



# **Friends Life Limited**

**(formerly Friends Provident Life and Pensions Limited)**

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Annual Return  
as at  
31st December 2011

Pursuant to the Interim Prudential Sourcebook

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## **Appendices**

**9.1, 9.3, 9.4, 9.4A and 9.6**

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

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**Statement of solvency - long-term insurance business**Name of insurer **Friends Life Limited**

Global business

Financial year ended **31 December 2011**

Adjusted solo solvency calculation

|                                    |                                   |                  |                |  |    |       |                                      |
|------------------------------------|-----------------------------------|------------------|----------------|--|----|-------|--------------------------------------|
| Adjusted solo solvency calculation | Company<br>registration<br>number | GL/<br>UK/<br>CM | day month year |  |    | Units |                                      |
|                                    | R2                                | 4096141          | GL             | 31                                     | 12 | 2011  | £000                                 |
|                                    |                                   |                  |                | As at end of<br>this financial<br>year |    |       | As at end of<br>the previous<br>year |
|                                    |                                   |                  |                | 1                                      |    |       | 2                                    |

**Capital resources**

|   |           |         |         |
|---|-----------|---------|---------|
| Capital resources arising within the long-term insurance fund   | <b>11</b> | 1735216 | 1771709 |
| Capital resources allocated towards long-term insurance business arising outside the long-term insurance fund | <b>12</b> | 4804193 | 1097163 |
| Capital resources available to cover long-term insurance business capital resources requirement (11+12)       | <b>13</b> | 6539409 | 2868872 |

**Guarantee fund**

|  |           |         |         |
|--|-----------|---------|---------|
| Guarantee fund requirement   | <b>21</b> | 1309192 | 460841  |
| Excess (deficiency) of available capital resources to cover guarantee fund requirement | <b>22</b> | 5230217 | 2408031 |

**Minimum capital requirement (MCR)**

|  |           |         |         |
|--|-----------|---------|---------|
| Long-term insurance capital requirement                                | <b>31</b> | 618483  | 482537  |
| Resilience capital requirement   | <b>32</b> |         |         |
| Base capital resources requirement                                     | <b>33</b> | 3056    | 3040    |
| Individual minimum capital requirement                                 | <b>34</b> | 618483  | 482537  |
| Capital requirements of regulated related undertakings                 | <b>35</b> | 1103031 | 339995  |
| Minimum capital requirement (34+35)                                    | <b>36</b> | 1721514 | 822532  |
| Excess (deficiency) of available capital resources to cover 50% of MCR | <b>37</b> | 5678652 | 2287487 |
| Excess (deficiency) of available capital resources to cover 75% of MCR | <b>38</b> | 5248274 | 2081854 |

**Enhanced capital requirement**

|  |           |         |         |
|--|-----------|---------|---------|
| With-profits insurance capital component | <b>39</b> | 2944818 | 931238  |
| Enhanced capital requirement             | <b>40</b> | 4666332 | 1753770 |

**Capital resources requirement (CRR)**

|  |           |         |         |
|--|-----------|---------|---------|
| Capital resources requirement (greater of 36 and 40)   | <b>41</b> | 4666332 | 1753770 |
| Excess (deficiency) of available capital resources to cover long-term insurance business CRR (13-41) | <b>42</b> | 1873077 | 1115102 |

**Contingent liabilities**

|  |           |  |  |
|--|-----------|--|--|
| Quantifiable contingent liabilities in respect of long-term insurance business as shown in a supplementary note to Form 14 | <b>51</b> |  |  |
|--|-----------|--|--|

**Covering Sheet to Form 2**

Name of insurer **Friends Life Limited**

Global business

Financial year ended **31 December 2011**

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

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

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

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**Date: 20th March 2012**

**Components of capital resources**Name of insurer **Friends Life Limited**

Global business

Financial year ended **31 December 2011**

|           | Company<br>registration<br>number | GL/<br>UK/<br>CM                 | day                                | month   | year  | Units       |
|-----------|-----------------------------------|----------------------------------|------------------------------------|---|---|-------------|
| <b>R3</b> | <b>4096141</b>                    | <b>GL</b>                        | <b>31</b>                          | <b>12</b>   | <b>2011</b>                                       | <b>£000</b> |
|           |                                   | General<br>insurance<br>business | Long-term<br>insurance<br>business | Total as at<br>the end of<br>this financial<br>year | Total as at<br>the end of<br>the previous<br>year |             |
|           |                                   | <b>1</b>                         | <b>2</b>                           | <b>3</b>  | <b>4</b>  |             |

**Core tier one capital**

|   |           |  |         |         |          |
|---|-----------|--|---------|---------|----------|
| Permanent share capital                       | <b>11</b> |  | 3218642 | 3218642 | 653750   |
| Profit and loss account and other reserves    | <b>12</b> |  | 912278  | 912278  | 1092786  |
| Share premium account                         | <b>13</b> |  |         |         |          |
| Positive valuation differences                | <b>14</b> |  | 1365506 | 1365506 | 1361905  |
| Fund for future appropriations                | <b>15</b> |  | 254500  | 254500  | 216400   |
| Core tier one capital in related undertakings | <b>16</b> |  | 1274495 | 1274495 | (671868) |
| Core tier one capital (sum of 11 to 16)       | <b>19</b> |  | 7025421 | 7025421 | 2652973  |

**Tier one waivers**

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

**Other tier one capital**

|  |           |  |        |        |        |
|--|-----------|--|--------|--------|--------|
| Perpetual non-cumulative preference shares as restricted           | <b>25</b> |  | 51000  | 51000  | 51000  |
| Perpetual non-cumulative preference shares in related undertakings | <b>26</b> |  |        |        |        |
| Innovative tier one capital as restricted                          | <b>27</b> |  | 598042 | 598042 | 476251 |
| Innovative tier one capital in related undertakings                | <b>28</b> |  |        |        |        |

|   |           |  |         |         |         |
|---|-----------|--|---------|---------|---------|
| <b>Total tier one capital before deductions (19+24+25+26+27+28)</b> | <b>31</b> |  | 7674463 | 7674463 | 3180224 |
| Investments in own shares   | <b>32</b> |  |         |         |         |
| Intangible assets   | <b>33</b> |  | 354488  | 354488  |         |
| Amounts deducted from technical provisions for discounting          | <b>34</b> |  |         |         |         |
| Other negative valuation differences                                | <b>35</b> |  |         |         |         |
| Deductions in related undertakings                                  | <b>36</b> |  | 12850   | 12850   | 5220    |
| Deductions from tier one (32 to 36)                                 | <b>37</b> |  | 367338  | 367338  | 5220    |
| <b>Total tier one capital after deductions (31-37)</b>              | <b>39</b> |  | 7307125 | 7307125 | 3175004 |

**Components of capital resources**Name of insurer **Friends Life Limited**

Global business

Financial year ended **31 December 2011**

|           | Company<br>registration<br>number | GL/<br>UK/<br>CM                 | day                                | month   | year  | Units       |
|-----------|-----------------------------------|----------------------------------|------------------------------------|---|---|-------------|
| <b>R3</b> | <b>4096141</b>                    | <b>GL</b>                        | <b>31</b>                          | <b>12</b>   | <b>2011</b>                                       | <b>£000</b> |
|           |                                   | General<br>insurance<br>business | Long-term<br>insurance<br>business | Total as at<br>the end of<br>this financial<br>year | Total as at<br>the end of<br>the previous<br>year |             |
|           |                                   | <b>1</b>                         | <b>2</b>                           | <b>3</b>  | <b>4</b>  |             |

**Tier two capital**

|   |           |  |  |  |        |
|---|-----------|--|--|--|--------|
| Implicit items, (tier two waivers and amounts excluded from line 22)  | <b>41</b> |  |  |  |        |
| Perpetual non-cumulative preference shares excluded from line 25  | <b>42</b> |  |  |  |        |
| Innovative tier one capital excluded from line 27   | <b>43</b> |  |  |  | 121791 |
| Tier two waivers, innovative tier one capital and perpetual non-cumulative preference shares treated as tier two capital (41 to 43) | <b>44</b> |  |  |  | 121791 |
| Perpetual cumulative preference shares  | <b>45</b> |  |  |  |        |
| Perpetual subordinated debt and securities  | <b>46</b> |  |  |  |        |
| Upper tier two capital in related undertakings  | <b>47</b> |  |  |  |        |
| <b>Upper tier two capital (44 to 47)</b>  | <b>49</b> |  |  |  | 121791 |

|  |           |  |        |        |        |
|--|-----------|--|--------|--------|--------|
| Fixed term preference shares                   | <b>51</b> |  |        |        |        |
| Other tier two instruments                     | <b>52</b> |  | 861713 | 861713 | 161713 |
| Lower tier two capital in related undertakings | <b>53</b> |  |        |        |        |
| <b>Lower tier two capital (51+52+53)</b>       | <b>59</b> |  | 861713 | 861713 | 161713 |

|  |           |  |        |        |        |
|--|-----------|--|--------|--------|--------|
| <b>Total tier two capital before restrictions (49+59)</b>                      | <b>61</b> |  | 861713 | 861713 | 283504 |
| Excess tier two capital  | <b>62</b> |  |        |        |        |
| Further excess lower tier two capital  | <b>63</b> |  |        |        |        |
| <b>Total tier two capital after restrictions, before deductions (61-62-63)</b> | <b>69</b> |  | 861713 | 861713 | 283504 |



**Components of capital resources**Name of insurer **Friends Life Limited**

Global business

Financial year ended **31 December 2011**

|  | Company<br>registration<br>number | GL/<br>UK/<br>CM                 | day                                | month   | year | Units |   |
|--|-----------------------------------|----------------------------------|------------------------------------|---|------|-------|---|
|  | R3                                | 4096141                          | GL                                 | 31  | 12   | 2011  | £000  |
|  |                                   | General<br>insurance<br>business | Long-term<br>insurance<br>business | Total as at<br>the end of<br>this financial<br>year |      |       | Total as at<br>the end of<br>the previous<br>year |
|  |                                   | 1                                | 2                                  | 3   |      |       | 4   |

**Total capital resources**

|   |           |  |         |         |         |
|---|-----------|--|---------|---------|---------|
| Positive adjustments for regulated non-insurance related undertakings | <b>71</b> |  |         |         |         |
| <b>Total capital resources before deductions (39+69+71)</b>           | <b>72</b> |  | 8168838 | 8168838 | 3458508 |
| Inadmissible assets other than intangibles and own shares             | <b>73</b> |  | 1629429 | 1629429 | 589636  |
| Assets in excess of market risk and counterparty limits               | <b>74</b> |  |         |         |         |
| Deductions for related ancillary services undertakings                | <b>75</b> |  |         |         |         |
| Deductions for regulated non-insurance related undertakings           | <b>76</b> |  |         |         |         |
| Deductions of ineligible surplus capital                              | <b>77</b> |  |         |         |         |
| <b>Total capital resources after deductions (72-73-74-75-76-77)</b>   | <b>79</b> |  | 6539409 | 6539409 | 2868872 |

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

|  |           |  |         |         |         |
|--|-----------|--|---------|---------|---------|
| Available capital resources for guarantee fund requirement | <b>81</b> |  | 6539409 | 6539409 | 2868872 |
| Available capital resources for 50% MCR requirement        | <b>82</b> |  | 6539409 | 6539409 | 2698753 |
| Available capital resources for 75% MCR requirement        | <b>83</b> |  | 6539409 | 6539409 | 2698753 |

**Financial engineering adjustments**

|  |           |  |         |         |  |
|--|-----------|--|---------|---------|--|
| Implicit items   | <b>91</b> |  |         |         |  |
| Financial reinsurance - ceded                                    | <b>92</b> |  |         |         |  |
| Financial reinsurance - accepted                                 | <b>93</b> |  | 39342   | 39342   |  |
| Outstanding contingent loans                                     | <b>94</b> |  |         |         |  |
| Any other charges on future profits                              | <b>95</b> |  |         |         |  |
| <b>Sum of financial engineering adjustments (91+92-93+94+95)</b> | <b>96</b> |  | (39342) | (39342) |  |

**Calculation of general insurance capital requirement - premiums amount and brought forward amount**Name of insurer **Friends Life Limited**

Global business

Financial year ended **31 December 2011**

Long term insurance business

|   | Company<br>registration<br>number                                  | GL/<br>UK/<br>CM | day                      | month | year | Units              |
|---|--|------------------|--------------------------|-------|------|--------------------|
| R11   | 4096141  | GL               | 31                       | 12    | 2011 | £000               |
|   |  |                  | This financial year<br>1 |       |      | Previous year<br>2 |
| Gross premiums written  |  | 11               | 229795                   |       |      | 214755             |
| Premiums taxes and levies (included in line 11)   |  | 12               |                          |       |      |                    |
| Premiums written net of taxes and levies (11-12)  |  | 13               | 229795                   |       |      | 214755             |
| Premiums for classes 11, 12 or 13 (included in line 13)   |  | 14               |                          |       |      |                    |
| Premiums for "actuarial health insurance" (included in line 13)   |  | 15               | 54529                    |       |      | 47870              |
| <b>Sub-total A (13 + 1/2 14 - 2/3 15)</b>   |  | 16               | 193442                   |       |      | 182842             |
| Gross premiums earned   |  | 21               | 218285                   |       |      | 217084             |
| Premium taxes and levies (included in line 21)  |  | 22               |                          |       |      |                    |
| Premiums earned net of taxes and levies (21-22)   |  | 23               | 218285                   |       |      | 217084             |
| Premiums for classes 11, 12 or 13 (included in line 23)   |  | 24               |                          |       |      |                    |
| Premiums for "actuarial health insurance" (included in line 23)   |  | 25               | 52781                    |       |      | 50199              |
| <b>Sub-total H (23 + 1/2 24 - 2/3 25)</b>   |  | 26               | 183098                   |       |      | 183618             |
| <b>Sub-total I (higher of sub-total A and sub-total H)</b>  |  | 30               | 193442                   |       |      | 183618             |
| <b>Adjusted sub-total I if financial year is not a 12 month period to produce an annual figure</b>                            |  | 31               |                          |       |      |                    |
| Division of gross adjusted premiums amount sub-total I (or adjusted sub-total I if appropriate)                               | x 0.18   | 32               | 34820                    |       |      | 33051              |
|   | Excess (if any) over 57.5M EURO x 0.02                             | 33               | 2865                     |       |      | 2673               |
| <b>Sub-total J (32-33)</b>  |  | 34               | 31955                    |       |      | 30378              |
| Claims paid in period of 3 financial years  |  | 41               | 396518                   |       |      | 347994             |
| Claims outstanding carried forward at the end of the 3 year period  | For insurance business accounted for on an underwriting year basis | 42               |                          |       |      |                    |
|   | For insurance business accounted for on an accident year basis     | 43               | 245306                   |       |      | 256267             |
| Claims outstanding brought forward at the beginning of the 3 year period  | For insurance business accounted for on an underwriting year basis | 44               |                          |       |      |                    |
|   | For insurance business accounted for on an accident year basis     | 45               | 249490                   |       |      | 235100             |
| <b>Sub-total C (41+42+43-44-45)</b>   |  | 46               | 392335                   |       |      | 369161             |
| Amounts recoverable from reinsurers in respect of claims included in Sub-total C  |  | 47               | 191397                   |       |      | 173018             |
| <b>Sub-total D (46-47)</b>  |  | 48               | 200938                   |       |      | 196143             |
| <b>Reinsurance Ratio (Sub-total D /sub-total C or, if more, 0.50 or, if less, 1.00)</b>                                       |  | 49               | 0.51                     |       |      | 0.53               |
| <b>Premiums amount (Sub-total J x reinsurance ratio)</b>  |  | 50               | 16366                    |       |      | 16140              |
| Provision for claims outstanding (before discounting and net of reinsurance)  |  | 51               | 233097                   |       |      | 218363             |
| Provision for claims outstanding (before discounting and gross of reinsurance) if both 51.1 and 51.2 are zero, otherwise zero |  | 52               |                          |       |      |                    |
| <b>Brought forward amount (See instruction 4)</b>   |  | 53               | 23437                    |       |      | 23437              |
| Greater of lines 50 and 53  |  | 54               | 23437                    |       |      | 23437              |

**Calculation of general insurance capital requirement - claims amount and result**Name of insurer **Friends Life Limited**

Global business

Financial year ended **31 December 2011**

Long term insurance business

|  |  | Company<br>registration<br>number | GL/<br>UK/<br>CM | day month year           |    |    | Units              |      |
|--|--|-----------------------------------|------------------|--------------------------|----|----|--------------------|------|
|  |  | R12                               | 4096141          | GL                       | 31 | 12 | 2011               | £000 |
|  |  |                                   |                  | This financial year<br>1 |    |    | Previous year<br>2 |      |
| Reference period (No. of months) See INSPRU 1.1.63R  |  |                                   | 11               | 36                       |    |    | 36                 |      |
| Claims paid in reference period  |  |                                   | 21               | 409080                   |    |    | 347994             |      |
| Claims outstanding carried forward at the end of the reference period  | For insurance business accounted for on an underwriting year basis |                                   | 22               |                          |    |    |                    |      |
|  | For insurance business accounted for on an accident year basis     |                                   | 23               | 245306                   |    |    | 256267             |      |
| Claims outstanding brought forward at the beginning of the reference period  | For insurance business accounted for on an underwriting year basis |                                   | 24               |                          |    |    |                    |      |
|  | For insurance business accounted for on an accident year basis     |                                   | 25               | 249490                   |    |    | 235100             |      |
| Claims incurred in reference period (21+22+23-24-25)   |  |                                   | 26               | 404897                   |    |    | 369161             |      |
| Claims incurred for classes 11, 12 or 13 (included in 26)  |  |                                   | 27               |                          |    |    |                    |      |
| Claims incurred for "actuarial health insurance" (included in 26)  |  |                                   | 28               | 75023                    |    |    | 44904              |      |
| Sub-total E (26 +1/2 27 - 2/3 28)  |  |                                   | 29               | 354882                   |    |    | 339225             |      |
| Sub-total F - Conversion of sub-total E to annual figure (multiply by 12 and divide by number of months in the reference period) |  |                                   | 31               | 118294                   |    |    | 113075             |      |
| Division of sub-total F (gross adjusted claims amount)   | x 0.26   |                                   | 32               | 30756                    |    |    | 29399              |      |
|  | Excess (if any) over 40.3M EURO x 0.03                             |                                   | 33               | 2493                     |    |    | 2342               |      |
| Sub-total G (32-33)  |  |                                   | 39               | 28263                    |    |    | 27057              |      |
| Claims amount Sub-total G x reinsurance ratio (11.49)  |  |                                   | 41               | 14475                    |    |    | 14376              |      |
| Higher of premiums amount and brought forward amount (11.54)   |  |                                   | 42               | 23437                    |    |    | 23437              |      |
| General insurance capital requirement (higher of lines 41 and 42)  |  |                                   | 43               | 23437                    |    |    | 23437              |      |

**Analysis of admissible assets**Name of insurer **Friends Life Limited**

Global business

Financial year ended **31 December 2011**Category of assets **Total other than long term insurance business assets**

| Company registration number |         | GL/ UK/ CM | day | month | year                             | Units | Category of assets             |
|-----------------------------|---------|------------|-----|-------|----------------------------------|-------|--------------------------------|
| R13                         | 4096141 | GL         | 31  | 12    | 2011                             | £000  | 1                              |
|                             |         |            |     |       | As at end of this financial year |       | As at end of the previous year |
|                             |         |            |     |       | 1                                |       | 2                              |
| Land and buildings          |         |            | 11  |       |                                  |       |                                |

**Investments in group undertakings and participating interests**

|                            |                 |           |        |        |
|----------------------------|-----------------|-----------|--------|--------|
| UK insurance dependants    | Shares          | <b>21</b> | 992807 | 203918 |
|                            | Debts and loans | <b>22</b> |        |        |
| Other insurance dependants | Shares          | <b>23</b> | 23029  | 39551  |
|                            | Debts and loans | <b>24</b> | 10000  | 25000  |
| Non-insurance dependants   | Shares          | <b>25</b> |        |        |
|                            | Debts and loans | <b>26</b> |        |        |
| Other group undertakings   | Shares          | <b>27</b> |        |        |
|                            | Debts and loans | <b>28</b> |        |        |
| Participating interests    | Shares          | <b>29</b> |        |        |
|                            | Debts and loans | <b>30</b> |        |        |

**Other financial investments**

|  |                                |           |        |        |
|--|--------------------------------|-----------|--------|--------|
| Equity shares  |                                | <b>41</b> |        |        |
| Other shares and other variable yield participations                             |                                | <b>42</b> |        |        |
| Holdings in collective investment schemes  |                                | <b>43</b> | 319204 | 91205  |
| Rights under derivative contracts  |                                | <b>44</b> |        |        |
| Fixed interest securities  | Approved                       | <b>45</b> | 139222 | 142911 |
|  | Other                          | <b>46</b> | 41803  | 159464 |
| Variable interest securities   | Approved                       | <b>47</b> | 3279   |        |
|  | Other                          | <b>48</b> | 40288  | 55789  |
| Participation in investment pools  |                                | <b>49</b> |        |        |
| Loans secured by mortgages   |                                | <b>50</b> |        |        |
| Loans to public or local authorities and nationalised industries or undertakings |                                | <b>51</b> |        |        |
| Loans secured by policies of insurance issued by the company                     |                                | <b>52</b> |        |        |
| Other loans  |                                | <b>53</b> |        |        |
| Bank and approved credit & financial institution deposits                        | One month or less withdrawal   | <b>54</b> | 156261 | 23242  |
|  | More than one month withdrawal | <b>55</b> |        |        |
| Other financial investments  |                                | <b>56</b> |        |        |
| Deposits with ceding undertakings  |                                | <b>57</b> |        |        |
| Assets held to match linked liabilities  | Index linked                   | <b>58</b> |        |        |
|  | Property linked                | <b>59</b> |        |        |

**Analysis of admissible assets**Name of insurer **Friends Life Limited**

Global business

Financial year ended **31 December 2011**Category of assets **Total other than long term insurance business assets**

| Company registration number |         | GL/UK/CM | day month year |    |                                  | Units | Category of assets             |
|-----------------------------|---------|----------|----------------|----|----------------------------------|-------|--------------------------------|
| R13                         | 4096141 | GL       | 31             | 12 | 2011                             | £000  | 1                              |
|                             |         |          |                |    | As at end of this financial year |       | As at end of the previous year |
|                             |         |          |                |    | 1                                |       | 2                              |

**Reinsurers' share of technical provisions**

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

**Debtors and salvage**

|                                    |                            |           |       |       |
|------------------------------------|----------------------------|-----------|-------|-------|
| Direct insurance business          | Policyholders              | <b>71</b> |       |       |
|                                    | Intermediaries             | <b>72</b> |       |       |
| Salvage and subrogation recoveries |                            | <b>73</b> |       |       |
| Reinsurance                        | Accepted                   | <b>74</b> |       |       |
|                                    | Ceded                      | <b>75</b> |       |       |
| Dependants                         | due in 12 months or less   | <b>76</b> |       |       |
|                                    | due in more than 12 months | <b>77</b> |       |       |
| Other                              | due in 12 months or less   | <b>78</b> | 4989  | 1294  |
|                                    | due in more than 12 months | <b>79</b> | 44511 | 11258 |

**Other assets**

|   |           |      |      |
|---|-----------|------|------|
| Tangible assets   | <b>80</b> |      |      |
| Deposits not subject to time restriction on withdrawal with approved institutions | <b>81</b> | 6686 | 289  |
| Cash in hand  | <b>82</b> |      |      |
| Other assets (particulars to be specified by way of supplementary note)           | <b>83</b> |      |      |
| Accrued interest and rent   | <b>84</b> | 1479 | 6085 |
| Deferred acquisition costs (general business only)                                | <b>85</b> |      |      |
| Other prepayments and accrued income  | <b>86</b> |      |      |

|   |           |  |  |
|---|-----------|--|--|
| Deductions from the aggregate value of assets | <b>87</b> |  |  |
|---|-----------|--|--|

|   |           |         |        |
|---|-----------|---------|--------|
| Grand total of admissible assets after deduction of admissible assets in excess of market risk and counterparty limits (11 to 86 less 87) | <b>89</b> | 1783558 | 760006 |
|---|-----------|---------|--------|

**Analysis of admissible assets**Name of insurer **Friends Life Limited**

Global business

Financial year ended **31 December 2011**Category of assets **Total other than long term insurance business assets**

| Company registration number |         | GL/ UK/ CM | day month year |    |                                  | Units | Category of assets             |
|-----------------------------|---------|------------|----------------|----|----------------------------------|-------|--------------------------------|
| R13                         | 4096141 | 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<br>in excess of market risk and counterparty limits (as per line 89 above)   | <b>91</b>  | 1783558   | 760006  |
| Admissible assets in excess of market and counterparty limits   | <b>92</b>  |           |         |
| Inadmissible assets directly held   | <b>93</b>  | 20437     | 17228   |
| Capital resources requirement deduction of regulated related<br>undertakings  | <b>94</b>  | 3145509   | 338779  |
| Ineligible surplus capital and restricted assets in regulated related<br>insurance undertakings   | <b>95</b>  | 111941    | 56394   |
| Inadmissible assets of regulated related undertakings   | <b>96</b>  | 1662898   | 519991  |
| Book value of related ancillary services undertakings   | <b>97</b>  |           |         |
| Other differences in the valuation of assets (other than for assets<br>not valued above)  | <b>98</b>  | (1373587) | 620696  |
| Deferred acquisition costs excluded from line 89  | <b>99</b>  |           |         |
| Reinsurers' share of technical provisions excluded from line 89   | <b>100</b> |           |         |
| Other asset adjustments (may be negative)   | <b>101</b> | (48526)   |         |
| Total assets determined in accordance with the insurance accounts<br>rules or international accounting standards as applicable to the firm<br>for the purpose of its external financial reporting (91 to 101) | <b>102</b> | 5302230   | 2313094 |
| Amounts included in line 89 attributable to debts due from related<br>insurers, other than those under contracts of insurance or reinsurance  | <b>103</b> |           |         |

