is used rather than asset share, with the With Profits benefit reserve calculated deterministically using realistic assumptions including an allowance for future bonuses. The approach assumes a risk-free investment return and discount rate consistent with table 6 (4) (a) (iii), annual bonuses and additional interest totalling 0.50% p.a. in addition to the guaranteed return, expense inflation at the regulatory assumption of 4.5% p.a., an expense of £126.5 p.a. per person, per policy charges of £30 p.a. per person (£40 if premiums ceased) and no future lapses. It is assumed that the With Profits benefits reserve determined in this

way is sufficient to cover any cost of guarantees and smoothing on this contract.

For other classes 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 full 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.

	Policies	Experience Model Points
<b>NWPF</b>	417,490	1,689
<b>OWPF</b>	82,475	616

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 and smoothing to allow for the estimated grouping error.

- (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 is around 90% for policies close to maturity, reducing to 75% for policies with around 5 years to maturity, and increasing to 95% for policies with more than 20 years to go.
  - The guarantee that no market value reduction will be applied on regular income withdrawals that are within the limits defined in the contract terms.
  - Guaranteed annuity rates (GARs), which offer an annuity calculated on guaranteed terms on normal and early 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.

<b>Volatility over period (years)</b>	<b>Equity</b>	<b>Property</b>	<b>Fixed interest</b>
5	28%	15%	6%
10	29%	16%	7%
20	31%	16%	7%

The correlations assumed between the main assets classes are:

<b>Correlation between:</b>	
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  $K * £1,000,000 * (1+r*p)^n$ .

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.

	<b>K</b>	<b>0.75</b>			
<i>n</i>	<i>Duration (n)</i>	<b>5</b>	<b>15</b>	<b>25</b>	<b>35</b>
<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>	£96,780	£248,064	£361,515	£444,721
3	<i>FTSE All Share Index (p=0.8)</i>	£89,626	£196,850	£260,928	£300,575
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>	£15,484	£34,534	£34,139	£51,452
9	<i>15yr Corporate Bonds (p=0.8)</i>	£13,122	£20,109	£11,909	£12,267
10	<i>Portfolio 1 (p=1)</i>	£48,955	£159,585	£249,756	£331,682
11	<i>Portfolio 1 (p=0.8)</i>	£43,710	£118,056	£165,197	£206,994
12	<i>Portfolio 2 (p=1)</i>	£42,248	£137,906	£218,683	£292,030
13	<i>Portfolio 2 (p=0.8)</i>	£37,427	£98,846	£139,016	£174,940
14	<i>Portfolio 3 (p=1)</i>	£17,937	£73,109	£127,305	£188,568
15	<i>Portfolio 3 (p=0.8)</i>	£15,020	£44,322	£67,495	£92,492
	<i>Sterling Receiver Swaptions</i>	<i>L = 15</i>			
16		5.40%	6.86%	6.78%	5.45%

	<b>K</b>	<b>1.00</b>			
<i>n</i>	<i>Duration (n)</i>	<b>5</b>	<b>15</b>	<b>25</b>	<b>35</b>
<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>	£227,437	£412,499	£547,651	£646,019
3	<i>FTSE All Share Index (p=0.8)</i>	£213,412	£333,605	£401,852	£441,987
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>	£91,203	£118,552	£124,962	£167,265
9	<i>15yr Corporate Bonds (p=0.8)</i>	£80,207	£70,908	£48,123	£50,363
10	<i>Portfolio 1 (p=1)</i>	£162,815	£305,205	£418,112	£513,161
11	<i>Portfolio 1 (p=0.8)</i>	£149,536	£233,314	£285,090	£329,280
12	<i>Portfolio 2 (p=1)</i>	£152,681	£278,522	£380,907	£467,294
13	<i>Portfolio 2 (p=0.8)</i>	£139,326	£208,279	£252,372	£289,720
14	<i>Portfolio 3 (p=1)</i>	£109,278	£194,626	£269,236	£346,625
15	<i>Portfolio 3 (p=0.8)</i>	£96,689	£131,111	£154,981	£186,603
	<i>Sterling Receiver Swaptions</i>	<i>L = 20</i>			
16		6.84%	8.85%	8.45%	6.65%

