# Friends Life Assurance Society Limited

## (formerly Sun Life Assurance Society plc)

## Annual FSA Insurance Returns for the year ended 31st December 2011

(Appendices 9.1, 9.3, 9.4, 9.6)

# Friends Life Assurance Society Limited

## Year ended 31st December 2011

**Contents**

# Friends Life Assurance Society Limited

## Year ended 31st December 2011

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

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

Global business

Financial year ended **31st December 2011**

Solo solvency calculation

| | Company registration number | GL/UK/CM | Period ended day | month | year | units |
|---|---|---|---|---|---|---|
| R2 | 776273 | GL | 31 | 12 | 2011 | £000 |

| | | As at end of this financial year<br>1 | As at end of the previous year<br>2 |
|---|---|---|---|
| **Capital resources** | | | |
| Capital resources arising within the long-term insurance fund | 11 | 1149822 | 1219981 |
| Capital resources allocated towards long-term insurance business arising outside the long-term insurance fund | 12 | 322569 | 304475 |
| Capital resources available to cover long-term insurance business capital resources requirement (11+12) | 13 | 1472391 | 1524456 |
| **Guarantee fund** | | | |
| Guarantee fund requirement | 21 | 110148 | 112939 |
| Excess (deficiency) of available capital resources to cover guarantee fund requirement | 22 | 1362243 | 1411517 |
| **Minimum capital requirement (MCR)** | | | |
| Long-term insurance capital requirement | 31 | 330443 | 338818 |
| Resilience capital requirement | 32 | | |
| Base capital resources requirement | 33 | 3056 | 3040 |
| Individual minimum capital requirement | 34 | 330443 | 338818 |
| Capital requirements of regulated related undertakings | 35 | | |
| Minimum capital requirement (34+35) | 36 | 330443 | 338818 |
| Excess (deficiency) of available capital resources to cover 50% of MCR | 37 | 1307169 | 1355047 |
| Excess (deficiency) of available capital resources to cover 75% of MCR | 38 | 1224559 | 1270342 |
| **Enhanced capital requirement** | | | |
| With-profits insurance capital component | 39 | 707811 | 737563 |
| Enhanced capital requirement | 40 | 1038254 | 1076381 |
| **Capital resources requirement (CRR)** | | | |
| Capital resources requirement (greater of 36 and 40) | 41 | 1038254 | 1076381 |
| Excess (deficiency) of available capital resources to cover long-term insurance business CRR (13-41) | 42 | 434137 | 448075 |
| **Contingent liabilities** | | | |
| Quantifiable contingent liabilities in respect of long-term insurance business as shown in a supplementary note to Form 14 | 51 | | |

**Covering sheet to Form 2**

**Form 2**
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| | |
|---|---|
| Name of insurer | **Friends Life Assurance Society Limited** |
| Global business | |
| Financial year ended | **31st December 2011** |

| | | |
|---|---|---|
| ...................................................... | **E. B. Bourke** | **Director** |
| ...................................................... | **A. M. Parsons** | **Director** |
| ...................................................... | **V. Hames signed on behalf of Friends Life Secretarial Services Limited** | **Secretary** |

**London 20 March 2012**

## Components of capital resources

**Form 3**
**(Sheet 1)**
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Name of insurer **Friends Life Assurance Society Limited**

Global business

Financial year ended **31st December 2011**

| | Company registration number | GL/UK/CM | Period ended day | month | year | units |
|---|---|---|---|---|---|---|
| **R3** | **776273** | **GL** | **31** | **12** | **2011** | **£000** |

| | | General insurance business<br>1 | Long-term insurance business<br>2 | Total as at the end of this financial year<br>3 | Total as at the end of the previous year<br>4 |
|---|---|---|---|---|---|
| **Core tier one capital** | | | | | |
| Permanent share capital | **11** | | 2973 | 2973 | 2973 |
| Profit and loss account and other reserves | **12** | | 315573 | 315573 | 323238 |
| Share premium account | **13** | | 4023 | 4023 | 4023 |
| Positive valuation differences | **14** | | 1150481 | 1150481 | 1252140 |
| Fund for future appropriations | **15** | | 173875 | 173875 | 240916 |
| Core tier one capital in related undertakings | **16** | | | | |
| Core tier one capital (sum of 11 to 16) | **19** | | 1646925 | 1646925 | 1823290 |
| **Tier one waivers** | | | | | |
| Unpaid share capital / unpaid initial funds and calls for supplementary contributions | **21** | | | | |
| Implicit items | **22** | | | | |
| Tier one waivers in related undertakings | **23** | | | | |
| Total tier one waivers as restricted (21+22+23) | **24** | | | | |
| **Other tier one capital** | | | | | |
| Perpetual non-cumulative preference shares as restricted | **25** | | | | |
| Perpetual non-cumulative preference shares in related undertakings | **26** | | | | |
| Innovative tier one capital as restricted | **27** | | | | |
| Innovative tier one capital in related undertakings | **28** | | | | |
| **Total tier one capital before deductions** (19+24+25+26+27+28) | **31** | | 1646925 | 1646925 | 1823290 |
| Investments in own shares | **32** | | | | |
| Intangible assets | **33** | | 173033 | 173033 | |
| 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** | | 173033 | 173033 | |
| **Total tier one capital after deductions** (31-37) | **39** | | 1473892 | 1473892 | 1823290 |

**Components of capital resources** **Form 3**
**(Sheet 2)**

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

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Global business

Financial year ended **31st December 2011**

| | Company registration number | GL/UK/CM | Period ended day | month | year | units |
|---|---|---|---|---|---|---|
| R3 | 776273 | GL | 31 | 12 | 2011 | £000 |

| | | General insurance business<br>1 | Long-term insurance business<br>2 | Total as at the end of this financial year<br>3 | Total as at the end of the previous year<br>4 |
|---|---|---|---|---|---|
| **Tier two capital** | | | | | |
| Implicit items, (tier two waivers and amounts excluded from line 22) | **41** | | | | |
| Perpetual non-cumulative preference shares excluded from line 25 | **42** | | | | |
| Innovative tier one capital excluded from line 27 | **43** | | | | |
| Tier two waivers, innovative tier one capital and perpetual non-cumulative preference shares treated as tier two capital (41 to 43) | **44** | | | | |
| Perpetual cumulative preference shares | **45** | | | | |
| Perpetual subordinated debt and securities | **46** | | | | |
| Upper tier two capital in related undertakings | **47** | | | | |
| **Upper tier two capital** (44 to 47) | **49** | | | | |
| Fixed term preference shares | **51** | | | | |
| Other tier two instruments | **52** | | | | |
| Lower tier two capital in related undertakings | **53** | | | | |
| **Lower tier two capital** (51+52+53) | **59** | | | | |
| **Total tier two capital before restrictions** (49+59) | **61** | | | | |
| Excess tier two capital | **62** | | | | |
| Further excess lower tier two capital | **63** | | | | |
| **Total tier two capital after restrictions, before deductions** (61-62-63) | **69** | | | | |

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

Name of insurer **Friends Life Assurance Society Limited** Printed 16/03/2012 14:07:50

Global business

Financial year ended **31st December 2011**

| | Company registration number | GL/UK/CM | Period ended day | month | year | units |
|---|---|---|---|---|---|---|
| R3 | 776273 | GL | 31 | 12 | 2011 | £000 |

| | | General insurance business<br>1 | Long-term insurance business<br>2 | Total as at the end of this financial year<br>3 | Total as at the end of the previous year<br>4 |
|---|---|---|---|---|---|
| **Total capital resources** | | | | | |
| Positive adjustments for regulated non-insurance related undertakings | **71** | | | | |
| **Total capital resources before deductions** (39+69+71) | **72** | | 1473892 | 1473892 | 1823290 |
| Inadmissible assets other than intangibles and own shares | **73** | | 1500 | 1500 | 271895 |
| Assets in excess of market risk and counterparty limits | **74** | | | | 26938 |
| Deductions for related ancillary services undertakings | **75** | | 1 | 1 | 1 |
| Deductions for regulated non-insurance related undertakings | **76** | | | | |
| Deductions of ineligible surplus capital | **77** | | | | |
| **Total capital resources after deductions** (72-73-74-75-76-77) | **79** | | 1472391 | 1472391 | 1524456 |
| **Available capital resources for *GENPRU/INSPRU* tests** | | | | | |
| Available capital resources for guarantee fund requirement | **81** | | 1472391 | 1472391 | 1524456 |
| Available capital resources for 50% MCR requirement | **82** | | 1472391 | 1472391 | 1524456 |
| Available capital resources for 75% MCR requirement | **83** | | 1472391 | 1472391 | 1524456 |
| **Financial engineering adjustments** | | | | | |
| Implicit items | **91** | | | | |
| Financial reinsurance – ceded | **92** | | | | |
| Financial reinsurance – accepted | **93** | | 44059 | 44059 | 61233 |
| Outstanding contingent loans | **94** | | | | |
| Any other charges on future profits | **95** | | | | |
| Sum of financial engineering adjustments (91+92-93+94+95) | **96** | | (44059) | (44059) | (61233) |

**Analysis of admissible assets**

**Form 13**
**(Sheet 1)**
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Name of insurer **Friends Life Assurance Society Limited**

Global business

Financial year ended **31st December 2011**

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

| | Company registration number | GL/UK/CM | Period ended day | month | year | units | Category of assets |
|---|---|---|---|---|---|---|---|
| R13 | 776273 | GL | 31 | 12 | 2011 | £000 | 1 |

| | | | As at end of this financial year 1 | As at end of the previous year 2 |
|---|---|---|---|---|
| Land and buildings | | 11 | | |
| **Investments in group undertakings and participating interests** | | | | |
| UK insurance dependants | shares | 21 | | |
| | debts and loans | 22 | | |
| Other insurance dependants | shares | 23 | | |
| | debts and loans | 24 | | |
| Non-insurance dependants | shares | 25 | 224 | 224 |
| | debts and loans | 26 | | |
| Other group undertakings | shares | 27 | | |
| | debts and loans | 28 | 87700 | 227746 |
| Participating interests | shares | 29 | | |
| | debts and loans | 30 | | |
| **Other financial investments** | | | | |
| Equity shares | | 41 | | |
| Other shares and other variable yield participations | | 42 | | |
| Holdings in collective investment schemes | | 43 | 42236 | 7053 |
| Rights under derivative contracts | | 44 | | |
| Fixed interest securities | Approved | 45 | 174153 | 49282 |
| | Other | 46 | | |
| Variable interest securities | Approved | 47 | | |
| | Other | 48 | | |
| Participation in investment pools | | 49 | | |
| Loans secured by mortgages | | 50 | | |
| Loans to public or local authorities and nationalised industries or undertakings | | 51 | | |
| Loans secured by policies of insurance issued by the company | | 52 | | |
| Other loans | | 53 | | |
| Bank and approved credit & financial institution deposits | One month or less withdrawal | 54 | | |
| | More than one month withdrawal | 55 | | |
| Other financial investments | | 56 | | |

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

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

Global business

Financial year ended **31st December 2011**

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

| | Company registration number | GL/UK/CM | Period ended day | month | year | units | Category of assets |
|---|---|---|---|---|---|---|---|
| R13 | 776273 | GL | 31 | 12 | 2011 | £000 | 1 |

| | | | As at end of this financial year 1 | As at end of the previous year 2 |
|---|---|---|---|---|
| Deposits with ceding undertakings | | 57 | | |
| Assets held to match linked liabilities | Index linked | 58 | | |
| | Property linked | 59 | | |
| **Reinsurers' share of technical provisions** | | | | |
| Provision for unearned premiums | | 60 | | |
| Claims outstanding | | 61 | | |
| Provision for unexpired risks | | 62 | | |
| Other | | 63 | | |
| **Debtors and salvage** | | | | |
| Direct insurance business | Policyholders | 71 | | |
| | Intermediaries | 72 | | |
| Salvage and subrogation recoveries | | 73 | | |
| Reinsurance | Accepted | 74 | | |
| | Ceded | 75 | | |
| Dependants | due in 12 months or less | 76 | | |
| | due in more than 12 months | 77 | | |
| Other | due in 12 months or less | 78 | 22 | 3 |
| | due in more than 12 months | 79 | | |
| **Other assets** | | | | |
| Tangible assets | | 80 | | |
| Deposits not subject to time restriction on withdrawal with approved institutions | | 81 | 18692 | 21661 |
| Cash in hand | | 82 | | |
| Other assets (particulars to be specified by way of supplementary note) | | 83 | | |
| Accrued interest and rent | | 84 | 3989 | 546 |
| Deferred acquisition costs (general business only) | | 85 | | |
| Other prepayments and accrued income | | 86 | | |
| Deductions from the aggregate value of assets | | 87 | | |
| Grand total of admissible assets after deduction of admissible assets in excess of market risk and counterparty limits (11 to 86 less 87) | | 89 | 327016 | 306515 |

**Analysis of admissible assets**

**Form 13**
**(Sheet 3)**
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Name of insurer **Friends Life Assurance Society Limited**

Global business

Financial year ended **31st December 2011**

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

| | Company registration number | GL/UK/CM | Period ended day | month | year | units | Category of assets |
|---|---|---|---|---|---|---|---|
| R13 | 776273 | GL | 31 | 12 | 2011 | £000 | 1 |

| | | As at end of this financial year | As at end of the previous year |
|---|---|---|---|
| | | 1 | 2 |
| **Reconciliation to asset values determined in accordance with the insurance accounts rules or international accounting standards as applicable to the firm for the purpose of its external financial reporting** | | | |
| Total admissible assets after deduction of admissible assets in excess of market risk and counterparty limits (as per line 89 above) | **91** | 327016 | 306515 |
| Admissible assets in excess of market and counterparty limits | **92** | | 25759 |
| Inadmissible assets directly held | **93** | | |
| Capital resources requirement deduction of regulated related undertakings | **94** | | |
| Ineligible surplus capital and restricted assets in regulated related insurance undertakings | **95** | | |
| Inadmissible assets of regulated related undertakings | **96** | | |
| Book value of related ancillary services undertakings | **97** | | |
| Other differences in the valuation of assets (other than for assets not valued above) | **98** | | |
| Deferred acquisition costs excluded from line 89 | **99** | | |
| Reinsurers' share of technical provisions excluded from line 89 | **100** | | |
| Other asset adjustments (may be negative) | **101** | | |
| Total assets determined in accordance with the insurance accounts rules or international accounting standards as applicable to the firm for the purpose of its external financial reporting (91 to 101) | **102** | 327016 | 332274 |

| | | | |
|---|---|---|---|
| Amounts included in line 89 attributable to debts due from related insurers, other than those under contracts of insurance or reinsurance | **103** | 87700 | 135805 |

**Analysis of admissible assets**

**Form 13**
**(Sheet 1)**
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Name of insurer **Friends Life Assurance Society Limited**

Global business

Financial year ended **31st December 2011**

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

| | Company registration number | GL/UK/CM | Period ended day | month | year | units | Category of assets |
|---|---|---|---|---|---|---|---|
| R13 | 776273 | GL | 31 | 12 | 2011 | £000 | 10 |

| | | | As at end of this financial year<br>1 | As at end of the previous year<br>2 |
|---|---|---|---|---|
| Land and buildings | | 11 | 264562 | 294115 |
| **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 | 20531 | 92652 |
| | debts and loans | 26 | | |
| Other group undertakings | shares | 27 | | 1940 |
| | debts and loans | 28 | 2723 | 3362 |
| Participating interests | shares | 29 | | |
| | debts and loans | 30 | | |
| **Other financial investments** | | | | |
| Equity shares | | 41 | 1104815 | 1598482 |
| Other shares and other variable yield participations | | 42 | 144247 | 104946 |
| Holdings in collective investment schemes | | 43 | 173540 | 261132 |
| Rights under derivative contracts | | 44 | 161667 | 80251 |
| Fixed interest securities | Approved | 45 | 2591188 | 2167652 |
| | Other | 46 | 2143733 | 2168182 |
| Variable interest securities | Approved | 47 | 914936 | 494317 |
| | Other | 48 | 27769 | 218662 |
| Participation in investment pools | | 49 | | |
| Loans secured by mortgages | | 50 | | |
| Loans to public or local authorities and nationalised industries or undertakings | | 51 | 746 | 748 |
| Loans secured by policies of insurance issued by the company | | 52 | 1041 | 1366 |
| Other loans | | 53 | | |
| Bank and approved credit & financial institution deposits | One month or less withdrawal | 54 | 120 | |
| | More than one month withdrawal | 55 | | |
| Other financial investments | | 56 | | |

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

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

Global business

Financial year ended **31st December 2011**

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

| | Company registration number | GL/UK/CM | Period ended day | month | year | units | Category of assets |
|---|---|---|---|---|---|---|---|
| R13 | 776273 | GL | 31 | 12 | 2011 | £000 | 10 |

| | | | As at end of this financial year<br>1 | As at end of the previous year<br>2 |
|---|---|---|---|---|
| Deposits with ceding undertakings | | 57 | | |
| Assets held to match linked liabilities | Index linked | 58 | 576324 | 522307 |
| | Property linked | 59 | 22203 | 25039 |
| **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 | 5979 | 8234 |
| | Intermediaries | 72 | | |
| Salvage and subrogation recoveries | | 73 | | |
| Reinsurance | Accepted | 74 | | |
| | Ceded | 75 | 50925 | 958 |
| Dependants | due in 12 months or less | 76 | | |
| | due in more than 12 months | 77 | | |
| Other | due in 12 months or less | 78 | 35652 | 73864 |
| | due in more than 12 months | 79 | | |
| **Other assets** | | | | |
| Tangible assets | | 80 | | |
| Deposits not subject to time restriction on withdrawal with approved institutions | | 81 | 9496 | 25104 |
| Cash in hand | | 82 | | |
| Other assets (particulars to be specified by way of supplementary note) | | 83 | | |
| Accrued interest and rent | | 84 | 75326 | 81178 |
| Deferred acquisition costs (general business only) | | 85 | | |
| Other prepayments and accrued income | | 86 | 222 | 631 |
| Deductions from the aggregate value of assets | | 87 | | |
| Grand total of admissible assets after deduction of admissible assets in excess of market risk and counterparty limits (11 to 86 less 87) | | 89 | 8327745 | 8225122 |

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

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

Global business

Financial year ended **31st December 2011**

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

| | Company registration number | GL/UK/CM | Period ended day | month | year | units | Category of assets |
|---|---|---|---|---|---|---|---|
| R13 | 776273 | GL | 31 | 12 | 2011 | £000 | 10 |