**Analysis of admissible assets**Name of insurer **Friends Life Limited**

Global business

Financial year ended **31 December 2011**Category of assets **Total long term insurance business assets**

| Company registration number |         | GL/ UK/ CM | day | month  | year                             | Units | Category of assets             |
|-----------------------------|---------|------------|-----|--------|----------------------------------|-------|--------------------------------|
| R13                         | 4096141 | GL         | 31  | 12     | 2011                             | £000  | 10                             |
|                             |         |            |     |        | As at end of this financial year |       | As at end of the previous year |
|                             |         |            |     |        | 1                                |       | 2                              |
| Land and buildings          |         |            | 11  | 352538 |                                  |       | 340974                         |

**Investments in group undertakings and participating interests**

|                            |                 |           |        |        |
|----------------------------|-----------------|-----------|--------|--------|
| UK insurance dependants    | Shares          | <b>21</b> |        | 11887  |
|                            | Debts and loans | <b>22</b> |        |        |
| Other insurance dependants | Shares          | <b>23</b> |        |        |
|                            | Debts and loans | <b>24</b> |        |        |
| Non-insurance dependants   | Shares          | <b>25</b> | 708479 | 727972 |
|                            | Debts and loans | <b>26</b> | 234722 | 234679 |
| Other group undertakings   | Shares          | <b>27</b> |        |        |
|                            | Debts and loans | <b>28</b> |        |        |
| Participating interests    | Shares          | <b>29</b> |        |        |
|                            | Debts and loans | <b>30</b> |        |        |

**Other financial investments**

|  |                                |           |         |         |
|--|--------------------------------|-----------|---------|---------|
| Equity shares  |                                | <b>41</b> | 1974297 | 2054345 |
| Other shares and other variable yield participations                             |                                | <b>42</b> |         |         |
| Holdings in collective investment schemes  |                                | <b>43</b> | 609182  | 668158  |
| Rights under derivative contracts  |                                | <b>44</b> | 62508   | 30049   |
| Fixed interest securities  | Approved                       | <b>45</b> | 4882768 | 4229231 |
|  | Other                          | <b>46</b> | 2904520 | 2783163 |
| Variable interest securities   | Approved                       | <b>47</b> | 158916  | 211856  |
|  | Other                          | <b>48</b> | 1821781 | 161351  |
| Participation in investment pools  |                                | <b>49</b> |         |         |
| Loans secured by mortgages   |                                | <b>50</b> |         |         |
| Loans to public or local authorities and nationalised industries or undertakings |                                | <b>51</b> |         |         |
| Loans secured by policies of insurance issued by the company                     |                                | <b>52</b> | 2683    | 2683    |
| Other loans  |                                | <b>53</b> | 27      |         |
| Bank and approved credit & financial institution deposits                        | One month or less withdrawal   | <b>54</b> | 799462  | 1372717 |
|  | More than one month withdrawal | <b>55</b> | 200000  |         |
| Other financial investments  |                                | <b>56</b> |         |         |
| Deposits with ceding undertakings  |                                | <b>57</b> |         |         |
| Assets held to match linked liabilities  | Index linked                   | <b>58</b> | 64750   | 42215   |
|  | Property linked                | <b>59</b> | 4314644 | 3293315 |

**Analysis of admissible assets**Name of insurer **Friends Life Limited**

Global business

Financial year ended **31 December 2011**Category of assets **Total long term insurance business assets**

| Company registration number |         | GL/UK/CM | day month year |    |                                  | Units | Category of assets             |
|-----------------------------|---------|----------|----------------|----|----------------------------------|-------|--------------------------------|
| R13                         | 4096141 | GL       | 31             | 12 | 2011                             | £000  | 10                             |
|                             |         |          |                |    | As at end of this financial year |       | As at end of the previous year |
|                             |         |          |                |    | 1                                |       | 2                              |

**Reinsurers' share of technical provisions**

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

**Debtors and salvage**

|                                    |                            |           |       |       |
|------------------------------------|----------------------------|-----------|-------|-------|
| Direct insurance business          | Policyholders              | <b>71</b> | 9415  | 4320  |
|                                    | Intermediaries             | <b>72</b> | 4507  | 3572  |
| Salvage and subrogation recoveries |                            | <b>73</b> |       |       |
| Reinsurance                        | Accepted                   | <b>74</b> |       |       |
|                                    | Ceded                      | <b>75</b> |       |       |
| Dependants                         | due in 12 months or less   | <b>76</b> |       |       |
|                                    | due in more than 12 months | <b>77</b> |       |       |
| Other                              | due in 12 months or less   | <b>78</b> | 12605 | 30907 |
|                                    | due in more than 12 months | <b>79</b> |       | 17656 |

**Other assets**

|   |           |        |        |
|---|-----------|--------|--------|
| Tangible assets   | <b>80</b> |        |        |
| Deposits not subject to time restriction on withdrawal with approved institutions | <b>81</b> | 39032  | 5717   |
| Cash in hand  | <b>82</b> |        |        |
| Other assets (particulars to be specified by way of supplementary note)           | <b>83</b> |        |        |
| Accrued interest and rent   | <b>84</b> | 108425 | 109008 |
| Deferred acquisition costs (general business only)                                | <b>85</b> |        |        |
| Other prepayments and accrued income  | <b>86</b> | 64     |        |

|   |           |  |  |
|---|-----------|--|--|
| Deductions from the aggregate value of assets | <b>87</b> |  |  |
|---|-----------|--|--|

|   |           |          |          |
|---|-----------|----------|----------|
| Grand total of admissible assets after deduction of admissible assets in excess of market risk and counterparty limits (11 to 86 less 87) | <b>89</b> | 19265325 | 16335775 |
|---|-----------|----------|----------|



**Analysis of admissible assets**Name of insurer **Friends Life Limited**

Global business

Financial year ended **31 December 2011**Category of assets **Total long term insurance business assets**

| Company registration number |         | GL/ UK/ CM | day month year |    |                                  | Units | Category of assets             |
|-----------------------------|---------|------------|----------------|----|----------------------------------|-------|--------------------------------|
| R13                         | 4096141 | GL         | 31             | 12 | 2011                             | £000  | 10                             |
|                             |         |            |                |    | As at end of this financial year |       | As at end of the previous year |
|                             |         |            |                |    | 1                                |       | 2                              |

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

|   |            |          |          |
|---|------------|----------|----------|
| Total admissible assets after deduction of admissible assets<br>in excess of market risk and counterparty limits (as per line 89 above)   | <b>91</b>  | 19265325 | 16335775 |
| Admissible assets in excess of market and counterparty limits   | <b>92</b>  |          |          |
| Inadmissible assets directly held   | <b>93</b>  | 136516   | 59318    |
| Capital resources requirement deduction of regulated related<br>undertakings  | <b>94</b>  |          | 1216     |
| Ineligible surplus capital and restricted assets in regulated related<br>insurance undertakings   | <b>95</b>  |          |          |
| Inadmissible assets of regulated related undertakings   | <b>96</b>  | 4682     | 4682     |
| Book value of related ancillary services undertakings   | <b>97</b>  |          |          |
| Other differences in the valuation of assets (other than for assets<br>not valued above)  | <b>98</b>  | 63       |          |
| Deferred acquisition costs excluded from line 89  | <b>99</b>  | 179821   | 5623     |
| Reinsurers' share of technical provisions excluded from line 89   | <b>100</b> | 6580382  | 7046629  |
| Other asset adjustments (may be negative)   | <b>101</b> | (29370)  | (30837)  |
| Total assets determined in accordance with the insurance accounts<br>rules or international accounting standards as applicable to the firm<br>for the purpose of its external financial reporting (91 to 101) | <b>102</b> | 26137419 | 23422406 |
| Amounts included in line 89 attributable to debts due from related<br>insurers, other than those under contracts of insurance or reinsurance  | <b>103</b> |          |          |

**Analysis of admissible assets**Name of insurer **Friends Life Limited**

Global business

Financial year ended **31 December 2011**Category of assets **Total Long Term Business - With Profit Fund**

| Company registration number |         | GL/ UK/ CM | day | month  | year                             | Units | Category of assets             |
|-----------------------------|---------|------------|-----|--------|----------------------------------|-------|--------------------------------|
| R13                         | 4096141 | GL         | 31  | 12     | 2011                             | £000  | 11                             |
|                             |         |            |     |        | As at end of this financial year |       | As at end of the previous year |
|                             |         |            |     |        | 1                                |       | 2                              |
| Land and buildings          |         |            | 11  | 352448 |                                  |       | 340974                         |

**Investments in group undertakings and participating interests**

|                            |                 |           |        |        |
|----------------------------|-----------------|-----------|--------|--------|
| UK insurance dependants    | Shares          | <b>21</b> |        | 11887  |
|                            | Debts and loans | <b>22</b> |        |        |
| Other insurance dependants | Shares          | <b>23</b> |        |        |
|                            | Debts and loans | <b>24</b> |        |        |
| Non-insurance dependants   | Shares          | <b>25</b> | 159882 | 183801 |
|                            | Debts and loans | <b>26</b> | 234722 | 234679 |
| Other group undertakings   | Shares          | <b>27</b> |        |        |
|                            | Debts and loans | <b>28</b> |        |        |
| Participating interests    | Shares          | <b>29</b> |        |        |
|                            | Debts and loans | <b>30</b> |        |        |

**Other financial investments**

|  |                                |           |         |         |
|--|--------------------------------|-----------|---------|---------|
| Equity shares  |                                | <b>41</b> | 1895960 | 2053783 |
| Other shares and other variable yield participations                             |                                | <b>42</b> |         |         |
| Holdings in collective investment schemes  |                                | <b>43</b> | 543030  | 587698  |
| Rights under derivative contracts  |                                | <b>44</b> | 62382   | 30049   |
| Fixed interest securities  | Approved                       | <b>45</b> | 4635384 | 4179712 |
|  | Other                          | <b>46</b> | 2702369 | 2641797 |
| Variable interest securities   | Approved                       | <b>47</b> | 139277  | 211856  |
|  | Other                          | <b>48</b> | 17062   | 144015  |
| Participation in investment pools  |                                | <b>49</b> |         |         |
| Loans secured by mortgages   |                                | <b>50</b> |         |         |
| Loans to public or local authorities and nationalised industries or undertakings |                                | <b>51</b> |         |         |
| Loans secured by policies of insurance issued by the company                     |                                | <b>52</b> | 2683    | 2683    |
| Other loans  |                                | <b>53</b> |         |         |
| Bank and approved credit & financial institution deposits                        | One month or less withdrawal   | <b>54</b> | 675544  | 1269632 |
|  | More than one month withdrawal | <b>55</b> | 180000  |         |
| Other financial investments  |                                | <b>56</b> |         |         |
| Deposits with ceding undertakings  |                                | <b>57</b> |         |         |
| Assets held to match linked liabilities  | Index linked                   | <b>58</b> | 42345   | 42215   |
|  | Property linked                | <b>59</b> |         |         |

**Analysis of admissible assets**Name of insurer **Friends Life Limited**

Global business

Financial year ended **31 December 2011**Category of assets **Total Long Term Business - With Profit Fund**

|  | Company<br>registration<br>number | GL/<br>UK/<br>CM | day | month | year                                | Units | Category<br>of<br>assets          |    |
|--|-----------------------------------|------------------|-----|-------|-------------------------------------|-------|-----------------------------------|----|
|  | R13                               | 4096141          | GL  | 31    | 12                                  | 2011  | £000                              | 11 |
|  |                                   |                  |     |       | As at end of this<br>financial year |       | As at end of the<br>previous year |    |
|  |                                   |                  |     |       | 1                                   |       | 2                                 |    |

**Reinsurers' share of technical provisions**

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

**Debtors and salvage**

|                                    |                            |           |       |       |
|------------------------------------|----------------------------|-----------|-------|-------|
| Direct insurance business          | Policyholders              | <b>71</b> | 2350  | 4173  |
|                                    | Intermediaries             | <b>72</b> | 1398  | 3141  |
| Salvage and subrogation recoveries |                            | <b>73</b> |       |       |
| Reinsurance                        | Accepted                   | <b>74</b> |       |       |
|                                    | Ceded                      | <b>75</b> |       |       |
| Dependants                         | due in 12 months or less   | <b>76</b> |       |       |
|                                    | due in more than 12 months | <b>77</b> |       |       |
| Other                              | due in 12 months or less   | <b>78</b> | 20786 | 14461 |
|                                    | due in more than 12 months | <b>79</b> |       |       |

**Other assets**

|   |           |       |        |
|---|-----------|-------|--------|
| Tangible assets   | <b>80</b> |       |        |
| Deposits not subject to time restriction on withdrawal with approved institutions | <b>81</b> | 9383  | 3360   |
| Cash in hand  | <b>82</b> |       |        |
| Other assets (particulars to be specified by way of supplementary note)           | <b>83</b> |       |        |
| Accrued interest and rent   | <b>84</b> | 99025 | 104903 |
| Deferred acquisition costs (general business only)                                | <b>85</b> |       |        |
| Other prepayments and accrued income  | <b>86</b> | 27    |        |

|   |           |  |  |
|---|-----------|--|--|
| Deductions from the aggregate value of assets | <b>87</b> |  |  |
|---|-----------|--|--|

|   |           |          |          |
|---|-----------|----------|----------|
| Grand total of admissible assets after deduction of admissible assets in excess of market risk and counterparty limits (11 to 86 less 87) | <b>89</b> | 11776057 | 12064819 |
|---|-----------|----------|----------|

**Analysis of admissible assets**Name of insurer **Friends Life Limited**

Global business

Financial year ended **31 December 2011**Category of assets **Total Long Term Business - With Profit Fund**

| Company registration number |         | GL/ UK/ CM | day month year |    |                                  | Units | Category of assets             |
|-----------------------------|---------|------------|----------------|----|----------------------------------|-------|--------------------------------|
| R13                         | 4096141 | GL         | 31             | 12 | 2011                             | £000  | 11                             |
|                             |         |            |                |    | 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<br>in excess of market risk and counterparty limits (as per line 89 above)   | <b>91</b>  | 11776057 | 12064819 |
| Admissible assets in excess of market and counterparty limits   | <b>92</b>  |          |          |
| Inadmissible assets directly held   | <b>93</b>  | 14786    | 14345    |
| Capital resources requirement deduction of regulated related<br>undertakings  | <b>94</b>  |          | 1216     |
| Ineligible surplus capital and restricted assets in regulated related<br>insurance undertakings   | <b>95</b>  |          |          |
| Inadmissible assets of regulated related undertakings   | <b>96</b>  |          |          |
| Book value of related ancillary services undertakings   | <b>97</b>  |          |          |
| Other differences in the valuation of assets (other than for assets<br>not valued above)  | <b>98</b>  |          |          |
| Deferred acquisition costs excluded from line 89  | <b>99</b>  |          |          |
| Reinsurers' share of technical provisions excluded from line 89   | <b>100</b> | 146892   | 147410   |
| Other asset adjustments (may be negative)   | <b>101</b> | (28586)  | (30771)  |
| Total assets determined in accordance with the insurance accounts<br>rules or international accounting standards as applicable to the firm<br>for the purpose of its external financial reporting (91 to 101) | <b>102</b> | 11909149 | 12197019 |
| Amounts included in line 89 attributable to debts due from related<br>insurers, other than those under contracts of insurance or reinsurance  | <b>103</b> |          |          |

**Analysis of admissible assets**Name of insurer **Friends Life Limited**

Global business

Financial year ended **31 December 2011**Category of assets **Total Long Term Business - Non Profit Fund**

|                    | Company<br>registration<br>number | GL/<br>UK/<br>CM | day | month | year | Units                               | Category<br>of<br>assets          |    |
|--------------------|-----------------------------------|------------------|-----|-------|------|-------------------------------------|-----------------------------------|----|
|                    | R13                               | 4096141          | GL  | 31    | 12   | 2011                                | £000                              | 12 |
|                    |                                   |                  |     |       |      | As at end of this<br>financial year | As at end of the<br>previous year |    |
|                    |                                   |                  |     |       |      | 1                                   | 2                                 |    |
| Land and buildings |                                   |                  |     | 11    |      |                                     |                                   |    |

**Investments in group undertakings and participating interests**

|                            |                 |           |        |        |
|----------------------------|-----------------|-----------|--------|--------|
| UK insurance dependants    | Shares          | <b>21</b> |        |        |
|                            | Debts and loans | <b>22</b> |        |        |
| Other insurance dependants | Shares          | <b>23</b> |        |        |
|                            | Debts and loans | <b>24</b> |        |        |
| Non-insurance dependants   | Shares          | <b>25</b> | 548597 | 544171 |
|                            | Debts and loans | <b>26</b> |        |        |
| Other group undertakings   | Shares          | <b>27</b> |        |        |
|                            | Debts and loans | <b>28</b> |        |        |
| Participating interests    | Shares          | <b>29</b> |        |        |
|                            | Debts and loans | <b>30</b> |        |        |

**Other financial investments**

|  |                                |           |         |         |
|--|--------------------------------|-----------|---------|---------|
| Equity shares  |                                | <b>41</b> | 338     | 562     |
| Other shares and other variable yield participations                             |                                | <b>42</b> |         |         |
| Holdings in collective investment schemes  |                                | <b>43</b> | 45305   | 80460   |
| Rights under derivative contracts  |                                | <b>44</b> |         |         |
| Fixed interest securities  | Approved                       | <b>45</b> | 110195  | 49519   |
|  | Other                          | <b>46</b> | 199602  | 141366  |
| Variable interest securities   | Approved                       | <b>47</b> | 12203   |         |
|  | Other                          | <b>48</b> | 1804719 | 17336   |
| Participation in investment pools  |                                | <b>49</b> |         |         |
| Loans secured by mortgages   |                                | <b>50</b> |         |         |
| Loans to public or local authorities and nationalised industries or undertakings |                                | <b>51</b> |         |         |
| Loans secured by policies of insurance issued by the company                     |                                | <b>52</b> |         |         |
| Other loans  |                                | <b>53</b> | 27      |         |
| Bank and approved credit & financial institution deposits                        | One month or less withdrawal   | <b>54</b> | 110851  | 103085  |
|  | More than one month withdrawal | <b>55</b> |         |         |
| Other financial investments  |                                | <b>56</b> |         |         |
| Deposits with ceding undertakings  |                                | <b>57</b> |         |         |
| Assets held to match linked liabilities  | Index linked                   | <b>58</b> | 22405   |         |
|  | Property linked                | <b>59</b> | 4314644 | 3293315 |

**Analysis of admissible assets**Name of insurer **Friends Life Limited**

Global business

Financial year ended **31 December 2011**Category of assets **Total Long Term Business - Non Profit Fund**

|  | Company<br>registration<br>number | GL/<br>UK/<br>CM | day | month | year                                | Units | Category<br>of<br>assets          |    |
|--|-----------------------------------|------------------|-----|-------|-------------------------------------|-------|-----------------------------------|----|
|  | R13                               | 4096141          | GL  | 31    | 12                                  | 2011  | £000                              | 12 |
|  |                                   |                  |     |       | As at end of this<br>financial year |       | As at end of the<br>previous year |    |
|  |                                   |                  |     |       | 1                                   |       | 2                                 |    |

**Reinsurers' share of technical provisions**

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

**Debtors and salvage**

|                                    |                            |    |      |       |
|------------------------------------|----------------------------|----|------|-------|
| Direct insurance business          | Policyholders              | 71 | 7065 | 147   |
|                                    | Intermediaries             | 72 | 3109 | 431   |
| 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 | 1531 | 16446 |
|                                    | due in more than 12 months | 79 | 9761 | 35006 |

**Other assets**

|   |    |       |      |
|---|----|-------|------|
| Tangible assets   | 80 |       |      |
| Deposits not subject to time restriction on withdrawal with approved institutions | 81 | 29411 | 2357 |
| Cash in hand  | 82 |       |      |
| Other assets (particulars to be specified by way of supplementary note)           | 83 |       |      |
| Accrued interest and rent   | 84 | 7758  | 4105 |
| Deferred acquisition costs (general business only)                                | 85 |       |      |
| Other prepayments and accrued income  | 86 | 37    |      |

|   |    |  |  |
|---|----|--|--|
| 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 | 7227558 | 4288306 |
|---|----|---------|---------|

**Analysis of admissible assets**Name of insurer **Friends Life Limited**

Global business

Financial year ended **31 December 2011**Category of assets **Total Long Term Business - Non Profit Fund**

| Company registration number |         | GL/UK/CM | day month year |    |                                  | Units | Category of assets             |
|-----------------------------|---------|----------|----------------|----|----------------------------------|-------|--------------------------------|
| R13                         | 4096141 | GL       | 31             | 12 | 2011                             | £000  | 12                             |
|                             |         |          |                |    | 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<br>in excess of market risk and counterparty limits (as per line 89 above)   | <b>91</b>  | 7227558  | 4288306  |
| Admissible assets in excess of market and counterparty limits   | <b>92</b>  |          |          |
| Inadmissible assets directly held   | <b>93</b>  | 121662   | 44973    |
| Capital resources requirement deduction of regulated related<br>undertakings  | <b>94</b>  |          |          |
| Ineligible surplus capital and restricted assets in regulated related<br>insurance undertakings   | <b>95</b>  |          |          |
| Inadmissible assets of regulated related undertakings   | <b>96</b>  | 4682     | 4682     |
| Book value of related ancillary services undertakings   | <b>97</b>  |          |          |
| Other differences in the valuation of assets (other than for assets<br>not valued above)  | <b>98</b>  | 63       |          |
| Deferred acquisition costs excluded from line 89  | <b>99</b>  | 179821   | 5623     |
| Reinsurers' share of technical provisions excluded from line 89   | <b>100</b> | 6432448  | 6899219  |
| Other asset adjustments (may be negative)   | <b>101</b> | (671)    | (66)     |
| Total assets determined in accordance with the insurance accounts<br>rules or international accounting standards as applicable to the firm<br>for the purpose of its external financial reporting (91 to 101) | <b>102</b> | 13965563 | 11242737 |
| Amounts included in line 89 attributable to debts due from related<br>insurers, other than those under contracts of insurance or reinsurance  | <b>103</b> |          |          |

**Analysis of admissible assets**Name of insurer **Friends Life Limited**

Global business

Financial year ended **31 December 2011**Category of assets **Total Long Term Business - Closed With Profit Fund**

|                    | Company<br>registration<br>number | GL/<br>UK/<br>CM | day | month | year                                | Units | Category<br>of<br>assets          |    |
|--------------------|-----------------------------------|------------------|-----|-------|-------------------------------------|-------|-----------------------------------|----|
|                    | R13                               | 4096141          | GL  | 31    | 12                                  | 2011  | £000                              | 13 |
|                    |                                   |                  |     |       | As at end of this<br>financial year |       | As at end of the<br>previous year |    |
|                    |                                   |                  |     |       | 1                                   |       | 2                                 |    |
| Land and buildings |                                   |                  |     | 11    |                                     | 90    |                                   |    |

**Investments in group undertakings and participating interests**

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

**Other financial investments**

|  |                                |           |        |  |
|--|--------------------------------|-----------|--------|--|
| Equity shares  |                                | <b>41</b> | 77999  |  |
| Other shares and other variable yield participations                             |                                | <b>42</b> |        |  |
| Holdings in collective investment schemes  |                                | <b>43</b> | 20847  |  |
| Rights under derivative contracts  |                                | <b>44</b> | 126    |  |
| Fixed interest securities  | Approved                       | <b>45</b> | 137189 |  |
|  | Other                          | <b>46</b> | 2549   |  |
| Variable interest securities   | Approved                       | <b>47</b> | 7436   |  |
|  | Other                          | <b>48</b> |        |  |
| Participation in investment pools  |                                | <b>49</b> |        |  |
| Loans secured by mortgages   |                                | <b>50</b> |        |  |
| Loans to public or local authorities and nationalised industries or undertakings |                                | <b>51</b> |        |  |
| Loans secured by policies of insurance issued by the company                     |                                | <b>52</b> |        |  |
| Other loans  |                                | <b>53</b> |        |  |
| Bank and approved credit & financial institution deposits                        | One month or less withdrawal   | <b>54</b> | 13067  |  |
|  | More than one month withdrawal | <b>55</b> | 20000  |  |
| Other financial investments  |                                | <b>56</b> |        |  |
| Deposits with ceding undertakings  |                                | <b>57</b> |        |  |
| Assets held to match linked liabilities  | Index linked                   | <b>58</b> |        |  |
|  | Property linked                | <b>59</b> |        |  |



**Analysis of admissible assets**Name of insurer **Friends Life Limited**

Global business

Financial year ended **31 December 2011**Category of assets **Total Long Term Business - Closed With Profit Fund**

| Company registration number |         | GL/ UK/ CM | day month year |                                  |      | Units                          | Category of assets |
|-----------------------------|---------|------------|----------------|----------------------------------|------|--------------------------------|--------------------|
| R13                         | 4096141 | GL         | 31             | 12                               | 2011 | £000                           | 13                 |
|                             |         |            |                | As at end of this financial year |      | As at end of the previous year |                    |
|                             |         |            |                | 1                                |      | 2                              |                    |

**Reinsurers' share of technical provisions**

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

**Debtors and salvage**

|                                    |                            |           |     |  |
|------------------------------------|----------------------------|-----------|-----|--|
| Direct insurance business          | Policyholders              | <b>71</b> |     |  |
|                                    | Intermediaries             | <b>72</b> |     |  |
| Salvage and subrogation recoveries |                            | <b>73</b> |     |  |
| Reinsurance                        | Accepted                   | <b>74</b> |     |  |
|                                    | Ceded                      | <b>75</b> |     |  |
| Dependants                         | due in 12 months or less   | <b>76</b> |     |  |
|                                    | due in more than 12 months | <b>77</b> |     |  |
| Other                              | due in 12 months or less   | <b>78</b> | 288 |  |
|                                    | due in more than 12 months | <b>79</b> |     |  |