	<b>K</b>	<b>1.50</b>			
<i>n</i>	<i>Duration (n)</i>	<b>5</b>	<b>15</b>	<b>25</b>	<b>35</b>
<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>	£599,255	£792,026	£952,432	£1,072,077
3	<i>FTSE All Share Index (p=0.8)</i>	£570,246	£654,218	£712,162	£745,969
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>	£498,344	£497,977	£513,008	£555,914
9	<i>15yr Corporate Bonds (p=0.8)</i>	£464,503	£339,002	£260,619	£246,154
10	<i>Portfolio 1 (p=1)</i>	£544,658	£674,814	£809,055	£916,164
11	<i>Portfolio 1 (p=0.8)</i>	£514,065	£537,229	£574,670	£605,664
12	<i>Portfolio 2 (p=1)</i>	£537,283	£646,853	£762,427	£864,127
13	<i>Portfolio 2 (p=0.8)</i>	£506,450	£509,476	£533,055	£557,845
14	<i>Portfolio 3 (p=1)</i>	£510,422	£564,935	£647,001	£731,072
15	<i>Portfolio 3 (p=0.8)</i>	£477,779	£422,372	£416,028	£431,952
	<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%.  
The Initial UK property yield assumed is 4.30%
- (v) No asset classes outside the UK are modelled separately.
- (vi) The average outstanding term of with profits liabilities in the New With Profits Fund is approximately 7 years. The average outstanding term of with profits liabilities in the Old With Profits Fund is approximately 9 years. A breakdown for selected product types is shown in the table below.

<b>Outstanding term (yrs)</b>	<b>NWPF</b>	<b>OWPF</b>
Bonds	6	5
Conventional Pensions	4	3
Conventional Life	5	5
UWP Life	5	5
UWP Pensions	10	11

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, though the cost of guarantees is greater at shorter durations. The outstanding duration of GAR guarantees is also shorter but still evenly spread.

The model was calibrated to a moneyness of between 75% for short durations to 95% 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	90%	24.0%	24.8%
2	90%	24.5%	25.2%
3	80%	26.6%	25.5%
5	75%	27.6%	26.2%
10	85%	27.1%	27.4%
20	95%	28.1%	28.8%

- (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 analyse the 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	65%	65%	65%	65%	65%	65%	65%	65%	65%
Annual bonus rate									
Investment Bond	2.75%	1.25%	2.00%	2.75%	0.75%	1.50%	2.75%	1.75%	2.50%
Annual Bonus rate UWP Pension (effected 1999)	2.00%	1.75%	2.00%	2.00%	1.25%	1.25%	2.00%	2.50%	2.50%

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.
UWP Bond	surrender	2.3	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
CWP pension regular premium	surrender	2	2	2	2
CWP pension single premium	surrender	2	2	2	2
UWP individual pension regular premium	PUP	6.5	6.5	4.8	4.5
UWP individual pension regular premium	surrender	2.5	2.5	2.5	3.2
UWP individual pension single premium	surrender	2.5	2.5	2.5	3.2
CWP savings endowment	surrender	12.2	8.4	4.3	2.5
CWP target cash endowment	surrender	1	1	1	1
UWP savings endowment	surrender	7.6	8	9	8
UWP target cash endowment	surrender	12.4	12.8	8.8	6

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 the tax free cash alternative and the value of the annuity net of tax.

The mortality assumption in possession of any GAR is assumed to be 100% of PCMA00 (100% medium cohort with 1.5% floor) for males, and 97.5% of PCFA00 (75% medium cohort with

1.25% floor) for females. For practical reasons, an equivalent one-dimensional table is 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

There are no financing arrangements in place.

## 8. Other long-term insurance liabilities

Form 19 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 the value of the future Reorganisation Bonus payable in accordance with the reorganisation scheme governing the company. Section 3(2) details the amounts of each.

## 9. Realistic current liabilities

In the OWPF, the realistic current liabilities are equal to the regulatory current liabilities plus an amount reflecting the tax liability on future shareholder transfers and on the shareholders' share of the Reorganisation Bonus.