**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**

| | | As at end of this financial year<br>1 | As at end of the previous year<br>2 |
|---|---|---|---|
| Total admissible assets after deduction of admissible assets in excess of market risk and counterparty limits (as per line 89 above) | **91** | 8327745 | 8225122 |
| Admissible assets in excess of market and counterparty limits | **92** | | 1179 |
| Inadmissible assets directly held | **93** | 174533 | 271895 |
| Capital resources requirement deduction of regulated related undertakings | **94** | | |
| Ineligible surplus capital and restricted assets in regulated related insurance undertakings | **95** | | |
| Inadmissible assets of regulated related undertakings | **96** | | |
| Book value of related ancillary services undertakings | **97** | 1 | 1 |
| Other differences in the valuation of assets (other than for assets not valued above) | **98** | 44059 | 61233 |
| Deferred acquisition costs excluded from line 89 | **99** | | |
| Reinsurers' share of technical provisions excluded from line 89 | **100** | 9540652 | 10144420 |
| Other asset adjustments (may be negative) | **101** | (1937) | 6168 |
| Total assets determined in accordance with the insurance accounts rules or international accounting standards as applicable to the firm for the purpose of its external financial reporting (91 to 101) | **102** | 18085053 | 18710018 |

| | | | |
|---|---|---|---|
| Amounts included in line 89 attributable to debts due from related insurers, other than those under contracts of insurance or reinsurance | **103** | | |

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

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

Global business

Financial year ended **31st December 2011**

Fund **Total Long-term insurance business**

Units **£000**

| | | | As at the end of this financial year<br>1 | As at the end of the previous year<br>2 |
|---|---|---|---|---|
| Mathematical reserves, after distribution of surplus | | 11 | 6895789 | 6731195 |
| Cash bonuses which had not been paid to policyholders prior to end of the financial year | | 12 | | |
| Balance of surplus / (valuation deficit) | | 13 | | |
| Long term insurance business fund carried forward (11 to 13) | | 14 | 6895789 | 6731195 |
| Claims outstanding | Gross | 15 | 68130 | 62010 |
| | Reinsurers' share | 16 | | |
| | Net (15-16) | 17 | 68130 | 62010 |
| Provisions | Taxation | 21 | 4027 | 9288 |
| | Other risks and charges | 22 | 51292 | 54374 |
| Deposits received from reinsurers | | 23 | | |
| Creditors | Direct insurance business | 31 | 236 | 680 |
| | Reinsurance accepted | 32 | 1440 | 1711 |
| | Reinsurance ceded | 33 | 897 | 813 |
| Debenture loans | Secured | 34 | | |
| | Unsecured | 35 | | |
| Amounts owed to credit institutions | | 36 | | |
| Creditors | Taxation | 37 | | |
| | Other | 38 | 150933 | 139585 |
| Accruals and deferred income | | 39 | 5179 | 5485 |
| Provision for "reasonably foreseeable adverse variations" | | 41 | | |
| Total other insurance and non-insurance liabilities (17 to 41) | | 49 | 282134 | 273946 |
| Excess of the value of net admissible assets | | 51 | 1149822 | 1219981 |
| Total liabilities and margins | | 59 | 8327745 | 8225122 |

| | | | |
|---|---|---|---|
| Amounts included in line 59 attributable to liabilities to related companies, other than those under contracts of insurance or reinsurance | 61 | 67333 | 106133 |
| Amounts included in line 59 attributable to liabilities in respect of property linked benefits | 62 | 22203 | 25039 |

| | | | |
|---|---|---|---|
| Total liabilities (11+12+49) | 71 | 7177923 | 7005141 |
| Increase to liabilities – DAC related | 72 | | |
| Reinsurers' share of technical provisions | 73 | 9540652 | 10144420 |
| Other adjustments to liabilities (may be negative) | 74 | 1192603 | 1319541 |
| Capital and reserves and fund for future appropriations | 75 | 173875 | 240916 |
| Total liabilities under insurance accounts rules or international accounting standards as applicable to the firm for the purpose of its external financial reporting (71 to 75) | 76 | 18085053 | 18710018 |

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

**Form 15**

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

Global business

Financial year ended **31st December 2011**

| | Company registration number | GL/UK/CM | Period ended day | month | year | units |
|---|---|---|---|---|---|---|
| R15 | 776273 | GL | 31 | 12 | 2011 | £000 |

| | | | As at the end of this financial year<br>1 | As at the end of the previous year<br>2 |
|---|---|---|---|---|
| **Technical provisions (gross amount)** | | | | |
| Provision for unearned premiums | | 11 | | |
| Claims outstanding | | 12 | | |
| Provision for unexpired risks | | 13 | | |
| Equalisation provisions | Credit business | 14 | | |
| | Other than credit business | 15 | | |
| Other technical provisions | | 16 | | |
| Total gross technical provisions (11 to 16) | | 19 | | |
| **Provisions and creditors** | | | | |
| Provisions | Taxation | 21 | | |
| | Other risks and charges | 22 | 133 | 133 |
| Deposits received from reinsurers | | 31 | | |
| Creditors | Direct insurance business | 41 | | |
| | Reinsurance accepted | 42 | | |
| | Reinsurance ceded | 43 | | |
| Debenture loans | Secured | 44 | | |
| | Unsecured | 45 | | |
| Amounts owed to credit institutions | | 46 | | |
| Creditors | Taxation | 47 | 4266 | 1886 |
| | Foreseeable dividend | 48 | | |
| | Other | 49 | 48 | 21 |
| Accruals and deferred income | | 51 | | |
| Total (19 to 51) | | 59 | 4447 | 2040 |
| Provision for "reasonably foreseeable adverse variations" | | 61 | | |
| Cumulative preference share capital | | 62 | | |
| Subordinated loan capital | | 63 | | |
| Total (59 to 63) | | 69 | 4447 | 2040 |

| | | | |
|---|---|---|---|
| Amounts included in line 69 attributable to liabilities to related insurers, other than those under contracts of insurance or reinsurance | 71 | | |

| | | | |
|---|---|---|---|
| Amounts deducted from technical provisions for discounting | 82 | | |
| Other adjustments (may be negative) | 83 | | |
| Capital and reserves | 84 | 322569 | 330234 |
| Total liabilities under insurance accounts rules or international accounting standards as applicable to the firm for the purpose of its external financial reporting (69-82+83+84) | 85 | 327016 | 332274 |

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

**Form 16**
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Name of insurer **Friends Life Assurance Society Limited**

Global business

Financial year ended **31st December 2011**

| | Company registration number | GL/UK/CM | Period ended day | month | year | units |
|---|---|---|---|---|---|---|
| **R16** | **776273** | **GL** | **31** | **12** | **2011** | **£000** |

| | | | This financial year<br>1 | Previous year<br>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 | 17238 | 16547 |
| Investment income | Income | 14 | 9065 | 8366 |
| | Value re-adjustments on investments | 15 | | 224 |
| | Gains on the realisation of investments | 16 | | |
| Investment charges | Investment management charges, including interest | 17 | 263 | 76 |
| | Value re-adjustments on investments | 18 | 1304 | |
| | Loss on the realisation of investments | 19 | 21 | 1747 |
| Allocated investment return transferred to the general insurance business technical account | | 20 | | |
| Other income and charges (particulars to be specified by way of supplementary note) | | 21 | | |
| Profit or loss on ordinary activities before tax (11+12+13+14+15+16-17-18-19-20+21) | | 29 | 24715 | 23314 |
| Tax on profit or loss on ordinary activities | | 31 | 2380 | 1457 |
| Profit or loss on ordinary activities after tax (29-31) | | 39 | 22335 | 21857 |
| 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 | 22335 | 21857 |
| Dividends (paid or foreseeable) | | 51 | 30000 | 30000 |
| Profit or loss retained for the financial year (49-51) | | 59 | (7665) | (8143) |

**Analysis of derivative contracts**

**Form 17**

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

Global business

Financial year ended **31st December 2011**

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

| | Company registration number | GL/UK/CM | Period ended day | month | year | units | Category of assets |
|---|---|---|---|---|---|---|---|
| R17 | 776273 | GL | 31 | 12 | 2011 | £000 | 10 |

| Derivative contracts | | | 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 | 110 | 3520 | 14512 | 113675 |
| | Interest rates | 12 | 96321 | 14192 | 347000 | 122813 |
| | Inflation | 13 | | 50991 | 667329 | |
| | Credit index / basket | 14 | | | | |
| | Credit single name | 15 | 17634 | 1131 | | 273033 |
| | Equity index | 16 | 72 | 4992 | 3377 | 180031 |
| | Equity stock | 17 | | | | |
| | Land | 18 | | | | |
| | Currencies | 19 | 8865 | 2984 | | 356616 |
| | Mortality | 20 | | | | |
| | Other | 21 | | | | |
| In the money options | Swaptions | 31 | 14561 | | 53847 | |
| | 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 | 24224 | | | 194751 |
| | Equity stock puts | 45 | | | | |
| | Other | 46 | | | | |
| Total (11 to 46) | | 51 | 161787 | 77810 | 1086065 | 1240919 |
| Adjustment for variation margin | | 52 | (120) | (9162) | | |
| Total (51 + 52) | | 53 | 161667 | 68648 | | |

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 16/03/2012 14:07:53

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

Global business

Financial year ended **31st December 2011**

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

Units **£000**

| | | | As at end of this financial year<br>**1** | As at end of the previous year<br>**2** |
|---|---|---|---|---|
| **Regulatory excess capital** | | | | |
| Regulatory value of assets | Long-term admissible assets of the fund | **11** | 8327745 | 8225122 |
| | Implicit items allocated to the fund | **12** | | |
| | Mathematical reserves in respect of the fund's non-profit insurance contracts | **13** | 4002532 | 3688484 |
| | Long-term admissible assets of the fund covering the LTICR of the fund's non-profit insurance contracts | **14** | 212065 | 220008 |
| | 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** | 4113148 | 4316630 |
| Regulatory value of liabilities | Mathematical reserves (after distribution of surplus) in respect of the fund's with-profit insurance contracts | **21** | 2893256 | 3042711 |
| | Regulatory current liabilities of the fund | **22** | 282134 | 273946 |
| | Total (21+22) | **29** | 3175390 | 3316657 |
| Long-term insurance capital requirement in respect of the fund's with-profits insurance contracts | | **31** | 118378 | 118810 |
| 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** | 3293768 | 3435467 |
| Regulatory excess capital (19-39) | | **49** | 819380 | 881163 |
| **Realistic excess capital** | | | | |
| Realistic excess capital | | **51** | | |
| **Excess assets allocated to with-profits insurance business** | | | | |
| Excess (deficiency) of assets allocated to with-profits insurance business in fund (49-51) | | **61** | 819380 | 881163 |
| 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** | 111569 | 143600 |
| 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** | 707811 | 737563 |

**Realistic balance sheet** **Form 19**
**(Sheet 1)**
Printed 16/03/2012 14:07:54

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

Global business

Financial year ended **31st December 2011**

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

Units **£000**

| | | | As at end of this financial year<br>1 | As at end of the previous year<br>2 |
|---|---|---|---|---|
| **Realistic value of assets available to the fund** | | | | |
| Regulatory value of assets | | 11 | 4113148 | 4316630 |
| Implicit items allocated to the fund | | 12 | | |
| Value of shares in subsidiaries held in the fund (regulatory) | | 13 | | |
| Excess admissible assets | | 21 | | 1179 |
| Present value of future profits (or losses) on non-profit insurance contracts written in the fund | | 22 | 380147 | 484780 |
| Value of derivatives and quasi-derivatives not already reflected in lines 11 to 22 | | 23 | | |
| 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 | 4493295 | 4802589 |
| Support arrangement assets | | 27 | | |
| Assets available to the fund (26+27) | | 29 | 4493295 | 4802589 |
| **Realistic value of liabilities of fund** | | | | |
| With-profits benefits reserve | | 31 | 2910384 | 3298011 |
| 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 | 729214 | 808655 |
| | 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 | 391425 | 293619 |
| | Future costs of non-contractual commitments | 42 | | |
| | Future costs of financial options | 43 | 166012 | 119985 |
| | Future costs of smoothing (possibly negative) | 44 | (6249) | (4422) |
| | Financing costs | 45 | (44059) | (61233) |
| | Any other liabilities related to regulatory duty to treat customers fairly | 46 | | |
| | Other long-term insurance liabilities | 47 | 37438 | 37543 |
| | Total (32+34+41+42+43+44+45+46+47-(33+35+36)) | 49 | 1273781 | 1194147 |
| Realistic current liabilities of the fund | | 51 | 309130 | 310431 |
| Realistic value of liabilities of the fund (31+49+51) | | 59 | 4493295 | 4802589 |

**Realistic balance sheet** **Form 19**
**(Sheet 2)**
Printed 16/03/2012 14:07:54

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

Global business

Financial year ended **31st December 2011**

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

Units **£000**

| | | As at end of this financial year<br>**1** | As at end of the previous year<br>**2** |
|---|---|---|---|
| **Realistic excess capital and additional capital available** | | | |
| Value of relevant assets before applying the most adverse scenario other than present value of future profits arising from business outside with-profits funds | **62** | 4493295 | 4802589 |
| Amount of present value of future profits (or losses) on long-term insurance contracts written outside the fund included in the value of relevant assets before applying most adverse scenario | **63** | | |
| Value of relevant assets before applying the most adverse scenario (62+ 63) | **64** | 4493295 | 4802589 |
| Risk capital margin for fund (62-59) | **65** | | |
| Realistic excess capital for fund (26-(59+65)) | **66** | | |
| Realistic excess available capital for fund (29-(59+65)) | **67** | | |
| Working capital for for fund (29-59) | **68** | | |
| Working capital ratio for fund (68/29) | **69** | | |
| **Other assets potentially available if required to cover the fund's risk capital margin** | | | |
| Additional amount potentially available for inclusion in line 62 | **81** | | |
| Additional amount potentially available for inclusion in line 63 | **82** | | |

**Long-term insurance business: Revenue account** **Form 40**

Printed 16/03/2012 14:07:54

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

Name and number of fund/Summary **Total Long-term insurance business**

Financial year ended **31st December 2011**

Units **£000**

| | | Financial year<br>**1** | Previous year<br>**2** |
|---|---|---|---|
| **Income** | | | |
| Earned premiums | **11** | 3713 | 103513 |
| Investment income receivable before deduction of tax | **12** | 422471 | 372900 |
| Increase (decrease) in the value of non-linked assets brought into account | **13** | 394902 | 145550 |
| Increase (decrease) in the value of linked assets | **14** | (189) | 2113 |
| Other income | **15** | 450 | 363 |
| **Total income** | **19** | 821347 | 624439 |
| **Expenditure** | | | |
| Claims incurred | **21** | 590407 | 621632 |
| Expenses payable | **22** | 27201 | 86404 |
| Interest payable before deduction of tax | **23** | 1493 | 735 |
| Taxation | **24** | 20414 | 24023 |
| Other expenditure | **25** | | |
| Transfer to (from) non technical account | **26** | 17238 | 16547 |
| **Total expenditure** | **29** | 656753 | 749341 |
| Business transfers-in | **31** | | |
| Business transfers-out | **32** | | |
| Increase (decrease) in fund in financial year (19-29+31-32) | **39** | 164594 | (124902) |
| Fund brought forward | **49** | 6731195 | 6856097 |
| Fund carried forward (39+49) | **59** | 6895789 | 6731195 |

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

**Form 41**

Printed 16/03/2012 14:07:54

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

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

Financial year ended **31st December 2011**

Units **£000**

| | | UK Life<br>1 | UK Pension<br>2 | Overseas<br>3 | Total Financial year<br>4 | Total Previous year<br>5 |
|---|---|---|---|---|---|---|
| **Gross** | | | | | | |
| Regular premiums | 11 | 81227 | 109997 | 1958 | 193182 | 219154 |
| Single premiums | 12 | 9900 | 112421 | 66 | 122387 | 122683 |
| **Reinsurance - external** | | | | | | |
| Regular premiums | 13 | 2800 | 140813 | | 143613 | 74019 |
| Single premiums | 14 | | | | | |
| **Reinsurance - intra-group** | | | | | | |
| Regular premiums | 15 | 11820 | 78570 | | 90390 | 102507 |
| Single premiums | 16 | 5672 | 72181 | | 77853 | 61798 |
| **Net of reinsurance** | | | | | | |
| Regular premiums | 17 | 66607 | (109386) | 1958 | (40821) | 42628 |
| Single premiums | 18 | 4228 | 40240 | 66 | 44534 | 60885 |
| **Total** | | | | | | |
| Gross | 19 | 91127 | 222418 | 2024 | 315569 | 341837 |
| Reinsurance | 20 | 20292 | 291564 | | 311856 | 238324 |
| Net | 21 | 70835 | (69146) | 2024 | 3713 | 103513 |

## Long-term insurance business: Analysis of claims

**Form 42**
Printed 16/03/2012 14:07:55

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

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

Financial year ended **31st December 2011**

Units **£000**

| | | UK Life<br>1 | UK Pension<br>2 | Overseas<br>3 | Total Financial year<br>4 | Total Previous year<br>5 |
|---|---|---|---|---|---|---|
| **Gross** | | | | | | |
| Death or disability lump sums | 11 | 135755 | 15837 | 16 | 151608 | 152585 |
| Disability periodic payments | 12 | 1170 | | | 1170 | 1338 |
| Surrender or partial surrender | 13 | 321518 | 652633 | 15997 | 990148 | 977791 |
| Annuity payments | 14 | 7611 | 333813 | | 341424 | 340345 |
| Lump sums on maturity | 15 | 109642 | 101038 | | 210680 | 185599 |
| **Total** | 16 | 575696 | 1103321 | 16013 | 1695030 | 1657658 |
| **Reinsurance - external** | | | | | | |
| Death or disability lump sums | 21 | 613 | | | 613 | 891 |
| Disability periodic payments | 22 | 59 | | | 59 | 77 |
| Surrender or partial surrender | 23 | | | | | |
| Annuity payments | 24 | | 137544 | | 137544 | 69664 |
| Lump sums on maturity | 25 | | | | | |
| **Total** | 26 | 672 | 137544 | | 138216 | 70632 |
| **Reinsurance - intra-group** | | | | | | |
| Death or disability lump sums | 31 | 70545 | 9758 | | 80303 | 81671 |
| Disability periodic payments | 32 | | | | | |
| Surrender or partial surrender | 33 | 249868 | 416235 | | 666103 | 657579 |
| Annuity payments | 34 | 7704 | 145958 | | 153662 | 156287 |
| Lump sums on maturity | 35 | | 66339 | | 66339 | 69857 |
| **Total** | 36 | 328117 | 638290 | | 966407 | 965394 |
| **Net of reinsurance** | | | | | | |
| Death or disability lump sums | 41 | 64597 | 6079 | 16 | 70692 | 70023 |
| Disability periodic payments | 42 | 1111 | | | 1111 | 1261 |
| Surrender or partial surrender | 43 | 71650 | 236398 | 15997 | 324045 | 320212 |
| Annuity payments | 44 | (93) | 50311 | | 50218 | 114394 |
| Lump sums on maturity | 45 | 109642 | 34699 | | 144341 | 115742 |
| **Total** | 46 | 246907 | 327487 | 16013 | 590407 | 621632 |