**Other assets**

|   |           |      |  |
|---|-----------|------|--|
| Tangible assets   | <b>80</b> |      |  |
| Deposits not subject to time restriction on withdrawal with approved institutions | <b>81</b> | 238  |  |
| Cash in hand  | <b>82</b> |      |  |
| Other assets (particulars to be specified by way of supplementary note)           | <b>83</b> |      |  |
| Accrued interest and rent   | <b>84</b> | 1642 |  |
| Deferred acquisition costs (general business only)                                | <b>85</b> |      |  |
| Other prepayments and accrued income  | <b>86</b> |      |  |

|   |           |  |  |
|---|-----------|--|--|
| Deductions from the aggregate value of assets | <b>87</b> |  |  |
|---|-----------|--|--|

|   |           |        |  |
|---|-----------|--------|--|
| Grand total of admissible assets after deduction of admissible assets in excess of market risk and counterparty limits (11 to 86 less 87) | <b>89</b> | 281471 |  |
|---|-----------|--------|--|

**Analysis of admissible assets**Name of insurer **Friends Life Limited**

Global business

Financial year ended **31 December 2011**Category of assets **Total Long Term Business - Closed With Profit Fund**

| Company registration number |         | GL/ UK/ CM | day month year |    |                                  | Units | Category of assets             |
|-----------------------------|---------|------------|----------------|----|----------------------------------|-------|--------------------------------|
| R13                         | 4096141 | GL         | 31             | 12 | 2011                             | £000  | 13                             |
|                             |         |            |                |    | 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<br>in excess of market risk and counterparty limits (as per line 89 above)   | 91  | 281471 |  |
| Admissible assets in excess of market and counterparty limits   | 92  |        |  |
| Inadmissible assets directly held   | 93  | 68     |  |
| Capital resources requirement deduction of regulated related<br>undertakings  | 94  |        |  |
| Ineligible surplus capital and restricted assets in regulated related<br>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<br>not valued above)  | 98  |        |  |
| Deferred acquisition costs excluded from line 89  | 99  |        |  |
| Reinsurers' share of technical provisions excluded from line 89   | 100 | 1042   |  |
| Other asset adjustments (may be negative)   | 101 | (113)  |  |
| Total assets determined in accordance with the insurance accounts<br>rules or international accounting standards as applicable to the firm<br>for the purpose of its external financial reporting (91 to 101) | 102 | 282468 |  |
| Amounts included in line 89 attributable to debts due from related<br>insurers, other than those under contracts of insurance or reinsurance  | 103 |        |  |

**Long term insurance business liabilities and margins**Name of insurer **Friends Life Limited**

Global business

Financial year ended **31 December 2011**Total business/Sub fund **Summary**Units **£000**

| As at end of<br>this financial<br>year<br>1 | As at end of<br>the previous<br>year<br>2 |
|---|---|
|---|---|

|  |                           |           |          |          |
|--|---------------------------|-----------|----------|----------|
| Mathematical reserves, after distribution of surplus                                     |                           | <b>11</b> | 14655844 | 12040234 |
| Cash bonuses which had not been paid to policyholders prior to end of the financial year |                           | <b>12</b> |          |          |
| Balance of surplus/(valuation deficit)   |                           | <b>13</b> | (10356)  | (97507)  |
| Long term insurance business fund carried forward (11 to 13)                             |                           | <b>14</b> | 14645488 | 11942727 |
| Claims outstanding   | Gross                     | <b>15</b> | 49895    | 16071    |
|  | Reinsurers' share         | <b>16</b> | 37249    | 5338     |
|  | Net (15-16)               | <b>17</b> | 12646    | 10733    |
| Provisions   | Taxation                  | <b>21</b> | 19673    | 27084    |
|  | Other risks and charges   | <b>22</b> | 15564    | 14945    |
| Deposits received from reinsurers  |                           | <b>23</b> |          | 1605271  |
| Creditors  | Direct insurance business | <b>31</b> | 41156    | 30746    |
|  | Reinsurance accepted      | <b>32</b> |          |          |
|  | Reinsurance ceded         | <b>33</b> | 1817353  | 2372     |
| Debenture loans  | Secured                   | <b>34</b> |          |          |
|  | Unsecured                 | <b>35</b> |          |          |
| Amounts owed to credit institutions  |                           | <b>36</b> |          |          |
| Creditors  | Taxation                  | <b>37</b> | 52217    |          |
|  | Other                     | <b>38</b> | 913092   | 831562   |
| Accruals and deferred income   |                           | <b>39</b> | 2564     | 2333     |
| Provision for "reasonably foreseeable adverse variations"                                |                           | <b>41</b> |          |          |
| Total other insurance and non-insurance liabilities (17 to 41)                           |                           | <b>49</b> | 2874265  | 2525046  |
| Excess of the value of net admissible assets   |                           | <b>51</b> | 1745571  | 1868002  |
| Total liabilities and margins  |                           | <b>59</b> | 19265324 | 16335775 |

|  |           |         |         |
|--|-----------|---------|---------|
| Amounts included in line 59 attributable to liabilities to related companies, other than those under contracts of insurance or reinsurance | <b>61</b> | 772692  | 755221  |
| Amounts included in line 59 attributable to liabilities in respect of property linked benefits   | <b>62</b> | 4314644 | 1688044 |

|   |           |          |          |
|---|-----------|----------|----------|
| Total liabilities (11+12+49)  | <b>71</b> | 17530109 | 14565280 |
| Increase to liabilities - DAC related   | <b>72</b> |          |          |
| Reinsurers' share of technical provisions   | <b>73</b> | 6580382  | 7046629  |
| Other adjustments to liabilities (may be negative)  | <b>74</b> | 1356637  | 1347673  |
| Capital and reserves and fund for future appropriations   | <b>75</b> | 670291   | 462824   |
| Total liabilities under insurance accounts rules or international accounting standards as applicable to the firm for the purpose of its external financial reporting (71 to 75) | <b>76</b> | 26137419 | 23422406 |

**Long term insurance business liabilities and margins**Name of insurer **Friends Life Limited**

Global business

Financial year ended **31 December 2011**Total business/Sub fund **With Profit Fund**Units **£000**

| As at end of<br>this financial<br>year<br>1 | As at end of<br>the previous<br>year<br>2 |
|---|---|
|---|---|

|  |                           |           |          |          |
|--|---------------------------|-----------|----------|----------|
| Mathematical reserves, after distribution of surplus                                     |                           | <b>11</b> | 9775340  | 10057371 |
| Cash bonuses which had not been paid to policyholders prior to end of the financial year |                           | <b>12</b> |          |          |
| Balance of surplus/(valuation deficit)   |                           | <b>13</b> | (219757) | (269757) |
| Long term insurance business fund carried forward (11 to 13)                             |                           | <b>14</b> | 9555583  | 9787614  |
| Claims outstanding   | Gross                     | <b>15</b> | 18548    | 14177    |
|  | Reinsurers' share         | <b>16</b> | 1707     | 2662     |
|  | Net (15-16)               | <b>17</b> | 16841    | 11515    |
| Provisions   | Taxation                  | <b>21</b> | 19002    | 26413    |
|  | Other risks and charges   | <b>22</b> | 2793     | 3145     |
| Deposits received from reinsurers  |                           | <b>23</b> |          |          |
| Creditors  | Direct insurance business | <b>31</b> | 20398    | 25237    |
|  | Reinsurance accepted      | <b>32</b> |          |          |
|  | Reinsurance ceded         | <b>33</b> | 509      | 567      |
| Debenture loans  | Secured                   | <b>34</b> |          |          |
|  | Unsecured                 | <b>35</b> |          |          |
| Amounts owed to credit institutions  |                           | <b>36</b> |          |          |
| Creditors  | Taxation                  | <b>37</b> | 59205    | 17350    |
|  | Other                     | <b>38</b> | 355513   | 322643   |
| Accruals and deferred income   |                           | <b>39</b> | 2337     | 2333     |
| Provision for "reasonably foreseeable adverse variations"                                |                           | <b>41</b> |          |          |
| Total other insurance and non-insurance liabilities (17 to 41)                           |                           | <b>49</b> | 476598   | 409203   |
| Excess of the value of net admissible assets   |                           | <b>51</b> | 1743876  | 1868002  |
| Total liabilities and margins  |                           | <b>59</b> | 11776057 | 12064819 |

|  |           |        |        |
|--|-----------|--------|--------|
| Amounts included in line 59 attributable to liabilities to related companies, other than those under contracts of insurance or reinsurance | <b>61</b> | 249965 | 251405 |
| Amounts included in line 59 attributable to liabilities in respect of property linked benefits   | <b>62</b> |        |        |

|   |           |          |          |
|---|-----------|----------|----------|
| Total liabilities (11+12+49)  | <b>71</b> | 10251938 | 10466574 |
| Increase to liabilities - DAC related   | <b>72</b> |          |          |
| Reinsurers' share of technical provisions   | <b>73</b> | 146892   | 147410   |
| Other adjustments to liabilities (may be negative)  | <b>74</b> | 1259019  | 1366635  |
| Capital and reserves and fund for future appropriations   | <b>75</b> | 251300   | 216400   |
| Total liabilities under insurance accounts rules or international accounting standards as applicable to the firm for the purpose of its external financial reporting (71 to 75) | <b>76</b> | 11909149 | 12197019 |

**Long term insurance business liabilities and margins**Name of insurer **Friends Life Limited**

Global business

Financial year ended **31 December 2011**Total business/Sub fund **Non Profit Fund**Units **£000**

| As at end of<br>this financial<br>year<br>1 | As at end of<br>the previous<br>year<br>2 |
|---|---|
|---|---|

|  |                           |           |         |         |
|--|---------------------------|-----------|---------|---------|
| Mathematical reserves, after distribution of surplus                                     |                           | <b>11</b> | 4631290 | 1982863 |
| Cash bonuses which had not been paid to policyholders prior to end of the financial year |                           | <b>12</b> |         |         |
| Balance of surplus/(valuation deficit)   |                           | <b>13</b> | 184401  | 172250  |
| Long term insurance business fund carried forward (11 to 13)                             |                           | <b>14</b> | 4815691 | 2155113 |
| Claims outstanding   | Gross                     | <b>15</b> | 30605   | 1894    |
|  | Reinsurers' share         | <b>16</b> | 35523   | 2676    |
|  | Net (15-16)               | <b>17</b> | (4918)  | (782)   |
| Provisions   | Taxation                  | <b>21</b> | 671     | 671     |
|  | Other risks and charges   | <b>22</b> | 12771   | 11800   |
| Deposits received from reinsurers  |                           | <b>23</b> |         | 1605271 |
| Creditors  | Direct insurance business | <b>31</b> | 20754   | 5509    |
|  | Reinsurance accepted      | <b>32</b> |         |         |
|  | Reinsurance ceded         | <b>33</b> | 1816844 | 1805    |
| Debenture loans  | Secured                   | <b>34</b> |         |         |
|  | Unsecured                 | <b>35</b> |         |         |
| Amounts owed to credit institutions  |                           | <b>36</b> |         |         |
| Creditors  | Taxation                  | <b>37</b> |         |         |
|  | Other                     | <b>38</b> | 565518  | 508919  |
| Accruals and deferred income   |                           | <b>39</b> | 227     |         |
| Provision for "reasonably foreseeable adverse variations"                                |                           | <b>41</b> |         |         |
| Total other insurance and non-insurance liabilities (17 to 41)                           |                           | <b>49</b> | 2411867 | 2133193 |
| Excess of the value of net admissible assets   |                           | <b>51</b> |         |         |
| Total liabilities and margins  |                           | <b>59</b> | 7227558 | 4288306 |

|  |           |         |         |
|--|-----------|---------|---------|
| Amounts included in line 59 attributable to liabilities to related companies, other than those under contracts of insurance or reinsurance | <b>61</b> | 522469  | 503816  |
| Amounts included in line 59 attributable to liabilities in respect of property linked benefits   | <b>62</b> | 4314644 | 1688044 |

|   |           |          |          |
|---|-----------|----------|----------|
| Total liabilities (11+12+49)  | <b>71</b> | 7043157  | 4116056  |
| Increase to liabilities - DAC related   | <b>72</b> |          |          |
| Reinsurers' share of technical provisions   | <b>73</b> | 6432448  | 6899219  |
| Other adjustments to liabilities (may be negative)  | <b>74</b> | 74167    | (18962)  |
| Capital and reserves and fund for future appropriations   | <b>75</b> | 415791   | 246424   |
| Total liabilities under insurance accounts rules or international accounting standards as applicable to the firm for the purpose of its external financial reporting (71 to 75) | <b>76</b> | 13965563 | 11242737 |

**Long term insurance business liabilities and margins**

Name of insurer **Friends Life Limited**  
Global business  
Financial year ended **31 December 2011**  
Total business/Sub fund **Closed With Profit Fund**  
Units **£000**

| As at end of<br>this financial<br>year<br>1 | As at end of<br>the previous<br>year<br>2 |
|---|---|
|---|---|

|  |                           |           |        |  |
|--|---------------------------|-----------|--------|--|
| Mathematical reserves, after distribution of surplus                                     |                           | <b>11</b> | 249214 |  |
| Cash bonuses which had not been paid to policyholders prior to end of the financial year |                           | <b>12</b> |        |  |
| Balance of surplus/(valuation deficit)   |                           | <b>13</b> | 25000  |  |
| Long term insurance business fund carried forward (11 to 13)                             |                           | <b>14</b> | 274214 |  |
| Claims outstanding   | Gross                     | <b>15</b> | 742    |  |
|  | Reinsurers' share         | <b>16</b> | 19     |  |
|  | Net (15-16)               | <b>17</b> | 723    |  |
| Provisions   | Taxation                  | <b>21</b> |        |  |
|  | Other risks and charges   | <b>22</b> |        |  |
| Deposits received from reinsurers  |                           | <b>23</b> |        |  |
| Creditors  | Direct insurance business | <b>31</b> | 4      |  |
|  | Reinsurance accepted      | <b>32</b> |        |  |
|  | Reinsurance ceded         | <b>33</b> |        |  |
| Debenture loans  | Secured                   | <b>34</b> |        |  |
|  | Unsecured                 | <b>35</b> |        |  |
| Amounts owed to credit institutions  |                           | <b>36</b> |        |  |
| Creditors  | Taxation                  | <b>37</b> | 2773   |  |
|  | Other                     | <b>38</b> | 2061   |  |
| Accruals and deferred income   |                           | <b>39</b> |        |  |
| Provision for "reasonably foreseeable adverse variations"                                |                           | <b>41</b> |        |  |
| Total other insurance and non-insurance liabilities (17 to 41)                           |                           | <b>49</b> | 5561   |  |
| Excess of the value of net admissible assets   |                           | <b>51</b> | 1695   |  |
| Total liabilities and margins  |                           | <b>59</b> | 281470 |  |

|  |           |     |  |
|--|-----------|-----|--|
| Amounts included in line 59 attributable to liabilities to related companies, other than those under contracts of insurance or reinsurance | <b>61</b> | 258 |  |
| Amounts included in line 59 attributable to liabilities in respect of property linked benefits   | <b>62</b> |     |  |

|   |           |        |  |
|---|-----------|--------|--|
| Total liabilities (11+12+49)  | <b>71</b> | 254775 |  |
| Increase to liabilities - DAC related   | <b>72</b> |        |  |
| Reinsurers' share of technical provisions   | <b>73</b> | 1042   |  |
| Other adjustments to liabilities (may be negative)  | <b>74</b> | 23451  |  |
| Capital and reserves and fund for future appropriations   | <b>75</b> | 3200   |  |
| Total liabilities under insurance accounts rules or international accounting standards as applicable to the firm for the purpose of its external financial reporting (71 to 75) | <b>76</b> | 282468 |  |

**Liabilities (other than long term insurance business)**Name of insurer **Friends Life Limited**

Global business

Financial year ended **31 December 2011**

| Company registration number |         | GL/UK/CM | day                                | month | year | Units                            |
|-----------------------------|---------|----------|------------------------------------|-------|------|----------------------------------|
| R15                         | 4096141 | GL       | 31                                 | 12    | 2011 | £000                             |
|                             |         |          | As at end of this financial year 1 |       |      | As at end of the previous year 2 |

**Technical provisions (gross amount)**

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

**Provisions and creditors**

|   |                           |           |        |      |
|---|---------------------------|-----------|--------|------|
| Provisions  | Taxation                  | <b>21</b> |        |      |
|   | Other risks and charges   | <b>22</b> |        |      |
| Deposits received from reinsurers                         |                           | <b>31</b> |        |      |
| Creditors   | Direct insurance business | <b>41</b> |        |      |
|   | Reinsurance accepted      | <b>42</b> |        |      |
|   | Reinsurance ceded         | <b>43</b> |        |      |
| Debtenture loans  | Secured                   | <b>44</b> |        |      |
|   | Unsecured                 | <b>45</b> |        |      |
| Amounts owed to credit institutions                       |                           | <b>46</b> |        |      |
| Creditors   | Taxation                  | <b>47</b> |        |      |
|   | Foreseeable dividend      | <b>48</b> |        |      |
|   | Other                     | <b>49</b> | 124872 | 1622 |
| Accruals and deferred income                              |                           | <b>51</b> |        |      |
| Total (19 to 51)  |                           | <b>59</b> | 124872 | 1622 |
| Provision for "reasonably foreseeable adverse variations" |                           | <b>61</b> |        |      |
| Cumulative preference share capital                       |                           | <b>62</b> |        |      |
| Subordinated loan capital                                 |                           | <b>63</b> |        |      |
| Total (59 to 63)  |                           | <b>69</b> | 124872 | 1622 |

|   |           |       |      |
|---|-----------|-------|------|
| Amounts included in line 69 attributable to liabilities to related insurers, other than those under contracts of insurance or reinsurance | <b>71</b> | 92733 | 1622 |
|---|-----------|-------|------|

|  |           |         |         |
|--|-----------|---------|---------|
| Amounts deducted from technical provisions for discounting   | <b>82</b> |         |         |
| Other adjustments (may be negative)  | <b>83</b> | (48526) |         |
| Capital and reserves   | <b>84</b> | 5225884 | 2311472 |
| Total liabilities under insurance accounts rules or international accounting standards as applicable to the firm for the purpose of its external financial reporting (69-82+83+84) | <b>85</b> | 5302230 | 2313094 |

**Profit and loss account (non-technical account)**Name of insurer **Friends Life Limited**

Global business

Financial year ended **31 December 2011**

|  |  | Company<br>registration<br>number | GL/<br>UK/<br>CM | day | month                  | year | Units            |      |
|--|--|-----------------------------------|------------------|-----|------------------------|------|------------------|------|
|  |  | R16                               | 4096141          | GL  | 31                     | 12   | 2011             | £000 |
|  |  |                                   |                  |     | This financial<br>year |      | Previous<br>year |      |
|  |  |                                   |                  |     | 1                      |      | 2                |      |
| Transfer (to)/from the<br>general insurance business<br>technical account                      |  | From Form 20                      |                  | 11  |                        |      |                  |      |
|  |  | Equalisation provisions           |                  | 12  |                        |      |                  |      |
| Transfer from the long term insurance business<br>revenue account                              |  |                                   |                  | 13  | 88168                  |      | 76481            |      |
| Investment income  | Income   |                                   |                  | 14  | 1144322                |      | 130149           |      |
|  | Value re-adjustments on<br>investments               |                                   |                  | 15  |                        |      | 125967           |      |
|  | Gains on the realisation of<br>investments           |                                   |                  | 16  | 2592                   |      |                  |      |
| Investment charges   | Investment management<br>charges, including interest |                                   |                  | 17  | 50785                  |      | 15119            |      |
|  | Value re-adjustments on<br>investments               |                                   |                  | 18  | 1024952                |      |                  |      |
|  | Loss on the realisation of<br>investments            |                                   |                  | 19  |                        |      | 259              |      |
| Allocated investment return transferred to the general<br>insurance business technical account |  |                                   |                  | 20  |                        |      |                  |      |
| Other income and charges (particulars to be specified<br>by way of supplementary note)         |  |                                   |                  | 21  | 263049                 |      |                  |      |
| Profit or loss on ordinary activities before tax<br>(11+12+13+14+15+16-17-18-19-20+21)         |  |                                   |                  | 29  | 422394                 |      | 317219           |      |
| Tax on profit or loss on ordinary activities   |  |                                   |                  | 31  | (33636)                |      | (1680)           |      |
| Profit or loss on ordinary activities after tax (29-31)  |  |                                   |                  | 39  | 456030                 |      | 318899           |      |
| Extraordinary profit or loss (particulars to be specified<br>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  | 456030                 |      | 318899           |      |
| Dividends (paid or foreseeable)  |  |                                   |                  | 51  | 775000                 |      | 462000           |      |
| Profit or loss retained for the financial year (49-51)   |  |                                   |                  | 59  | (318970)               |      | (143101)         |      |



**Analysis of derivative contracts**Name of insurer **Friends Life Limited**

Global business

Financial year ended **31 December 2011**Category of assets **Total long term insurance business assets**

|  |                           | Company<br>registration<br>number | GL/<br>UK/<br>CM                              | day              | month | year               | Units   | Category<br>of<br>assets |    |
|--|---------------------------|-----------------------------------|---|------------------|-------|--------------------|---|--------------------------|----|
|  |                           | R17                               | 4096141                                       | GL               | 31    | 12                 | 2011  | £000                     | 10 |
| Derivative contracts                           |                           |                                   | Value as at the end<br>of this financial year |                  |       |                    | Notional amount as at the end<br>of this financial year |                          |    |
|  |                           |                                   | Assets<br>1                                   | Liabilities<br>2 |       | Bought / Long<br>3 | Sold / Short<br>4                                       |                          |    |
| Futures and<br>contracts<br>for<br>differences | Fixed-interest securities | 11                                |   |                  |       |                    |   |                          |    |
|  | Interest rates            | 12                                | 157313  | 69518            |       | 665580             |   |                          |    |
|  | Inflation                 | 13                                | 2391  |                  |       | 182164             |   |                          |    |
|  | Credit index / basket     | 14                                |   |                  |       |                    |   |                          |    |
|  | Credit single name        | 15                                |   |                  |       |                    |   |                          |    |
|  | Equity index              | 16                                | 10564   | 1521             |       | 649223             | 70695   |                          |    |
|  | Equity stock              | 17                                |   |                  |       |                    |   |                          |    |
|  | Land                      | 18                                |   |                  |       |                    |   |                          |    |
|  | Currencies                | 19                                | 376   |                  |       | 93974              |   |                          |    |
|  | Mortality                 | 20                                |   |                  |       |                    |   |                          |    |
|  | Other                     | 21                                |   |                  |       |                    |   |                          |    |
| In the money<br>options                        | Swaptions                 | 31                                |   |                  |       |                    |   |                          |    |
|  | Equity index calls        | 32                                |   |                  |       |                    |   |                          |    |
|  | Equity stock calls        | 33                                |   |                  |       |                    |   |                          |    |
|  | Equity index puts         | 34                                | 71166   |                  |       | 265822             |   |                          |    |
|  | Equity stock puts         | 35                                |   |                  |       |                    |   |                          |    |
|  | Other                     | 36                                |   |                  |       |                    |   |                          |    |
| Out of the<br>money<br>options                 | Swaptions                 | 41                                | 5471  |                  |       | 885109             |   |                          |    |
|  | Equity index calls        | 42                                |   |                  |       |                    |   |                          |    |
|  | Equity stock calls        | 43                                |   |                  |       |                    |   |                          |    |
|  | Equity index puts         | 44                                | 41765   |                  |       | 522138             |   |                          |    |
|  | Equity stock puts         | 45                                |   |                  |       |                    |   |                          |    |
|  | Other                     | 46                                |   |                  |       |                    |   |                          |    |
| Total (11 to 46)                               |                           | 51                                | 289046  | 71039            |       | 3264010            | 70695   |                          |    |
| Adjustment for variation margin                |                           | 52                                | (226538)                                      | 9697             |       |                    |   |                          |    |
| Total (51 + 52)                                |                           | 53                                | 62508   | 80736            |       |                    |   |                          |    |

THE NOTIONAL AMOUNTS IN COLUMNS 3 AND 4 ARE NOT A MEASURE OF EXPOSURE.

Please see instructions 11 and 12 to this Form for the meaning of these figures.

**Analysis of derivative contracts**Name of insurer **Friends Life Limited**

Global business

Financial year ended **31 December 2011**Category of assets **Total Long Term Business - With Profit Fund**

|  |                           | Company<br>registration<br>number | GL/<br>UK/<br>CM                              | day              | month   | year               | Units   | Category<br>of<br>assets |    |
|--|---------------------------|-----------------------------------|---|------------------|---------|--------------------|---|--------------------------|----|
|  |                           | R17                               | 4096141                                       | GL               | 31      | 12                 | 2011  | £000                     | 11 |
| Derivative contracts                           |                           |                                   | Value as at the end<br>of this financial year |                  |         |                    | Notional amount as at the end<br>of this financial year |                          |    |
|  |                           |                                   | Assets<br>1                                   | Liabilities<br>2 |         | Bought / Long<br>3 | Sold / Short<br>4                                       |                          |    |
| Futures and<br>contracts<br>for<br>differences | Fixed-interest securities | 11                                |   |                  |         |                    |   |                          |    |
|  | Interest rates            | 12                                | 157313  | 69518            | 665580  |                    |   |                          |    |
|  | Inflation                 | 13                                | 2391  |                  | 182164  |                    |   |                          |    |
|  | Credit index / basket     | 14                                |   |                  |         |                    |   |                          |    |
|  | Credit single name        | 15                                |   |                  |         |                    |   |                          |    |
|  | Equity index              | 16                                | 10563   | 1507             | 646886  | 70502              |   |                          |    |
|  | Equity stock              | 17                                |   |                  |         |                    |   |                          |    |
|  | Land                      | 18                                |   |                  |         |                    |   |                          |    |
|  | Currencies                | 19                                | 376   |                  | 93974   |                    |   |                          |    |
|  | Mortality                 | 20                                |   |                  |         |                    |   |                          |    |
|  | Other                     | 21                                |   |                  |         |                    |   |                          |    |
| In the money<br>options                        | Swaptions                 | 31                                |   |                  |         |                    |   |                          |    |
|  | Equity index calls        | 32                                |   |                  |         |                    |   |                          |    |
|  | Equity stock calls        | 33                                |   |                  |         |                    |   |                          |    |
|  | Equity index puts         | 34                                | 71166   |                  | 265822  |                    |   |                          |    |
|  | Equity stock puts         | 35                                |   |                  |         |                    |   |                          |    |
|  | Other                     | 36                                |   |                  |         |                    |   |                          |    |
| Out of the<br>money<br>options                 | Swaptions                 | 41                                | 5471  |                  | 885109  |                    |   |                          |    |
|  | Equity index calls        | 42                                |   |                  |         |                    |   |                          |    |
|  | Equity stock calls        | 43                                |   |                  |         |                    |   |                          |    |
|  | Equity index puts         | 44                                | 41765   |                  | 522138  |                    |   |                          |    |
|  | Equity stock puts         | 45                                |   |                  |         |                    |   |                          |    |
|  | Other                     | 46                                |   |                  |         |                    |   |                          |    |
| Total (11 to 46)                               |                           | 51                                | 289045  | 71025            | 3261673 | 70502              |   |                          |    |
| Adjustment for variation margin                |                           | 52                                | (226663)                                      | 9584             |         |                    |   |                          |    |
| Total (51 + 52)                                |                           | 53                                | 62382   | 80609            |         |                    |   |                          |    |

THE NOTIONAL AMOUNTS IN COLUMNS 3 AND 4 ARE NOT A MEASURE OF EXPOSURE.