In the NWPF the realistic current liabilities are equal to the regulatory current liabilities. An amount reflecting the tax liability on future shareholder transfers and on the shareholders' share of the Reorganisation Bonus is subtracted from the support asset shown on Form 19 Line 27 and is also included in Form 18 Line 65.

## 10. Risk Capital Margin

- (a) The Risk Capital Margin is £186m for the NWPF and £40m for OWPF. This has been calculated assuming:

- (i) Equity values fall by 20% and property values fall by 12.5%. No separate assumption is made for non UK assets.
- (ii) Fixed interest yields are assumed to fall by the amounts shown in the table below. The percentage change in yields is 17.5%. No overseas fixed interest assets are treated as being invested in significant territories.

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, other than those that are issued or guaranteed by credit risk scenario exempt organisations in accordance with INSPRU 1.3.78R, is as follows:

	Average change in spread (basis points)	Percentage change in asset values
With profits portfolio	77	-5.5%
Non-profit portfolio	87	-4.3%

- (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 156 bps, resulting in an increase in the value of these assets of 575%.

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 the market and credit risk stress scenarios have occurred is given in the table below.

	Percentage change in liabilities
NWPF	0.58%
OWPF	0.82%

- (v) Not applicable.

- (b)
  - (i) In the stress scenario that defines the Risk Capital Margin calculation, it is assumed that the Long Term Target Payout Ratio is reduced from 130% to 125%.

No other changes to management actions are assumed from the base calculation. There are no further changes to assumptions, other than those that result directly from the events of the stress scenario itself.

- (ii) The impact of the change in management actions on the Risk Capital Margin is £109m for NWPF and £24m for OWPF.
- (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) All the assets required by the OWPF and NWPF to cover the Risk Capital Margin are held within the 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 interest rate receiver swaps are held for the purposes of hedging interest rate risk. The swaps held have maturity dates between 2012 and 2049, a total notional of £415.5m, and a total market value of £24.6 m.

Sterling interest rate payer swaps are held for the purposes of hedging interest rate risk. The swaps held have maturity dates between 2014 and 2016, a total notional of £16.6m, and a total market value of -£2.1 m.

Sterling receiver swaptions are held for the purpose of hedging interest rate risk. These have exercise dates ranging from 2011 to 2032, all have a tenor of 20 years and a strike rate of 5%. They have a total notional of £307.6m and a total market value of £34.9m.

Equity put options are held for the purpose of hedging equity risk. They are:

- Total return options on a basket of indices weighted as follows:

Index	Economy	Weighting
FTSE 100 Total Return	UK	71%
S&P 500 Total Return	US	13%
Dow Jones EUROSTOXX 50 Total Return	Europe	8%
TOPIX Total Return	Japan	8%

They are out of the money options with maturity dates ranging from 2012 to 2025, a total notional of £468.9m and a market value of £41.4m.

- OTC Equity Options on indices (S&P 500, DJ Eurostoxx50). They are out of the money options. There is a total notional of £170.4m for a market value of £5.0m.
- Listed Equity Options on FTSE100. They are out of the money options. There is a total notional of £712.7m for a market value of £11.0m.

Single name Credit default swaps are held to hedge against credit risk on identified bonds. There is £196.7m of notional bought protection. They are maturing between 2012 and 2019.

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 Mar 2011	£15.9m
FTSE 100	Sold	Reduce economic exposure to UK equities	18 Mar 2011	£204.8
DJ Eurostoxx50	Bought	Increase economic exposure to European equities	18 Mar 2011	£208.5m
Long (10y) Gilt	Sold	Duration management	29 Mar 2011	£113.2m
EURO Bond	Sold	Duration management	08 Mar 2011	£16.0m

Cross currency swaps are held to hedge overseas currencies exposure. They have a total notional of £180.2m and a market value of -£35.9m.

Currency forwards are held for the purpose of portfolio management to hedge overseas currencies exposure back to Sterling. There is £716.5m exposure to Euro, USD and JPY back to Sterling.