**Long-term insurance business: Analysis of expenses** **Form 43**

Printed 16/03/2012 14:07:55

| | |
|---|---|
| Name of insurer | **Friends Life Assurance Society Limited** |
| Total business / subfund | **Total Long-term insurance business** |
| Financial year ended | **31st December 2011** |
| Units | **£000** |

| | | UK Life<br>**1** | UK Pension<br>**2** | Overseas<br>**3** | Total Financial year<br>**4** | Total Previous year<br>**5** |
|---|---|---|---|---|---|---|
| **Gross** | | | | | | |
| Commission - acquisition | **11** | 2236 | 1510 | 265 | 4011 | 3842 |
| Commission - other | **12** | 6784 | 2551 | 2 | 9337 | 10569 |
| Management - acquisition | **13** | 683 | 5012 | 5 | 5700 | 4981 |
| Management - maintenance | **14** | 22402 | 35235 | 624 | 58261 | 116555 |
| Management - other | **15** | | | | | |
| **Total** | **16** | 32105 | 44308 | 896 | 77309 | 135947 |
| **Reinsurance - external** | | | | | | |
| Commission - acquisition | **21** | | | | | |
| Commission - other | **22** | 2 | 1 | | 3 | 12 |
| Management - acquisition | **23** | | | | | |
| Management - maintenance | **24** | | | | | |
| Management - other | **25** | | | | | |
| **Total** | **26** | 2 | 1 | | 3 | 12 |
| **Reinsurance - intra-group** | | | | | | |
| Commission - acquisition | **31** | 1597 | 1637 | | 3234 | 2259 |
| Commission - other | **32** | 5783 | 2379 | | 8162 | 8171 |
| Management - acquisition | **33** | 450 | 4436 | | 4886 | 4151 |
| Management - maintenance | **34** | 14009 | 19385 | 429 | 33823 | 34950 |
| Management - other | **35** | | | | | |
| **Total** | **36** | 21839 | 27837 | 429 | 50105 | 49531 |
| **Net of reinsurance** | | | | | | |
| Commission - acquisition | **41** | 639 | (127) | 265 | 777 | 1583 |
| Commission - other | **42** | 999 | 171 | 2 | 1172 | 2386 |
| Management - acquisition | **43** | 233 | 576 | 5 | 814 | 830 |
| Management - maintenance | **44** | 8393 | 15850 | 195 | 24438 | 81605 |
| Management - other | **45** | | | | | |
| **Total** | **46** | 10264 | 16470 | 467 | 27201 | 86404 |

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

**Form 44**
Printed 16/03/2012 14:07:55

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

Total business

Financial year ended **31st December 2011**

Units **£000**

| | | Financial year<br>**1** | Previous year<br>**2** |
|---|---|---|---|
| **Internal linked funds (excluding cross investment)** | | | |
| Directly held assets (excluding collective investment schemes) | **11** | | |
| Directly held assets in collective investment schemes of connected companies | **12** | | |
| Directly held assets in other collective investment schemes | **13** | | |
| **Total assets (excluding cross investment) (11+12+13)** | **14** | | |
| Provision for tax on unrealised capital gains | **15** | | |
| Secured and unsecured loans | **16** | | |
| Other liabilities | **17** | | |
| **Total net assets (14-15-16-17)** | **18** | | |
| **Directly held linked assets** | | | |
| Value of directly held linked assets | **21** | 22589 | 25185 |
| **Total** | | | |
| Value of directly held linked assets and units held (18+21) | **31** | 22589 | 25185 |
| Surplus units | **32** | 386 | 146 |
| Deficit units | **33** | | |
| **Net unit liability (31-32+33)** | **34** | 22203 | 25039 |

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

**Form 46**

Printed 16/03/2012 14:07:56

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

Total business

Financial year ended **31st December 2011**

Units **£000**

| | | UK Life | UK Pension | Overseas | Total Financial year | Total Previous year |
|---|---|---|---|---|---|---|
| | | **1** | **2** | **3** | **4** | **5** |
| **Number of new policyholders / scheme members for direct insurance business** | | | | | | |
| Regular premium business | **11** | 246 | 949 | | 1195 | 1327 |
| Single premium business | **12** | | 1158 | | 1158 | 1100 |
| **Total** | **13** | 246 | 2107 | | 2353 | 2427 |
| **Amount of new regular premiums** | | | | | | |
| Direct insurance business | **21** | 477 | 6464 | | 6941 | 6763 |
| External reinsurance | **22** | 2 | | | 2 | 4 |
| Intra-group reinsurance | **23** | | | | | |
| **Total** | **24** | 479 | 6464 | | 6943 | 6767 |
| **Amount of new single premiums** | | | | | | |
| Direct insurance business | **25** | 9719 | 111888 | | 121607 | 121818 |
| External reinsurance | **26** | 181 | 533 | 66 | 780 | 865 |
| Intra-group reinsurance | **27** | | | | | |
| **Total** | **28** | 9900 | 112421 | 66 | 122387 | 122683 |

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

**Form 47**
**(Sheet 1)**
Printed 16/03/2012 14:07:56

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

Total business

Financial year ended **31st December 2011**

Units **£000**

UK Life / Direct insurance business

| | | Regular premium business | | Single premium business | |
|---|---|---|---|---|---|
| Product code number | Product description | 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 | | | | 2899 |
| 505 | Life UWP whole life regular premium | 53 | 95 | | |
| 515 | Life UWP endowment regular premium – target cash | 58 | 44 | | |
| 700 | Life property linked single premium | | | | 6820 |
| 710 | Life property linked whole life regular premium | 135 | 338 | | |

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

**Form 47**
**(Sheet 2)**
Printed 16/03/2012 14:07:56

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

Total business

Financial year ended **31st December 2011**

Units **£000**

UK Life / Reinsurance accepted external

| | | Regular premium business | | Single premium business | |
|---|---|---|---|---|---|
| Product code number | Product description | 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 | | | | 181 |
| 505 | Life UWP whole life regular premium | | 1 | | |
| 710 | Life property linked whole life regular premium | | 1 | | |

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

**Form 47**
**(Sheet 3)**

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

Printed 16/03/2012 14:07:57

Total business

Financial year ended **31st December 2011**

Units **£000**

UK Pension / Direct insurance business

| | | Regular premium business | | Single premium business | |
|---|---|---|---|---|---|
| Product code number | Product description | 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) | | | 1129 | 8605 |
| 410 | Group Life | 58 | 6 | | |
| 411 | Group death in service dependants' annuities | 1 | | | |
| 525 | Individual pensions UWP | | | 1 | 87 |
| 530 | Individual pensions UWP - increments | | 102 | | 5394 |
| 535 | Group money purchase pensions UWP | 70 | 194 | | 348 |
| 540 | Group money purchase pensions UWP - increments | | 296 | | 865 |
| 565 | DWP National Insurance rebates UWP | | | | 24823 |
| 571 | Trustee investment plan UWP | | | | 88 |
| 575 | Miscellaneous UWP | | 17 | | 856 |
| 725 | Individual pensions property linked | 2 | 4 | 16 | 259 |
| 730 | Individual pensions property linked - increments | | 715 | | 33462 |
| 735 | Group money purchase pensions property linked | 818 | 1878 | 11 | 99 |
| 740 | Group money purchase pensions property linked - increments | | 3219 | | 3093 |
| 745 | DWP National Insurance rebates property linked | | | | 31827 |
| 750 | Income drawdown property linked | | | 1 | 250 |
| 755 | Trustee investment plan | | | | 170 |
| 760 | Small self administered schemes | | 33 | | 1662 |

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

**Form 47**
**(Sheet 4)**
Printed 16/03/2012 14:07:57

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

Total business

Financial year ended **31st December 2011**

Units **£000**

UK Pension / Reinsurance accepted external

| | | Regular premium business | | Single premium business | |
|---|---|---|---|---|---|
| Product code number | Product description | Number of policyholders / scheme members | Amount of premiums | Number of policyholders / scheme members | Amount of premiums |
| **1** | **2** | **3** | **4** | **5** | **6** |
| 530 | Individual pensions UWP - increments | | | | 55 |
| 730 | Individual pensions property linked - increments | | | | 103 |
| 745 | DWP National Insurance rebates property linked | | | | 375 |

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

**Form 47**
**(Sheet 5)**
Printed 16/03/2012 14:07:58

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

Total business

Financial year ended **31st December 2011**

Units **£000**

Overseas / Reinsurance accepted external

| | | Regular premium business | | Single premium business | |
|---|---|---|---|---|---|
| Product code number | Product description | 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 | | | | 66 |

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

**Form 48**

Printed 16/03/2012 14:07:59

| | |
|---|---|
| Name of insurer | **Friends Life Assurance Society Limited** |
| Financial year ended | **31st December 2011** |
| Category of assets | **Total Long-term insurance business assets** |
| Units | **£000** |

| | | Unadjusted assets<br>1 | Economic exposure<br>2 | Expected income from assets in column 2<br>3 | Yield before adjustment<br>4 | Return on assets in financial year<br>5 |
|---|---|---|---|---|---|---|
| **Assets backing non-profit liabilities and non-profit capital requirements** | | | | | | |
| Land and buildings | **11** | | | | | |
| Approved fixed interest securities | **12** | 873461 | 1540790 | 44315 | 2.56 | |
| Other fixed interest securities | **13** | 1684918 | 1685675 | 108536 | 6.40 | |
| Variable interest securities | **14** | 835494 | 168165 | 12384 | 1.33 | |
| UK listed equity shares | **15** | | | | | |
| Non-UK listed equity shares | **16** | | | | | |
| Unlisted equity shares | **17** | | | | | |
| Other assets | **18** | 222204 | 221447 | | | |
| **Total** | **19** | 3616077 | 3616077 | 165235 | 4.14 | |
| **Assets backing with-profits liabilities and with-profits capital requirments** | | | | | | |
| Land and buildings | **21** | 264562 | 276461 | 16779 | 6.07 | 5.81 |
| Approved fixed interest securities | **22** | 1747649 | 1747649 | 65172 | 1.28 | 7.49 |
| Other fixed interest securities | **23** | 502123 | 510270 | 27046 | 4.57 | (0.52) |
| Variable interest securities | **24** | 109117 | 109117 | 11341 | (1.66) | 26.12 |
| UK listed equity shares | **25** | 913539 | 736885 | 24475 | 5.53 | (9.12) |
| Non-UK listed equity shares | **26** | 190223 | 192360 | 5113 | 4.08 | (8.62) |
| Unlisted equity shares | **27** | 21584 | 175326 | | | 16.17 |
| Other assets | **28** | 364344 | 365073 | 10173 | 2.79 | (4.30) |
| **Total** | **29** | 4113141 | 4113141 | 160099 | 2.90 | 2.47 |
| **Overall return on with-profits assets** | | | | | | |
| Post investment costs but pre-tax | **31** | | | | | 1.25 |
| Return allocated to non taxable ‘asset shares’ | **32** | | | | | 1.25 |
| Return allocated to taxable ‘asset shares’ | **33** | | | | | 1.06 |

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

**Form 49**

Printed 16/03/2012 14:07:59

| | |
|---|---|
| Name of insurer | **Friends Life Assurance Society Limited** |
| Financial year ended | **31st December 2011** |
| Category of assets | **Total Long-term insurance business assets** |
| Units | **£000** |

| | | Value of assets<br>1 | Mean term<br>2 | Yield before adjustment<br>3 | Yield after adjustment<br>4 |
|---|---|---|---|---|---|
| **UK government approved fixed interest securities** | **11** | 2550902 | 7.50 | 1.05 | 1.04 |
| | | | | | |
| **Other approved fixed interest securities** | **21** | 737537 | 15.43 | 1.87 | 1.69 |
| **Other fixed interest securities** | | | | | |
| AAA/Aaa | **31** | 81339 | 11.21 | 4.38 | 4.26 |
| AA/Aa | **32** | 430211 | 11.54 | 4.51 | 3.97 |
| A/A | **33** | 601231 | 9.49 | 5.27 | 4.24 |
| BBB/Baa | **34** | 951005 | 9.22 | 6.48 | 4.38 |
| BB/Ba | **35** | 90221 | 9.89 | 9.42 | 5.76 |
| B/B | **36** | 27664 | 9.14 | 22.20 | 15.60 |
| CCC/Caa | **37** | | | | |
| Other (including unrated) | **38** | 14274 | 22.83 | 2.39 | 2.34 |
| **Total other fixed interest securities** | **39** | 2195945 | 9.94 | 5.98 | 4.44 |
| | | | | | |
| **Approved variable interest securities** | **41** | 249475 | 1.09 | (0.79) | (0.85) |
| | | | | | |
| **Other variable interest securities** | **51** | 27807 | 11.11 | 9.24 | 6.48 |
| | | | | | |
| **Total (11+21+39+41+51)** | **61** | 5761666 | 9.18 | 2.99 | 2.36 |

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

**Form 50**

Printed 16/03/2012 14:08:00

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

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

Financial year ended **31st December 2011**

Units **£000**

| | | UK Life<br>1 | UK Pension<br>2 | Overseas<br>3 | Total Financial Year<br>4 | Total Previous Year<br>5 |
|---|---|---|---|---|---|---|
| **Gross** | | | | | | |
| Form 51 - with-profits | 11 | 272300 | 481231 | | 753531 | 790933 |
| Form 51 - non-profit | 12 | 289807 | 4896069 | 707 | 5186583 | 4907003 |
| Form 52 | 13 | 455294 | 1604872 | 22470 | 2082636 | 2183696 |
| Form 53 - linked | 14 | 3379690 | 3898380 | 22203 | 7300273 | 7954259 |
| Form 53 - non-linked | 15 | 7046 | (2044) | 11100 | 16102 | 32940 |
| Form 54 - linked | 16 | 123587 | 906950 | | 1030537 | 931783 |
| Form 54 - non-linked | 17 | 265 | 9387 | | 9652 | 6885 |
| **Total** | 18 | 4527989 | 11794845 | 56480 | 16379314 | 16807499 |
| **Reinsurance - external** | | | | | | |
| Form 51 - with-profits | 21 | 51 | | | 51 | 48 |
| Form 51 - non-profit | 22 | 1584 | 46281 | | 47865 | 53722 |
| Form 52 | 23 | | | | | |
| Form 53 – linked | 24 | | | | | |
| Form 53 - non-linked | 25 | | | | | |
| Form 54 – linked | 26 | 48644 | 11482 | | 60126 | 53934 |
| Form 54 - non-linked | 27 | | | | | |
| **Total** | 28 | 50279 | 57763 | | 108042 | 107704 |
| **Reinsurance - intra-group** | | | | | | |
| Form 51 - with-profits | 31 | | | | | |
| Form 51 - non-profit | 32 | 39874 | 1725549 | | 1765423 | 1744876 |
| Form 52 | 33 | | | | | |
| Form 53 – linked | 34 | 3379690 | 3898380 | | 7278070 | 7929220 |
| Form 53 - non-linked | 35 | (2375) | (2852) | | (5227) | 6908 |
| Form 54 – linked | 36 | 71993 | 322094 | | 394087 | 355542 |
| Form 54 - non-linked | 37 | 257 | | | 257 | 170 |
| **Total** | 38 | 3489439 | 5943171 | | 9432610 | 10036716 |
| **Net of reinsurance** | | | | | | |
| Form 51 - with-profits | 41 | 272249 | 481231 | | 753480 | 790885 |
| Form 51 - non-profit | 42 | 248349 | 3124239 | 707 | 3373295 | 3108405 |
| Form 52 | 43 | 455294 | 1604872 | 22470 | 2082636 | 2183696 |
| Form 53 – linked | 44 | | | 22203 | 22203 | 25039 |
| Form 53 - non-linked | 45 | 9421 | 808 | 11100 | 21329 | 26032 |
| Form 54 – linked | 46 | 2950 | 573374 | | 576324 | 522307 |
| Form 54 - non-linked | 47 | 8 | 9387 | | 9395 | 6715 |
| **Total** | 48 | 988271 | 5793911 | 56480 | 6838662 | 6663079 |

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

**Form 51**
**(Sheet 1)**
Printed 16/03/2012 14:08:00

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

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

Financial year ended **31st December 2011**

Units **£000**

**UK Life / Gross**

| Product code number | Product description | Number of policyholders / scheme members | Amount of benefit | Amount of annual office premiums | Nominal value of units | Discounted value of units | Other liabilities | Amount of mathematical reserves |
|---|---|---|---|---|---|---|---|---|
| **1** | **2** | **3** | **4** | **5** | **6** | **7** | **8** | **9** |
| 100 | Conventional whole life with-profits OB | 16304 | 93763 | 2087 | **n/a** | **n/a** | **n/a** | 65416 |
| 120 | Conventional endowment with-profits OB savings | 35446 | 172213 | 5362 | **n/a** | **n/a** | **n/a** | 155021 |
| 125 | Conventional endowment with-profits OB target cash | 1827 | 35428 | 763 | **n/a** | **n/a** | **n/a** | 32668 |
| 155 | Conventional pensions endowment with-profits | 10 | 2220 | 22 | **n/a** | **n/a** | **n/a** | 4545 |
| 205 | Miscellaneous conventional with-profits | 16915 | 15200 | 1328 | **n/a** | **n/a** | **n/a** | 14322 |
| 210 | Additional reserves with-profits OB | | | | **n/a** | **n/a** | **n/a** | 328 |
| 300 | Regular premium non-profit WL/EA OB | 225239 | 400101 | 20947 | **n/a** | **n/a** | **n/a** | 189054 |
| 390 | Deferred annuity non-profit | 1421 | 1150 | | **n/a** | **n/a** | **n/a** | 10053 |
| 395 | Annuity non-profit (PLA) | 2700 | 4725 | | **n/a** | **n/a** | **n/a** | 50303 |
| 410 | Group Life | 7 | 793507 | 4523 | **n/a** | **n/a** | **n/a** | 16556 |
| 435 | Miscellaneous non-profit | 11336 | 194519 | 1250 | **n/a** | **n/a** | **n/a** | 23836 |
| 440 | Additional reserves non-profit OB | | | | **n/a** | **n/a** | **n/a** | 5 |