Please see instructions 11 and 12 to this Form for the meaning of these figures.

**Analysis of derivative contracts**Name of insurer **Friends Life Limited**

Global business

Financial year ended **31 December 2011**Category of assets **Total Long Term Business - Closed With Profit Fund**

|  |                           | Company<br>registration<br>number | GL/<br>UK/<br>CM                              | day month year   |    |                    | Units   | Category<br>of<br>assets |    |
|--|---------------------------|-----------------------------------|---|------------------|----|--------------------|---|--------------------------|----|
|  |                           | R17                               | 4096141                                       | GL               | 31 | 12                 | 2011  | £000                     | 13 |
| Derivative contracts                           |                           |                                   | Value as at the end<br>of this financial year |                  |    |                    | Notional amount as at the end<br>of this financial year |                          |    |
|  |                           |                                   | Assets<br>1                                   | Liabilities<br>2 |    | Bought / Long<br>3 | Sold / Short<br>4                                       |                          |    |
| Futures and<br>contracts<br>for<br>differences | Fixed-interest securities | 11                                |   |                  |    |                    |   |                          |    |
|  | Interest rates            | 12                                |   |                  |    |                    |   |                          |    |
|  | Inflation                 | 13                                |   |                  |    |                    |   |                          |    |
|  | Credit index / basket     | 14                                |   |                  |    |                    |   |                          |    |
|  | Credit single name        | 15                                |   |                  |    |                    |   |                          |    |
|  | Equity index              | 16                                | 1   | 14               |    | 2337               | 193   |                          |    |
|  | Equity stock              | 17                                |   |                  |    |                    |   |                          |    |
|  | Land                      | 18                                |   |                  |    |                    |   |                          |    |
|  | Currencies                | 19                                |   |                  |    |                    |   |                          |    |
|  | Mortality                 | 20                                |   |                  |    |                    |   |                          |    |
|  | Other                     | 21                                |   |                  |    |                    |   |                          |    |
| In the money<br>options                        | Swaptions                 | 31                                |   |                  |    |                    |   |                          |    |
|  | Equity index calls        | 32                                |   |                  |    |                    |   |                          |    |
|  | Equity stock calls        | 33                                |   |                  |    |                    |   |                          |    |
|  | Equity index puts         | 34                                |   |                  |    |                    |   |                          |    |
|  | Equity stock puts         | 35                                |   |                  |    |                    |   |                          |    |
|  | Other                     | 36                                |   |                  |    |                    |   |                          |    |
| Out of the<br>money<br>options                 | Swaptions                 | 41                                |   |                  |    |                    |   |                          |    |
|  | Equity index calls        | 42                                |   |                  |    |                    |   |                          |    |
|  | Equity stock calls        | 43                                |   |                  |    |                    |   |                          |    |
|  | Equity index puts         | 44                                |   |                  |    |                    |   |                          |    |
|  | Equity stock puts         | 45                                |   |                  |    |                    |   |                          |    |
|  | Other                     | 46                                |   |                  |    |                    |   |                          |    |
| Total (11 to 46)                               |                           | 51                                | 1   | 14               |    | 2337               | 193   |                          |    |
| Adjustment for variation margin                |                           | 52                                | 125   | 113              |    |                    |   |                          |    |
| Total (51 + 52)                                |                           | 53                                | 126   | 127              |    |                    |   |                          |    |

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**Name of insurer **Friends Life Limited**With-profits fund **With Profit Fund**Financial year ended **31 December 2011**Units **£000**

| As at end of<br>this financial year<br>1 | As at end of<br>the previous year<br>2 |
|--|--|
|--|--|

**Regulatory excess capital**

|   |   |           |          |          |
|---|---|-----------|----------|----------|
| Regulatory value of assets  | Long-term admissible assets of the fund   | <b>11</b> | 11776057 | 12064819 |
|   | Implicit items allocated to the fund  | <b>12</b> |          |          |
|   | Mathematical reserves in respect of the fund's non-profit insurance contracts                                   | <b>13</b> | 2474003  | 2411944  |
|   | Long-term admissible assets of the fund covering the LTICR of the fund's non-profit insurance contracts         | <b>14</b> | 43961    | 42657    |
|   | Long-term admissible assets of the fund covering the RCR of the fund's non-profit insurance contracts           | <b>15</b> |          |          |
|   | Total (11+12-(13+14+15))  | <b>19</b> | 9258093  | 9610217  |
| Regulatory value of liabilities   | Mathematical reserves (after distribution of surplus) in respect of the fund's with-profits insurance contracts | <b>21</b> | 7301337  | 7645426  |
|   | Regulatory current liabilities of the fund  | <b>22</b> | 476598   | 409204   |
|   | Total (21+22)   | <b>29</b> | 7777935  | 8054630  |
| Long-term insurance capital requirement in respect of the fund's with-profits insurance contracts |   | <b>31</b> | 305743   | 306096   |
| Resilience capital requirement in respect of the fund's with-profits insurance contracts          |   | <b>32</b> |          |          |
| Sum of regulatory value of liabilities, LTICR and RCR (29+31+32)                                  |   | <b>39</b> | 8083678  | 8360726  |
| Regulatory excess capital (19-39)   |   | <b>49</b> | 1174415  | 1249491  |

**Realistic excess capital**

|                          |           |  |  |
|--------------------------|-----------|--|--|
| Realistic excess capital | <b>51</b> |  |  |
|--------------------------|-----------|--|--|

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

|   |           |         |         |
|---|-----------|---------|---------|
| Excess (deficiency) of assets allocated to with-profits insurance business in fund (49-51)  | <b>61</b> | 1174415 | 1249491 |
| Face amount of capital instruments attributed to the fund and included in capital resources (unstressed)                                    | <b>62</b> |         |         |
| Realistic amount of capital instruments attributed to the fund and included in capital resources (stressed)                                 | <b>63</b> |         |         |
| Present value of future shareholder transfers arising from distribution of surplus  | <b>64</b> | 266094  | 282444  |
| Present value of other future internal transfers not already taken into account   | <b>65</b> | 22563   | 35809   |
| 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) | <b>66</b> | 885758  | 931238  |

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

Name of insurer **Friends Life Limited**

With-profits fund **Closed With Profit Fund**

Financial year ended **31 December 2011**

Units **£000**

| As at end of<br>this financial year<br>1 | As at end of<br>the previous year<br>2 |
|--|--|
|--|--|

**Regulatory excess capital**

|   |   |    |        |  |
|---|---|----|--------|--|
| Regulatory value of assets  | Long-term admissible assets of the fund   | 11 | 281471 |  |
|   | Implicit items allocated to the fund  | 12 |        |  |
|   | Mathematical reserves in respect of the fund's non-profit insurance contracts                                   | 13 | 62932  |  |
|   | Long-term admissible assets of the fund covering the LTICR of the fund's non-profit insurance contracts         | 14 | 2560   |  |
|   | 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 | 215979 |  |
| Regulatory value of liabilities   | Mathematical reserves (after distribution of surplus) in respect of the fund's with-profits insurance contracts | 21 | 186282 |  |
|   | Regulatory current liabilities of the fund  | 22 | 5561   |  |
|   | Total (21+22)   | 29 | 191843 |  |
| Long-term insurance capital requirement in respect of the fund's with-profits insurance contracts |   | 31 | 7555   |  |
| 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 | 199399 |  |
| Regulatory excess capital (19-39)   |   | 49 | 16581  |  |

**Realistic excess capital**

|                          |    |     |  |
|--------------------------|----|-----|--|
| Realistic excess capital | 51 | (1) |  |
|--------------------------|----|-----|--|

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

|   |    |       |  |
|---|----|-------|--|
| Excess (deficiency) of assets allocated to with-profits insurance business in fund (49-51)  | 61 | 16582 |  |
| Face amount of capital instruments attributed to the fund and included in capital resources (unstressed)                                    | 62 |       |  |
| Realistic amount of capital instruments attributed to the fund and included in capital resources (stressed)                                 | 63 |       |  |
| Present value of future shareholder transfers arising from distribution of surplus  | 64 |       |  |
| 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 | 16582 |  |

**Realistic balance sheet**Name of insurer **Friends Life Limited**With-profits fund **With Profit Fund**Financial year ended **31 December 2011**Units **£000**

| As at end of<br>this financial year<br>1 | As at end of<br>the previous year<br>2 |
|--|--|
|--|--|

**Realistic value of assets available to the fund**

|   |           |         |         |
|---|-----------|---------|---------|
| Regulatory value of assets  | <b>11</b> | 9258093 | 9610217 |
| Implicit items allocated to the fund  | <b>12</b> |         |         |
| Value of shares in subsidiaries held in fund (regulatory)   | <b>13</b> |         | 13103   |
| Excess admissible assets  | <b>21</b> |         |         |
| Present value of future profits (or losses) on non-profit insurance contracts written in the fund | <b>22</b> | 180892  | 192019  |
| Value of derivatives and quasi-derivatives not already reflected in lines 11 to 22                | <b>23</b> |         |         |
| Value of shares in subsidiaries held in fund (realistic)  | <b>24</b> |         | 13103   |
| Prepayments made from the fund  | <b>25</b> |         |         |
| Realistic value of assets of fund (11+21+22+23+24+25-(12+13))                                     | <b>26</b> | 9438985 | 9802236 |
| Support arrangement assets  | <b>27</b> | 18651   | 19464   |
| Assets available to the fund (26+27)  | <b>29</b> | 9457636 | 9821700 |

**Realistic value of liabilities of fund**

|   |  |           |         |
|---|--|-----------|---------|
| With-profits benefit reserve                      | <b>31</b>  | 7305549   | 7881496 |
| Future policy related liabilities                 | Past miscellaneous surplus attributed to with-profits benefits reserve                                   | <b>32</b> |         |
|   | Past miscellaneous deficit attributed to with-profits benefits reserve                                   | <b>33</b> |         |
|   | Planned enhancements to with-profits benefits reserve  | <b>34</b> | 103091  |
|   | Planned deductions for the costs of guarantees, options and smoothing from with-profits benefits reserve | <b>35</b> | 18      |
|   | Planned deductions for other costs deemed chargeable to with-profits benefits reserve                    | <b>36</b> | 63218   |
|   | Future costs of contractual guarantees (other than financial options)                                    | <b>41</b> | 439733  |
|   | Future costs of non-contractual commitments  | <b>42</b> |         |
|   | Future costs of financial options  | <b>43</b> | 608838  |
|   | Future costs of smoothing (possibly negative)  | <b>44</b> | 69302   |
|   | Financing costs  | <b>45</b> | 50966   |
|   | Any other liabilities related to regulatory duty to treat customers fairly                               | <b>46</b> |         |
|   | Other long-term insurance liabilities  | <b>47</b> | 222161  |
|   | Total (32+34+41+42+43+44+45+46+47-(33+35+36))  | <b>49</b> | 1430855 |
| Realistic current liabilities of the fund         | <b>51</b>  | 517106    | 456106  |
| Realistic value of liabilities of fund (31+49+51) | <b>59</b>  | 9253510   | 9655940 |

**Realistic balance sheet**

Name of insurer **Friends Life Limited**  
 With-profits fund **With Profit Fund**  
 Financial year ended **31 December 2011**  
 Units **£000**

| As at end of<br>this financial year<br>1 | As at end of<br>the previous year<br>2 |
|--|--|
|--|--|

**Realistic excess capital and additional capital available**

|  |           |         |         |
|--|-----------|---------|---------|
| Value of relevant assets before applying the most adverse scenario other than the present value of future profits arising from business outside with-profits funds                             | <b>62</b> | 9438985 | 9802236 |
| Amount of present value of future profits (or losses) on long-term insurance contracts written outside the fund included in the value of relevant assets before applying most adverse scenario | <b>63</b> |         |         |
| Value of relevant assets before applying the most adverse scenario (62+63)   | <b>64</b> | 9438985 | 9802236 |
| Risk capital margin for fund (62-59)   | <b>65</b> | 185475  | 146297  |
| Realistic excess capital for fund (26-(59+65))   | <b>66</b> |         |         |
| Realistic excess available capital for fund (29-(59+65))   | <b>67</b> | 18651   | 19464   |
| Working capital for fund (29-59)   | <b>68</b> | 204126  | 165761  |
| Working capital ratio for fund (68/29)   | <b>69</b> | 2.16    | 1.69    |

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

|  |           |         |        |
|--|-----------|---------|--------|
| Additional amount potentially available for inclusion in line 62 | <b>81</b> | 1624646 | 797723 |
| Additional amount potentially available for inclusion in line 63 | <b>82</b> | 234500  | 142500 |

**Realistic balance sheet**

Name of insurer **Friends Life Limited**  
 With-profits fund **Closed With Profit Fund**  
 Financial year ended **31 December 2011**  
 Units **£000**

| As at end of<br>this financial year<br>1 | As at end of<br>the previous year<br>2 |
|--|--|
|--|--|

**Realistic value of assets available to the fund**

|   |    |        |  |
|---|----|--------|--|
| Regulatory value of assets  | 11 | 215979 |  |
| Implicit items allocated to the fund  | 12 |        |  |
| Value of shares in subsidiaries held in fund (regulatory)   | 13 |        |  |
| Excess admissible assets  | 21 |        |  |
| Present value of future profits (or losses) on non-profit insurance contracts written in the fund | 22 | 9493   |  |
| Value of derivatives and quasi-derivatives not already reflected in lines 11 to 22                | 23 |        |  |
| Value of shares in subsidiaries held in fund (realistic)  | 24 |        |  |
| Prepayments made from the fund  | 25 |        |  |
| Realistic value of assets of fund (11+21+22+23+24+25-(12+13))                                     | 26 | 225472 |  |
| Support arrangement assets  | 27 |        |  |
| Assets available to the fund (26+27)  | 29 | 225472 |  |

**Realistic value of liabilities of fund**

|   |  |        |        |
|---|--|--------|--------|
| With-profits benefit reserve                      | 31   | 103135 |        |
| 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     | 80754  |
|   | Planned deductions for the costs of guarantees, options and smoothing from with-profits benefits reserve | 35     |        |
|   | Planned deductions for other costs deemed chargeable to with-profits benefits reserve                    | 36     | (233)  |
|   | Future costs of contractual guarantees (other than financial options)                                    | 41     | 7775   |
|   | Future costs of non-contractual commitments  | 42     |        |
|   | Future costs of financial options  | 43     | 24824  |
|   | Future costs of smoothing (possibly negative)  | 44     |        |
|   | Financing costs  | 45     |        |
|   | Any other liabilities related to regulatory duty to treat customers fairly                               | 46     |        |
|   | Other long-term insurance liabilities  | 47     |        |
|   | Total (32+34+41+42+43+44+45+46+47-(33+35+36))  | 49     | 113586 |
| Realistic current liabilities of the fund         | 51   | 5561   |        |
| Realistic value of liabilities of fund (31+49+51) | 59   | 222282 |        |



**Realistic balance sheet**

Name of insurer **Friends Life Limited**  
 With-profits fund **Closed With Profit Fund**  
 Financial year ended **31 December 2011**  
 Units **£000**

| As at end of<br>this financial year<br>1 | As at end of<br>the previous year<br>2 |
|--|--|
|--|--|

**Realistic excess capital and additional capital available**

|  |           |        |  |
|--|-----------|--------|--|
| Value of relevant assets before applying the most adverse scenario other than the present value of future profits arising from business outside with-profits funds                             | <b>62</b> | 225472 |  |
| Amount of present value of future profits (or losses) on long-term insurance contracts written outside the fund included in the value of relevant assets before applying most adverse scenario | <b>63</b> |        |  |
| Value of relevant assets before applying the most adverse scenario (62+63)   | <b>64</b> | 225472 |  |
| Risk capital margin for fund (62-59)   | <b>65</b> | 3190   |  |
| Realistic excess capital for fund (26-(59+65))   | <b>66</b> | (1)    |  |
| Realistic excess available capital for fund (29-(59+65))   | <b>67</b> | (1)    |  |
| Working capital for fund (29-59)   | <b>68</b> | 3190   |  |
| Working capital ratio for fund (68/29)   | <b>69</b> | 1.41   |  |

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

|  |           |         |  |
|--|-----------|---------|--|
| Additional amount potentially available for inclusion in line 62 | <b>81</b> | 1624646 |  |
| Additional amount potentially available for inclusion in line 63 | <b>82</b> | 234500  |  |

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

Name of insurer **Friends Life Limited**  
 Total business / subfund **Summary**  
 Financial year ended **31 December 2011**  
 Units **£000**

| Financial year<br>1 | Previous year<br>2 |
|---------------------|--------------------|
|---------------------|--------------------|

**Income**

|  |           |                |                |
|--|-----------|----------------|----------------|
| Earned premiums  | 11        | 2117257        | 480254         |
| Investment income receivable before deduction of tax                       | 12        | 553356         | 654344         |
| Increase (decrease) in the value of non-linked assets brought into account | 13        | 668404         | 437207         |
| Increase (decrease) in the value of linked assets                          | 14        | (191619)       | 236381         |
| Other income   | 15        | 36037          | 36072          |
| <b>Total income</b>  | <b>19</b> | <b>3183435</b> | <b>1844258</b> |

**Expenditure**

|  |           |                |                |
|--|-----------|----------------|----------------|
| Claims incurred                              | 21        | 1862998        | 1606060        |
| Expenses payable                             | 22        | 223560         | 239714         |
| Interest payable before the deduction of tax | 23        | 25726          | 13117          |
| Taxation                                     | 24        | 11773          | 24047          |
| Other expenditure                            | 25        | 62255          | 129405         |
| Transfer to (from) non technical account     | 26        | 88168          | 76481          |
| <b>Total expenditure</b>                     | <b>29</b> | <b>2274480</b> | <b>2088824</b> |

|   |    |          |          |
|---|----|----------|----------|
| Business transfers - in                                     | 31 | 1793806  |          |
| Business transfers - out                                    | 32 |          |          |
| Increase (decrease) in fund in financial year (19-29+31-32) | 39 | 2702761  | (244566) |
| Fund brought forward  | 49 | 11942727 | 12187293 |
| Fund carried forward (39+49)                                | 59 | 14645488 | 11942727 |

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

Name of insurer **Friends Life Limited**  
Total business / subfund **With Profit Fund**  
Financial year ended **31 December 2011**  
Units **£000**

| Financial year<br>1 | Previous year<br>2 |
|---------------------|--------------------|
|---------------------|--------------------|

**Income**

|  |           |                |                |
|--|-----------|----------------|----------------|
| Earned premiums  | 11        | 203499         | 227881         |
| Investment income receivable before deduction of tax                       | 12        | 427971         | 484972         |
| Increase (decrease) in the value of non-linked assets brought into account | 13        | 615592         | 413018         |
| Increase (decrease) in the value of linked assets                          | 14        |                |                |
| Other income   | 15        | 46026          | 36072          |
| <b>Total income</b>  | <b>19</b> | <b>1293088</b> | <b>1161943</b> |

**Expenditure**

|  |           |                |                |
|--|-----------|----------------|----------------|
| Claims incurred                              | 21        | 1378035        | 1264898        |
| Expenses payable                             | 22        | 65560          | 64063          |
| Interest payable before the deduction of tax | 23        | 10473          | 4894           |
| Taxation                                     | 24        | 57883          | 66122          |
| Other expenditure                            | 25        |                |                |
| Transfer to (from) non technical account     | 26        | 13168          | 6481           |
| <b>Total expenditure</b>                     | <b>29</b> | <b>1525119</b> | <b>1406458</b> |

|   |    |          |          |
|---|----|----------|----------|
| Business transfers - in                                     | 31 |          |          |
| Business transfers - out                                    | 32 |          |          |
| Increase (decrease) in fund in financial year (19-29+31-32) | 39 | (232031) | (244515) |
| Fund brought forward  | 49 | 9787614  | 10032129 |
| Fund carried forward (39+49)                                | 59 | 9555583  | 9787614  |

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

Name of insurer **Friends Life Limited**  
 Total business / subfund **Non Profit Fund**  
 Financial year ended **31 December 2011**  
 Units **£000**

| Financial year<br>1 | Previous year<br>2 |
|---------------------|--------------------|
|---------------------|--------------------|

**Income**

|  |           |                |               |
|--|-----------|----------------|---------------|
| Earned premiums  | 11        | 1913342        | 252373        |
| Investment income receivable before deduction of tax                       | 12        | 124836         | 170180        |
| Increase (decrease) in the value of non-linked assets brought into account | 13        | 19151          | 24189         |
| Increase (decrease) in the value of linked assets                          | 14        | (191619)       | 236381        |
| Other income   | 15        |                |               |
| <b>Total income</b>  | <b>19</b> | <b>1865710</b> | <b>683123</b> |

**Expenditure**

|  |           |               |               |
|--|-----------|---------------|---------------|
| Claims incurred                              | 21        | 482083        | 341163        |
| Expenses payable                             | 22        | 158150        | 175651        |
| Interest payable before the deduction of tax | 23        | 15249         | 9029          |
| Taxation                                     | 24        | (46483)       | (42075)       |
| Other expenditure                            | 25        | 72255         | 129405        |
| Transfer to (from) non technical account     | 26        | 75000         | 70000         |
| <b>Total expenditure</b>                     | <b>29</b> | <b>756254</b> | <b>683173</b> |

|   |    |         |         |
|---|----|---------|---------|
| Business transfers - in                                     | 31 | 1551122 |         |
| Business transfers - out                                    | 32 |         |         |
| Increase (decrease) in fund in financial year (19-29+31-32) | 39 | 2660578 | (50)    |
| Fund brought forward  | 49 | 2155113 | 2155163 |
| Fund carried forward (39+49)                                | 59 | 4815691 | 2155113 |

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

Name of insurer **Friends Life Limited**  
 Total business / subfund **Closed With Profit Fund**  
 Financial year ended **31 December 2011**  
 Units **£000**

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

**Income**

|  |           |              |  |
|--|-----------|--------------|--|
| Earned premiums  | 11        | 416          |  |
| Investment income receivable before deduction of tax                       | 12        | 549          |  |
| Increase (decrease) in the value of non-linked assets brought into account | 13        | 33661        |  |
| Increase (decrease) in the value of linked assets                          | 14        |              |  |
| Other income   | 15        | 11           |  |
| <b>Total income</b>  | <b>19</b> | <b>34637</b> |  |

**Expenditure**

|  |           |             |  |
|--|-----------|-------------|--|
| Claims incurred                              | 21        | 2880        |  |
| Expenses payable                             | 22        | (150)       |  |
| Interest payable before the deduction of tax | 23        | 4           |  |
| Taxation                                     | 24        | 373         |  |
| Other expenditure                            | 25        |             |  |
| Transfer to (from) non technical account     | 26        |             |  |
| <b>Total expenditure</b>                     | <b>29</b> | <b>3107</b> |  |

|   |    |        |  |
|---|----|--------|--|
| Business transfers - in                                     | 31 | 242684 |  |
| Business transfers - out                                    | 32 |        |  |
| Increase (decrease) in fund in financial year (19-29+31-32) | 39 | 274214 |  |
| Fund brought forward  | 49 |        |  |
| Fund carried forward (39+49)                                | 59 | 274214 |  |

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

Name of insurer **Friends Life Limited**  
Total business / subfund **Summary**  
Financial year ended **31 December 2011**  
Units **£000**

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

**Gross**

|                  |    |        |        |       |        |        |
|------------------|----|--------|--------|-------|--------|--------|
| Regular premiums | 11 | 398719 | 173250 | 69549 | 641518 | 656441 |
| Single premiums  | 12 | 50838  | 88505  | 9269  | 148612 | 182425 |

**Reinsurance - external**

|                  |    |       |      |     |       |       |
|------------------|----|-------|------|-----|-------|-------|
| Regular premiums | 13 | 37427 | 2245 | 197 | 39869 | 30435 |
| Single premiums  | 14 | 6     |      |     | 6     |       |

**Reinsurance - intra-group**

|                  |    |           |        |       |           |        |
|------------------|----|-----------|--------|-------|-----------|--------|
| Regular premiums | 15 | 39209     | 74353  | 3796  | 117358    | 153404 |
| Single premiums  | 16 | (1591737) | 108162 | (785) | (1484360) | 174772 |

**Net of reinsurance**

|                  |    |         |         |       |         |        |
|------------------|----|---------|---------|-------|---------|--------|
| Regular premiums | 17 | 322083  | 96652   | 65556 | 484291  | 472602 |
| Single premiums  | 18 | 1642569 | (19657) | 10054 | 1632966 | 7653   |