### Analysis of change in working capital

£m	NWPF	OWPF
<b>Realistic working capital 31 December 2009</b>	<b>1,510</b>	<b>269</b>
Opening Adjustments to valuation of WP liabilities	(18)	(2)
Model & Methodology Changes on valuation of WP liabilities	33	5
Return on Working Capital	36	33
Mismatch profits on assets backing the future policyholder related liabilities	57	12
Changes to persistency & mortality assumptions	12	2
Changes to economic assumptions	(13)	(2)
Changes to non-economic assumptions	(99)	(27)
Addition of Special Bonus	-	(182)
New Business	(1)	-
Profit from Non-Profit business in the With Profit Funds	36	5
Changes in other liabilities of lines 47 and 51 of Form 19	(38)	(8)
Change in Support Arrangement Assets	(1,079)	-
Other	2	(21)
<b>Realistic working capital 31 December 2010</b>	<b>438</b>	<b>84</b>

The change in Support Arrangement Assets is essentially the change in the Non-Profit Funds surplus, which is lendable to NWPF under the rules of the Reorganisation Scheme. The main reason for the decrease is due to the transfer of £1,010m to the Shareholder's Fund following the Reorganisation Scheme's five year test.

The main component 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 payment of the Special Bonus has been made following the Reorganisation Scheme's five year test.

Name of Insurer           **Friends Life Company 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 Company 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.

Approval has been given for the use of over the counter (OTC) derivatives to support particular unit linked, With Profits and Non Profits funds. As at the end of 2010, the value of the OTC derivatives held to cover such contracts was £nil (2009: £2.3m).

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 Company Limited**

**IPRU (INS) RULE 9.30 - STATEMENT OF CONTROLLERS OF FRIENDS LIFE COMPANY LIMITED**

**Up to 15 September 2010**

<b>Controller</b>	<b>Shareholding/Voting Rights</b>						
<b>Friends ASLH Limited (formerly AXA Sun Life Holdings plc)</b> Pixham End, Dorking, RH4 1QA Incorporated in England Registered No: 3479251	100% shareholding in Friends Life Company Limited (formerly AXA Sun Life plc)						
<b>AXA UK plc</b> 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)						
<b>AXA</b> 25 avenue Matignon, 75008 Paris Incorporated in France Registered No: 572093920	100% shareholding in AXA UK plc split as follows: <table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 80%;">AXA</td> <td style="text-align: right;">78.3%</td> </tr> <tr> <td>AXA Equity &amp; 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%						
<b>Mutuelles AXA:</b>  <b>AXA Assurances Vie Mutuelle</b> 26 rue Drouot, 75009 Paris Incorporated in France Registered No: 353457245  <b>AXA Assurances IARD Mutuelle</b> 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 Company Limited**

**IPRU (INS) RULE 9.30 - STATEMENT OF CONTROLLERS OF FRIENDS LIFE COMPANY LIMITED**

**From 15 September 2010 and as at 31 December 2010**

<b>Controller</b>	<b>Shareholding/Voting Rights</b>
<b>Friends ASLH Limited (formerly AXA Sun Life Holdings plc)</b> Pixham End, Dorking, RH4 1QA Incorporated in England Registered No: 3479251	100% shareholding in Friends Life Company Limited (formerly AXA Sun Life plc)
<b>Friends Provident Holdings (UK) plc</b> Pixham End, Dorking, RH4 1QA Incorporated in England Registered No: 06986155	100% shareholding in Friends ASLH Limited (formerly AXA Sun Life Holdings plc)
<b>Resolution Holdings (Guernsey) Limited</b>  Incorporated in Guernsey	100% shareholding in Friends Provident Holdings (UK) plc
<b>Resolution Holdco No. 1 LP</b>	100% shareholding in Resolution Holdings (Guernsey) Limited
<b>Resolution Limited</b>	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 Company 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 €31.49 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 Company Limited**

**CERTIFICATE OF THE MONITORING BOARD OF FRIENDS LIFE COMPANY LIMITED**

**Financial year ended 31 December 2010**

1       Overall Conclusion

The Monitoring Board, having been advised by the Monitoring Actuary, hereby certifies pursuant to paragraph 2(b) of Part VII of the Scheme (see note 1) that in 2010 ('the period'), the Old With Profits Fund (OWPF) of Friends Life Company (FLC) (formerly AXA Sun Life Plc) was managed in a manner that was consistent with the Scheme.