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

**Form 51**
**(Sheet 2)**
Printed 16/03/2012 14:08:00

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

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

Financial year ended **31st December 2011**

Units **£000**

**UK Life / Reinsurance ceded external**

| Product code number | Product description | Number of policyholders / scheme members | Amount of benefit | Amount of annual office premiums | Nominal value of units | Discounted value of units | Other liabilities | Amount of mathematical reserves |
|---|---|---|---|---|---|---|---|---|
| **1** | **2** | **3** | **4** | **5** | **6** | **7** | **8** | **9** |
| 100 | Conventional whole life with-profits OB | | 66 | | **n/a** | **n/a** | **n/a** | 51 |
| 300 | Regular premium non-profit WL/EA OB | | 3 | | **n/a** | **n/a** | **n/a** | 1 |
| 336 | Mortality risk premium reinsurance | | 1277 | 112 | **n/a** | **n/a** | **n/a** | 307 |
| 395 | Annuity non-profit (PLA) | | 14 | | **n/a** | **n/a** | **n/a** | 809 |
| 435 | Miscellaneous non-profit | | 12169 | 60 | **n/a** | **n/a** | **n/a** | 467 |

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

**Form 51**
**(Sheet 3)**
Printed 16/03/2012 14:08:01

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

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

Financial year ended **31st December 2011**

Units **£000**

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

| Product code number<br>1 | Product description<br>2 | Number of policyholders / scheme members<br>3 | Amount of benefit<br>4 | Amount of annual office premiums<br>5 | Nominal value of units<br>6 | Discounted value of units<br>7 | Other liabilities<br>8 | Amount of mathematical reserves<br>9 |
|---|---|---|---|---|---|---|---|---|
| 395 | Annuity non-profit (PLA) | | 4635 | | **n/a** | **n/a** | **n/a** | 48994 |
| 440 | Additional reserves non-profit OB | | | | **n/a** | **n/a** | **n/a** | (9120) |

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

**Form 51**
**(Sheet 4)**
Printed 16/03/2012 14:08:01

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

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

Financial year ended **31st December 2011**

Units **£000**

**UK Pension / Gross**

| Product code number<br>**1** | Product description<br>**2** | Number of policyholders / scheme members<br>**3** | Amount of benefit<br>**4** | Amount of annual office premiums<br>**5** | Nominal value of units<br>**6** | Discounted value of units<br>**7** | Other liabilities<br>**8** | Amount of mathematical reserves<br>**9** |
|---|---|---|---|---|---|---|---|---|
| 155 | Conventional pensions endowment with-profits | 6441 | 227437 | 857 | **n/a** | **n/a** | **n/a** | 377703 |
| 200 | Annuity with-profits (CPA) | 620 | 5198 | | **n/a** | **n/a** | **n/a** | 69110 |
| 205 | Miscellaneous conventional with-profits | 265 | 2405 | 16 | **n/a** | **n/a** | **n/a** | 4955 |
| 210 | Additional reserves with-profits OB | | | | **n/a** | **n/a** | **n/a** | 29463 |
| 300 | Regular premium non-profit WL/EA OB | 7 | 141 | 1 | **n/a** | **n/a** | **n/a** | 74 |
| 390 | Deferred annuity non-profit | 25851 | 40379 | 18 | **n/a** | **n/a** | **n/a** | 710960 |
| 400 | Annuity non-profit (CPA) | 98888 | 278015 | | **n/a** | **n/a** | **n/a** | 4033804 |
| 405 | Annuity non-profit (CPA impaired life) | 1359 | 7733 | | **n/a** | **n/a** | **n/a** | 108204 |
| 410 | Group Life | 3768 | 404928 | 609 | **n/a** | **n/a** | **n/a** | 1113 |
| 435 | Miscellaneous non-profit | 5437 | 89207 | 363 | **n/a** | **n/a** | **n/a** | 38914 |
| 440 | Additional reserves non-profit OB | | | | **n/a** | **n/a** | **n/a** | 3000 |

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

**Form 51**
**(Sheet 5)**
Printed 16/03/2012 14:08:01

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

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

Financial year ended **31st December 2011**

Units **£000**

**UK Pension / Reinsurance ceded external**

| Product code number<br>**1** | Product description<br>**2** | Number of policyholders / scheme members<br>**3** | Amount of benefit<br>**4** | Amount of annual office premiums<br>**5** | Nominal value of units<br>**6** | Discounted value of units<br>**7** | Other liabilities<br>**8** | Amount of mathematical reserves<br>**9** |
|---|---|---|---|---|---|---|---|---|
| 336 | Mortality risk premium reinsurance | | 553 | 5 | **n/a** | **n/a** | **n/a** | 14 |
| 400 | Annuity non-profit (CPA) | | 119065 | | **n/a** | **n/a** | **n/a** | 46295 |
| 405 | Annuity non-profit (CPA impaired life) | | 248 | | **n/a** | **n/a** | **n/a** | 2602 |
| 410 | Group Life | | 5833 | 28 | **n/a** | **n/a** | **n/a** | 7 |
| 435 | Miscellaneous non-profit | | 1124 | 4 | **n/a** | **n/a** | **n/a** | 27 |
| 440 | Additional reserves non-profit OB | | | | **n/a** | **n/a** | **n/a** | (2664) |

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

**Form 51**
**(Sheet 6)**
Printed 16/03/2012 14:08:01

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

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

Financial year ended **31st December 2011**

Units **£000**

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

| Product code number<br>**1** | Product description<br>**2** | Number of policyholders / scheme members<br>**3** | Amount of benefit<br>**4** | Amount of annual office premiums<br>**5** | Nominal value of units<br>**6** | Discounted value of units<br>**7** | Other liabilities<br>**8** | Amount of mathematical reserves<br>**9** |
|---|---|---|---|---|---|---|---|---|
| 400 | Annuity non-profit (CPA) | | 126187 | | **n/a** | **n/a** | **n/a** | 1725549 |

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

**Form 51**
**(Sheet 7)**
Printed 16/03/2012 14:08:01

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

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

Financial year ended **31st December 2011**

Units **£000**

**Overseas / Gross**

| Product code number<br>**1** | Product description<br>**2** | Number of policyholders / scheme members<br>**3** | Amount of benefit<br>**4** | Amount of annual office premiums<br>**5** | Nominal value of units<br>**6** | Discounted value of units<br>**7** | Other liabilities<br>**8** | Amount of mathematical reserves<br>**9** |
|---|---|---|---|---|---|---|---|---|
| 410 | Group Life | | 15255 | 133 | **n/a** | **n/a** | **n/a** | 707 |

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

**Form 52**
**(Sheet 1)**
Printed 16/03/2012 14:08:02

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

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

Financial year ended **31st December 2011**

Units **£000**

**UK Life / Gross**

| Product code number | Product description | Number of policyholders / scheme members | Amount of benefit | Amount of annual office premiums | Nominal value of units | Discounted value of units | Other liabilities | Amount of mathematical reserves |
|---|---|---|---|---|---|---|---|---|
| 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 |
| 500 | Life UWP single premium | 12849 | 312895 | | 303549 | 303186 | 130 | 303316 |
| 505 | Life UWP whole life regular premium | 3982 | 469535 | 4690 | 35461 | 34400 | 516 | 34916 |
| 510 | Life UWP endowment regular premium - savings | 2101 | 62182 | 1811 | 34930 | 34285 | 5455 | 39740 |
| 515 | Life UWP endowment regular premium ? target cash | 2664 | 73728 | 2119 | 32527 | 31400 | 31 | 31431 |
| 555 | Group deposit administration with-profits | 25 | 1760 | 55 | 1760 | 1760 | | 1760 |
| 574 | UWP investment only reinsurance | | 44131 | | 44131 | 44131 | | 44131 |

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

**Form 52**
**(Sheet 2)**
Printed 16/03/2012 14:08:02

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

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

Financial year ended **31st December 2011**

Units **£000**

**UK Pension / Gross**

| Product code number | Product description | Number of policyholders / scheme members | Amount of benefit | Amount of annual office premiums | Nominal value of units | Discounted value of units | Other liabilities | Amount of mathematical reserves |
|---|---|---|---|---|---|---|---|---|
| **1** | **2** | **3** | **4** | **5** | **6** | **7** | **8** | **9** |
| 525 | Individual pensions UWP | 27803 | 917435 | 7778 | 833955 | 811980 | 201551 | 1013531 |
| 535 | Group money purchase pensions UWP | 15740 | 321693 | 7799 | 278358 | 267088 | 750 | 267838 |
| 555 | Group deposit administration with-profits | 3433 | 289472 | 12032 | 289472 | 289472 | 942 | 290414 |
| 571 | Trustee investment plan UWP | 51 | 5439 | 24 | 5439 | 5387 | 377 | 5764 |
| 575 | Miscellaneous UWP | 209 | 32822 | 449 | 28271 | 27210 | 115 | 27325 |

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

**Form 52**
**(Sheet 3)**
Printed 16/03/2012 14:08:02

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

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

Financial year ended **31st December 2011**

Units **£000**

**Overseas / Gross**

| Product code number<br>**1** | Product description<br>**2** | Number of policyholders / scheme members<br>**3** | Amount of benefit<br>**4** | Amount of annual office premiums<br>**5** | Nominal value of units<br>**6** | Discounted value of units<br>**7** | Other liabilities<br>**8** | Amount of mathematical reserves<br>**9** |
|---|---|---|---|---|---|---|---|---|
| 574 | UWP investment only reinsurance | | 22470 | | 22470 | 22470 | | 22470 |

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

**Form 53**
**(Sheet 1)**
Printed 16/03/2012 14:08:02

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

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

Financial year ended **31st December 2011**

Units **£000**

**UK Life / Gross**

| Product code number<br>1 | Product description<br>2 | Number of policyholders / scheme members<br>3 | Amount of benefit<br>4 | Amount of annual office premiums<br>5 | Nominal value of units<br>6 | Discounted value of units<br>7 | Other liabilities<br>8 | Amount of mathematical reserves<br>9 |
|---|---|---|---|---|---|---|---|---|
| 700 | Life property linked single premium | 101162 | 3082166 | | 3022206 | 3022206 | 1675 | 3023881 |
| 710 | Life property linked whole life regular premium | 26270 | 1883473 | 17432 | 154836 | 154836 | 3684 | 158520 |
| 715 | Life property linked endowment regular premium - savings | 12030 | 240562 | 5746 | 144334 | 144334 | 663 | 144997 |
| 720 | Life property linked endowment regular premium ? target cash | 4362 | 162251 | 3243 | 57591 | 57591 | 941 | 58532 |
| 795 | Miscellaneous property linked | 60 | 723 | | 723 | 723 | 83 | 806 |

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

**Form 53**
**(Sheet 2)**
Printed 16/03/2012 14:08:03

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

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

Financial year ended **31st December 2011**

Units **£000**

**UK Life / Reinsurance ceded external**

| Product code number<br>**1** | Product description<br>**2** | Number of policyholders / scheme members<br>**3** | Amount of benefit<br>**4** | Amount of annual office premiums<br>**5** | Nominal value of units<br>**6** | Discounted value of units<br>**7** | Other liabilities<br>**8** | Amount of mathematical reserves<br>**9** |
|---|---|---|---|---|---|---|---|---|
| 700 | Life property linked single premium | | 1624 | 34 | | | | |
| 710 | Life property linked whole life regular premium | | 441567 | 2493 | | | | |
| 715 | Life property linked endowment regular premium - savings | | 11970 | 78 | | | | |

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

**Form 53**
**(Sheet 3)**
Printed 16/03/2012 14:08:03

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

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

Financial year ended **31st December 2011**

Units **£000**

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

| Product code number<br>1 | Product description<br>2 | Number of policyholders / scheme members<br>3 | Amount of benefit<br>4 | Amount of annual office premiums<br>5 | Nominal value of units<br>6 | Discounted value of units<br>7 | Other liabilities<br>8 | Amount of mathematical reserves<br>9 |
|---|---|---|---|---|---|---|---|---|
| 700 | Life property linked single premium | | 3052428 | | 3022206 | 3022206 | 1082 | 3023288 |
| 710 | Life property linked whole life regular premium | | 174533 | 17432 | 154836 | 154836 | (4446) | 150390 |
| 715 | Life property linked endowment regular premium - savings | | 149214 | 5746 | 144334 | 144334 | 461 | 144795 |
| 720 | Life property linked endowment regular premium ? target cash | | 61469 | 3243 | 57591 | 57591 | 528 | 58119 |
| 795 | Miscellaneous property linked | | 723 | | 723 | 723 | | 723 |

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

**Form 53**
**(Sheet 4)**
Printed 16/03/2012 14:08:03

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

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

Financial year ended **31st December 2011**

Units **£000**

**UK Pension / Gross**

| Product code number<br>1 | Product description<br>2 | Number of policyholders / scheme members<br>3 | Amount of benefit<br>4 | Amount of annual office premiums<br>5 | Nominal value of units<br>6 | Discounted value of units<br>7 | Other liabilities<br>8 | Amount of mathematical reserves<br>9 |
|---|---|---|---|---|---|---|---|---|
| 725 | Individual pensions property linked | 150604 | 3239793 | 34120 | 3108418 | 3037858 | (1498) | 3036360 |
| 735 | Group money purchase pensions property linked | 40464 | 801106 | 44105 | 718055 | 707081 | (131) | 706950 |
| 750 | Income drawdown property linked | 183 | 26894 | | 26894 | 26894 | 32 | 26926 |
| 755 | Trustee investment plan | 192 | 12987 | 90 | 12201 | 12029 | (20) | 12009 |
| 760 | Small self administered schemes | 1896 | 138320 | 2931 | 119281 | 114518 | (427) | 114091 |

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

**Form 53**
**(Sheet 5)**
Printed 16/03/2012 14:08:03

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

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

Financial year ended **31st December 2011**

Units **£000**

**UK Pension / Reinsurance ceded external**

| Product code number<br>1 | Product description<br>2 | Number of policyholders / scheme members<br>3 | Amount of benefit<br>4 | Amount of annual office premiums<br>5 | Nominal value of units<br>6 | Discounted value of units<br>7 | Other liabilities<br>8 | Amount of mathematical reserves<br>9 |
|---|---|---|---|---|---|---|---|---|
| 725 | Individual pensions property linked | | 1206 | 5 | | | | |

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

**Form 53**
**(Sheet 6)**
Printed 16/03/2012 14:08:03

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

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

Financial year ended **31st December 2011**

Units **£000**

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

| Product code number | Product description | Number of policyholders / scheme members | Amount of benefit | Amount of annual office premiums | Nominal value of units | Discounted value of units | Other liabilities | Amount of mathematical reserves |
|---|---|---|---|---|---|---|---|---|
| **1** | **2** | **3** | **4** | **5** | **6** | **7** | **8** | **9** |
| 725 | Individual pensions property linked | | 3108418 | 34120 | 3108418 | 3037858 | (2193) | 3035665 |
| 735 | Group money purchase pensions property linked | | 718055 | 44105 | 718055 | 707081 | (228) | 706853 |
| 750 | Income drawdown property linked | | 26894 | | 26894 | 26894 | 32 | 26926 |
| 755 | Trustee investment plan | | 12201 | 90 | 12201 | 12029 | (20) | 12009 |
| 760 | Small self administered schemes | | 119281 | 2931 | 119281 | 114518 | (443) | 114075 |

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

**Form 53**
**(Sheet 7)**
Printed 16/03/2012 14:08:04

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

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

Financial year ended **31st December 2011**

Units **£000**

**Overseas / Gross**

| Product code number | Product description | Number of policyholders / scheme members | Amount of benefit | Amount of annual office premiums | Nominal value of units | Discounted value of units | Other liabilities | Amount of mathematical reserves |
|---|---|---|---|---|---|---|---|---|
| **1** | **2** | **3** | **4** | **5** | **6** | **7** | **8** | **9** |
| 715 | Life property linked endowment regular premium - savings | 3458 | 54341 | 967 | 22202 | 22203 | 11100 | 33303 |

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

**Form 54**
**(Sheet 1)**
Printed 16/03/2012 14:08:04

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

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

Financial year ended **31st December 2011**

Units **£000**

**UK Life / Gross**

| Product code number<br>**1** | Product description<br>**2** | Number of policyholders / scheme members<br>**3** | Amount of benefit<br>**4** | Amount of annual office premiums<br>**5** | Nominal value of units<br>**6** | Discounted value of units<br>**7** | Other liabilities<br>**8** | Amount of mathematical reserves<br>**9** |
|---|---|---|---|---|---|---|---|---|
| 905 | Index linked annuity | 225 | 4749 | | 117005 | 122478 | 259 | 122737 |
| 910 | Miscellaneous index linked | 1 | 93 | | 1081 | 1109 | 6 | 1115 |

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

**Form 54**
**(Sheet 2)**
Printed 16/03/2012 14:08:04

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

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

Financial year ended **31st December 2011**

Units **£000**

**UK Life / Reinsurance ceded external**

| Product code number<br>1 | Product description<br>2 | Number of policyholders / scheme members<br>3 | Amount of benefit<br>4 | Amount of annual office premiums<br>5 | Nominal value of units<br>6 | Discounted value of units<br>7 | Other liabilities<br>8 | Amount of mathematical reserves<br>9 |
|---|---|---|---|---|---|---|---|---|
| 905 | Index linked annuity | | 1799 | | 47901 | 50168 | | 50168 |
| 915 | Additional reserves index linked | | | | (1524) | (1524) | | (1524) |

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

**Form 54**
**(Sheet 3)**
Printed 16/03/2012 14:08:04

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

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

Financial year ended **31st December 2011**

Units **£000**

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

| Product code number<br>**1** | Product description<br>**2** | Number of policyholders / scheme members<br>**3** | Amount of benefit<br>**4** | Amount of annual office premiums<br>**5** | Nominal value of units<br>**6** | Discounted value of units<br>**7** | Other liabilities<br>**8** | Amount of mathematical reserves<br>**9** |
|---|---|---|---|---|---|---|---|---|
| 905 | Index linked annuity | | 2832 | | 68797 | 71993 | 257 | 72250 |

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

**Form 54**
**(Sheet 4)**
Printed 16/03/2012 14:08:04

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

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

Financial year ended **31st December 2011**

Units **£000**

**UK Pension / Gross**

| Product code number<br>1 | Product description<br>2 | Number of policyholders / scheme members<br>3 | Amount of benefit<br>4 | Amount of annual office premiums<br>5 | Nominal value of units<br>6 | Discounted value of units<br>7 | Other liabilities<br>8 | Amount of mathematical reserves<br>9 |
|---|---|---|---|---|---|---|---|---|
| 905 | Index linked annuity | 3951 | 46751 | | 758268 | 793947 | 5691 | 799638 |
| 910 | Miscellaneous index linked | 240 | 4351 | | 103909 | 113003 | 3696 | 116699 |

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

**Form 54**
**(Sheet 5)**
Printed 16/03/2012 14:08:05

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

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

Financial year ended **31st December 2011**

Units **£000**

**UK Pension / Reinsurance ceded external**

| Product code number<br>**1** | Product description<br>**2** | Number of policyholders / scheme members<br>**3** | Amount of benefit<br>**4** | Amount of annual office premiums<br>**5** | Nominal value of units<br>**6** | Discounted value of units<br>**7** | Other liabilities<br>**8** | Amount of mathematical reserves<br>**9** |
|---|---|---|---|---|---|---|---|---|
| 905 | Index linked annuity | | 18393 | | 10962 | 11482 | | 11482 |