**Total**

|             |    |           |        |       |           |        |
|-------------|----|-----------|--------|-------|-----------|--------|
| Gross       | 19 | 449557    | 261755 | 78818 | 790130    | 838866 |
| Reinsurance | 20 | (1515095) | 184760 | 3208  | (1327127) | 358612 |
| Net         | 21 | 1964652   | 76995  | 75610 | 2117257   | 480254 |

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

Name of insurer **Friends Life Limited**  
 Total business / subfund **With Profit Fund**  
 Financial year ended **31 December 2011**  
 Units **£000**

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

**Gross**

|                  |    |        |        |      |        |        |
|------------------|----|--------|--------|------|--------|--------|
| Regular premiums | 11 | 159680 | 143874 | 5292 | 308846 | 345617 |
| Single premiums  | 12 | 126    | 82930  | 60   | 83116  | 95256  |

**Reinsurance - external**

|                  |    |      |     |    |      |      |
|------------------|----|------|-----|----|------|------|
| Regular premiums | 13 | 6526 | 719 | 10 | 7255 | 7636 |
| Single premiums  | 14 |      |     |    |      |      |

**Reinsurance - intra-group**

|                  |    |       |        |      |        |        |
|------------------|----|-------|--------|------|--------|--------|
| Regular premiums | 15 | 25068 | 48184  | 2843 | 76095  | 87862  |
| Single premiums  | 16 | 2890  | 102138 | 85   | 105113 | 117494 |

**Net of reinsurance**

|                  |    |        |         |      |         |         |
|------------------|----|--------|---------|------|---------|---------|
| Regular premiums | 17 | 128086 | 94971   | 2439 | 225496  | 250120  |
| Single premiums  | 18 | (2764) | (19208) | (25) | (21997) | (22238) |

**Total**

|             |    |        |        |      |        |        |
|-------------|----|--------|--------|------|--------|--------|
| Gross       | 19 | 159806 | 226804 | 5352 | 391962 | 440873 |
| Reinsurance | 20 | 34484  | 151041 | 2938 | 188463 | 212992 |
| Net         | 21 | 125322 | 75763  | 2414 | 203499 | 227881 |

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

Name of insurer **Friends Life Limited**  
 Total business / subfund **Non Profit Fund**  
 Financial year ended **31 December 2011**  
 Units **£000**

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

**Gross**

|                  |    |        |       |       |        |        |
|------------------|----|--------|-------|-------|--------|--------|
| Regular premiums | 11 | 238944 | 29360 | 64257 | 332561 | 310824 |
| Single premiums  | 12 | 50712  | 5270  | 9209  | 65191  | 87169  |

**Reinsurance - external**

|                  |    |       |      |     |       |       |
|------------------|----|-------|------|-----|-------|-------|
| Regular premiums | 13 | 30901 | 1526 | 187 | 32614 | 22800 |
| Single premiums  | 14 | 6     |      |     | 6     |       |

**Reinsurance - intra-group**

|                  |    |           |       |       |           |       |
|------------------|----|-----------|-------|-------|-----------|-------|
| Regular premiums | 15 | 14141     | 26169 | 953   | 41263     | 65543 |
| Single premiums  | 16 | (1594627) | 6024  | (870) | (1589473) | 57278 |

**Net of reinsurance**

|                  |    |         |       |       |         |        |
|------------------|----|---------|-------|-------|---------|--------|
| Regular premiums | 17 | 193902  | 1665  | 63117 | 258684  | 222482 |
| Single premiums  | 18 | 1645333 | (754) | 10079 | 1654658 | 29891  |

**Total**

|             |    |           |       |       |           |        |
|-------------|----|-----------|-------|-------|-----------|--------|
| Gross       | 19 | 289656    | 34630 | 73466 | 397752    | 397993 |
| Reinsurance | 20 | (1549579) | 33719 | 270   | (1515590) | 145620 |
| Net         | 21 | 1839235   | 911   | 73196 | 1913342   | 252373 |



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

Name of insurer **Friends Life Limited**  
 Total business / subfund **Closed With Profit Fund**  
 Financial year ended **31 December 2011**  
 Units **£000**

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

**Gross**

|                  |    |    |     |  |     |  |
|------------------|----|----|-----|--|-----|--|
| Regular premiums | 11 | 95 | 16  |  | 111 |  |
| Single premiums  | 12 |    | 305 |  | 305 |  |

**Reinsurance - external**

|                  |    |  |  |  |  |  |
|------------------|----|--|--|--|--|--|
| Regular premiums | 13 |  |  |  |  |  |
| Single premiums  | 14 |  |  |  |  |  |

**Reinsurance - intra-group**

|                  |    |  |  |  |  |  |
|------------------|----|--|--|--|--|--|
| Regular premiums | 15 |  |  |  |  |  |
| Single premiums  | 16 |  |  |  |  |  |

**Net of reinsurance**

|                  |    |    |     |  |     |  |
|------------------|----|----|-----|--|-----|--|
| Regular premiums | 17 | 95 | 16  |  | 111 |  |
| Single premiums  | 18 |    | 305 |  | 305 |  |

**Total**

|             |    |    |     |  |     |  |
|-------------|----|----|-----|--|-----|--|
| Gross       | 19 | 95 | 321 |  | 416 |  |
| Reinsurance | 20 |    |     |  |     |  |
| Net         | 21 | 95 | 321 |  | 416 |  |

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

Name of insurer **Friends Life Limited**  
 Total business / subfund **Summary**  
 Financial year ended **31 December 2011**  
 Units **£000**

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

**Gross**

|                                |           |                |                |              |                |                |
|--------------------------------|-----------|----------------|----------------|--------------|----------------|----------------|
| Death or disability lump sums  | 11        | 152401         | 22990          | 4135         | 179526         | 160664         |
| Disability periodic payments   | 12        | 25301          | 3              |              | 25304          | 22702          |
| Surrender or partial surrender | 13        | 711569         | 718836         | 76356        | 1506761        | 1607344        |
| Annuity payments               | 14        | 2287           | 204144         | 17           | 206448         | 200838         |
| Lump sums on maturity          | 15        | 549650         | 81481          | 9960         | 641091         | 501949         |
| <b>Total</b>                   | <b>16</b> | <b>1441208</b> | <b>1027454</b> | <b>90468</b> | <b>2559130</b> | <b>2493496</b> |

**Reinsurance - external**

|                                |           |              |              |           |              |              |
|--------------------------------|-----------|--------------|--------------|-----------|--------------|--------------|
| Death or disability lump sums  | 21        | 25662        | 1967         | 25        | 27654        | 21227        |
| Disability periodic payments   | 22        | 2064         |              |           | 2064         | 1574         |
| Surrender or partial surrender | 23        | (575)        |              |           | (575)        | (24)         |
| Annuity payments               | 24        | 20           | 9763         |           | 9783         | 28           |
| Lump sums on maturity          | 25        |              | 4            |           | 4            | 21           |
| <b>Total</b>                   | <b>26</b> | <b>27171</b> | <b>11734</b> | <b>25</b> | <b>38930</b> | <b>22827</b> |

**Reinsurance - intra-group**

|                                |           |               |               |              |               |               |
|--------------------------------|-----------|---------------|---------------|--------------|---------------|---------------|
| Death or disability lump sums  | 31        | 23421         | 8021          | 776          | 32218         | 39757         |
| Disability periodic payments   | 32        | 6             |               |              | 6             | 34            |
| Surrender or partial surrender | 33        | 166364        | 367041        | 22846        | 556251        | 723743        |
| Annuity payments               | 34        |               | 22659         |              | 22659         | 24208         |
| Lump sums on maturity          | 35        | 39237         | 3095          | 3736         | 46068         | 76868         |
| <b>Total</b>                   | <b>36</b> | <b>229028</b> | <b>400816</b> | <b>27358</b> | <b>657202</b> | <b>864609</b> |

**Net of reinsurance**

|                                |           |                |               |              |                |                |
|--------------------------------|-----------|----------------|---------------|--------------|----------------|----------------|
| Death or disability lump sums  | 41        | 103318         | 13002         | 3334         | 119654         | 99680          |
| Disability periodic payments   | 42        | 23231          | 3             |              | 23234          | 21094          |
| Surrender or partial surrender | 43        | 545780         | 351795        | 53510        | 951085         | 883625         |
| Annuity payments               | 44        | 2267           | 171722        | 17           | 174006         | 176602         |
| Lump sums on maturity          | 45        | 510413         | 78382         | 6224         | 595019         | 425060         |
| <b>Total</b>                   | <b>46</b> | <b>1185009</b> | <b>614904</b> | <b>63085</b> | <b>1862998</b> | <b>1606060</b> |

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

Name of insurer **Friends Life Limited**  
 Total business / subfund **With Profit Fund**  
 Financial year ended **31 December 2011**  
 Units **£000**

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

**Gross**

|                                |           |               |               |              |                |                |
|--------------------------------|-----------|---------------|---------------|--------------|----------------|----------------|
| Death or disability lump sums  | 11        | 66809         | 19382         | 1809         | 88000          | 88979          |
| Disability periodic payments   | 12        |               |               |              |                |                |
| Surrender or partial surrender | 13        | 288255        | 647984        | 36198        | 972437         | 1053767        |
| Annuity payments               | 14        | 1291          | 173833        | 17           | 175141         | 178358         |
| Lump sums on maturity          | 15        | 517523        | 80224         | 4682         | 602429         | 461088         |
| <b>Total</b>                   | <b>16</b> | <b>873878</b> | <b>921423</b> | <b>42706</b> | <b>1838007</b> | <b>1782192</b> |

**Reinsurance - external**

|                                |           |             |            |           |             |             |
|--------------------------------|-----------|-------------|------------|-----------|-------------|-------------|
| Death or disability lump sums  | 21        | 4644        | 100        | 25        | 4769        | 6449        |
| Disability periodic payments   | 22        |             |            |           |             |             |
| Surrender or partial surrender | 23        | (575)       |            |           | (575)       | (24)        |
| Annuity payments               | 24        | 20          |            |           | 20          | 28          |
| Lump sums on maturity          | 25        |             | 4          |           | 4           | 21          |
| <b>Total</b>                   | <b>26</b> | <b>4089</b> | <b>104</b> | <b>25</b> | <b>4218</b> | <b>6475</b> |

**Reinsurance - intra-group**

|                                |           |               |               |              |               |               |
|--------------------------------|-----------|---------------|---------------|--------------|---------------|---------------|
| Death or disability lump sums  | 31        | 11987         | 7335          | 213          | 19535         | 18959         |
| Disability periodic payments   | 32        |               |               |              |               |               |
| Surrender or partial surrender | 33        | 91157         | 300424        | 10116        | 401697        | 448334        |
| Annuity payments               | 34        |               | 2535          |              | 2535          | 2720          |
| Lump sums on maturity          | 35        | 26462         | 2605          | 2920         | 31987         | 40807         |
| <b>Total</b>                   | <b>36</b> | <b>129606</b> | <b>312899</b> | <b>13249</b> | <b>455754</b> | <b>510819</b> |

**Net of reinsurance**

|                                |           |               |               |              |                |                |
|--------------------------------|-----------|---------------|---------------|--------------|----------------|----------------|
| Death or disability lump sums  | 41        | 50178         | 11947         | 1571         | 63696          | 63570          |
| Disability periodic payments   | 42        |               |               |              |                |                |
| Surrender or partial surrender | 43        | 197673        | 347560        | 26082        | 571315         | 605457         |
| Annuity payments               | 44        | 1271          | 171298        | 17           | 172586         | 175610         |
| Lump sums on maturity          | 45        | 491061        | 77615         | 1762         | 570438         | 420261         |
| <b>Total</b>                   | <b>46</b> | <b>740183</b> | <b>608420</b> | <b>29432</b> | <b>1378035</b> | <b>1264898</b> |

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

Name of insurer **Friends Life Limited**  
 Total business / subfund **Non Profit Fund**  
 Financial year ended **31 December 2011**  
 Units **£000**

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

**Gross**

|                                |           |               |               |              |               |               |
|--------------------------------|-----------|---------------|---------------|--------------|---------------|---------------|
| Death or disability lump sums  | 11        | 85579         | 3608          | 2326         | 91513         | 71685         |
| Disability periodic payments   | 12        | 25301         | 3             |              | 25304         | 22702         |
| Surrender or partial surrender | 13        | 422896        | 70504         | 40158        | 533558        | 553577        |
| Annuity payments               | 14        | 992           | 30013         |              | 31005         | 22480         |
| Lump sums on maturity          | 15        | 31071         | 514           | 5278         | 36863         | 40860         |
| <b>Total</b>                   | <b>16</b> | <b>565839</b> | <b>104642</b> | <b>47762</b> | <b>718243</b> | <b>711304</b> |

**Reinsurance - external**

|                                |           |              |              |  |              |              |
|--------------------------------|-----------|--------------|--------------|--|--------------|--------------|
| Death or disability lump sums  | 21        | 21018        | 1867         |  | 22885        | 14778        |
| Disability periodic payments   | 22        | 2064         |              |  | 2064         | 1574         |
| Surrender or partial surrender | 23        |              |              |  |              |              |
| Annuity payments               | 24        |              | 9763         |  | 9763         |              |
| Lump sums on maturity          | 25        |              |              |  |              |              |
| <b>Total</b>                   | <b>26</b> | <b>23082</b> | <b>11630</b> |  | <b>34712</b> | <b>16352</b> |

**Reinsurance - intra-group**

|                                |           |              |              |              |               |               |
|--------------------------------|-----------|--------------|--------------|--------------|---------------|---------------|
| Death or disability lump sums  | 31        | 11434        | 686          | 563          | 12683         | 20798         |
| Disability periodic payments   | 32        | 6            |              |              | 6             | 34            |
| Surrender or partial surrender | 33        | 75207        | 66617        | 12730        | 154554        | 275409        |
| Annuity payments               | 34        |              | 20124        |              | 20124         | 21488         |
| Lump sums on maturity          | 35        | 12775        | 490          | 816          | 14081         | 36061         |
| <b>Total</b>                   | <b>36</b> | <b>99422</b> | <b>87917</b> | <b>14109</b> | <b>201448</b> | <b>353790</b> |

**Net of reinsurance**

|                                |           |               |             |              |               |               |
|--------------------------------|-----------|---------------|-------------|--------------|---------------|---------------|
| Death or disability lump sums  | 41        | 53127         | 1055        | 1763         | 55945         | 36110         |
| Disability periodic payments   | 42        | 23231         | 3           |              | 23234         | 21094         |
| Surrender or partial surrender | 43        | 347689        | 3887        | 27428        | 379004        | 278168        |
| Annuity payments               | 44        | 992           | 126         |              | 1118          | 992           |
| Lump sums on maturity          | 45        | 18296         | 24          | 4462         | 22782         | 4799          |
| <b>Total</b>                   | <b>46</b> | <b>443335</b> | <b>5095</b> | <b>33653</b> | <b>482083</b> | <b>341163</b> |

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

Name of insurer **Friends Life Limited**  
 Total business / subfund **Closed With Profit Fund**  
 Financial year ended **31 December 2011**  
 Units **£000**

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

**Gross**

|                                |    |      |      |  |      |  |
|--------------------------------|----|------|------|--|------|--|
| Death or disability lump sums  | 11 | 13   |      |  | 13   |  |
| Disability periodic payments   | 12 |      |      |  |      |  |
| Surrender or partial surrender | 13 | 418  | 348  |  | 766  |  |
| Annuity payments               | 14 | 4    | 298  |  | 302  |  |
| Lump sums on maturity          | 15 | 1056 | 743  |  | 1799 |  |
| <b>Total</b>                   | 16 | 1491 | 1389 |  | 2880 |  |

**Reinsurance - external**

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

**Reinsurance - intra-group**

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

**Net of reinsurance**

|                                |    |      |      |  |      |  |
|--------------------------------|----|------|------|--|------|--|
| Death or disability lump sums  | 41 | 13   |      |  | 13   |  |
| Disability periodic payments   | 42 |      |      |  |      |  |
| Surrender or partial surrender | 43 | 418  | 348  |  | 766  |  |
| Annuity payments               | 44 | 4    | 298  |  | 302  |  |
| Lump sums on maturity          | 45 | 1056 | 743  |  | 1799 |  |
| <b>Total</b>                   | 46 | 1491 | 1389 |  | 2880 |  |

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

Name of insurer **Friends Life Limited**  
 Total business / subfund **Summary**  
 Financial year ended **31 December 2011**  
 Units **£000**

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

**Gross**

|                          |           |               |              |              |               |               |
|--------------------------|-----------|---------------|--------------|--------------|---------------|---------------|
| Commission - acquisition | 11        | 9017          | 1684         | 6623         | 17324         | 3904          |
| Commission - other       | 12        | 7436          | 1046         | 801          | 9283          | 9176          |
| Management - acquisition | 13        | 13997         |              | 1370         | 15367         | 7126          |
| Management - maintenance | 14        | 42989         | 28161        | 3921         | 75071         | 66100         |
| Management - other       | 15        | 35640         | 10803        | 514          | 46957         | 39622         |
| <b>Total</b>             | <b>16</b> | <b>109079</b> | <b>41694</b> | <b>13229</b> | <b>164002</b> | <b>125928</b> |

**Reinsurance - external**

|                          |           |            |          |          |            |           |
|--------------------------|-----------|------------|----------|----------|------------|-----------|
| Commission - acquisition | 21        |            |          |          |            |           |
| Commission - other       | 22        | 104        | 3        | 3        | 110        | 94        |
| Management - acquisition | 23        |            |          |          |            |           |
| Management - maintenance | 24        |            |          |          |            |           |
| Management - other       | 25        |            |          |          |            |           |
| <b>Total</b>             | <b>26</b> | <b>104</b> | <b>3</b> | <b>3</b> | <b>110</b> | <b>94</b> |

**Reinsurance - intra-group**

|                          |           |                |             |          |                |                 |
|--------------------------|-----------|----------------|-------------|----------|----------------|-----------------|
| Commission - acquisition | 31        | (25426)        | 2437        | 4        | (22985)        | (42445)         |
| Commission - other       | 32        |                |             |          |                |                 |
| Management - acquisition | 33        | (26805)        |             |          | (26805)        | (40227)         |
| Management - maintenance | 34        | (9778)         | (100)       |          | (9878)         | (7543)          |
| Management - other       | 35        |                |             |          |                | (23665)         |
| <b>Total</b>             | <b>36</b> | <b>(62009)</b> | <b>2337</b> | <b>4</b> | <b>(59668)</b> | <b>(113881)</b> |

**Net of reinsurance**

|                          |           |               |              |              |               |               |
|--------------------------|-----------|---------------|--------------|--------------|---------------|---------------|
| Commission - acquisition | 41        | 34443         | (753)        | 6619         | 40309         | 46349         |
| Commission - other       | 42        | 7332          | 1043         | 798          | 9173          | 9081          |
| Management - acquisition | 43        | 40802         |              | 1370         | 42172         | 47354         |
| Management - maintenance | 44        | 52767         | 28261        | 3921         | 84949         | 73643         |
| Management - other       | 45        | 35640         | 10803        | 514          | 46957         | 63287         |
| <b>Total</b>             | <b>46</b> | <b>170984</b> | <b>39354</b> | <b>13222</b> | <b>223560</b> | <b>239714</b> |

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

Name of insurer **Friends Life Limited**  
 Total business / subfund **With Profit Fund**  
 Financial year ended **31 December 2011**  
 Units **£000**

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

**Gross**

|                          |           |              |              |            |              |              |
|--------------------------|-----------|--------------|--------------|------------|--------------|--------------|
| Commission - acquisition | 11        | 46           | 1436         | 8          | 1490         | 1712         |
| Commission - other       | 12        | 2147         | 1042         | 267        | 3456         | 4243         |
| Management - acquisition | 13        |              |              |            |              |              |
| Management - maintenance | 14        | 8827         | 13508        | 336        | 22671        | 18957        |
| Management - other       | 15        | 657          |              |            | 657          | 1278         |
| <b>Total</b>             | <b>16</b> | <b>11677</b> | <b>15986</b> | <b>611</b> | <b>28274</b> | <b>26191</b> |

**Reinsurance - external**

|                          |           |          |          |  |           |           |
|--------------------------|-----------|----------|----------|--|-----------|-----------|
| Commission - acquisition | 21        |          |          |  |           |           |
| Commission - other       | 22        | 7        | 3        |  | 10        | 12        |
| Management - acquisition | 23        |          |          |  |           |           |
| Management - maintenance | 24        |          |          |  |           |           |
| Management - other       | 25        |          |          |  |           |           |
| <b>Total</b>             | <b>26</b> | <b>7</b> | <b>3</b> |  | <b>10</b> | <b>12</b> |

**Reinsurance - intra-group**

|                          |           |                |                |              |                |                |
|--------------------------|-----------|----------------|----------------|--------------|----------------|----------------|
| Commission - acquisition | 31        | 8              | 2331           | 4            | 2343           | 2862           |
| Commission - other       | 32        |                |                |              |                |                |
| Management - acquisition | 33        |                |                |              |                | 3              |
| Management - maintenance | 34        | (15334)        | (23991)        | (314)        | (39639)        | (40749)        |
| Management - other       | 35        |                |                |              |                |                |
| <b>Total</b>             | <b>36</b> | <b>(15326)</b> | <b>(21660)</b> | <b>(310)</b> | <b>(37296)</b> | <b>(37884)</b> |

**Net of reinsurance**

|                          |           |              |              |            |              |              |
|--------------------------|-----------|--------------|--------------|------------|--------------|--------------|
| Commission - acquisition | 41        | 38           | (895)        | 4          | (853)        | (1149)       |
| Commission - other       | 42        | 2140         | 1039         | 267        | 3446         | 4231         |
| Management - acquisition | 43        |              |              |            |              | (3)          |
| Management - maintenance | 44        | 24161        | 37499        | 650        | 62310        | 59706        |
| Management - other       | 45        | 657          |              |            | 657          | 1278         |
| <b>Total</b>             | <b>46</b> | <b>26996</b> | <b>37643</b> | <b>921</b> | <b>65560</b> | <b>64063</b> |

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

Name of insurer **Friends Life Limited**  
 Total business / subfund **Non Profit Fund**  
 Financial year ended **31 December 2011**  
 Units **£000**

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

**Gross**

|                          |           |              |              |              |               |              |
|--------------------------|-----------|--------------|--------------|--------------|---------------|--------------|
| Commission - acquisition | 11        | 8971         | 248          | 6615         | 15834         | 2191         |
| Commission - other       | 12        | 5289         | 4            | 534          | 5827          | 4932         |
| Management - acquisition | 13        | 13997        |              | 1370         | 15367         | 7126         |
| Management - maintenance | 14        | 34236        | 14742        | 3585         | 52563         | 47143        |
| Management - other       | 15        | 34970        | 10803        | 514          | 46287         | 38344        |
| <b>Total</b>             | <b>16</b> | <b>97463</b> | <b>25797</b> | <b>12618</b> | <b>135878</b> | <b>99737</b> |

**Reinsurance - external**

|                          |           |           |  |          |            |           |
|--------------------------|-----------|-----------|--|----------|------------|-----------|
| Commission - acquisition | 21        |           |  |          |            |           |
| Commission - other       | 22        | 97        |  | 3        | 100        | 82        |
| Management - acquisition | 23        |           |  |          |            |           |
| Management - maintenance | 24        |           |  |          |            |           |
| Management - other       | 25        |           |  |          |            |           |
| <b>Total</b>             | <b>26</b> | <b>97</b> |  | <b>3</b> | <b>100</b> | <b>82</b> |

**Reinsurance - intra-group**

|                          |           |                |              |            |                |                |
|--------------------------|-----------|----------------|--------------|------------|----------------|----------------|
| Commission - acquisition | 31        | (25434)        | 106          |            | (25328)        | (45307)        |
| Commission - other       | 32        |                |              |            |                |                |
| Management - acquisition | 33        | (26805)        |              |            | (26805)        | (40230)        |
| Management - maintenance | 34        | 5556           | 23891        | 314        | 29761          | 33206          |
| Management - other       | 35        |                |              |            |                | (23665)        |
| <b>Total</b>             | <b>36</b> | <b>(46683)</b> | <b>23997</b> | <b>314</b> | <b>(22372)</b> | <b>(75996)</b> |

**Net of reinsurance**

|                          |           |               |             |              |               |               |
|--------------------------|-----------|---------------|-------------|--------------|---------------|---------------|
| Commission - acquisition | 41        | 34405         | 142         | 6615         | 41162         | 47498         |
| Commission - other       | 42        | 5192          | 4           | 531          | 5727          | 4850          |
| Management - acquisition | 43        | 40802         |             | 1370         | 42172         | 47357         |
| Management - maintenance | 44        | 28680         | (9149)      | 3271         | 22802         | 13937         |
| Management - other       | 45        | 34970         | 10803       | 514          | 46287         | 62009         |
| <b>Total</b>             | <b>46</b> | <b>144049</b> | <b>1800</b> | <b>12301</b> | <b>158150</b> | <b>175651</b> |



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

Name of insurer **Friends Life Limited**  
 Total business / subfund **Closed With Profit Fund**  
 Financial year ended **31 December 2011**  
 Units **£000**

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

**Gross**

|                          |           |             |             |              |  |  |
|--------------------------|-----------|-------------|-------------|--------------|--|--|
| Commission - acquisition | 11        |             |             |              |  |  |
| Commission - other       | 12        |             |             |              |  |  |
| Management - acquisition | 13        |             |             |              |  |  |
| Management - maintenance | 14        | (74)        | (89)        | (163)        |  |  |
| Management - other       | 15        | 13          |             | 13           |  |  |
| <b>Total</b>             | <b>16</b> | <b>(61)</b> | <b>(89)</b> | <b>(150)</b> |  |  |