2       Detailed Conclusions

(a) The Monitoring Board is satisfied that:

- (i) the operation and management of the sub-funds in the period, and
- (ii) the reinsurance into the OWPF from the New With Profits Fund of FLC (NWPF) of new with profits business written by FLC during the period were performed in accordance with the Scheme.

(b) The Monitoring Board has reviewed:

- (i) the investment policy of the OWPF during the period (the equity backing ratio having been above that of the median of the companies which FLC could reasonably determine as 'Peer Companies' as at the end of 2009, the latest available date for information)
- (ii) the bonus policy of FLC in respect of policies allocated to the OWPF during the period (during which bonus rates, including rates of Reorganisation Bonus, on policies allocated to the OWPF were identical to those on identical policies allocated to the NWPF),
- (iii) the volumes, mix and terms of new business which was written in or reassured in the OWPF during the period and which is planned to be written in or reassured in the OWPF during 2011, and
- (iv) the surrender terms applied in the period to policies allocated to the OWPF

and is satisfied that none of those items have been managed by FLC in a way prejudicial to the reasonable expectations of holders of 'Monitored Policies'.

3       Financial Support from the Non Profit Funds (NPF) of FLC

(a) The need for financial support for the OWPF and for the NWPF was assessed by FLC at 1 January 2010 in accordance with paragraph 21.3 of the Scheme. No financial support was required by the OWPF or by the NWPF.



Name of Insurer           **Friends Life Company Limited**

**CERTIFICATE OF THE MONITORING BOARD OF FRIENDS LIFE COMPANY LIMITED**

**Financial year ended 31 December 2010**

- (b) The solvency on both a regulatory and a realistic basis of the OWPF and of the NWPF were assessed by FLC throughout the period. No financial support was required by the OWPF or by the NWPF.

The Monitoring Board is satisfied that these assessments in paragraphs 3 (a) and 3 (b) were made by FLC in accordance with the provisions of the Scheme.

- (c) A further assessment of the need for financial support for the OWPF and for the NWPF in accordance with paragraph 21.3 of the Scheme is in the process of being made by FLC. The Monitoring Board will report further on this assessment in its certificate in respect of 2011.

4       Five Yearly Review

The Monitoring Board is satisfied that the Five Yearly review of the OWPF at 31 December 2010 was made by FLC in accordance with the provisions of the Scheme.

5       Basis for the Certificate of the Monitoring Board

In preparing this certificate, the Monitoring Board has, as stated above, been advised by the Monitoring Actuary, and has had full access to documents and reports prepared by FLC and by its With Profits Actuary and Actuarial Function Holder.

Note 1: The 'Scheme' means the transfer of the long term business of Friends AELLAS Limited (formerly AXA Equity & Law Life Assurance Society Plc) to FLC and the subsequent financial reorganisation of the long term business of FLC as approved by the High Court and by the Royal Court of Jersey in December 2000. 'Peer Companies' and 'Monitored Policies' are as defined in the Scheme.

Lord Taverne  
Chairman of the Monitoring Board

22 March 2011

Name of Insurer      **Friends Life Company Limited**

**IPRU(INS) 9.34 - 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 Company 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 Company 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 Company that are available for the purpose, to enable the Company 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;
- (f) we have, in preparing the return, taken and paid due regard to:
  - (i) advice from the actuary appointed by the Company to perform the actuarial function in accordance with SUP 4.3.13R; and
  - (ii) advice from the actuary appointed by the Company to perform the with-profits actuary function in accordance with SUP 4.3.16AR; and
- (g) in our opinion, the Company was managed in a manner that was consistent with the Scheme approved by the High Court in December 2000 to transfer the business of AXA Equity & Law Life Assurance Society plc to the Company.

Signed on behalf of Friends Life Company Limited

T. J. Matthews	Director
A. M. Parsons	Director
R. Yeoman	Secretary

22 March 2011

Name of Insurer **Friends Life Company 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, 11 to 19, 40 to 45, 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;
- the certificate required by IPRU(INS) rule 9.34(1); and
- the certificate of the monitoring board of Friends Life Company Limited.

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
- 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.

Name of Insurer **Friends Life Company 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**

**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