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

**Form 54**
**(Sheet 6)**
Printed 16/03/2012 14:08:05

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

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

Financial year ended **31st December 2011**

Units **£000**

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

| Product code number<br>1 | Product description<br>2 | Number of policyholders / scheme members<br>3 | Amount of benefit<br>4 | Amount of annual office premiums<br>5 | Nominal value of units<br>6 | Discounted value of units<br>7 | Other liabilities<br>8 | Amount of mathematical reserves<br>9 |
|---|---|---|---|---|---|---|---|---|
| 905 | Index linked annuity | | 19553 | | 307675 | 322094 | | 322094 |

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

**Form 56**

Printed 16/03/2012 14:08:05

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

Total business

Financial year ended **31st December 2011**

Units **£000**

| | | Value of assets | Mean term |
|---|---|---|---|
| | | 1 | 2 |
| **Analysis of assets** | | | |
| Approved variable interest securities | 11 | 478568 | 15.12 |
| Other variable interest securities | 12 | 97747 | 19.10 |
| Approved fixed interest securities | 13 | | |
| Other fixed interest securities | 14 | | |
| Cash and deposits | 15 | | |
| Equity index derivatives | 16 | | |
| Inflation swaps | 17 | | |
| Other assets | 18 | 9 | |
| Variation margin | 19 | | |
| **Total (11 to 19)** | 20 | 576324 | |
| | | | |
| **Credit rating of other fixed interest and other variable interest securities** | | | |
| AAA/Aaa | 31 | | |
| AA/Aa | 32 | | |
| A/A | 33 | | |
| BBB/Baa | 34 | | |
| BB/Ba | 35 | | |
| B/B | 36 | | |
| CCC/Caa | 37 | | |
| Other (including unrated) | 38 | | |
| **Total other fixed interest and other variable interest securities** | 39 | | |

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

**Form 57**
**(Sheet 1)**
Printed 16/03/2012 14:08:05

| | |
|---|---|
| Name of insurer | **Friends Life Assurance Society Limited** |
| Total business / subfund | **Total Long-term insurance business** |
| Financial year ended | **31st December 2011** |
| Units | **£000** |

| Product Group<br>**1** | Net mathematical reserves<br>**2** | Net valuation interest rate<br>**3** | Gross valuation interest rate<br>**4** | Risk adjusted yield on matching assets<br>**5** |
|---|---|---|---|---|
| UK L&GA NP Form 51 | 203279 | 2.35 | | 3.35 |
| UK Pens NP Form 51 | 3119812 | | 3.05 | 3.45 |
| UK L&GA WP Form 51 | 271593 | 2.50 | | 3.94 |
| UK Pens WP Form 51 | 481231 | | 3.50 | 3.94 |
| UK L&GA WP Form 52 | 464007 | 2.50 | | 3.59 |
| UK Pens WP Form 52 | 1649379 | | 2.50 | 2.91 |
| Misc | 107971 | | | 2.61 |
| TOTAL | 6297272 | n/a | n/a | n/a |

**Long-term insurance business: distribution of surplus** **Form 58**

Printed 16/03/2012 14:08:06

| | |
|---|---|
| Name of insurer | **Friends Life Assurance Society Limited** |
| Total business / subfund | **Total Long-term insurance business** |
| Financial year ended | **31st December 2011** |
| Units | **£000** |

| | | Financial year<br>**1** | Previous year<br>**2** |
|---|---|---|---|
| **Valuation result** | | | |
| Fund carried forward | **11** | 6895789 | 6731195 |
| Bonus payments in anticipation of a surplus | **12** | 98014 | 80803 |
| Transfer to non-technical account | **13** | 17238 | 16547 |
| Transfer to other funds / parts of funds | **14** | | |
| Subtotal (11 to 14) | **15** | 7011041 | 6828545 |
| Mathematical reserves | **21** | 6838662 | 6663079 |
| Surplus including contingency and other reserves held towards the capital requirements (deficiency) (15-21) | **29** | 172379 | 165466 |
| **Composition of surplus** | | | |
| Balance brought forward | **31** | | 12292 |
| Transfer from non-technical account | **32** | | |
| Transfer from other funds / parts of fund | **33** | | |
| Surplus arising since the last valuation | **34** | 172379 | 153174 |
| Total | **39** | 172379 | 165466 |
| **Distribution of surplus** | | | |
| Bonus paid in anticipation of a surplus | **41** | 98014 | 80803 |
| Cash bonuses | **42** | | |
| Reversionary bonuses | **43** | 57127 | 68116 |
| Other bonuses | **44** | | |
| Premium reductions | **45** | | |
| Total allocated to policyholders (41 to 45) | **46** | 155141 | 148919 |
| Net transfer out of fund / part of fund | **47** | 17238 | 16547 |
| Total distributed surplus (46+47) | **48** | 172379 | 165466 |
| Surplus carried forward | **49** | | |
| Total (48+49) | **59** | 172379 | 165466 |
| **Percentage of distributed surplus allocated to policyholders** | | | |
| Current year | **61** | 90.00 | 90.00 |
| Current year - 1 | **62** | 90.00 | 90.00 |
| Current year - 2 | **63** | 90.00 | 90.00 |
| Current year - 3 | **64** | 90.00 | 90.00 |

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

**Form 59A**

Printed 16/03/2012 14:08:06

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

Original insurer **Friends Life Assurance Society Limited**

Date of maturity value/open market option

| Category of with-profits policy<br>1 | Original term (years)<br>2 | Maturity value / open market option<br>3 | Terminal bonus<br>4 | MVA<br>5 | CWP / UWP<br>6 | MVA permitted?<br>7 | Death benefit<br>8 |
|---|---|---|---|---|---|---|---|
| Endowment assurance | 10 | n/a | n/a | n/a | n/a | n/a | n/a |
| Endowment assurance | 15 | 11302 | 3632 | | CWP | N | 11302 |
| Endowment assurance | 20 | 20804 | 3292 | | CWP | N | 20804 |
| Endowment assurance | 25 | 35147 | 8172 | | CWP | N | 35147 |
| 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 | 53412 | 8243 | | UWP | N | 53412 |
| Regular premium pension | 20 | 95240 | 25156 | | UWP | N | 95240 |
| 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 | 24139 | 6233 | | UWP | N | 24139 |
| Single premium pension | 20 | 41770 | 14300 | | UWP | N | 41770 |

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

**Form 59B**

Printed 16/03/2012 14:08:07

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

Original insurer **Friends Life Assurance Society Limited**

Date of surrender value

| Category of with-profits policy<br>1 | Duration at surrender (years)<br>2 | Surrender value<br>3 | Terminal bonus<br>4 | MVA<br>5 | CWP/UWP<br>6 | MVA permitted?<br>7 | Death benefit<br>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 | 11073 | 1757 | | UWP | N | 35200 |
| Endowment assurance | 20 | 17388 | 1928 | | CWP | N | 26465 |
| 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 | 13437 | 586 | | UWP | N | 13437 |

## Long-term insurance capital requirement

**Form 60**
Printed 16/03/2012 14:08:07

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

Global business

Financial year ended **31st December 2011**

Units **£000**

| | | LTICR factor | Gross reserves / capital at risk | Net reserves / capital at risk | Reinsurance factor | LTICR Financial year | LTICR Previous year |
|---|---|---|---|---|---|---|---|
| | | 1 | 2 | 3 | 4 | 5 | 6 |
| **Insurance death risk capital component** | | | | | | | |
| Life protection reinsurance | 11 | 0.0% | | | | | |
| Classes I (other), II and IX | 12 | 0.1% | 1196176 | 1190382 | | 1187 | 1269 |
| Classes I (other), II and IX | 13 | 0.15% | | | 0.99 | | |
| Classes I (other), II and IX | 14 | 0.3% | 1310313 | 1296786 | | 3901 | 4968 |
| Classes III, VII and VIII | 15 | 0.3% | 2541762 | 2383097 | 0.94 | 7149 | 7948 |
| **Total** | 16 | | 5048251 | 4870265 | | 12237 | 14185 |
| **Insurance health risk and life protection reinsurance capital component** | | | | | | | |
| Class IV, supplementary classes 1 and 2 and life protection reinsurance | 21 | | | | | 289 | 338 |
| **Insurance expense risk capital component** | | | | | | | |
| Life protection and permanent health reinsurance | 31 | 0% | | | | | |
| Classes I (other), II and IX | 32 | 1% | 7428688 | 5615619 | 0.85 | 63144 | 61802 |
| Classes III, VII and VIII (investment risk) | 33 | 1% | 1850086 | 1198875 | 0.85 | 15726 | 15426 |
| Classes III, VII and VIII (expenses fixed 5 yrs +) | 34 | 1% | | | | | |
| Classes III, VII and VIII (other) | 35 | 25% | | | | 75 | 12797 |
| Class IV (other) | 36 | 1% | 10250 | 9979 | 0.97 | 100 | 98 |
| Class V | 37 | 1% | | | | | |
| Class VI | 38 | 1% | 49114 | 49114 | 1.00 | 491 | 548 |
| **Total** | 39 | | | | | 79536 | 90671 |
| **Insurance market risk capital component** | | | | | | | |
| Life protection and permanent health reinsurance | 41 | 0% | | | | | |
| Classes I (other), II and IX | 42 | 3% | 7428688 | 5615619 | 0.85 | 189432 | 185407 |
| Classes III, VII and VIII (investment risk) | 43 | 3% | 1850086 | 1198875 | 0.85 | 47177 | 46278 |
| Classes III, VII and VIII (expenses fixed 5 yrs +) | 44 | 0% | | | | | |
| Classes III, VII and VIII (other) | 45 | 0% | 7098304 | 22202 | | | |
| Class IV (other) | 46 | 3% | 10250 | 9979 | 0.97 | 299 | 295 |
| Class V | 47 | 0% | | | | | |
| Class VI | 48 | 3% | 49114 | 49114 | 1.00 | 1473 | 1644 |
| **Total** | 49 | | 16436442 | 6895789 | | 238381 | 233624 |
| **Long term insurance capital requirement** | 51 | | | | | 330443 | 338818 |

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

Financial year ended **31 December 2011**

## NOTES TO THE RETURN

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

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

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

| | **2011 £000** | 2010 £000 |
|---|---|---|
| Grand total of admissible assets after deduction of market risk and counterparty limits – other than long term business | **327,016** | 306,515 |
| Grand total of admissible assets after deductions of market risk and counterparty limits – long term business | **8,327,745** | 8,225,122 |
| Mathematical reserves, after distribution of surplus | **(6,895,789)** | (6,731,195) |
| Total other insurance and non-insurance liabilities | **(282,134)** | (273,946) |
| Total liabilities – other than long term business | **(4,447)** | (2,040) |
| Total capital resources after deductions | **1,472,391** | 1,524,456 |

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

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

As at the valuation date:

- No allowance was made for this arrangement in determining the mathematical reserves, as repayments are contingent on future profits of Friends Life Company Limited. Thus the reinsurance liability (i.e. the amount of the difference between the mathematical reserves at the valuation date allowing for the arrangement and the amount of the mathematical reserves were this arrangement to be ignored) was zero.

- The amount of the contingent asset for payment from Friends Life Company Limited under this arrangement at the valuation date was £44.1m.

- There is no formal provision to terminate this agreement for existing business, so there is no commutation value.

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

Financial year ended **31 December 2011**

## NOTES TO THE RETURN

### *0310* – Valuation Differences

| | **2011** **£000** | 2010 £000 |
|---|---|---|
| Difference between Long-term Business Provision calculated on a realistic basis and mathematical reserves | **1,194,540** | 1,313,373 |
| Amount outstanding under reassurance contract with Friends Life Company Limited (see note 0307) | **(44,059)** | (61,233) |
| | **1,150,481** | 1,252,140 |

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

| | **2011** **£000** | 2010 £000 |
|---|---|---|
| Profit and loss account and other reserves b/f (Form 13 Line 12) | **323,238** | 331,381 |
| Profit/(loss) retained for the year (Form 16 Line 59) | **(7,665)** | (8,143) |
| Profit and loss account and other reserves c/f (Form 13 Line 12) | **315,573** | 323,238 |

### *1304*
### &
### *1310* – Amounts set off

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

### *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 will 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.

For sovereign issuers the portfolio base is the total fixed income (excluding private loans) and cash portfolio (i.e. covering all the Main Funds).

For corporate and supranational issuers the portfolio base is calculated as the greater of (a) the cash and corporate bonds portfolio (excluding Mortgage Backed Securities) or (b) 50% of the total fixed income and cash portfolio.

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

Financial year ended **31 December 2011**

**NOTES TO THE RETURN**

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

<table>
<tr><th>RATING</th><th>Corporate</th><th>Supra National and Government Related</th><th>Non Domestic Sovereign</th><th>Domestic Sovereign</th></tr>
<tr><td>AAA</td><td>4.0%</td><td rowspan="4">No Limit</td><td rowspan="4">No Limit</td><td rowspan="14">No Limit</td></tr>
<tr><td>AA+</td><td>3.3%</td></tr>
<tr><td>AA</td><td>3.0%</td></tr>
<tr><td>AA-</td><td>2.5%</td></tr>
<tr><td>A+</td><td>2.0%</td><td>2.0%</td><td>2.0%</td></tr>
<tr><td>A</td><td>1.6%</td><td>1.6%</td><td>1.6%</td></tr>
<tr><td>A-</td><td>1.2%</td><td>1.2%</td><td>1.2%</td></tr>
<tr><td>BBB+</td><td>1.0%</td><td>1.0%</td><td>1.0%</td></tr>
<tr><td>BBB</td><td>0.7%</td><td>0.7%</td><td>0.7%</td></tr>
<tr><td>BBB-</td><td>0.4%</td><td>0.4%</td><td>0.4%</td></tr>
<tr><td>BB+</td><td>0.2%</td><td rowspan="4">No Limit</td><td rowspan="4">No Limit</td></tr>
<tr><td>BB</td><td>0.1%</td></tr>
<tr><td>BB-</td><td>0.05%</td></tr>
<tr><td>Below BB-</td><td>0.05%</td></tr>
</table>

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.

Active positions taken by the Investment Manager relative to the benchmark weight (expressed as a percentage of a fund's total equity value) will not exceed the following limits unless the limits are exceeded as a result of market movements;

Largest 250 FTSE stocks + 1.5%
Other FTSE All Share stocks + 1%

In addition, the maximum permitted aggregate holding across relevant UK equity funds will not exceed 10% of the free float market capitalisation ("free float"). For those the combined part of the 90:10 funds managed by the Investment Manager the maximum permitted exposure is 7% of the free float. The equity limits do not apply to holdings in collective investment vehicles and investment trusts.

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).

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

Financial year ended **31 December 2011**

**NOTES TO THE RETURN**

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.

During 2011 there have been no breaches of the equity limits. Some fixed income breaches occurred as a result of a counterparty rating migration during the year. Upon review, all exposures are within risk appetite and no remedial action has taken place. Credit exposure will be reviewed in 2012.

A waiver by consent (valid from 5 May 2009 to 31 March 2012) has been granted such that entities which are controlled by HM Treasury (e.g. bailed out banks) are not considered as closely related for the purposes of determining counterparty excesses.

***1306***
**&**
***1312* - Exposure at year end to large counterparties**

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

***1307***
**&**
***1313* – Aggregate value of certain fully secured rights**

The aggregate value of fully secured rights on 31 December 2011 was £88.1m within the Company's long term business fund (2010: £36.3m) and £nil within the Company's other than long term business fund (2010: £nil).

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

| | **2011** | 2010 |
|---|---|---|
| | **£000** | £000 |
| The aggregate value of: | | |
| Unlisted investments | **426,141** | 367,716 |
| Listed investments which are not readily realisable | **24,054** | 25,540 |
| Units in collective investment schemes that are not schemes falling within the UCITS Directive | **21,394** | 30,276 |

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

The aggregate value of hybrid securities included at line 46 and line 48 is £234.1m (2010: £291.2m).

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

Financial year ended **31 December 2011**

**NOTES TO THE RETURN**

***1318* - Other asset adjustments**

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

| | Long Term Fund | |
|---|---|---|
| | **2011** | 2010 |
| | **£000** | £000 |
| Gross up difference on futures | **-** | 6,168 |
| Gross up difference on tax | **(1,937)** | - |
| | **(1,937)** | 6,168 |

***1401***
**&**
***1501* – Provision for reasonably foreseeable adverse variations**

The Company 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 Company 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 insurance business assets / liabilities**

a) Charges on assets

There were no charges on any of the assets of the company.

b) Provision for capital gains tax

If the Company were to dispose of all of its assets a capital gains tax liability of £7.6m would arise within the Company's long term business fund (2010: £16.1m). No liability would arise in either year within the Company's other than long term business fund.

c) Contingent liabilities

The Company had no contingent liabilities.

d) Guarantees, indemnities or other contractual commitments

The Company has provided an 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.

e) Other uncertainties

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

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

***1405* - Other liability adjustments**

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

| | **2011** | 2010 |
|---|---|---|
| | **£000** | £000 |
| Valuation difference (see note 0310) | | |
| - Difference between Long-term Business Provision calculated on a realistic basis and mathematical reserves | **1,194,540** | 1,313,373 |
| Gross up difference on futures | **-** | 6,168 |
| Gross up difference on tax | **(1,937)** | - |
| | **1,192,603** | 1,319,541 |

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

The value of non-linked assets increased during the year by £394.9m (2010: increase by £145.5m).

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

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

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

The Company 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 £0.7m (2010: £1.7m), none of which is offset against line 44 of Form 13.

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

Financial year ended **31 December 2011**

## NOTES TO THE RETURN

### *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 £1,307.3m (2010: £975.9m). The amounts contributed to each line in Form 13 in respect of quasi derivatives is as follows:

| | **2011 £000** | 2010 £000 |
|---|---|---|
| Line 45 | **146,851** | 37,615 |
| Line 46 | **1,136,469** | 914,282 |
| Line 48 | **23,976** | 24,011 |
| | **1,307,296** | 975,908 |

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

### *1901* - Financing costs

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

### *4002* - Particulars of other income

| | **2011 £000** | 2010 £000 |
|---|---|---|
| Interest received on late premiums | **308** | 101 |
| Other | **142** | 262 |
| | **450** | 363 |

### *4008* - Management services

During the financial year ended 31 December 2011, investment management services have been provided to the Company by subsidiaries of AXA Investment Managers UK Limited. Various other management services have been provided by Friends Life Services Limited, a fellow subsidiary company.