**Reinsurance - external**

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

**Reinsurance - intra-group**

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

**Net of reinsurance**

|                          |           |             |             |              |  |  |
|--------------------------|-----------|-------------|-------------|--------------|--|--|
| Commission - acquisition | 41        |             |             |              |  |  |
| Commission - other       | 42        |             |             |              |  |  |
| Management - acquisition | 43        |             |             |              |  |  |
| Management - maintenance | 44        | (74)        | (89)        | (163)        |  |  |
| Management - other       | 45        | 13          |             | 13           |  |  |
| <b>Total</b>             | <b>46</b> | <b>(61)</b> | <b>(89)</b> | <b>(150)</b> |  |  |

**Long-term insurance business : Linked funds balance sheet**Name of insurer **Friends Life Limited**

Total business

Financial year ended **31 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        | 1479458        | 892812         |
| Directly held assets in collective investment schemes of connected companies | 12        |                |                |
| Directly held assets in other collective investment schemes                  | 13        | 2865176        | 2443646        |
| <b>Total assets (excluding cross investment) (11+12+ 13)</b>                 | <b>14</b> | <b>4344634</b> | <b>3336458</b> |
| Provision for tax on unrealised capital gains                                | 15        | 1139           | 33144          |
| Secured and unsecured loans  | 16        |                |                |
| Other liabilities  | 17        | 28851          | 1615270        |
| <b>Total net assets (14-15-16-17)</b>  | <b>18</b> | <b>4314644</b> | <b>1688044</b> |

**Directly held linked assets**

|                                      |    |  |  |
|--------------------------------------|----|--|--|
| Value of directly held linked assets | 21 |  |  |
|--------------------------------------|----|--|--|

**Total**

|   |           |                |                |
|---|-----------|----------------|----------------|
| Value of directly held linked assets and units held (18+21) | 31        | 4314644        | 1688044        |
| Surplus units   | 32        |                |                |
| Deficit units   | 33        |                |                |
| <b>Net unit liability (31-32+33)</b>                        | <b>34</b> | <b>4314644</b> | <b>1688044</b> |

**Long-term insurance business : Revenue account for internal linked funds**Name of insurer **Friends Life Limited**

Total business

Financial year ended **31 December 2011**Units **£000**

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

**Income**

|   |           |                |               |
|---|-----------|----------------|---------------|
| Value of total creation of units                                      | 11        | 264857         | 367750        |
| Investment income attributable to the funds before deduction of tax   | 12        | 97678          | 153184        |
| Increase (decrease) in the value of investments in the financial year | 13        | (191606)       | 236381        |
| Other income  | 14        | 3124625        | 114538        |
| <b>Total income</b>   | <b>19</b> | <b>3295554</b> | <b>871853</b> |

**Expenditure**

|   |           |               |               |
|---|-----------|---------------|---------------|
| Value of total cancellation of units  | 21        | 608101        | 715692        |
| Charges for management  | 22        | 29684         | 29652         |
| Charges in respect of tax on investment income                                    | 23        | 4830          | 6740          |
| Taxation on realised capital gains  | 24        | (8989)        | 7843          |
| Increase (decrease) in amount set aside for tax on capital gains not yet realised | 25        | (4696)        | 10213         |
| Other expenditure   | 26        | 40024         | 103107        |
| <b>Total expenditure</b>  | <b>29</b> | <b>668954</b> | <b>873247</b> |

|  |    |         |         |
|--|----|---------|---------|
| Increase (decrease) in funds in financial year (19-29) | 39 | 2626600 | (1394)  |
| Internal linked fund brought forward                   | 49 | 1688044 | 1689438 |
| Internal linked funds carried forward (39+49)          | 59 | 4314644 | 1688044 |

**Long-term insurance business : Summary of new business**Name of insurer **Friends Life Limited**

Total business

Financial year ended **31 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 | <b>11</b> | 9718 | 4960 | 3020 | 17698 | 555 |
| Single premium business  | <b>12</b> | 26   | 215  | 31   | 272   | 280 |
| <b>Total</b>             | <b>13</b> | 9744 | 5175 | 3051 | 17970 | 834 |

**Amount of new regular  
premiums**

|                           |           |      |      |      |       |       |
|---------------------------|-----------|------|------|------|-------|-------|
| Direct insurance business | <b>21</b> | 8694 | 1753 | 6551 | 16998 | 8407  |
| External reinsurance      | <b>22</b> |      |      |      |       |       |
| Intra-group reinsurance   | <b>23</b> |      | 157  |      | 157   | 35991 |
| <b>Total</b>              | <b>24</b> | 8694 | 1910 | 6551 | 17155 | 44398 |

**Amount of new single  
premiums**

|                           |           |      |       |      |       |        |
|---------------------------|-----------|------|-------|------|-------|--------|
| Direct insurance business | <b>25</b> | 1697 | 81017 | 2584 | 85297 | 93708  |
| External reinsurance      | <b>26</b> |      |       |      |       |        |
| Intra-group reinsurance   | <b>27</b> |      | 448   |      | 448   | 50057  |
| <b>Total</b>              | <b>28</b> | 1697 | 81465 | 2584 | 85745 | 143765 |

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

Name of insurer

**Friends Life Limited**

Total business

Financial year ended

**31 December 2011**

Units

**£000**

UK Life / Direct Insurance Business

| Product<br>code<br>number | Product description                                | Regular premium business                       |                    | Single premium business                        |                    |
|---------------------------|--|--|--------------------|--|--------------------|
|                           |  | Number of<br>policyholders /<br>scheme members | Amount of premiums | Number of<br>policyholders /<br>scheme members | Amount of premiums |
| 1                         | 2  | 3  | 4                  | 5  | 6                  |
| 300                       | Regular premium non-profit WL/EA OB                | 78   | 7                  |  |                    |
| 325                       | Level term assurance                               | 1501   | 440                |  |                    |
| 330                       | Decreasing term assurance                          | 1508   | 241                |  |                    |
| 340                       | Accelerated critical illness (guaranteed premiums) | 2903   | 1411               |  |                    |
| 345                       | Accelerated critical illness (reviewable premiums) | 583  | 308                |  |                    |
| 350                       | Stand-alone critical illness (guaranteed premiums) | 337  | 124                |  |                    |
| 355                       | Stand-alone critical illness (reviewable premiums) | 29   | 16                 |  |                    |
| 360                       | Income protection non-profit (guaranteed premiums) | 644  | 162                |  |                    |
| 365                       | Income protection non-profit (reviewable premiums) | 116  | 44                 |  |                    |
| 380                       | Miscellaneous Protection Rider                     |  | 12                 |  |                    |
| 395                       | Annuity non-profit (PLA)                           |  |                    | 8  | 335                |
| 410                       | Group life   | 57   | 12                 |  |                    |
| 420                       | Group income protection                            | 1608   | 5247               |  |                    |
| 430                       | Group critical illness                             | 128  | 558                |  |                    |
| 500                       | Life UWP single premium                            |  |                    |  | 24                 |
| 700                       | Life property linked single premium                |  |                    | 18   | 1338               |
| 710                       | Life property linked whole life regular premium    | 1  | 0                  |  |                    |
| 910                       | Miscellaneous index linked                         | 225  | 112                |  |                    |
|                           |  |  |                    |  |                    |
|                           |  |  |                    |  |                    |

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

Name of insurer

**Friends Life Limited**

Total business

Financial year ended

**31 December 2011**

Units

**£000**

UK Pension / Direct Insurance Business

| Product<br>code<br>number<br><br>1 | Product description<br><br>2                  | Regular premium business                            |                         | Single premium business                             |                         |
|------------------------------------|---|---|-------------------------|---|-------------------------|
|                                    |   | Number of<br>policyholders /<br>scheme members<br>3 | Amount of premiums<br>4 | Number of<br>policyholders /<br>scheme members<br>5 | Amount of premiums<br>6 |
| 400                                | Annuity non-profit (CPA)                      |   |                         |   | 6461                    |
| 410                                | Group life                                    | 4106  | 994                     |   |                         |
| 411                                | Group death in service dependants' annuities  | 6   | 13                      |   |                         |
| 525                                | Individual pensions UWP                       |   | 2                       | 2   | 34672                   |
| 535                                | Group money purchase pensions UWP             | 3   | 14                      | 1   | 109                     |
| 725                                | Individual pensions property linked           | 12  | 10                      | 5   | 32296                   |
| 735                                | Group money purchase pensions property linked | 833   | 721                     | 207   | 7479                    |
|                                    |   |   |                         |   |                         |
|                                    |   |   |                         |   |                         |
|                                    |   |   |                         |   |                         |
|                                    |   |   |                         |   |                         |
|                                    |   |   |                         |   |                         |
|                                    |   |   |                         |   |                         |
|                                    |   |   |                         |   |                         |
|                                    |   |   |                         |   |                         |

## Name of insurer

## Friends Life Limited

Total business

**31 December 2011**

Financial year ended

Units

**£000**

UK Pension / Reinsurance accepted intra-group

[illegible]

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

Name of insurer

**Friends Life Limited**

Total business

Financial year ended

**31 December 2011**

Units

**£000**

Overseas / Direct Insurance Business

| Product<br>code<br>number | Product description                                      | Regular premium business                       |                    | Single premium business                        |                    |
|---------------------------|--|--|--------------------|--|--------------------|
|                           |  | Number of<br>policyholders /<br>scheme members | Amount of premiums | Number of<br>policyholders /<br>scheme members | Amount of premiums |
| 1                         | 2  | 3  | 4                  | 5  | 6                  |
| 325                       | Level term assurance                                     | 260  | 237                |  |                    |
| 350                       | Stand-alone critical illness (guaranteed premiums)       | 218  | 120                |  |                    |
| 500                       | Life UWP single premium                                  |  |                    |  | 87                 |
| 510                       | Life UWP endowment regular premium - savings             |  | 3                  |  |                    |
| 525                       | Individual pensions UWP                                  |  | 2                  |  | 6                  |
| 700                       | Life property linked single premium                      |  |                    | 24   | 1342               |
| 715                       | Life property linked endowment regular premium - savings | 2542   | 6183               | 7  | 1117               |
| 725                       | Individual pensions property linked                      |  | 5                  |  | 30                 |
|                           |  |  |                    |  |                    |
|                           |  |  |                    |  |                    |
|                           |  |  |                    |  |                    |
|                           |  |  |                    |  |                    |
|                           |  |  |                    |  |                    |
|                           |  |  |                    |  |                    |
|                           |  |  |                    |  |                    |



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

Name of insurer **Friends Life Limited**  
 Category of assets **10 Total long term insurance business assets**  
 Financial year ended **31 December 2011**  
 Units **£000**

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

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

|                                    |           |                |                |               |             |  |
|------------------------------------|-----------|----------------|----------------|---------------|-------------|--|
| Land and buildings                 | 11        | 25988          | 25988          | 1102          | 4.33        |  |
| Approved fixed interest securities | 12        | 740484         | 740484         | 25873         | 2.64        |  |
| Other fixed interest securities    | 13        | 1853578        | 1854195        | 115457        | 6.13        |  |
| Variable interest securities       | 14        | 1891227        | 1891227        | 61370         | 3.39        |  |
| UK listed equity shares            | 15        | 71578          | 81662          | 3515          | 7.51        |  |
| Non-UK listed equity shares        | 16        | 21605          | 32508          | 853           | 5.35        |  |
| Unlisted equity shares             | 17        | 548598         |                |               |             |  |
| Other assets                       | 18        | 278562         | 805556         | 3255          | 0.42        |  |
| <b>Total</b>                       | <b>19</b> | <b>5431620</b> | <b>5431620</b> | <b>211425</b> | <b>3.86</b> |  |

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

|                                    |           |                |                |               |             |             |
|------------------------------------|-----------|----------------|----------------|---------------|-------------|-------------|
| Land and buildings                 | 21        | 326550         | 527904         | 22418         | 4.25        | 5.80        |
| Approved fixed interest securities | 22        | 4180919        | 3999793        | 136578        | 2.41        | 18.88       |
| Other fixed interest securities    | 23        | 1115962        | 1128409        | 70566         | 6.87        | 4.38        |
| Variable interest securities       | 24        | 93295          | 221802         | 4506          | 3.00        | 14.88       |
| UK listed equity shares            | 25        | 915820         | 1233115        | 50737         | 4.34        | (3.10)      |
| Non-UK listed equity shares        | 26        | 605612         | 708244         | 24736         | 5.54        | (11.84)     |
| Unlisted equity shares             | 27        | 519563         | 359681         |               |             | 18.59       |
| Other assets                       | 28        | 1696590        | 1275363        | 28449         | 2.47        | 1.09        |
| <b>Total</b>                       | <b>29</b> | <b>9454311</b> | <b>9454311</b> | <b>337990</b> | <b>3.46</b> | <b>5.54</b> |

**Overall return on with-profits assets**

|  |    |  |  |  |  |      |
|--|----|--|--|--|--|------|
| Post investment costs but pre-tax              | 31 |  |  |  |  | 5.57 |
| Return allocated to non taxable 'asset shares' | 32 |  |  |  |  | 5.53 |
| Return allocated to taxable 'asset shares'     | 33 |  |  |  |  | 4.95 |

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

Name of insurer **Friends Life Limited**  
Category of assets **11 Total Long Term Business - With Profit Fund**  
Financial year ended **31 December 2011**  
Units **£000**

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

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

|                                    |           |                |                |               |             |  |
|------------------------------------|-----------|----------------|----------------|---------------|-------------|--|
| Land and buildings                 | 11        | 25988          | 25988          | 1102          | 4.33        |  |
| Approved fixed interest securities | 12        | 595653         | 595653         | 20275         | 2.71        |  |
| Other fixed interest securities    | 13        | 1649596        | 1650213        | 103705        | 6.23        |  |
| Variable interest securities       | 14        | 69714          | 69714          | 363           | 3.45        |  |
| UK listed equity shares            | 15        | 53456          | 62964          | 2520          | 7.25        |  |
| Non-UK listed equity shares        | 16        | 18834          | 26500          | 686           | 5.79        |  |
| Unlisted equity shares             | 17        |                |                |               |             |  |
| Other assets                       | 18        | 62377          | 44587          | 184           | 0.72        |  |
| <b>Total</b>                       | <b>19</b> | <b>2475619</b> | <b>2475619</b> | <b>128834</b> | <b>5.20</b> |  |

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

|                                    |           |                |                |               |             |             |
|------------------------------------|-----------|----------------|----------------|---------------|-------------|-------------|
| Land and buildings                 | 21        | 326460         | 525280         | 22281         | 4.24        | 5.86        |
| Approved fixed interest securities | 22        | 4075684        | 3894558        | 132562        | 2.42        | 18.96       |
| Other fixed interest securities    | 23        | 1114002        | 1126449        | 70427         | 6.87        | 4.40        |
| Variable interest securities       | 24        | 87671          | 216178         | 4456          | 3.01        | 15.13       |
| UK listed equity shares            | 25        | 863857         | 1179465        | 47911         | 4.16        | (2.99)      |
| Non-UK listed equity shares        | 26        | 600132         | 696221         | 24402         | 5.55        | (11.83)     |
| Unlisted equity shares             | 27        | 519563         | 359681         |               |             | 18.59       |
| Other assets                       | 28        | 1670725        | 1260261        | 28111         | 2.47        | 1.10        |
| <b>Total</b>                       | <b>29</b> | <b>9258093</b> | <b>9258093</b> | <b>330150</b> | <b>3.45</b> | <b>5.69</b> |

**Overall return on with-profits assets**

|  |    |  |  |  |  |      |
|--|----|--|--|--|--|------|
| Post investment costs but pre-tax              | 31 |  |  |  |  | 5.57 |
| Return allocated to non taxable 'asset shares' | 32 |  |  |  |  | 5.53 |
| Return allocated to taxable 'asset shares'     | 33 |  |  |  |  | 4.95 |

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

Name of insurer **Friends Life Limited**  
 Category of assets **12 Total Long Term Business - Non Profit Fund**  
 Financial year ended **31 December 2011**  
 Units **£000**

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

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

|                                    |           |                |                |              |             |  |
|------------------------------------|-----------|----------------|----------------|--------------|-------------|--|
| Land and buildings                 | 11        |                |                |              |             |  |
| Approved fixed interest securities | 12        | 111415         | 111415         | 4323         | 2.52        |  |
| Other fixed interest securities    | 13        | 203310         | 203310         | 11704        | 5.35        |  |
| Variable interest securities       | 14        | 1819692        | 1819692        | 60991        | 3.39        |  |
| UK listed equity shares            | 15        | 337            | 337            | 28           | 15.22       |  |
| Non-UK listed equity shares        | 16        |                |                |              |             |  |
| Unlisted equity shares             | 17        | 548598         |                |              |             |  |
| Other assets                       | 18        | 207157         | 755755         | 3023         | 0.40        |  |
| <b>Total</b>                       | <b>19</b> | <b>2890509</b> | <b>2890509</b> | <b>80069</b> | <b>2.72</b> |  |

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

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

**Overall return on with-profits assets**

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

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

Name of insurer **Friends Life Limited**  
 Category of assets **13 Total Long Term Business - Closed With Profit Fund**  
 Financial year ended **31 December 2011**  
 Units **£000**

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

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

|                                    |           |              |              |             |             |  |
|------------------------------------|-----------|--------------|--------------|-------------|-------------|--|
| Land and buildings                 | 11        |              |              |             |             |  |
| Approved fixed interest securities | 12        | 33416        | 33416        | 1275        | 1.75        |  |
| Other fixed interest securities    | 13        | 671          | 671          | 48          | 7.84        |  |
| Variable interest securities       | 14        | 1821         | 1821         | 16          | 2.71        |  |
| UK listed equity shares            | 15        | 17785        | 18362        | 967         | 8.25        |  |
| Non-UK listed equity shares        | 16        | 2772         | 6008         | 167         | 3.45        |  |
| Unlisted equity shares             | 17        |              |              |             |             |  |
| Other assets                       | 18        | 9028         | 5214         | 48          | 1.10        |  |
| <b>Total</b>                       | <b>19</b> | <b>65492</b> | <b>65492</b> | <b>2521</b> | <b>3.77</b> |  |

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

|                                    |           |               |               |             |             |               |
|------------------------------------|-----------|---------------|---------------|-------------|-------------|---------------|
| Land and buildings                 | 21        | 90            | 2624          | 138         | 5.25        | (5.86)        |
| Approved fixed interest securities | 22        | 105235        | 105235        | 4015        | 1.75        | 15.81         |
| Other fixed interest securities    | 23        | 1961          | 1961          | 139         | 7.84        | (4.33)        |
| Variable interest securities       | 24        | 5624          | 5624          | 50          | 2.71        | 5.48          |
| UK listed equity shares            | 25        | 51963         | 53649         | 2826        | 8.25        | (5.39)        |
| Non-UK listed equity shares        | 26        | 5479          | 12023         | 334         | 4.86        | (12.74)       |
| Unlisted equity shares             | 27        |               |               |             |             |               |
| Other assets                       | 28        | 45626         | 34863         | 338         | 0.98        | 0.38          |
| <b>Total</b>                       | <b>29</b> | <b>215979</b> | <b>215979</b> | <b>7840</b> | <b>3.54</b> | <b>(1.14)</b> |

**Overall return on with-profits assets**

|  |    |  |  |  |  |        |
|--|----|--|--|--|--|--------|
| Post investment costs but pre-tax              | 31 |  |  |  |  | (1.29) |
| Return allocated to non taxable 'asset shares' | 32 |  |  |  |  | (1.31) |
| Return allocated to taxable 'asset shares'     | 33 |  |  |  |  | (0.64) |

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

Name of insurer **Friends Life Limited**  
 Category of assets **10 Total long term insurance business assets**  
 Financial year ended **31 December 2011**  
 Units **£000**

|   |           | Value of assets<br>1 | Mean term<br>2 | Yield before<br>adjustment<br>3 | Yield after<br>adjustment<br>4 |
|---|-----------|----------------------|----------------|---------------------------------|--------------------------------|
| <b>UK Government approved fixed interest securities</b> | <b>11</b> | 3773767              | 12.19          | 2.34                            | 2.34                           |

|   |           |        |       |      |      |
|---|-----------|--------|-------|------|------|
| <b>Other approved fixed interest securities</b> | <b>21</b> | 966510 | 11.67 | 2.82 | 2.67 |
|---|-----------|--------|-------|------|------|

**Other fixed interest securities**

|  |           |         |       |       |      |
|--|-----------|---------|-------|-------|------|
| AAA/Aaa                                      | <b>31</b> | 333352  | 10.14 | 4.24  | 4.12 |
| AA/Aa  | <b>32</b> | 447591  | 10.35 | 4.54  | 3.98 |
| A/A  | <b>33</b> | 1201278 | 9.24  | 5.75  | 4.62 |
| BBB/Baa                                      | <b>34</b> | 679134  | 7.14  | 8.38  | 5.15 |
| BB/Ba  | <b>35</b> | 142083  | 6.45  | 13.78 | 8.36 |
| B/B  | <b>36</b> | 1020    | 0.75  | 12.37 | 5.59 |
| CCC/Caa                                      | <b>37</b> |         |       |       |      |
| Other (including unrated)                    | <b>38</b> | 178146  | 7.79  | 6.21  | 4.68 |
| <b>Total other fixed interest securities</b> | <b>39</b> | 2982604 | 8.81  | 6.41  | 4.76 |

|  |           |        |       |      |      |
|--|-----------|--------|-------|------|------|
| <b>Approved variable interest securities</b> | <b>41</b> | 292946 | 13.87 | 2.73 | 2.71 |
|--|-----------|--------|-------|------|------|

|   |           |         |       |      |      |
|---|-----------|---------|-------|------|------|
| <b>Other variable interest securities</b> | <b>51</b> | 1820082 | 20.53 | 3.45 | 2.95 |
|---|-----------|---------|-------|------|------|

|                               |           |         |       |      |      |
|-------------------------------|-----------|---------|-------|------|------|
| <b>Total (11+21+39+41+51)</b> | <b>61</b> | 9835909 | 12.71 | 3.84 | 3.23 |
|-------------------------------|-----------|---------|-------|------|------|

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

Name of insurer **Friends Life Limited**  
 Category of assets **11 Total Long Term Business - With Profit Fund**  
 Financial year ended **31 December 2011**  
 Units **£000**

|   |           | Value of assets<br>1 | Mean term<br>2 | Yield before<br>adjustment<br>3 | Yield after<br>adjustment<br>4 |
|---|-----------|----------------------|----------------|---------------------------------|--------------------------------|
| <b>UK Government approved fixed interest securities</b> | <b>11</b> | 3555266              | 12.39          | 2.37                            | 2.37                           |

|   |           |        |       |      |      |
|---|-----------|--------|-------|------|------|
| <b>Other approved fixed interest securities</b> | <b>21</b> | 934946 | 11.80 | 2.82 | 2.67 |
|---|-----------|--------|-------|------|------|

**Other fixed interest securities**

|  |           |         |       |       |      |
|--|-----------|---------|-------|-------|------|
| AAA/Aaa                                      | <b>31</b> | 306269  | 10.32 | 4.36  | 4.23 |
| AA/Aa  | <b>32</b> | 416125  | 10.26 | 4.53  | 3.96 |
| A/A  | <b>33</b> | 1096520 | 9.25  | 5.81  | 4.67 |
| BBB/Baa                                      | <b>34</b> | 642755  | 7.06  | 8.41  | 5.18 |
| BB/Ba  | <b>35</b> | 138463  | 6.37  | 13.90 | 8.42 |
| B/B  | <b>36</b> | 1020    | 0.75  | 12.37 | 5.59 |
| CCC/Caa                                      | <b>37</b> |         |       |       |      |
| Other (including unrated)                    | <b>38</b> | 175511  | 8.02  | 6.14  | 4.58 |
| <b>Total other fixed interest securities</b> | <b>39</b> | 2776663 | 8.79  | 6.49  | 4.81 |

|  |           |        |       |      |      |
|--|-----------|--------|-------|------|------|
| <b>Approved variable interest securities</b> | <b>41</b> | 268042 | 13.97 | 2.71 | 2.71 |
|--|-----------|--------|-------|------|------|

|   |           |       |      |      |      |
|---|-----------|-------|------|------|------|
| <b>Other variable interest securities</b> | <b>51</b> | 17850 | 5.05 | 9.22 | 0.58 |
|---|-----------|-------|------|------|------|

|                               |           |         |       |      |      |
|-------------------------------|-----------|---------|-------|------|------|
| <b>Total (11+21+39+41+51)</b> | <b>61</b> | 7552766 | 11.03 | 3.97 | 3.31 |
|-------------------------------|-----------|---------|-------|------|------|

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

Name of insurer **Friends Life Limited**  
 Category of assets **12 Total Long Term Business - Non Profit Fund**  
 Financial year ended **31 December 2011**  
 Units **£000**

|   |           | Value of assets<br>1 | Mean term<br>2 | Yield before<br>adjustment<br>3 | Yield after<br>adjustment<br>4 |
|---|-----------|----------------------|----------------|---------------------------------|--------------------------------|
| <b>UK Government approved fixed interest securities</b> | <b>11</b> | 79851                | 11.94          | 2.41                            | 2.41                           |

|   |           |       |      |      |      |
|---|-----------|-------|------|------|------|
| <b>Other approved fixed interest securities</b> | <b>21</b> | 31565 | 7.75 | 2.82 | 2.71 |
|---|-----------|-------|------|------|------|