### *4009* - Material connected party transactions

During the financial year ended 31 December 2011 the Company carried out the following transactions with other companies in the group, which exceed 5% of the Company's liabilities arising from its long-term insurance business, excluding property linked liabilities and net of reinsurance ceded.

| **Transacting Party** | **Relationship** | **Type of Transaction** | **Amount £000** |
|---|---|---|---|
| Friends Life Company Limited | Group Undertaking | Reassurance claims received | 966,407 |

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

Financial year ended **31 December 2011**

**NOTES TO THE RETURN**

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

The amount of investment income relating to linked assets in Line 12 of Form 40 is £33.5m (2010: £27.3m).

***4201* - Analysis of claims**

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

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

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

***4404* - Linked funds balance sheet surplus units**

Surplus units arise as a result of timing differences between the liquidation of directly held linked assets and movements in the unit liabilities.

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

In the case of a fixed interest security that may be redeemed at different dates at the option of the issuer, the yield is determined with reference to both the final redemption date and the first call date. The yield is taken to be the lower of the two. The total value included in Form 49 line 61 in respect of securities that may be redeemed at different dates at the option of the issuer is £445m.

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

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

| | **Market Value £m** | **Yield %** |
|---|---|---|
| Cash | 151 | 0.00% |
| Derivative exposure (assumed to receive the cash return) | 119 | 0.00% |
| Policy loans | 1 | 5.63% |
| Miscellaneous assets bearing little or no income | 315 | 3.76% |

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

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

| **Line** | **Assets included** |
|---|---|
| 21 | Properties including investments in property through collective investment schemes and limited partnerships. |
| 22 & 23 | Non-index-linked gilts and corporate bonds. An approximate basis has been used to split the return between the two lines. |

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

Financial year ended **31 December 2011**

**NOTES TO THE RETURN**

| | |
|---|---|
| 24 | Index-linked gilts and bonds and floating rate bonds. |
| 25-27 | Equities, equity futures and collective investment schemes investing in equities. An approximate method has been used to split the return on all equities (used in asset share calculations) between these three lines. |
| 28 | All assets included in the calculation of asset shares but not included in lines 21-27, the majority of which is cash. |

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Financial year ended **31 December 2011**

**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 deferred annuity

***5702* Risk adjusted yield calculation**

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

| **Product Group** | **Original Risk Adjusted Yield** | **Modified Risk Adjusted Yield** |
|---|---:|---:|
| UK Pens NP Form 51 | 3.35% | 3.55% |

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

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

The gross annual premiums in force at 31 December 2011 in respect of Class IV business, life protection reinsurance business and supplementary accident and sickness insurance amount to £0.5m.

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

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

**VALUATION REPORT**

Throughout this report the following notation is used:

| | | |
|---|---|---|
| the Society | denotes | Friends Life Assurance Society Limited (FLAS)<br>(formerly Sun Life Assurance Society Plc) |
| FLS | denotes | Friends Life Services Limited<br>(formerly AXA Sun Life Services Plc) |
| FLC | denotes | Friends Life Company Limited<br>(formerly AXA Sun Life Plc) |

Internal reinsurance arrangements as at 31 December 2011

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

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

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

## 1. Valuation date

(1) The actuarial investigation relates to a valuation date of 31 December 2011.

(2) The valuation date of the previous investigation was 31 December 2010.

(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 2011

There were no changes to any products during 2011.

***Statement relating to With Profits business***

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

## 3. Discretionary charges and benefits

### (1) Application of Market Value Reduction

During 2011, a Market Value Reduction (MVR) was applied on discontinuance (where permitted, and subject to relevant minima) in respect of the following unitised with profits products effected in the policy years set out below:

| Product Description | Period That MVR Applied | | Policy Date of Entry |
|---|---|---|---|
| | From | To | |
| Onshore Bonds | 01/01/2011 | 19/06/2011 | 1999-2000 |
| | 20/06/2011 | 31/12/2011 | 2000 |

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

No reviewable non-linked protection policies were eligible for a premium review during 2011.

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

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

### (4) Service charges on linked policies

Service charges for unit-linked policies changed as follows during 2011 or with effect from 1 January 2012:

No change:

Unit-linked pensions (except where described below)

Increase of approximately 5.0% (in line with Retail Prices Index to July 2011):

Flexible Pensions (except paid-up pensions)

Increase of approximately 5.6% (in line with Retail Prices Index to September 2011):

Flexible Cover Plan
Flexible Mortgage Plan

Increase of approximately 2.7% (in line with Average Weekly Earnings Index to July 2011):

Private pension funds

### (5) Benefit charges on linked policies

No changes to mortality or morbidity charges for unit-linked policies took place during 2011.

**(6) Fund management charges**

During 2011, the net annual management charge (the fund charge after rebate) was changed for the following funds:

| Fund | Net Annual Management Charge | | Fund size at 31/12/2011 £000 |
|---|---|---|---|
| | Old | New | |
| Artemis Income | 0.75% | 0.65% | 24,308 |
| Artemis UK Smaller Companies | 0.75% | 0.65% | 2,774 |
| Artemis UK Special Situations | 0.75% | 0.65% | 5,631 |
| Standard Life Corporate Bond | 0.48% | 0.53% | 4,353 |
| Standard Life Gilt | 0.48% | 0.53% | 5,496 |

There are no notional charges to accumulating with profits policies.

**(7) Unit pricing methods**

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

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

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

See **3.(7)**.

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

See **3.(7)**.

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

See **3.(7).**

## 4. Valuation basis (other than for special reserves)

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

**(1) Valuation methods**

***General principles and methods used in the valuation***

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

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

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

Any negative reserves arising on any policy have been eliminated.

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

***Conventional Business***

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

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

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

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

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

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

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

***Unit-linked Business***

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

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

(ii) a non-unit reserve.

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

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

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

***Unitised With Profits and Deposit Administration Business***

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

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

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

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

**(2) Valuation interest rates**

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

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

| | **31 December 2011 %** | **31 December 2010 %** |
|---|---|---|
| Unitised with profits and deposit administration | 2.50 | 3.00 |
| Conventional with profits life | 2.50 | 3.00 |
| Conventional with profits pensions and with profits annuities | 3.50 | 4.00 |
| Non-profit life | 2.35 | 2.90 |
| The proportion of non-profit pensions annuities in payment reinsured to FLC | 3.40 | 4.00 |
| The proportion of non-profit pensions annuities in payment (RPI-linked) reinsured to FLC | (0.40) | 0.60 |
| The proportion of non-profit pensions annuities in payment not reinsured to FLC | 3.05 | 3.80 |
| The proportion of non-profit pensions annuities in payment (RPI-linked) not reinsured to FLC | (0.35) | 0.40 |
| Non-profit deferred pensions and other annuities (in payment and deferred) | 3.05 | 3.80 |
| Life Annuity business reinsured to FLC | 2.40 | 3.00 |
| RPI-linked benefits | (0.35) | 0.40 |
| Unit-linked life | 2.35 | 2.90 |
| Unit-linked pensions | 2.95 | 3.65 |
| Annuity guarantees in payment (except where valued using stochastic methods) | 2.15 | 3.30 |

### (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.

<u>Fixed interest</u>

The following deductions for non-gilt assets have been made from gross redemption yields:

| Rating | Term to redemption (years) | | |
|---|---|---|---|
| | <10<br>% p.a. | 10-20<br>% p.a. | >20<br>% p.a. |
| AAA | 0.11 | 0.13 | 0.14 |
| AA | 0.70 | 0.52 | 0.47 |
| A | 1.32 | 0.83 | 0.74 |
| BBB | 2.54 | 1.67 | 1.50 |
| BB | 4.32 | 3.07 | 2.66 |
| B | 6.78 | 5.05 | 4.38 |
| CCC | 14.85 | 9.24 | 7.57 |

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.

For assets that have callable redemption dates, the yields are calculated both on first call date and redemption date and the lowest yield is chosen. This is prudent when bond coupons are fixed throughout the term of the asset.

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

<u>Equities</u>

Yields have been reduced by 0.1% and have been constrained not to exceed 6.40% p.a.

<u>Property</u>

A deduction of 2.5% of the yield applies.

<u>Currency Risk</u>

For any asset not denominated in sterling, a 5bp deduction is made to allow for the currency risk.

## (4) Mortality

| Product group | 31 December 2011 | | 31 December 2010 | |
|---|---|---|---|---|
| | Males | Females | Males | Females |
| With profits endowment assurance (Moneysaver) | 155% AMC00 ult | 130% AFC00 ult | 155% AMC00 ult | 130% AFC00 ult |
| With profits endowment assurance (Top Flight) | 140% AMC00 ult | 125% AFC00 ult | 140% AMC00 ult | 125% AFC00 ult |
| Other with profits endowment assurance | 90% AMC00 ult | 95% AFC00 ult | 90% AMC00 ult | 95% AFC00 ult |
| With profits whole life | 95% AMC00 ult | 95% AFC00 ult | 95% AMC00 ult | 95% AFC00 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 |
| Conventional pensions in deferment | 75% AM92 ult | 75% AF92 ult | 75% AM92 ult | 75% AF92 ult |
| Pensions annuities in payment | 89.7% PCMA00 CMI 2011[2%] | 92.0% PCFA00 CMI 2011[2%] | 90.5% PCMA00 2000-2010 100% medium cohort with 1.5% floor Post 2010 100% medium cohort with 2.1% floor | 90.5% PCFA00 2000-2010 75% medium cohort with 1.25% floor Post 2010 75% medium cohort with 1.8% floor |
| 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) | 89.7% PCMA00 CMI 2011[2%] | 92.0% PCFA00 CMI 2011[2%] | 90.5% PCMA00 2000-2010 100% medium cohort with 1.5% floor Post 2010 100% medium cohort with 2.1% floor | 90.5% PCFA00 2000-2010 75% medium cohort with 1.25% floor Post 2010 75% medium cohort with 1.8% floor |
| Bonds | 105% AMC00 ult | 120% AFC00 ult | 105% AMC00 ult | 120% AFC00 ult |
| Other unit-linked and unitised with profits life | modified AM80 sel | modified AF80 sel | modified AM80 sel | modified AF80 sel |
| Flexible pensions (group personal pensions) | modified AM80 ult | modified AF80 ult | modified AM80 ult | modified AF80 ult |
| Flexible pensions (other) | modified AM80 sel | modified AF80 sel | modified AM80 sel | modified AF80 sel |
| Other unit-linked pensions | modified A67/70 ult | modified AF80 ult | modified A67/70 ult | modified AF80 ult |

Where the mortality table is described above as modified, the following are specimen mortality rates used at 31 December 2011:

| Age | Males | | | Females | | |
|---|---|---|---|---|---|---|
| | Non-smoker | Smoker | Aggregate | Non-smoker | Smoker | Aggregate |
| Guaranteed Over 50 Plan | | | | | | |
| 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 |
| Other unit-linked and unitised with profits life | | | | | | |
| 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 |
| Flexible pensions (group personal pensions) | | | | | | |
| 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 |
| Flexible pensions (other) | | | | | | |
| 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 |
| Other unit-linked pensions | | | | | | |
| 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 2011 | | 31 December 2010 | |
|---|---|---|---|---|---|---|
| | | | Males years | Females years | Males years | Females years |
| Pensions annuities in payment | | 65 | 25.3 | 27.0 | 25.4 | 26.7 |
| | | 75 | 15.7 | 17.0 | 15.7 | 16.9 |
| 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 and annuity guarantees valued using a stochastic model | 45 | 65 | 28.5 | 30.1 | 30.2 | 30.5 |
| | 55 | 65 | 26.8 | 28.6 | 27.7 | 28.6 |
| Annuity guarantees valued using a deterministic method | 45 | 65 | 25.0 | 27.5 | 24.9 | 26.9 |
| | 55 | 65 | 25.0 | 27.5 | 24.9 | 26.9 |

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

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

### (5) Morbidity

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

**(6) Expenses**

Gross annual per policy expense levels assumed for specified products are set out below.

At 31 December 2011, for conventional business, the per policy expenses have been based on the actual unit costs of Friends Life Services Limited, and were uplifted by 5% to provide a margin for prudence. For unit-linked and UWP business, the actual unit costs (uplifted by 5% to provide a margin for prudence) have been allocated as 65% attributable and 35% non-attributable, with the non-attributable expenses being covered by profits emerging from the unit-linked and UWP business.

At 31 December 2010, the per policy expenses were based on the actual fees payable to Friends Life Services Limited under the Management Services Agreement, and were uplifted in respect of expenses not covered by the Agreement. A further uplift was included to make prudent allowance for the outcome of a fee review under the terms of the Agreement, which is due to be implemented during 2013.

| Product | Product codes | 31 December 2011 £ p.a. | 31 December 2010 £ p.a. |
|---|---|---|---|
| ***Conventional With Profits*** | | | |
| Endowment (savings) | 120 | 8.48 | 16.28 |
| Endowment (target cash) | 125 | 8.48 | 16.28 |
| Pensions | 155, 165 | 137.62 | 217.06 |
| ***Non-profit*** | | | |
| Annuity | 400 | 34.94 | 27.13 |
| ***Unitised With Profits*** | | | |
| Bonds | 500 | 48.24 | 54.26 |
| Endowment (savings) | 510 | 53.54 | 54.26 |
| Endowment (target cash) | 515 | 53.54 | 54.26 |
| Individual pensions (regular premium) | 525 | 78.39 | 108.53 |
| Individual pensions (single premium) | 525 | 47.03 | 27.13 |
| Group pensions (regular premium) | 535 | 87.97 | 108.53 |
| Group pensions (single premium) | 535 | 43.99 | 27.13 |
| ***Unit-linked*** | | | |
| Bonds | 700 | 48.24 | 54.26 |
| Endowment (savings) | 715 | 53.54 | 54.26 |
| Endowment (target cash) | 720 | 53.54 | 54.26 |
| Individual pensions (regular premium) | 725 | 78.39 | 108.53 |
| Individual pensions (single premium) | 725 | 47.03 | 27.13 |
| Group pensions (regular premium) | 735 | 87.97 | 108.53 |
| Group pensions (single premium) | 735 | 43.99 | 27.13 |

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 2011. In the case of individual and group pensions, paid-up policies have been treated as single premium, as the expense assumptions are the same for these groups.

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

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

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

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

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

**(7) Inflation rate and unit growth rates**

The future inflation rate assumed in the valuation is 3.50% per annum for annuity business and 3.25% per annum for non-annuity business.

For expenses excluding Diligenta costs, expense inflation is assumed to be 4.50% per annum for annuity business and 4.25% per annum for non-annuity business. For Diligenta costs, these rates are reduced by 0.5%.

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

| | |
|---|---|
| Life business | 2.46% p.a. (net of tax) |
| Pensions business | 2.90% p.a. |

**(8) Future bonus rates**

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

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

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

| Product | | Average lapse / surrender / paid-up rate for the policy years | | | |
|---|---|---|---|---|---|
| | | 1-5 % p.a. | 6-10 % p.a. | 11-15 % p.a. | 16-20 % p.a. |
| CWP savings endowment | surrender | 8.1 | 5.6 | 2.9 | 1.7 |
| CWP target cash endowment | surrender | 7.5 | 2.9 | 2.3 | 2.3 |
| UWP savings endowment | surrender | 3.3 | 3.9 | 8.7 | 6.7 |
| UWP target cash endowment | surrender | 3.3 | 3.9 | 8.7 | 6.7 |
| UL savings endowment | surrender | 3.3 | 3.9 | 8.7 | 6.7 |
| UL target cash endowment | surrender | 3.3 | 3.9 | 8.7 | 6.7 |
| UWP Bond – with surrender penalty | surrender | 1.5 | 6.7 | 5.5 | 5.0 |
| UWP Bond – without surrender penalty | surrender | 6.7 | 6.7 | 5.5 | 5.0 |
| UWP Bond | automatic withdrawals | 100% of current | 100% of current | 100% of current | 100% of current |
| UL Bond | surrender | 6.7 | 6.7 | 5.5 | 5.0 |
| 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 | See note 1. | | | |
| UWP individual pension single premium | surrender | See note 1. | | | |
| UL individual pension regular premium | PUP | 0 | 0 | 0 | 0 |
| UL individual pension regular premium | surrender | See note 1. | | | |
| UL group. pension regular premium | PUP | 0 | 0 | 0 | 0 |
| UL group pension regular premium | surrender | See note 1. | | | |
| UL individual pension single premium | surrender | See note 1. | | | |

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

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

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

**(10) Other material assumptions**

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

**(11) Derivative contracts**

The Society uses derivatives to hedge the Guaranteed Annuity Options on its WP deferred annuity business. Since the time value of the derivatives is significantly higher than that reflected in the valuation of the liabilities, an additional liability equal to the time value of the derivatives is held in the Long Term Fund (£25.5m).

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

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

At 31 December 2011, valuation expenses for unit-linked and UWP business were split between attributable and non-attributable expenses. The attributable expenses were allowed for in the calculation of the non-unit reserves on unit-linked business and the gross premium reserve on UWP business. The non-attributable expenses were compared to future profits expected to emerge from the unit-linked and UWP business, and no additional reserve was deemed necessary. At 31 December 2011, the reduction in the reserves resulting from this change in methodology was £3.1m.

No further changes have been made since the previous valuation.

## 5. Options and guarantees

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

**(1) Guaranteed Annuity Rate options**

(a) For most pensions contracts with a Guaranteed Annuity Rate option at retirement, the value of the option has been calculated using both a stochastic model and a deterministic valuation, and the greater of the two values is taken as the valuation liability. For a few minor classes the stochastic model is not used, and for these classes the valuation liability is the result of a deterministic valuation

The stochastic 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 89.7% of PCMA00 with CMI 2011[2%] improvements. The assumed mortality basis in payment for females is based on 92.0% of PCFA00 with CMI 2011[2%] improvements.

For practical reasons an equivalent one-dimensional table is used.

The deterministic valuation uses corresponding assumptions, but assumes 100% take-up for the option.

(b)

| Product | Basic reserve £m | Outstanding durations (years) | | | Guarantee reserve £m | Guaranteed annuity rate (annuity p.a. per £100 cash sum) | Open to increments |
|---|---|---|---|---|---|---|---|
| | | Minimum | Median | Maximum | | | |
| Pension Builder | 118 | 0 | 6 | 27 | 148 | 11.11 | In certain circumstances |
| Retirement Annuity (1976 series) | 41 | 0 | 8 | 24 | 49 | 11.11 | 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 in advance for a minimum period of five years. Most guarantees are in this form, though some policies have guaranteed annuities with a fixed increase rate or on a joint lives basis, or payable annually in arrear. In normal circumstances, an alternative form of annuity would be available on equivalent terms.