**Other fixed interest securities**

|  |           |        |        |       |       |
|--|-----------|--------|--------|-------|-------|
| AAA/Aaa                                      | <b>31</b> | 27083  | 8.14   | 2.96  | 2.84  |
| AA/Aa  | <b>32</b> | 31466  | 11.56  | 4.74  | 4.24  |
| A/A  | <b>33</b> | 102856 | 9.19   | 5.06  | 4.00  |
| BBB/Baa                                      | <b>34</b> | 35650  | 8.71   | 7.72  | 4.59  |
| BB/Ba  | <b>35</b> | 3620   | 9.44   | 9.39  | 6.21  |
| B/B  | <b>36</b> |        |        |       |       |
| CCC/Caa                                      | <b>37</b> |        |        |       |       |
| Other (including unrated)                    | <b>38</b> | 2635   | (7.51) | 11.11 | 11.93 |
| <b>Total other fixed interest securities</b> | <b>39</b> | 203310 | 9.12   | 5.35  | 4.13  |

|  |           |       |       |      |      |
|--|-----------|-------|-------|------|------|
| <b>Approved variable interest securities</b> | <b>41</b> | 17459 | 15.74 | 3.01 | 2.70 |
|--|-----------|-------|-------|------|------|

|   |           |         |       |      |      |
|---|-----------|---------|-------|------|------|
| <b>Other variable interest securities</b> | <b>51</b> | 1802232 | 20.69 | 3.40 | 2.98 |
|---|-----------|---------|-------|------|------|

|                               |           |         |       |      |      |
|-------------------------------|-----------|---------|-------|------|------|
| <b>Total (11+21+39+41+51)</b> | <b>61</b> | 2134417 | 19.03 | 3.53 | 3.06 |
|-------------------------------|-----------|---------|-------|------|------|

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

Name of insurer **Friends Life Limited**  
 Category of assets **13 Total Long Term Business - Closed With Profit Fund**  
 Financial year ended **31 December 2011**  
 Units **£000**

|   |           | Value of assets<br>1 | Mean term<br>2 | Yield before<br>adjustment<br>3 | Yield after<br>adjustment<br>4 |
|---|-----------|----------------------|----------------|---------------------------------|--------------------------------|
| <b>UK Government approved fixed interest securities</b> | <b>11</b> | 138651               | 7.37           | 1.75                            | 1.75                           |

|   |           |  |  |  |  |
|---|-----------|--|--|--|--|
| <b>Other approved fixed interest securities</b> | <b>21</b> |  |  |  |  |
|---|-----------|--|--|--|--|

**Other fixed interest securities**

|  |           |      |      |      |      |
|--|-----------|------|------|------|------|
| AAA/Aaa                                      | <b>31</b> |      |      |      |      |
| AA/Aa  | <b>32</b> |      |      |      |      |
| A/A  | <b>33</b> | 1902 | 5.75 | 7.09 | 6.03 |
| BBB/Baa                                      | <b>34</b> | 730  | 5.79 | 9.78 | 6.66 |
| BB/Ba  | <b>35</b> |      |      |      |      |
| B/B  | <b>36</b> |      |      |      |      |
| CCC/Caa                                      | <b>37</b> |      |      |      |      |
| Other (including unrated)                    | <b>38</b> |      |      |      |      |
| <b>Total other fixed interest securities</b> | <b>39</b> | 2632 | 5.76 | 7.84 | 6.21 |

|  |           |      |      |      |      |
|--|-----------|------|------|------|------|
| <b>Approved variable interest securities</b> | <b>41</b> | 7445 | 5.70 | 2.71 | 2.71 |
|--|-----------|------|------|------|------|

|   |           |  |  |  |  |
|---|-----------|--|--|--|--|
| <b>Other variable interest securities</b> | <b>51</b> |  |  |  |  |
|---|-----------|--|--|--|--|

|                               |           |        |      |      |      |
|-------------------------------|-----------|--------|------|------|------|
| <b>Total (11+21+39+41+51)</b> | <b>61</b> | 148728 | 7.26 | 1.91 | 1.88 |
|-------------------------------|-----------|--------|------|------|------|



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

Name of insurer **Friends Life Limited**  
 Total business / subfund **Summary**  
 Financial year ended **31 December 2011**  
 Units **£000**

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

**Gross**

|                        |           |                |                 |               |                 |                 |
|------------------------|-----------|----------------|-----------------|---------------|-----------------|-----------------|
| Form 51 - with-profits | 11        | 1759793        | 1873255         |               | 3633048         | 3707045         |
| Form 51 - non-profit   | 12        | 599771         | 4234946         | (13956)       | 4820762         | 2952482         |
| Form 52                | 13        | 1133630        | 2678159         | 229291        | 4041080         | 4142663         |
| Form 53 - linked       | 14        | 3960774        | 5282795         | 438949        | 9682518         | 9595509         |
| Form 53 - non-linked   | 15        | 32843          | 172724          | 44786         | 250353          | 190654          |
| Form 54 - linked       | 16        | (3574)         | 122757          |               | 119183          | 52014           |
| Form 54 - non-linked   | 17        | 52604          |                 |               | 52604           |                 |
| <b>Total</b>           | <b>18</b> | <b>7535840</b> | <b>14364637</b> | <b>699070</b> | <b>22599548</b> | <b>20640366</b> |

**Reinsurance - external**

|                        |           |               |                |            |                |              |
|------------------------|-----------|---------------|----------------|------------|----------------|--------------|
| Form 51 - with-profits | 21        | 3771          | 11             |            | 3782           | 2939         |
| Form 51 - non-profit   | 22        | 325655        | 1669964        | 995        | 1996613        | 76004        |
| Form 52                | 23        |               |                |            |                |              |
| Form 53 - linked       | 24        |               |                |            |                |              |
| Form 53 - non-linked   | 25        |               |                |            |                |              |
| Form 54 - linked       | 26        | 993           | 74246          |            | 75239          |              |
| Form 54 - non-linked   | 27        | 26834         |                |            | 26834          |              |
| <b>Total</b>           | <b>28</b> | <b>357252</b> | <b>1744221</b> | <b>995</b> | <b>2102468</b> | <b>78943</b> |

**Reinsurance - intra-group**

|                        |           |                |                |               |                |                |
|------------------------|-----------|----------------|----------------|---------------|----------------|----------------|
| Form 51 - with-profits | 31        |                |                |               |                |                |
| Form 51 - non-profit   | 32        | 81             | 184208         |               | 184288         | 312025         |
| Form 52                | 33        | 66117          | 58293          | 70137         | 194547         | 202398         |
| Form 53 - linked       | 34        | 1074329        | 4194081        | 99464         | 5367874        | 7907465        |
| Form 53 - non-linked   | 35        |                | 101591         |               | 101591         | 100302         |
| Form 54 - linked       | 36        |                | 4960           |               | 4960           | 9799           |
| Form 54 - non-linked   | 37        |                |                |               |                |                |
| <b>Total</b>           | <b>38</b> | <b>1140526</b> | <b>4543132</b> | <b>169602</b> | <b>5853260</b> | <b>8531988</b> |

**Net of reinsurance**

|                        |           |                |                |               |                 |                 |
|------------------------|-----------|----------------|----------------|---------------|-----------------|-----------------|
| Form 51 - with-profits | 41        | 1756022        | 1873244        |               | 3629266         | 3704106         |
| Form 51 - non-profit   | 42        | 274036         | 2380775        | (14951)       | 2639860         | 2564453         |
| Form 52                | 43        | 1067513        | 2619867        | 159154        | 3846533         | 3940265         |
| Form 53 - linked       | 44        | 2886445        | 1088714        | 339485        | 4314644         | 1688044         |
| Form 53 - non-linked   | 45        | 32843          | 71133          | 44786         | 148761          | 90352           |
| Form 54 - linked       | 46        | (4567)         | 43551          |               | 38984           | 42215           |
| Form 54 - non-linked   | 47        | 25770          |                |               | 25770           |                 |
| <b>Total</b>           | <b>48</b> | <b>6038062</b> | <b>8077283</b> | <b>528474</b> | <b>14643819</b> | <b>12029435</b> |

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

Name of insurer **Friends Life Limited**  
 Total business / subfund **With Profit Fund**  
 Financial year ended **31 December 2011**  
 Units **£000**

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

**Gross**

|                        |           |                |                 |               |                 |                 |
|------------------------|-----------|----------------|-----------------|---------------|-----------------|-----------------|
| Form 51 - with-profits | 11        | 1660948        | 1785894         |               | 3446842         | 3707045         |
| Form 51 - non-profit   | 12        | 118887         | 2309569         | 622           | 2429078         | 2372558         |
| Form 52                | 13        | 1067366        | 2619867         | 159097        | 3846329         | 3930522         |
| Form 53 - linked       | 14        | 1074329        | 3499341         | 99464         | 4673134         | 5299470         |
| Form 53 - non-linked   | 15        | 6563           | 136618          | 625           | 143807          | 137799          |
| Form 54 - linked       | 16        |                | 42345           |               | 42345           | 42215           |
| Form 54 - non-linked   | 17        |                |                 |               |                 |                 |
| <b>Total</b>           | <b>18</b> | <b>3928093</b> | <b>10393634</b> | <b>259808</b> | <b>14581535</b> | <b>15489609</b> |

**Reinsurance - external**

|                        |           |              |            |  |              |              |
|------------------------|-----------|--------------|------------|--|--------------|--------------|
| Form 51 - with-profits | 21        | 2804         | 11         |  | 2815         | 2939         |
| Form 51 - non-profit   | 22        | 17861        | 256        |  | 18116        | 18424        |
| Form 52                | 23        |              |            |  |              |              |
| Form 53 - linked       | 24        |              |            |  |              |              |
| Form 53 - non-linked   | 25        |              |            |  |              |              |
| Form 54 - linked       | 26        |              |            |  |              |              |
| Form 54 - non-linked   | 27        |              |            |  |              |              |
| <b>Total</b>           | <b>28</b> | <b>20664</b> | <b>267</b> |  | <b>20931</b> | <b>21363</b> |

**Reinsurance - intra-group**

|                        |           |                |                |              |                |                |
|------------------------|-----------|----------------|----------------|--------------|----------------|----------------|
| Form 51 - with-profits | 31        |                |                |              |                |                |
| Form 51 - non-profit   | 32        |                | 30061          |              | 30061          | 30859          |
| Form 52                | 33        |                |                |              |                |                |
| Form 53 - linked       | 34        | 1074329        | 3499341        | 99464        | 4673134        | 5299470        |
| Form 53 - non-linked   | 35        |                | 93049          |              | 93049          | 91345          |
| Form 54 - linked       | 36        |                |                |              |                |                |
| Form 54 - non-linked   | 37        |                |                |              |                |                |
| <b>Total</b>           | <b>38</b> | <b>1074329</b> | <b>3622452</b> | <b>99464</b> | <b>4796245</b> | <b>5421674</b> |

**Net of reinsurance**

|                        |           |                |                |               |                |                 |
|------------------------|-----------|----------------|----------------|---------------|----------------|-----------------|
| Form 51 - with-profits | 41        | 1658144        | 1785883        |               | 3444027        | 3704106         |
| Form 51 - non-profit   | 42        | 101027         | 2279251        | 622           | 2380900        | 2323275         |
| Form 52                | 43        | 1067366        | 2619867        | 159097        | 3846329        | 3930522         |
| Form 53 - linked       | 44        |                |                |               |                |                 |
| Form 53 - non-linked   | 45        | 6563           | 43570          | 625           | 50758          | 46454           |
| Form 54 - linked       | 46        |                | 42345          |               | 42345          | 42215           |
| Form 54 - non-linked   | 47        |                |                |               |                |                 |
| <b>Total</b>           | <b>48</b> | <b>2833100</b> | <b>6770915</b> | <b>160344</b> | <b>9764359</b> | <b>10046572</b> |

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

Name of insurer **Friends Life Limited**  
Total business / subfund **Non Profit Fund**  
Financial year ended **31 December 2011**  
Units **£000**

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

**Gross**

|                        |    |         |         |         |         |         |
|------------------------|----|---------|---------|---------|---------|---------|
| Form 51 - with-profits | 11 |         |         |         |         |         |
| Form 51 - non-profit   | 12 | 478755  | 1864569 | (14578) | 2328747 | 579923  |
| Form 52                | 13 | 66264   | 58293   | 70194   | 194751  | 212141  |
| Form 53 - linked       | 14 | 2886445 | 1783454 | 339485  | 5009384 | 4296039 |
| Form 53 - non-linked   | 15 | 26279   | 36106   | 44161   | 106546  | 52856   |
| Form 54 - linked       | 16 | (3574)  | 80412   |         | 76838   | 9799    |
| Form 54 - non-linked   | 17 | 52604   |         |         | 52604   |         |
| <b>Total</b>           | 18 | 3506774 | 3822834 | 439262  | 7768870 | 5150757 |

**Reinsurance - external**

|                        |    |        |         |     |         |       |
|------------------------|----|--------|---------|-----|---------|-------|
| Form 51 - with-profits | 21 |        |         |     |         |       |
| Form 51 - non-profit   | 22 | 307789 | 1669708 | 995 | 1978492 | 57580 |
| Form 52                | 23 |        |         |     |         |       |
| Form 53 - linked       | 24 |        |         |     |         |       |
| Form 53 - non-linked   | 25 |        |         |     |         |       |
| Form 54 - linked       | 26 | 993    | 74246   |     | 75239   |       |
| Form 54 - non-linked   | 27 | 26834  |         |     | 26834   |       |
| <b>Total</b>           | 28 | 335616 | 1743955 | 995 | 2080566 | 57580 |

**Reinsurance - intra-group**

|                        |    |       |        |       |         |         |
|------------------------|----|-------|--------|-------|---------|---------|
| Form 51 - with-profits | 31 |       |        |       |         |         |
| Form 51 - non-profit   | 32 | 81    | 154146 |       | 154227  | 281165  |
| Form 52                | 33 | 66117 | 58293  | 70137 | 194547  | 202398  |
| Form 53 - linked       | 34 |       | 694740 |       | 694740  | 2607995 |
| Form 53 - non-linked   | 35 |       | 8542   |       | 8542    | 8957    |
| Form 54 - linked       | 36 |       | 4960   |       | 4960    | 9799    |
| Form 54 - non-linked   | 37 |       |        |       |         |         |
| <b>Total</b>           | 38 | 66197 | 920681 | 70137 | 1057016 | 3110314 |

**Net of reinsurance**

|                        |    |         |         |         |         |         |
|------------------------|----|---------|---------|---------|---------|---------|
| Form 51 - with-profits | 41 |         |         |         |         |         |
| Form 51 - non-profit   | 42 | 170885  | 40715   | (15573) | 196028  | 241178  |
| Form 52                | 43 | 147     |         | 57      | 204     | 9743    |
| Form 53 - linked       | 44 | 2886445 | 1088714 | 339485  | 4314644 | 1688044 |
| Form 53 - non-linked   | 45 | 26279   | 27564   | 44161   | 98004   | 43898   |
| Form 54 - linked       | 46 | (4567)  | 1206    |         | (3361)  |         |
| Form 54 - non-linked   | 47 | 25770   |         |         | 25770   |         |
| <b>Total</b>           | 48 | 3104960 | 1158198 | 368130  | 4631288 | 1982863 |

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

Name of insurer **Friends Life Limited**  
 Total business / subfund **Closed With Profit Fund**  
 Financial year ended **31 December 2011**  
 Units **£000**

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

**Gross**

|                        |           |               |               |  |               |  |
|------------------------|-----------|---------------|---------------|--|---------------|--|
| Form 51 - with-profits | 11        | 98845         | 87362         |  | 186206        |  |
| Form 51 - non-profit   | 12        | 2128          | 60808         |  | 62936         |  |
| Form 52                | 13        |               |               |  |               |  |
| Form 53 - linked       | 14        |               |               |  |               |  |
| Form 53 - non-linked   | 15        |               |               |  |               |  |
| Form 54 - linked       | 16        |               |               |  |               |  |
| Form 54 - non-linked   | 17        |               |               |  |               |  |
| <b>Total</b>           | <b>18</b> | <b>100973</b> | <b>148170</b> |  | <b>249143</b> |  |

**Reinsurance - external**

|                        |           |            |  |  |            |  |
|------------------------|-----------|------------|--|--|------------|--|
| Form 51 - with-profits | 21        | 967        |  |  | 967        |  |
| Form 51 - non-profit   | 22        | 4          |  |  | 4          |  |
| Form 52                | 23        |            |  |  |            |  |
| Form 53 - linked       | 24        |            |  |  |            |  |
| Form 53 - non-linked   | 25        |            |  |  |            |  |
| Form 54 - linked       | 26        |            |  |  |            |  |
| Form 54 - non-linked   | 27        |            |  |  |            |  |
| <b>Total</b>           | <b>28</b> | <b>972</b> |  |  | <b>972</b> |  |

**Reinsurance - intra-group**

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

**Net of reinsurance**

|                        |           |               |               |  |               |  |
|------------------------|-----------|---------------|---------------|--|---------------|--|
| Form 51 - with-profits | 41        | 97877         | 87362         |  | 185239        |  |
| Form 51 - non-profit   | 42        | 2124          | 60808         |  | 62932         |  |
| Form 52                | 43        |               |               |  |               |  |
| Form 53 - linked       | 44        |               |               |  |               |  |
| Form 53 - non-linked   | 45        |               |               |  |               |  |
| Form 54 - linked       | 46        |               |               |  |               |  |
| Form 54 - non-linked   | 47        |               |               |  |               |  |
| <b>Total</b>           | <b>48</b> | <b>100001</b> | <b>148170</b> |  | <b>248171</b> |  |

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

Name of insurer **Friends Life Limited**  
 Total business / subfund **With Profit Fund**  
 Financial year ended **31 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            | 20290                                    | 214156            | 2049                             |                        |                           |                   | 148468                          |
| 120                 | Conventional endowment with-profits OB savings     | 20836                                    | 162228            | 3637                             |                        |                           |                   | 131366                          |
| 125                 | Conventional endowment with-profits OB target cash | 110485                                   | 1589109           | 48510                            |                        |                           |                   | 1376060                         |
| 165                 | Conventional deferred annuity with-profits         | 18                                       | 4                 |                                  |                        |                           |                   | 89                              |
| 175                 | Group conventional deferred annuity with-profits   | 7  | 33                |                                  |                        |                           |                   | 438                             |
| 210                 | Additional reserves with-profits OB                |  |                   |                                  |                        |                           |                   | 4527                            |
| 300                 | Regular premium non-profit WL/EA OB                | 30257                                    | 81274             | 1951                             |                        |                           |                   | 56637                           |
| 325                 | Level term assurance                               | 34211                                    | 2301197           | 7573                             |                        |                           |                   | 15109                           |
| 330                 | Decreasing term assurance                          | 121717                                   | 1760715           | 6665                             |                        |                           |                   | 13377                           |
| 340                 | Accelerated critical illness (guaranteed premiums) | 7177                                     | 376491            | 2302                             |                        |                           |                   | 8474                            |
| 350                 | Stand-alone critical illness (guaranteed premiums) | 1872                                     | 91616             | 502                              |                        |                           |                   | 800                             |
| 390                 | Deferred annuity non-profit                        | 21                                       | 5                 |                                  |                        |                           |                   | 106                             |
| 395                 | Annuity non-profit (PLA)                           | 2465                                     | 2318              |                                  |                        |                           |                   | 19755                           |
| 435                 | Miscellaneous non-profit                           | 190                                      | 4677              | 10                               |                        |                           |                   | 4630                            |

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

Name of insurer **Friends Life Limited**  
 Total business / subfund **With Profit Fund**  
 Financial year ended **31 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            |  | 8423              | 20                               |                        |                           |                   | 2731                            |
| 120                 | Conventional endowment with-profits OB savings     |  | 116               |                                  |                        |                           |                   | 46                              |
| 125                 | Conventional endowment with-profits OB target cash |  | 46                |                                  |                        |                           |                   | 27                              |
| 300                 | Regular premium non-profit WL/EA OB                |  | 83                | 1                                |                        |                           |                   | 64                              |
| 325                 | Level term assurance                               |  | 838914            | 3018                             |                        |                           |                   | 11269                           |
| 330                 | Decreasing term assurance                          |  | 99817             | 683                              |                        |                           |                   | (134)                           |
| 340                 | Accelerated critical illness (guaranteed premiums) |  | 300580            | 1735                             |                        |                           |                   | 6595                            |
| 350                 | Stand-alone critical illness (guaranteed premiums) |  | 6253              | 29                               |                        |                           |                   | 64                              |
| 395                 | Annuity non-profit (PLA)                           |  | 0                 |                                  |                        |                           |                   | 2                               |
|                     |  |  |                   |                                  |                        |                           |                   |                                 |
|                     |  |  |                   |                                  |                        |                           |                   |                                 |
|                     |  |  |                   |                                  |                        |                           |                   |                                 |
|                     |  |  |                   |                                  |                        |                           |                   |                                 |
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|                     |  |  |                   |                                  |                        |                           |                   |                                 |

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

Name of insurer **Friends Life Limited**  
Total business / subfund **With Profit Fund**  
Financial year ended **31 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                               |
| 100                 | Conventional whole life with-profits OB            | 5  | 9                 |                                  |                        |                           |                   | 9                               |
| 155                 | Conventional pensions endowment with-profits       | 3  | 69                |                                  |                        |                           |                   | 65                              |
| 165                 | Conventional deferred annuity with-profits         | 22527                                    | 37887             | 3135                             |                        |                           |                   | 1016467                         |
| 175                 | Group conventional deferred annuity with-profits   | 11842                                    | 147043            | 97                               |                        |                           |                   | 766118                          |
| 185                 | Group conventional pensions endowment with-profits | 41                                       | 320               |                                  |                        |                           |                   | 327                             |
| 205                 | Miscellaneous conventional with-profits            | 645                                      | 10636             | 13                               |                        |                           |                   | 2908                            |
| 300                 | Regular premium non-profit WL/EA OB                | 492                                      | 184126            | 467                              |                        |                           |                   | 939                             |
| 315                 | Individual deposit administration non-profit       | 397                                      | 6681              |                                  |                        |                           |                   | 6681                            |
| 320                 | Group deposit administration non-profit            | 319                                      | 9089              | 28                               |                        |                           |                   | 25739                           |
| 325                 | Level term assurance                               | 13063                                    | 550970            | 1693                             |                        |                           |                   | 4013                            |
| 390                 | Deferred annuity non-profit                        | 4304                                     | 13166             | 1                                |                        |                           |                   | 203043                          |
| 400                 | Annuity non-profit (CPA)                           | 84061                                    | 167283            |                                  |                        |                           |                   | 2069154                         |
|                     |  |  |                   |                                  |                        |                           |                   |                                 |
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|                     |  |  |                   |                                  |                        |                           |                   |                                 |

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

Name of insurer **Friends Life Limited**  
 Total business / subfund **With Profit Fund**  
 Financial year ended **31 December 2011**  
 Units **£000**  
 UK Pension / 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                               |
| 205                 | Miscellaneous conventional with-profits |  | 543               | 1                                |                        |                           |                   | 11                              |
| 325                 | Level term assurance                    |  | 15074             | 40                               |                        |                           |                   | 100                             |
| 390                 | Deferred annuity non-profit             |  | 24                |                                  |                        |                           |                   |                                 |
| 400                 | Annuity non-profit (CPA)                |  | 10                |                                  |                        |                           |                   | 156                             |
|                     |   |  |                   |                                  |                        |                           |                   |                                 |
|                     |   |  |                   |                                  |                        |                           |                   |                                 |
|                     |   |  |                   |                                  |                        |                           |                   |                                 |
|                     |   |  |                   |                                  |                        |                           |                   |                                 |
|                     |   |  |                   |                                  |                        |                           |                   |                                 |
|                     |   |  |                   |                                  |                        |                           |                   |                                 |
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|  |                             |
|--|-----------------------------|
| Name of insurer                            | <b>Friends Life Limited</b> |
| Total business / subfund                   | <b>With Profit Fund</b>     |
| Financial year ended                       | <b>31 December 2011</b>     |
| Units                                      | <b>£000</b>                 |
| UK Pension / Reinsurance ceded intra-group |                             |

[illegible]

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

Name of insurer **Friends Life Limited**  
 Total business / subfund **With Profit Fund**  
 Financial year ended **31 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                               |
| 325                 | Level term assurance                               | 814                                      | 93654             | 334                              |                        |                           |                   | (83)                            |
| 330                 | Decreasing term assurance                          | 94                                       | 5975              | 39                               |                        |                           |                   | 41                              |
| 350                 | Stand-alone critical illness (guaranteed premiums) | 852                                      | 33659             | 196                              |                        |                           |                   | 467                             |
| 395                 | Annuity non-profit (PLA)                           | 10                                       | 19                |                                  |                        |                           |                   | 196                             |
|                     |  |  |                   |                                  |                        |                           |                   |                                 |
|                     |  |  |                   |                                  |                        |                           |                   |                                 |
|                     |  |  |                   |                                  |                        |                           |                   |                                 |
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|                     |  |  |                   |                                  |                        |                           |                   |                                 |
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|                     |  |  |                   |                                  |                        |                           |                   |                                 |

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

Name of insurer **Friends Life Limited**  
Total business / subfund **Non Profit Fund**  
Financial year ended **31 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                               |
| 300                 | Regular premium non-profit WL/EA OB                | 5652                                     | 19348             | 951                              |                        |                           |                   | 19082                           |
| 325                 | Level term assurance                               | 194464                                   | 26033294          | 63177                            |                        |                           |                   | 169885                          |
| 330                 | Decreasing term assurance                          | 171396                                   | 18630519          | 47980                            |                        |                           |                   | (31383)                         |
| 340                 | Accelerated critical illness (guaranteed premiums) | 263768                                   | 24891463          | 132246                           |                        |                           |                   | (36188)                         |
| 345                 | Accelerated critical illness (reviewable premiums) | 58268                                    | 6471537           | 31468                            |                        |                           |                   | 18293                           |
| 350                 | Stand-alone critical illness (guaranteed premiums) | 22079                                    | 1871549           | 11490                            |                        |                           |                   | (6004)                          |
| 355                 | Stand-alone critical illness (reviewable premiums) | 7124                                     | 570167            | 3428                             |                        |                           |                   | 553                             |
| 360                 | Income protection non-profit (guaranteed premiums) | 152580                                   | 2008682           | 66409                            |                        |                           |                   | (75633)                         |
| 365                 | Income protection non-profit (reviewable premiums) | 3006                                     | 36679             | 1009                             |                        |                           |                   | (1375)                          |
| 370                 | Long-term care policy Future Care                  | 79                                       | 3008              | 45                               |                        |                           |                   | 614                             |
| 370                 | Long-term care policy Immediate Care               | 15                                       | 254               |                                  |                        |                           |                   | 1005                            |
| 380                 | Miscellaneous protection rider                     |  | 29428             | 651                              |                        |                           |                   | (1566)                          |
| 385                 | Income protection claims in payment                | 1516                                     | 17981             |                                  |                        |                           |                   | 178828                          |
| 390                 | Deferred annuity non-profit                        | 48                                       | 7                 |                                  |                        |                           |                   | 843                             |