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

### (2) Guaranteed surrender and unit-linked maturity values

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

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

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

(b)

| Product | Basic reserve £m | Outstanding durations (years) | | | Guarantee reserve £m | Guaranteed amount £m | Annual premiums £m |
|---|---|---|---|---|---|---|---|
| | | Minimum | Median | Maximum | | | |
| Flexible Mortgage Plan – guarantee in force | 15.3 | 0 | 2 | 5 | 4.6 | 20.0 | 1.1 |
| Flexible Mortgage Plan – potential future guarantee | 66.6 | 5 | 8 | 25 | 0.0 | 190.5 | 4.2 |

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

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

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

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

**(3) Guaranteed insurability options**

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

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

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

**(4) Other guarantees and options**

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

These guarantees are generally significantly in the money, and additional reserves are determined for each policy equal to the excess of the value of the annuity over the basic reserve. The assumed mortality basis in payment for males is based on 89.7% of PCMA00 with CMI 2011[2%] improvements. The assumed mortality basis in payment for females is based on 92.0% of PCFA00 with CMI 2011[2%] improvements. For practical reasons an equivalent one-dimensional table is used. Interest in payment is 2.15% p.a. The assumed take-up rate for the guarantee is 100%. The basis during deferment is the normal basis for the relevant type of policy.

Basic with profits reserve for policies with the guarantee:
£102m

Additional reserve in respect of the guarantee:
£203m

## 6. Expense reserves

### (1) Expense loadings

The aggregate amount, grossed up for tax where appropriate, arising during the twelve months after 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 £28.8m, after allowing for expenses recovered through the internal reinsurance arrangements. The amounts arising from each of the implicit allowances, explicit allowances for investment expenses, explicit allowances for other maintenance expenses and the non-attributable expenses are shown in the table below:

| Homogeneous risk group | Implicit allowances £m | Explicit allowances (investment) £m | Explicit allowances (other) £m | Non-attributable expenses £m | Total £m |
|---|---|---|---|---|---|
| UWP business | 4.5 | - | 2.9 | 1.5 | 8.9 |
| All expenses attributable | 7.1 | - | 12.8 | n/a | 19.9 |
| Total | 11.6 | - | 15.7 | 1.5 | 28.8 |

Renewal commission is not included in these amounts.

### (2) Implicit expense allowances

The implicit allowances shown in **6.(1)** above are in respect of investment expenses which were determined by multiplying the relevant amounts of reserves by the rates of deduction from yields.

There are no other implicit allowances for expenses.

### (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 £2.1m, 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.

After allowing for initial transaction costs on assets, the amount of maintenance expenses (£22.3m) included in line 44 of Form 43 is lower than the expense loadings (£28.8m) disclosed in section **6.(1)** above.

The difference from line 14 is due to the reinsurance arrangements with FLC for unit-linked business, which transfer expenses from the Society to FLC.

### (4) New business expense overrun

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

### (5) Maintenance expense overrun

The comparison in section **6.(3)** above indicates that the Society does not have a maintenance expense overrun at 31 December 2011.

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

**(6) Non-attributable expenses**

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

At 31 December 2011, valuation expenses for unit-linked and UWP business were split between attributable and non-attributable expenses. The attributable expenses were allowed for in the calculation of the non-unit reserves on unit-linked business and the gross premium reserve on UWP business. The non-attributable expenses were compared to future profits expected to emerge from the unit-linked and UWP business, and no additional reserve was deemed necessary.

## 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 £6,799m. An analysis by currency of the matching assets is set out in the following table.

| Currency of asset | Value of assets £m |
|---|---|
| Sterling | 6,310 |
| Euro | 95 |
| U.S. Dollar | 196 |
| Japanese Yen | 61 |
| Other | 137 |
| Total | 6,799 |

**(2) Other currency exposures**

The mathematical reserves in respect of liabilities denominated in currencies other than sterling amount to £17m. In view of the small amounts, non-sterling liabilities are not considered separately for asset backing purposes, and the assets regarded as backing these liabilities do not include a specific allocation of assets in the currency of the liabilities. However, for each currency in which these liabilities are denominated, the long-term fund includes assets denominated in that currency in excess of the amount of reserves.

**(3) Currency mismatching reserve**

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

**(4) Most onerous scenario under INSPRU 3.1.16R**

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

**(5) Most onerous scenarios under INSPRU 3.1.23R**

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

### (6) Amount of resilience capital requirement

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

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

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

## 8. Other special reserves

A global provision is held within FLAS to cover the risk of default on internal and 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 2011, a provision of £13.3m was held in respect of FLAS internal and external reinsurance arrangements.

There are no other special reserves exceeding £10m.

## 9. Reinsurance

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

During 2011 no reinsurance business was ceded on a facultative basis to reinsurers not authorised to carry on insurance business in the UK.

### (2) Reinsurance treaties

Details of reinsurance treaties under which the Society is the cedant and either the premiums payable to the reinsurer during 2011 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 2011 £m | Whether treaty closed to new business | Reduction in mathematical reserves £m |
|---|---|---|---|---|
| FLC | Reassurance of all unit liabilities for unit-linked life and pensions contracts. | 168 | No | 7,272 |
| FLC | Reassurance of all non-profit life annuities in payment | 0 | Yes | 112 |
| FLC | Reassurance of 50% of most of the non-profit pensions annuities in payment | 0 | Yes | 2,048 |
| Partner Re<br>RGA Re<br>RGA Intl | Reassurance of 47.50% of most of the non-profit pensions annuities in payment | 141 | Yes | 60 |
| Munich Re | Single premium structured settlement annuities on an original terms quota share basis for 50% of the benefits underwritten. | 0 | Yes | 51 |

In respect of these treaties:

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

With the exceptions of Partner Re and RGA Re, the above companies are authorised to carry out insurance business in the UK.

With the exception of FLC, the reinsurers are not connected with the Company.

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

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

The Society has no obligations under any financing arrangements.

## 10. Regular bonus

| Name of Bonus Series | Mathematical Reserves £m | Bonus Rate for 2011 | Bonus Rate for 2010 | Guaranteed Rate for 2011 |
|---|---|---|---|---|
| ***Conventional With Profits*** | | | | |
| Life Compound Series | 203 | 1.25% | 1.25% | - |
| Ten Plus Series 1 | 11 | 1.25% | 1.25% | - |
| Ten Plus Series 2[5] | 44 | 1.25%/1.75% | 1.25%/1.75% | - |
| Pension Builder and Retirement Annuity (1976 Series) | 387 | 0.00% | 0.00% | - |
| With profits Annuity | 69 | 0.33% | 1.67% | - |
| *Unitised With Profits* | | | | |
| Life | 410 | 2.25% | 2.25% | - |
| Pensions: | | | | |
| Group WP fund[6] | 32 | 3.00% | 3.00% | - |
| with GMP guarantee | 281 | 2.50% | 2.50% | - |
| Other[1, 2] | 1002 | 3.00% | 3.00% | - |
| AXA Isle of Man Bonds[3]: | | | | |
| Series 1 | 29 | 2.00% | 2.00% | - |
| Series 2 (Sterling) | 38 | 2.75% | 2.75% | - |
| ***Deposit Administration*** | | | | |
| Deposit Administration Plan[4] | 292 | 5.00% | 7.00% | see [4] |

*Notes:*

[1] The rates stated above are for accumulation units. The corresponding rates for capital units were 0.00% for 2011 and 2010.

[2] For certain Personal Pension plans, bonus rates were 1.5% lower than the rates above.

[3] For AXA Isle of Man Bonds, bonus rates correspond to the increase in unit price during the year. Where bonus rates have changed during the year, the rate stated therefore represents an average of bonus rates weighted by period in force.

[4] For a few Deposit Administration plans, certain tranches are subject to a guaranteed minimum annual rate of return of 4.5% p.a. Where such a guarantee applies, the bonus rate is reduced by the guaranteed rate of return. The above bonus rates include the guaranteed return where relevant.

[5] For Ten Plus Series 2, the first rate is the rate on the sum assured, and the second rate is the rate on attaching bonuses.

[6] For Pensions in the Group WPF, an Additional Regular Bonus (ARB) of 3% applies in 2011. This is in addition to the above bonus rate of 3.00%.

NAME OF INSURER: FRIENDS LIFE ASSURANCE SOCIETY LIMITED

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

ABSTRACT OF VALUATION REPORT FOR REALISTIC VALUATION

## 1. Introduction

(1) The actuarial investigation relates to a valuation date of 31 December 2011.

(2) The valuation date of the previous valuation was 31 December 2010.

(3) An interim valuation was carried out on 30 June 2011.

## 2. Assets

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

| **This financial year** | |
|---|---|
| Investment return | Risk-free rate calibrated to the gilt yield curve. For fixed interest assets matching annuities in payment, a +70 basis point liquidity premium has been added to the risk-free rate |
| Expense inflation | Price inflation + 1% p.a., where the price inflation curve is calibrated to RPI |
| Discount rate | For profits emerging on non-profit business: risk-free rate calibrated to the gilt yield curve + 100 basis points p.a. additional risk adjustment to reflect risk and uncertainty + (for annuity business only) 70 basis points p.a. liquidity premium. For release of long-term insurance capital component: risk-free rate calibrated to the gilt yield curve + (for annuity business only) 70 basis points p.a. liquidity premium. |

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

Note: 1 basis point = 0.01%

**(2)** No amounts have been included in the realistic value of assets under INSPRU 1.3.33R(2).

**(3)** No business is written outside the With Profits fund.

**(4)** A single set of economic assumptions has been used in valuing the non-profit contracts.

**(5)** Not applicable.

### 3. With Profits Benefits Reserve Liabilities

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

| | **With Profits Benefits Reserve (£m)** | **Future policy related liabilities (£m)** |
|---|---|---|
| **Retrospective method (asset share)** | | |
| UWP Bonds (No MVA-Free date) | 483 | 168 |
| UWP Bonds (MVA-Free date on 10th ann) | 12 | 0 |
| UWP Reg Prem Life | 205 | 70 |
| UWP Pensions (no min bonus or GAR) | 1,254 | 385 |
| UWP Pensions (with GMP) | 95 | 134 |
| Conventional Life | 406 | 152 |
| Conventional Pensions | 96 | 299 |
| DA77 | 293 | 57 |
| With Profits Annuity | 66 | 16 |
| **Prospective method (regulatory reserve)** | | |
| Other | 0 | 0 |
| **Total** | 2,910 | 1,281 |

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

| **£m** | |
|---|---|
| Future Policy Related Liabilities, from above table | 1,281 |
| Financing arrangements | -44 |
| Tax and expense on assets in excess of asset share and other provisions | 37 |
| Provisions for potential mis-selling liabilities | 0 |
| Future Policy Related Liabilities, Form 19, Line 49 | 1,274 |

### 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 FLAS and FLS. These fees are charged to asset shares and are adjusted annually as at 1 January, again as defined in the Service Agreements. The amounts of such fees, split between initial and maintenance expenses, for the full year 2011 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 2011, 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 2011:

| **£m** | |
|---|---|
| Initial fees chargeable to asset shares | 0.6 |
| Maintenance fees chargeable to asset shares | 4.9 |
| Investment fees chargeable to asset shares | 5.7 |
| Other expenses chargeable to asset shares | 0.3 |
| Expenses on non-profit contracts | 10.9 |
| Other expenses not chargeable to asset shares | 3.1 |

**(4)** During 2011, no significant charges for guarantees or cost of capital have been made to asset shares. As indicated in the PPFM, this practice is reviewed periodically and is subject to change.

**(5)** No charges have been deducted from the funds for non-insurance risk.

**(6)** The ratio of claims paid to underlying asset shares for with profits insurance contracts over the three year period are:

| Year | Average Payout ratio |
|---|---|
| 2011 | 113% |
| 2010 | 102% |
| 2009 | 107% |

**(7)** For the full year 2011 the investment return applied to the asset share for each policy was 1.3% (before tax and expenses).

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

**5. With Profits Benefits Reserve – Prospective method**

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

**6. Costs of guarantees, options and smoothing**

(1) Not applicable.

(2) For all products where the valuation of guarantees, options and smoothing is carried out using a stochastic model, grouped data is used. Contracts are grouped according to their major product features, term gone and term to go, policyholder age and the extent to which guarantees are in or out of the money.

The total number of policies modelled in this way was 193,878, which were represented by 1,001 model points.

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

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

(3) No significant changes have been made to the liability projection model used.

**(4)** (a) (i) The liabilities being valued using a full stochastic approach are:

- The guarantee that no market value reduction will be applied on maturity or on death. The extent to which these options are in the money at the valuation date depends on the ratio of guaranteed benefits to asset share for each policy at that date, and varies both across and within lines of business. On average, the ratio of the present value of guaranteed benefits to asset share is around 90% for policies with around 5 years and less to maturity, reducing to 85% for policies with around 10 years to maturity, and reducing further to 65% for policies with around 20 years and more to go.

- Guaranteed annuity rates (GARs), which offer an annuity calculated on guaranteed terms on normal retirement. These options are currently in the money.

- The cost of smoothing. This reflects a combination of short-term and long-term effects: in the short term the difference between payouts and the sustainable level (glidepath); and in the long term the under or overpayment of asset share.

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

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

The risk-free rate in the asset model is calibrated to the gilt curve at 31 December 2011. Sample rates are shown in the table in (iii) below.

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

| Volatility over period (years) | Equity | Property | Fixed interest |
|---|---|---|---|
| 5 | 29% | 15% | 8% |
| 10 | 29% | 15% | 7% |
| 20 | 31% | 15% | 7% |

The correlations assumed between the main assets classes are:

| **Correlation between:** | |
|---|---|
| Equities and medium term fixed interest assets | 43% |
| Equities and property | 35% |
| Medium term fixed interest assets and property | 27% |

(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.

| | *K* | 0.75 | | | |
|---|---|---|---|---|---|
| *n* | ***Duration (n)*** | **5** | **15** | **25** | **35** |
| r | *Annualised compound equivalent of the risk-free rate assumed for the period (r )* | 1.03% | 2.74% | 3.29% | 3.36% |
| | | | | | |
| 1 | *Risk-Free Zero Coupon Bond* | £950,194 | £666,258 | £444,883 | £314,358 |
| 2 | *FTSE All Share Index (p=1)* | £105,970 | £270,866 | £381,210 | £466,669 |
| 3 | *FTSE All Share Index (p=0.8)* | £102,694 | £234,708 | £302,403 | £347,343 |
| 4 | *Property (p=1)* | £29,204 | £102,804 | £177,266 | £245,362 |
| 5 | *Property (p=0.8)* | £27,421 | £79,516 | £120,960 | £156,507 |
| 6 | *15yr Risk-Free ZCBs (p=1)* | £13,048 | £7,857 | £4,014 | £33,031 |
| 7 | *15yr Risk-Free ZCBs (p=0.8)* | £12,170 | £4,815 | £932 | £5,953 |
| 8 | *15yr Corporate Bonds (p=1)* | £20,365 | £24,638 | £34,612 | £64,013 |
| 9 | *15yr Corporate Bonds (p=0.8)* | £19,125 | £15,719 | £14,273 | £23,664 |
| 10 | *Portfolio 1 (p=1)* | £59,360 | £181,083 | £275,350 | £354,100 |
| 11 | *Portfolio 1 (p=0.8)* | £56,831 | £151,096 | £207,552 | £250,137 |
| 12 | *Portfolio 2 (p=1)* | £47,037 | £150,715 | £236,498 | £310,343 |
| 13 | *Portfolio 2 (p=0.8)* | £44,806 | £123,234 | £173,233 | £210,803 |
| 14 | *Portfolio 3 (p=1)* | £22,282 | £83,247 | £146,529 | £209,810 |
| 15 | *Portfolio 3 (p=0.8)* | £20,758 | £62,126 | £95,822 | £126,650 |
| | *Sterling Receiver Swaptions* | L =15 | | | |
| 16 | | 17.78% | 12.16% | 10.63% | 8.44% |

| | *K* | 1.00 | | | |
|---|---|---|---|---|---|
| *n* | ***Duration (n)*** | **5** | **15** | **25** | **35** |
| r | *Annualised compound equivalent of the risk-free rate assumed for the period (r )* | x | x | x | x |
| | | | | | |
| 1 | *Risk-Free Zero Coupon Bond* | x | x | x | x |
| 2 | *FTSE All Share Index (p=1)* | £241,214 | £441,684 | £570,481 | £669,972 |
| 3 | *FTSE All Share Index (p=0.8)* | £234,810 | £387,148 | £456,650 | £503,188 |
| 4 | *Property (p=1)* | £131,236 | £235,605 | £329,109 | £412,377 |
| 5 | *Property (p=0.8)* | £125,532 | £189,035 | £235,579 | £274,066 |
| 6 | *15yr Risk-Free ZCBs (p=1)* | £83,210 | £53,991 | £72,230 | £151,369 |
| 7 | *15yr Risk-Free ZCBs (p=0.8)* | £78,431 | £30,170 | £15,794 | £48,052 |
| 8 | *15yr Corporate Bonds (p=1)* | £101,618 | £110,027 | £128,947 | £183,910 |
| 9 | *15yr Corporate Bonds (p=0.8)* | £96,608 | £74,801 | £64,637 | £80,936 |
| 10 | *Portfolio 1 (p=1)* | £177,987 | £333,484 | £445,774 | £538,549 |
| 11 | *Portfolio 1 (p=0.8)* | £171,974 | £282,818 | £342,594 | £386,523 |
| 12 | *Portfolio 2 (p=1)* | £160,507 | £297,284 | £399,868 | £489,218 |
| 13 | *Portfolio 2 (p=0.8)* | £154,483 | £247,627 | £299,497 | £341,670 |
| 14 | *Portfolio 3 (p=1)* | £117,344 | £210,054 | £290,846 | £370,554 |
| 15 | *Portfolio 3 (p=0.8)* | £111,718 | £165,042 | £200,899 | £237,215 |
| | *Sterling Receiver Swaptions* | L = 20 | | | |
| 16 | | 21.15% | 15.60% | 13.40% | 10.33% |

| | *K* | **1.50** | | | |
|---|---|---|---|---|---|
| *n* | ***Duration (n)*** | **5** | **15** | **25** | **35** |
| r | *Annualised compound equivalent of the risk-free rate assumed for the period (r )* | x | x | x | x |
| | | | | | |
| 1 | *Risk-Free Zero Coupon Bond* | x | x | x | x |
| 2 | *FTSE All Share Index (p=1)* | £619,896 | £828,053 | £979,547 | £1,098,041 |
| 3 | *FTSE All Share Index (p=0.8)* | £607,135 | £733,918 | £794,715 | £833,164 |
| 4 | *Property (p=1)* | £522,118 | £610,437 | £704,231 | £805,775 |
| 5 | *Property (p=0.8)* | £508,088 | £515,559 | £528,202 | £557,317 |
| 6 | *15yr Risk-Free ZCBs (p=1)* | £497,903 | £501,594 | £503,489 | £548,182 |
| 7 | *15yr Risk-Free ZCBs (p=0.8)* | £482,783 | £385,889 | £291,080 | £287,740 |
| 8 | *15yr Corporate Bonds (p=1)* | £498,870 | £500,220 | £511,873 | £564,332 |
| 9 | *15yr Corporate Bonds (p=0.8)* | £484,385 | £391,405 | £317,423 | £314,995 |
| 10 | *Portfolio 1 (p=1)* | £560,703 | £709,352 | £834,206 | £944,805 |
| 11 | *Portfolio 1 (p=0.8)* | £547,464 | £616,507 | £656,098 | £691,028 |
| 12 | *Portfolio 2 (p=1)* | £549,030 | £671,281 | £783,346 | £887,227 |
| 13 | *Portfolio 2 (p=0.8)* | £535,496 | £578,034 | £606,392 | £638,758 |
| 14 | *Portfolio 3 (p=1)* | £518,676 | £585,333 | £663,838 | £753,215 |
| 15 | *Portfolio 3 (p=0.8)* | £504,467 | £489,029 | £488,359 | £510,786 |
| | *Sterling Receiver Swaptions* | L=25 | | | |
| 16 | | 24.39% | 18.70% | 15.73% | 11.75% |

(iv) The initial UK equity yield assumed is 3.59% and 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 is approximately 8 years. A breakdown for selected product types is shown in the table below.

| **Outstanding term (yrs)** | |
|---|---|
| Bonds | 7 |
| Conventional Pensions | 5 |
| Conventional Life | 3 |
| UWP Life | 4 |
| UWP Pensions | 9 |

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

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

The model was calibrated to a moneyness of between 90% for short durations to 65% 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% | 27.1% | 26.4% |
| 2 | 90% | 27.1% | 26.9% |
| 3 | 90% | 27.1% | 27.3% |
| 5 | 95% | 26.6% | 28.1% |
| 10 | 85% | 29.2% | 29.4% |
| 20 | 65% | 32.2% | 30.7% |

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

(viii) The valuation is based on 2,000 simulations of the asset model. Asset shares are accumulated and discounted back to the valuation date and the average across all simulations is compared against the starting value. Other policy related liabilities are similarly accumulated and discounted. Using results from the individual simulations, we plot a running average as the number of simulations increases, applying statistical theory to demonstrate convergence.

(b) None of the costs of guarantees, options and smoothing has been valued using the market costs of hedging.

(c) None of the cost of guarantees, options and smoothing has been valued using a series of deterministic projections with attributed probabilities.

**(5)** (a) The management actions assumed in the projection of assets and liabilities are derived from the PPFM, as set out below. The actions modelled below are consistent with the PPFM, although the PPFM does allow for larger movements in regular bonus rates and payouts when solvency is at risk.

**Regular bonuses**

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

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

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

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

**Asset allocation**

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

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

| **Return** | **Risk-Free Rate unadjusted** | | | **Risk-Free Rate reduced by 0.43% p.a** | | | **Risk-Free Rate increased by 0.43% p.a.** | | |
|---|---|---|---|---|---|---|---|---|---|
| Years into projection | Current | 5 | 10 | Current | 5 | 10 | Current | 5 | 10 |
| Equity backing ratio | 50% | 50% | 50% | 50% | 50% | 50% | 50% | 50% | 50% |
| Annual bonus rate Bond | 2.25% | 2.25% | 2.75% | 2.25% | 2.00% | 2.25% | 2.25% | 2.75% | 3.00% |
| Annual Bonus rate UWP Pension (effected 1994) | 3.00% | 1.75% | 2.25% | 3.00% | 1.50% | 1.75% | 3.00% | 2.25% | 2.75% |

Note: Equity backing ratio includes equities and property

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

| **Product** | | **Average lapse / surrender /paid-up rate for the policy years** | | | |
|---|---|---|---|---|---|
| | | **1 - 5 % p.a.** | **6 - 10 % p.a.** | **11 - 15 % p.a.** | **16 - 20 % p.a.** |
| CWP savings endowment | surrender | 8.0 | 6.0 | 3.6 | 2.0 |
| CWP target cash endowment | surrender | 11.2 | 4.4 | 3.5 | 3.5 |
| UWP savings endowment | surrender | 4.3 | 3.7 | 5.3 | 5.5 |
| UWP target cash endowment | surrender | 4.3 | 3.7 | 5.3 | 5.5 |
| UWP Bond | surrender | 10 | 10 | 8.3 | 7.5 |
| 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 | 1.5 | 1.5 | 1.5 | 1.5 |
| CWP pension single premium | surrender | 1.5 | 1.5 | 1.5 | 1.5 |
| UWP individual pension regular premium | PUP | 6.5 | 6.5 | 5.0 | 8.0 |
| UWP individual pension regular premium | surrender | 6.5 | 6.5 | 5.5 | 9.8 |
| UWP individual pension single premium | surrender | 6.5 | 6.5 | 5.5 | 9.8 |

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

The mortality assumption in possession of any guaranteed annuity options is assumed to be 97.5% PCMA00 CMI 2011. For females, the mortality assumption is assumed to be 100% PCFA00 CMI 2011. For practical reasons, an equivalent one-dimensional table has been used.

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

## 7. Financing costs

FLAS reinsures most of its unit-linked business to FLC (formerly known as AXA Sun Life Plc.) In accordance with the terms of the reinsurance agreement, FLAS provided financing in respect of part of the acquisition expenses that would otherwise have been charged to FLC in respect of the reinsured business. The financing is repaid by applying specified repayments to reduce the accumulated financing balance, and will be fully repaid when the balance is extinguished. Interest is charged at the rate of an average of 3 month LIBOR, and is rolled up within the financing balance. No additional fees are payable. Total repayments of £17.1m were made from FLC to FLAS during 2011. The balance of financing outstanding at 31 December 2011 is £44.1m. The arrangement has been closed to new business since 31st December 2006.

**8. Other long-term insurance liabilities**

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

**9. Realistic current liabilities**

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

**10. Risk Capital Margin**

(a) The Risk Capital Margin is £0m.

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

(i) Equity values are assumed to fall by 20.0%. Property values are assumed to fall by 12.5%. No separate assumption is made for non-UK assets.

(ii) Fixed interest yields are assumed to rise by the amounts shown in the table below. The percentage change in yields is 17.5%.

| Currency | Long term yield (annualised) | Nominal rise in yields |
|---|---|---|
| Sterling | 2.475% | 0.43% |

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

(a). The average (weighted by value) change in spread for bonds, and the percentage changes in asset value arising from the credit risk scenario are given below. No other asset values are adjusted in the credit risk scenario.

| | Average change in spread (basis points) | Percentage change in asset values |
|---|---|---|
| With profits portfolio | 50 | -3.3% |
| Non-profit portfolio | 68 | -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 205 bps, resulting in an increase in the value of these assets of 156%.

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

(iv) The overall percentage change in the realistic value of liabilities that results from applying the persistency risk scenario, assuming that the market and credit risk stress scenarios have occurred, is 0.33%.

(v) Not applicable.

(b)

(i) In the stress scenario that defines the Risk Capital Margin it is assumed that planned enhancements will be able to be reduced so that no RCM is required.

There are no further changes to assumptions, other than those that result directly from the events of the stress scenario itself.

(ii) The total impact of the change in management actions on the Risk Capital Margin is £222m.

(iii) No changes would apply to the table in 6 (5) (b) if the management actions assumed within the Risk Capital Margin were also assumed within the base scenario.

(iv) Not relevant since it is not assumed that such charges are taken.

(c)

(i) All the assets required by the With Profits fund to cover the Risk Capital Margin are held within the With Profits fund.

## 11. Tax

(i) Tax on assets backing the with profits benefit reserve (asset share) is charged to the asset share.

(ii) The liability for future tax on assets backing the future policy related liabilities is calculated separately and included on the balance sheet in Form 19, Line 47. The calculation assumes that these assets are locked in for the mean term of the policy liabilities, and incur tax on the investment return over that term. Tax is only incurred on the BLAGAB proportion of the assets.

(iii) There is no liability assumed for tax on the assets backing realistic current liabilities.

## 12. Derivatives

Derivatives held as at 31 December 2011 are as follows:

Sterling and overseas interest rate receiver swaps are held for the purpose of hedging interest rate risk. The swaps held have maturity dates between 2013 and 2046, a total notional of £347.0m, and a total market value of £96.3m.

Sterling and overseas interest rate payer swaps are held for the purpose of hedging interest rate risk. The swaps held have maturity dates between 2013 and 2049, a total notional of £122.8m, and a total market value of -£14.2m.

A set of asset swaps is held with an obligation to pay inflation linked cashflow in exchange for receiving fixed cashflow. These asset swaps are held in conjunction with a set of index-linked bonds, with the purpose that the net cashflow from the bonds together with the swaps is appropriate to back a set of fixed liabilities. The swaps held have maturity dates between 2017 and 2047, a total notional of £667.3m, and a total market value of -£51.0m.

Sterling receiver swaptions are held for the purpose of hedging interest rate risk. These have exercise dates ranging from 2012 to 2023, all have a tenor of 20 years and a strike rate of 5%. They have a total notional of £53.8m and a total market value of £14.7m.

Equity put options are held for the purpose of hedging embedded equity risk in the asset portfolio. These are out of the money put options on FTSE 100 with maturity dates ranging from 2012 to 2015 with a strike of 5200. There is a total notional of £194.8m for a total market value of £24.2m

Single name credit default swaps are held to hedge against credit risk on identified bonds. There is £273.7m of notional bought protection. They are maturing between 2013 and 2020. The total market value is £16.5m.

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 | 16 Mar 2012 | £3.4m |
| FTSE 100 | Sold | Reduce economic exposure to UK equities | 16 Mar 2012 | £180.0m |
| UK 10yr Gilt | Sold | Duration management | 28 Mar 2012 | £113.7m |
| US 10yr Treasury | Bought | Duration management | 21 Mar 2012 | £14.5m |

Cross currency swaps are held to hedge overseas currencies exposure. They have a total notional of £122.2m and a market value of £4.5m.

Currency forwards are held for the purpose of portfolio management to hedge overseas currencies exposure back to Sterling. There is £234.4m exposure to Euro, USD and JPY back to Sterling.

## 13. Analysis of change in working capital

| £m | |
|---|---|
| **Realistic working capital 31 December 2010** | **0** |
| Opening Adjustments to valuation of WP liabilities | 0 |
| Model & Methodology Changes on valuation of WP liabilities | 34 |
| Return on Working Capital | 26 |
| Mismatch profits on assets backing future policyholder liabilities | -45 |
| Changes to persistency & mortality assumptions | -3 |
| Changes to economic assumptions | -3 |
| Changes to non-economic assumptions | -152 |
| New Business | -0 |
| Profit from Non Profit Business in the With profits Fund | -86 |
| Changes in other liabilities of lines 47 and 51 of Form 19 | 0 |
| Allocate F19 L65 excess to planned enhancements | 245 |
| Other | -16 |
| **Realistic working capital 31 December 2011** | **0** |

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.

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

**IPRU(INS) RULE 9.29 - STATEMENT ON DERIVATIVE CONTRACTS**

**Financial year ended 31 December 2011**

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

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

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

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

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

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

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

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

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

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

The following statement is provided in respect of IPRU(INS) Rule 9.30 and SUP 16.4.

**Until 18 March 2011**

| Controller | Shareholding/Voting Rights |
|---|---|
| **Friends ASLH Limited (formerly AXA Sun Life Holdings plc)**<br>Pixham End, Dorking,<br>RH4 1QA<br>Incorporated in England<br>Registered No: 3479251 | 100% shareholding in Friends Life Assurance Society Limited (formerly Sun Life Assurance Society plc) |
| **Friends Life FPG Limited (formerly Friends Provident Group Limited)**<br>Pixham End, Dorking,<br>RH4 1QA<br>Incorporated in England<br>Registered No: 06986155 | 100% shareholding in Friends ASLH Limited |
| **Resolution Holdings (Guernsey) Limited**<br>Trafalgar Court, Les Banques, St. Peter Port, Guernsey,<br>GY1 3QL<br>Incorporated in Guernsey<br>Registered No: 50756 | 100% shareholding in Friends Provident Holdings (UK) plc |
| **Resolution Holdco No.1 LP**<br>Trafalgar Court, Les Banques, St. Peter Port, Guernsey,<br>GY1 3QL<br>Incorporated in Guernsey<br>Registered No:1118 | 100% shareholding in Resolution Holdings (Guernsey) Limited |
| **Resolution Limited**<br>Trafalgar Court, Les Banques, St. Peter Port, Guernsey,<br>GY1 3QL<br>Incorporated in Guernsey<br>Registered No: 49558 | 99.9% shareholding in Resolution Holdco No. 1 LP which exercised 100% of the voting rights at any general meeting.<br><br>No shareholder owns 10% or more of the shares or votes in Resolution Limited |

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

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

**From 18 March 2011 and as at 31 December 2011**

| Controller | Shareholding/Voting Rights |
|---|---|
| **Friends Life Limited (formerly Friends Provident Life and Pensions Limited)**<br>Pixham End, Dorking,<br>RH4 1QA<br>Incorporated in England<br>Registered No: 4096141 | 100% shareholding in Friends Life Assurance Society Limited |
| **Friends Life FPL Limited (formerly Friends Provident Limited)**<br>Pixham End, Dorking,<br>RH4 1QA<br>Incorporated in England<br>Registered No: 4113107 | 91.5% shareholding in Friends Life Limited (100% voting rights) |
| **Friends Life FPG Limited (formerly Friends Provident Group Limited)**<br>Pixham End, Dorking,<br>RH4 1QA<br>Incorporated in England<br>Registered No: 06861305 | 100% shareholding in Friends Life FPL Limited |
| **Friends Life Group plc (formerly Friends Provident Holdings (UK) plc)**<br>Pixham End, Dorking,<br>RH4 1QA<br>Incorporated in England<br>Registered No: 06986155 | 100% shareholding in Friends FPG Limited |
| **Resolution Holdings (Guernsey) Limited**<br>Trafalgar Court, Les Banques, St. Peter Port, Guernsey,<br>GY1 3QL<br>Incorporated in Guernsey<br>Registered No: 50756 | 100% shareholding in Friends Provident Holdings (UK) plc |
| **Resolution Holdco No.1 LP**<br>Trafalgar Court, Les Banques, St. Peter Port, Guernsey,<br>GY1 3QL<br>Incorporated in Guernsey<br>Registered No:1118 | 100% shareholding in Resolution Holdings (Guernsey) Limited |
| **Resolution Limited**<br>Trafalgar Court, Les Banques, St. Peter Port, Guernsey,<br>GY1 3QL<br>Incorporated in Guernsey<br>Registered No: 49558 | 99.9% shareholding in Resolution Holdco No. 1 LP which exercised 100% of the voting rights at any general meeting.<br><br>No shareholder owns 10% or more of the shares or votes in Resolution Limited |

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

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

Peter Jonathan Shelley performed the with-profits actuary function throughout the financial year. He 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 or the insurer's group.

2. Remuneration

   In respect of 2011 Mr Shelley received management remuneration and other benefits (other than pension contributions) to the value of £131,827.

3. Pension contributions

   Mr Shelley is a contributing member of the defined contribution Friends Pension Plan.

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

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

**Financial year ended 31 December 2011**

We certify that:

(a) the return has been properly prepared in accordance with the requirements in IPRU(INS), GENPRU and INSPRU; and

(b) we are satisfied that:

(i) throughout the financial year in question, the Society has complied in all material respects with the requirements in SYSC and PRIN as well as the provisions of IPRU(INS), GENPRU and INSPRU; and

(ii) it is reasonable to believe that the Society has continued to comply subsequently and will continue so to comply in future;

(c) in our opinion, premiums for contracts entered into during the financial year and the resulting income earned are sufficient, under reasonable actuarial methods and assumptions, and taking into account the other financial resources of the Society that are available for the purpose, to enable the Society to meet its obligations in respect of those contracts and, in particular, to establish adequate mathematical reserves;

(d) the sum of the mathematical reserves as shown in Form 14 constitute proper provision at the end of the financial year in question for the long-term insurance liabilities (other than liabilities which had fallen due before the end of the financial year) including any increase in those liabilities arising from a distribution of surplus as a result of an actuarial investigation as at that date into the financial condition of the long-term insurance business;

(e) the with-profits fund has been managed in accordance with the Principles and Practices of Financial Management, as established, maintained and recorded under COBS 20.3 and;

(f) we have, in preparing the return, taken and paid due regard to:

(i) advice from the actuary appointed by the Society to perform the actuarial function in accordance with SUP 4.3.13R; and

(ii) advice from the actuary appointed by the Society to perform the with-profits actuary function in accordance with SUP 4.3.16AR.

Signed on behalf of Friends Life Assurance Society Limited

E. B. Bourke Director

A. M. Parsons Director

V. Hames Secretary
Signed on behalf of Friends Life
Secretarial Services Limited

20 March 2011

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

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

**Global business**

**Financial year ended 31 December 2011**

We have audited the following documents prepared by the insurer pursuant to the Accounts and Statement Rules set out in Part I and Part IV of Chapter 9 to IPRU(INS) the Interim Prudential Sourcebook for Insurers, GENPRU the General Prudential Sourcebook and INSPRU the Prudential Sourcebook for Insurers ("the Rules") made by the Financial Services Authority under section 138 of the Financial Services and Markets Act 2000:

- Forms 2, 3, 13 to 19, 40 to 44, 48, 49, 56, 58 and 60 (including the supplementary notes) ('the Forms');
- the statement required by IPRU(INS) rule 9.29 ('the statement');
- the valuation reports required by IPRU(INS) rule 9.31 ('the valuation reports').

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

– Forms 46, 47, 50 to 55, 57, 59A and 59B (including the supplementary notes);

– the statements required by IPRU(INS) rules 9.30 and 9.36; and

– the certificate required by IPRU(INS) rule 9.34(1).

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

**Respective responsibilities of the insurer and its auditors**

The insurer is responsible for the preparation of an annual return (including the Forms, the statement, and the valuation reports) under the provisions of the Rules. The requirements of the Rules have been modified by directions issued under section 148 of the Act referred to in supplementary note 0201. Under IPRU(INS) rule 9.11 the Forms, the statement and the valuation reports are required to be prepared in the manner specified by the Rules and to state fairly the information provided on the basis required by the Rules. The methods and assumptions determined by the insurer and used to perform the actuarial investigation as set out in the valuation reports are required to reflect appropriately the requirements of INSPRU 1.2 and 1.3.

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

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

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

**Global business**

**Financial year ended 31 December 2011**

## 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 20 March 2012. 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

20 March 2012