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

Name of insurer **Friends Life Limited**  
Total business / subfund **Non Profit Fund**  
Financial year ended **31 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                               |
| 395                 | Annuity non-profit (PLA)                  | 354                                      | 1020              |                                  |                        |                           |                   | 8972                            |
| 410                 | Group Life                                | 38954                                    | 3535235           | 4861                             |                        |                           |                   | 2223                            |
| 420                 | Group income protection                   | 51437                                    | 3013303           | 40346                            |                        |                           |                   | 81723                           |
| 425                 | Group income protection claims in payment | 418                                      | 14095             |                                  |                        |                           |                   | 112087                          |
| 430                 | Group critical illness                    | 112524                                   | 7740472           | 18621                            |                        |                           |                   | 4738                            |
| 435                 | Miscellaneous non-profit                  | 27                                       | 59                | 6                                |                        |                           |                   | 17                              |
| 440                 | Additional reserves non-profit OB         |  |                   |                                  |                        |                           |                   | 32041                           |
|                     |   |  |                   |                                  |                        |                           |                   |                                 |
|                     |   |  |                   |                                  |                        |                           |                   |                                 |
|                     |   |  |                   |                                  |                        |                           |                   |                                 |
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|                     |   |  |                   |                                  |                        |                           |                   |                                 |
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|                     |   |  |                   |                                  |                        |                           |                   |                                 |

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

Name of insurer **Friends Life Limited**  
Total business / subfund **Non Profit Fund**  
Financial year ended **31 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                               |
| 300                 | Regular premium non-profit WL/EA OB                |  | 814               | 232                              |                        |                           |                   | 554                             |
| 325                 | Level term assurance                               |  | 20510858          | 38779                            |                        |                           |                   | 172510                          |
| 330                 | Decreasing term assurance                          |  | 11553710          | 23262                            |                        |                           |                   | 13047                           |
| 340                 | Accelerated critical illness (guaranteed premiums) |  | 16313974          | 28578                            |                        |                           |                   | 21827                           |
| 345                 | Accelerated critical illness (reviewable premiums) |  | 3949584           | 3732                             |                        |                           |                   | 17502                           |
| 350                 | Stand-alone critical illness (guaranteed premiums) |  | 1209838           | 4959                             |                        |                           |                   | 3210                            |
| 355                 | Stand-alone critical illness (reviewable premiums) |  | 402433            | 293                              |                        |                           |                   | 1229                            |
| 360                 | Income protection non-profit (guaranteed premiums) |  | 528555            | 938                              |                        |                           |                   | 9232                            |
| 365                 | Income protection non-profit (reviewable premiums) |  | 18749             | 246                              |                        |                           |                   | 154                             |
| 370                 | Long-term care policy Future Care                  |  | 2375              | 70                               |                        |                           |                   | 107                             |
| 370                 | Long-term care policy Immediate Care               |  | 127               |                                  |                        |                           |                   | 67                              |
| 380                 | Miscellaneous protection rider                     |  |                   | 48                               |                        |                           |                   | (102)                           |
| 385                 | Income protection claims in payment                |  | 2599              |                                  |                        |                           |                   | 28351                           |
| 410                 | Group Life   |  | 2066069           | 1900                             |                        |                           |                   | 784                             |
| 420                 | Group income protection                            |  | 668532            | 7287                             |                        |                           |                   | 9291                            |

[illegible]

|   |                             |
|---|-----------------------------|
| Name of insurer                         | <b>Friends Life Limited</b> |
| Total business / subfund                | <b>Non Profit Fund</b>      |
| Financial year ended                    | <b>31 December 2011</b>     |
| Units                                   | <b>£000</b>                 |
| UK Life / Reinsurance ceded intra-group |                             |

[illegible]

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

Name of insurer **Friends Life Limited**  
 Total business / subfund **Non Profit Fund**  
 Financial year ended **31 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                               |
| 325                 | Level term assurance                         | 6899                                     | 1027611           | 2124                             |                        |                           |                   | 5406                            |
| 330                 | Decreasing term assurance                    | 1797                                     | 212779            | 459                              |                        |                           |                   | (283)                           |
| 390                 | Deferred annuity non-profit                  | 224                                      | 380               |                                  |                        |                           |                   | 5692                            |
| 400                 | Annuity non-profit (CPA)                     | 77897                                    | 124158            |                                  |                        |                           |                   | 1841662                         |
| 410                 | Group Life                                   | 370235                                   | 36868337          | 36593                            |                        |                           |                   | 11293                           |
| 411                 | Group death in service dependant's annuities | 7516                                     | 2109937           | 2623                             |                        |                           |                   | 749                             |
| 435                 | Miscellaneous non-profit                     | 15                                       | 3028              | 10                               |                        |                           |                   | 51                              |
|                     |  |  |                   |                                  |                        |                           |                   |                                 |
|                     |  |  |                   |                                  |                        |                           |                   |                                 |
|                     |  |  |                   |                                  |                        |                           |                   |                                 |
|                     |  |  |                   |                                  |                        |                           |                   |                                 |
|                     |  |  |                   |                                  |                        |                           |                   |                                 |
|                     |  |  |                   |                                  |                        |                           |                   |                                 |
|                     |  |  |                   |                                  |                        |                           |                   |                                 |



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

Name of insurer **Friends Life Limited**  
 Total business / subfund **Non Profit Fund**  
 Financial year ended **31 December 2011**  
 Units **£000**  
 UK Pension / 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                               |
| 325                 | Level term assurance                         |  | 509574            | 798                              |                        |                           |                   | 3617                            |
| 330                 | Decreasing term assurance                    |  | 107836            | 148                              |                        |                           |                   | 169                             |
| 400                 | Annuity non-profit (CPA)                     |  | 114535            |                                  |                        |                           |                   | 1658932                         |
| 410                 | Group Life                                   |  | 23852492          | 20398                            |                        |                           |                   | 6521                            |
| 411                 | Group death in service dependant's annuities |  | 1292235           | 1432                             |                        |                           |                   | 427                             |
| 435                 | Miscellaneous non-profit                     |  | 2800              | 8                                |                        |                           |                   | 42                              |
|                     |  |  |                   |                                  |                        |                           |                   |                                 |
|                     |  |  |                   |                                  |                        |                           |                   |                                 |
|                     |  |  |                   |                                  |                        |                           |                   |                                 |
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|                     |  |  |                   |                                  |                        |                           |                   |                                 |
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|                     |  |  |                   |                                  |                        |                           |                   |                                 |
|                     |  |  |                   |                                  |                        |                           |                   |                                 |
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|                     |  |  |                   |                                  |                        |                           |                   |                                 |

|  |                             |
|--|-----------------------------|
| Name of insurer                            | <b>Friends Life Limited</b> |
| Total business / subfund                   | <b>Non Profit Fund</b>      |
| Financial year ended                       | <b>31 December 2011</b>     |
| Units                                      | <b>£000</b>                 |
| UK Pension / Reinsurance ceded intra-group |                             |

[illegible]

|                                       |                             |
|---------------------------------------|-----------------------------|
| Name of insurer                       | <b>Friends Life Limited</b> |
| Total business / subfund              | <b>Non Profit Fund</b>      |
| Financial year ended                  | <b>31 December 2011</b>     |
| Units                                 | <b>£000</b>                 |
| Overseas / Reinsurance ceded external |                             |

[illegible]

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

Name of insurer **Friends Life Limited**  
 Total business / subfund **Closed With Profit Fund**  
 Financial year ended **31 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        | 5709                                     | 84991             | 557                              |                        |                           |                   | 53698                           |
| 120                 | Conventional endowment with-profits OB savings | 4999                                     | 49081             | 621                              |                        |                           |                   | 45147                           |
| 300                 | Regular premium non-profit WL/EA OB            | 661                                      | 2883              | 32                               |                        |                           |                   | 1740                            |
| 325                 | Level term assurance                           | 1534                                     | 10498             | 38                               |                        |                           |                   | 121                             |
| 330                 | Decreasing term assurance                      | 9  | 47                | 1                                |                        |                           |                   |                                 |
| 390                 | Deferred annuity non-profit                    | 11                                       |                   |                                  |                        |                           |                   | 12                              |
| 395                 | Annuity non-profit (PLA)                       | 93                                       | 47                |                                  |                        |                           |                   | 255                             |
|                     |  |  |                   |                                  |                        |                           |                   |                                 |
|                     |  |  |                   |                                  |                        |                           |                   |                                 |
|                     |  |  |                   |                                  |                        |                           |                   |                                 |
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|                     |  |  |                   |                                  |                        |                           |                   |                                 |
|                     |  |  |                   |                                  |                        |                           |                   |                                 |

|                                      |                                |
|--------------------------------------|--------------------------------|
| Name of insurer                      | <b>Friends Life Limited</b>    |
| Total business / subfund             | <b>Closed With Profit Fund</b> |
| Financial year ended                 | <b>31 December 2011</b>        |
| Units                                | <b>£000</b>                    |
| UK Life / Reinsurance ceded external |                                |

[illegible]

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

Name of insurer **Friends Life Limited**  
 Total business / subfund **Closed With Profit Fund**  
 Financial year ended **31 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                               |
| 155                 | Conventional pensions endowment with-profits     | 24                                       | 328               |                                  |                        |                           |                   | 317                             |
| 165                 | Conventional deferred annuity with-profits       | 3092                                     | 189               | 170                              |                        |                           |                   | 77476                           |
| 175                 | Group conventional deferred annuity with-profits | 428                                      | 10                | 8                                |                        |                           |                   | 9553                            |
| 205                 | Miscellaneous conventional with-profits          | 66                                       | 510               | 1                                |                        |                           |                   | 16                              |
| 325                 | Level term assurance                             | 208                                      | 2789              | 9                                |                        |                           |                   | 45                              |
| 390                 | Deferred annuity non-profit                      | 95                                       | 111               |                                  |                        |                           |                   | 1666                            |
| 400                 | Annuity non-profit (CPA)                         | 2395                                     | 3598              |                                  |                        |                           |                   | 59096                           |
|                     |  |  |                   |                                  |                        |                           |                   |                                 |
|                     |  |  |                   |                                  |                        |                           |                   |                                 |
|                     |  |  |                   |                                  |                        |                           |                   |                                 |
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|                     |  |  |                   |                                  |                        |                           |                   |                                 |

|   |                                |
|---|--------------------------------|
| Name of insurer                         | <b>Friends Life Limited</b>    |
| Total business / subfund                | <b>Closed With Profit Fund</b> |
| Financial year ended                    | <b>31 December 2011</b>        |
| Units                                   | <b>£000</b>                    |
| UK Pension / Reinsurance ceded external |                                |

[illegible]



|                          |                             |
|--------------------------|-----------------------------|
| Name of insurer          | <b>Friends Life Limited</b> |
| Total business / subfund | <b>With Profit Fund</b>     |
| Financial year ended     | <b>31 December 2011</b>     |
| Units                    | <b>£000</b>                 |
| UK Life / Gross          |                             |

[illegible]

|                          |                             |
|--------------------------|-----------------------------|
| Name of insurer          | <b>Friends Life Limited</b> |
| Total business / subfund | <b>With Profit Fund</b>     |
| Financial year ended     | <b>31 December 2011</b>     |
| Units                    | <b>£000</b>                 |
| UK Pension / Gross       |                             |

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

Name of insurer **Friends Life Limited**  
 Total business / subfund **With Profit Fund**  
 Financial year ended **31 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                               |
| 500                 | Life UWP single premium                      | 1650                                     | 80434             |                                  | 79637                  | 79637                     | (7)               | 79630                           |
| 505                 | Life UWP whole life regular premium          | 26                                       | 2102              | 56                               | 2082                   | 2082                      |                   | 2082                            |
| 510                 | Life UWP endowment regular premium - savings | 153                                      | 5339              | 319                              | 4581                   | 4502                      | 4                 | 4507                            |
| 525                 | Individual pensions UWP                      | 95                                       | 2747              | 115                              | 2741                   | 2741                      |                   | 2741                            |
| 574                 | UWP investment only reinsurance              |  | 70161             |                                  | 70161                  | 70161                     | (24)              | 70137                           |
|                     |  |  |                   |                                  |                        |                           |                   |                                 |
|                     |  |  |                   |                                  |                        |                           |                   |                                 |
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**Long-term insurance business : Valuation summary of accumulating with-profits contracts**

Name of insurer **Friends Life Limited**  
 Total business / subfund **Non Profit Fund**  
 Financial year ended **31 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                          | 1771                                     | 48786             |                                  | 48303                  | 48303                     | 34                | 48337                           |
| 505                 | Life UWP whole life regular premium              | 251                                      | 68473             | 638                              | 2604                   | 2603                      | 1                 | 2604                            |
| 510                 | Life UWP endowment regular premium - savings     | 1473                                     | 12278             | 1237                             | 10262                  | 10262                     | 18                | 10280                           |
| 515                 | Life UWP endowment regular premium - target cash | 821                                      | 21787             | 801                              | 5031                   | 5030                      | 13                | 5043                            |
|                     |  |  |                   |                                  |                        |                           |                   |                                 |
|                     |  |  |                   |                                  |                        |                           |                   |                                 |
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**Long-term insurance business : Valuation summary of accumulating with-profits contracts**

Name of insurer **Friends Life Limited**  
 Total business / subfund **Non Profit Fund**  
 Financial year ended **31 December 2011**  
 Units **£000**  
 UK Life / Reinsurance ceded intra-group

| Product<br>code<br>number | Product description             | Number of<br>policyholders /<br>scheme<br>members | Amount of<br>benefit | Amount of<br>annual office<br>premiums | Nominal value<br>of units | Discounted<br>value of units | Other liabilities | Amount of<br>mathematical<br>reserves |
|---------------------------|---------------------------------|---|----------------------|--|---------------------------|------------------------------|-------------------|---------------------------------------|
| 1                         | 2                               | 3   | 4                    | 5                                      | 6                         | 7                            | 8                 | 9                                     |
| 574                       | UWP investment only reinsurance |   | 66199                | 13                                     | 66199                     | 66198                        | (81)              | 66117                                 |
|                           |                                 |   |                      |  |                           |                              |                   |                                       |
|                           |                                 |   |                      |  |                           |                              |                   |                                       |
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|--|-----------------------------|
| Name of insurer                            | <b>Friends Life Limited</b> |
| Total business / subfund                   | <b>Non Profit Fund</b>      |
| Financial year ended                       | <b>31 December 2011</b>     |
| Units                                      | <b>£000</b>                 |
| UK Pension / Reinsurance ceded intra-group |                             |

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

Name of insurer **Friends Life Limited**  
 Total business / subfund **Non Profit Fund**  
 Financial year ended **31 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                               |
| 500                 | Life UWP single premium                      | 1120                                     | 50502             |                                  | 50003                  | 50003                     | 7                 | 50010                           |
| 505                 | Life UWP whole life regular premium          | 21                                       | 1153              | 99                               | 1141                   | 1141                      |                   | 1141                            |
| 510                 | Life UWP endowment regular premium - savings | 1052                                     | 17526             | 1217                             | 15712                  | 13929                     | 24                | 13953                           |
| 525                 | Individual pensions UWP                      | 178                                      | 5124              | 146                              | 5088                   | 5088                      | 1                 | 5089                            |
|                     |  |  |                   |                                  |                        |                           |                   |                                 |
|                     |  |  |                   |                                  |                        |                           |                   |                                 |
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**Long-term insurance business : Valuation summary of accumulating with-profits contracts**

Name of insurer **Friends Life Limited**  
 Total business / subfund **Non Profit Fund**  
 Financial year ended **31 December 2011**  
 Units **£000**  
 Overseas / Reinsurance ceded intra-group

| Product<br>code<br>number | Product description             | Number of<br>policyholders /<br>scheme<br>members | Amount of<br>benefit | Amount of<br>annual office<br>premiums | Nominal value<br>of units | Discounted<br>value of units | Other liabilities | Amount of<br>mathematical<br>reserves |
|---------------------------|---------------------------------|---|----------------------|--|---------------------------|------------------------------|-------------------|---------------------------------------|
| 1                         | 2                               | 3   | 4                    | 5                                      | 6                         | 7                            | 8                 | 9                                     |
| 574                       | UWP investment only reinsurance |   | 70161                |  | 70161                     | 70161                        | (24)              | 70137                                 |
|                           |                                 |   |                      |  |                           |                              |                   |                                       |
|                           |                                 |   |                      |  |                           |                              |                   |                                       |
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|                          |                             |
|--------------------------|-----------------------------|
| Name of insurer          | <b>Friends Life Limited</b> |
| Total business / subfund | <b>With Profit Fund</b>     |
| Financial year ended     | <b>31 December 2011</b>     |
| Units                    | <b>£000</b>                 |
| UK Life / Gross          |                             |

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

Name of insurer **Friends Life Limited**  
 Total business / subfund **With Profit Fund**  
 Financial year ended **31 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                               |
| 700                 | Life property linked single premium                      | 1400                                     | 42959             |                                  | 42533                  | 42533                     | 460               | 42993                           |
| 710                 | Life property linked whole life regular premium          | 229                                      | 8060              | 264                              | 7980                   | 7980                      | 15                | 7995                            |
| 715                 | Life property linked endowment regular premium - savings | 2299                                     | 31840             | 1648                             | 27879                  | 27101                     | 79                | 27180                           |
| 725                 | Individual pensions property linked                      | 1220                                     | 21874             | 1041                             | 21850                  | 21850                     | 72                | 21921                           |
|                     |  |  |                   |                                  |                        |                           |                   |                                 |
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**Long-term insurance business : Valuation summary of property linked contracts**

Name of insurer **Friends Life Limited**  
 Total business / subfund **Non Profit Fund**  
 Financial year ended **31 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                               |
| 700                 | Life property linked single premium                          | 45122                                    | 1684474           |                                  | 1661429                | 1661429                   | (4086)            | 1657343                         |
| 710                 | Life property linked whole life regular premium              | 8309                                     | 395915            | 4176                             | 41093                  | 40621                     | 2263              | 42885                           |
| 715                 | Life property linked endowment regular premium - savings     | 7056                                     | 118569            | 5066                             | 76373                  | 76358                     | 580               | 76937                           |
| 720                 | Life property linked endowment regular premium - target cash | 2900                                     | 88174             | 2108                             | 33867                  | 33708                     | 375               | 34083                           |
| 790                 | Miscellaneous protection rider                               | 483                                      | 6393              | 19                               |                        |                           | 23                | 23                              |
| 794                 | Property linked investment only reinsurance                  |  | 1074329           |                                  | 1074329                | 1074329                   | 8525              | 1082854                         |
| 800                 | Additional reserves property linked                          |  |                   |                                  |                        |                           | 18600             | 18600                           |
|                     |  |  |                   |                                  |                        |                           |                   |                                 |
|                     |  |  |                   |                                  |                        |                           |                   |                                 |
|                     |  |  |                   |                                  |                        |                           |                   |                                 |
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**Long-term insurance business : Valuation summary of property linked contracts**

Name of insurer **Friends Life Limited**  
 Total business / subfund **Non Profit Fund**  
 Financial year ended **31 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                               |
| 700                 | Life property linked single premium                      | 1302                                     | 27727             |                                  | 25784                  | 25784                     | (182)             | 25601                           |
| 710                 | Life property linked whole life regular premium          | 103                                      | 3357              | 211                              | 3323                   | 3323                      | 2                 | 3326                            |
| 715                 | Life property linked endowment regular premium - savings | 69421                                    | 573981            | 86337                            | 206152                 | 198006                    | 33123             | 231129                          |
| 725                 | Individual pensions property linked                      | 753                                      | 12974             | 610                              | 12907                  | 12907                     | 18                | 12925                           |
| 794                 | Property linked investment only reinsurance              |  | 99464             |                                  | 99464                  | 99464                     |                   | 99464                           |
| 800                 | Additional reserves property linked                      |  |                   |                                  |                        |                           | 11200             | 11200                           |
|                     |  |  |                   |                                  |                        |                           |                   |                                 |
|                     |  |  |                   |                                  |                        |                           |                   |                                 |
|                     |  |  |                   |                                  |                        |                           |                   |                                 |
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**Long-term insurance business : Valuation summary of index linked contracts**

Name of insurer **Friends Life Limited**  
 Total business / subfund **Non Profit Fund**  
 Financial year ended **31 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                               |
| 901                 | Index linked income protection claims in payment       | 37                                       | 582               |                                  | 1320                   | 1320                      | 3968              | 5288                            |
| 902                 | Group index linked income protection claims in payment | 168                                      | 3902              |                                  |                        |                           | 28926             | 28926                           |
| 910                 | Accelerated Critical Illness (guaranteed premiums)     | 100                                      | 8059              | 63                               |                        |                           | 233               | 233                             |
| 910                 | Group Income Protection                                | 20878                                    | 491524            | 5904                             |                        |                           | 3700              | 3700                            |
| 910                 | Income Protection non-profit (guaranteed premiums)     | 3719                                     | 77438             | 2523                             |                        |                           | (3010)            | (3010)                          |
| 910                 | Income Protection non-profit (reviewable premiums)     | 1971                                     | 34801             | 1122                             |                        |                           | (691)             | (691)                           |
| 910                 | Long Term care policy - Future Care                    | 1256                                     | 76261             | 857                              |                        |                           | 14736             | 14736                           |
| 910                 | Long Term care policy - Future Care claims in payment  | 105                                      | 1335              |                                  |                        |                           | 4232              | 4232                            |
| 910                 | Long Term care policy - Immediate Care                 | 10                                       | 201               |                                  |                        |                           | 960               | 960                             |
| 910                 | Miscellaneous non profit                               | 1  | 3                 |                                  |                        |                           | 4                 | 4                               |
| 910                 | Miscellaneous protection rider                         |  | 5076              | 160                              |                        |                           | (543)             | (543)                           |
| 910                 | Miscellaneous index linked                             | 3448                                     | 60122             | 2016                             | (4894)                 | (4894)                    |                   | (4894)                          |
| 910                 | Stand alone Critical Illness (guaranteed premiums)     | 255                                      | 26279             | 361                              |                        |                           | (147)             | (147)                           |
| 910                 | Stand alone Critical Illness (reviewable premiums)     | 21                                       | 1290              | 15                               |                        |                           | 236               | 236                             |
|                     |  |  |                   |                                  |                        |                           |                   |                                 |

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

Name of insurer **Friends Life Limited**  
 Total business / subfund **Non Profit Fund**  
 Financial year ended **31 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                               |
| 901                 | Index linked income protection claims in payment       |  | 268               |                                  |                        | 770                       | 2514              | 3284                            |
| 902                 | Group index linked income protection claims in payment |  | 3267              |                                  |                        |                           | 13626             | 13626                           |
| 910                 | Accelerated Critical Illness (guaranteed premiums)     |  | 6348              | 31                               |                        |                           | 132               | 132                             |
| 910                 | Group Income Protection                                |  | 227943            | 2261                             |                        |                           | 1605              | 1605                            |
| 910                 | Income Protection non-profit (guaranteed premiums)     |  | 45049             | 833                              |                        |                           | 594               | 594                             |
| 910                 | Income Protection non-profit (reviewable premiums)     |  | 21995             | 379                              |                        |                           | 717               | 717                             |
| 910                 | Long Term care policy - Future Care                    |  | 51237             | 1453                             |                        |                           | 3652              | 3652                            |
| 910                 | Long Term care policy - Future Care claims in payment  |  | 1201              |                                  |                        |                           | 3790              | 3790                            |
| 910                 | Long Term care policy - Immediate Care                 |  | 100               |                                  |                        |                           | 70                | 70                              |
| 910                 | Miscellaneous protection rider                         |  |                   |                                  |                        |                           | (90)              | (90)                            |
| 910                 | Miscellaneous index linked                             |  | (25294)           | 21                               |                        | 223                       |                   | 223                             |
| 910                 | Stand alone Critical Illness (guaranteed premiums)     |  | 255               | 21631                            | 103                    |                           | 174               | 174                             |
| 910                 | Stand alone Critical Illness (reviewable premiums)     |  | 21                | 1023                             | 6                      |                           | 50                | 50                              |
|                     |  |  |                   |                                  |                        |                           |                   |                                 |

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

Name of insurer **Friends Life Limited**  
 Total business  
 Financial year ended **31 December 2011**  
 Units **£000**

| Fund name<br>1                       | Type of fund<br>2                     | Net assets<br>3 | Main series<br>4      | Unit management charge<br>5 | Price at previous valuation date<br>6 | Price at current valuation date<br>7 | Change in price during year<br>8 |
|--------------------------------------|---------------------------------------|-----------------|-----------------------|-----------------------------|---------------------------------------|--------------------------------------|----------------------------------|
| Kames Ethical Corporate Bond ISA     | 01 - life - stock market managed fund | 23              | FP Accumulation 0.00% |                             | 1.1085                                | 1.2016                               | 8.41                             |
| Artemis Income ISA                   | 05 - life - UK equity                 | 161             | FP Accumulation 0.00% |                             | 1.2932                                | 1.3131                               | 1.54                             |
| European ISA                         | 06 - life - overseas equity           | 157             | FP Accumulation 0.00% |                             | 1.4512                                | 1.2359                               | (14.84)                          |
| F&C Stewardship Income ISA           | 05 - life - UK equity                 | 388             | FP Accumulation 0.00% |                             | 1.1243                                | 1.1104                               | (1.23)                           |
| F&C Stewardship International ISA    | 06 - life - overseas equity           | 28              | FP Accumulation 0.00% |                             | 1.2575                                | 1.1563                               | (8.05)                           |
| F&C Stewardship Managed ISA          | 02 - life - balanced managed fund     | 205             | FP Accumulation 0.00% |                             | 1.1677                                | 1.1153                               | (4.49)                           |
| F&C Strategic Bond ISA               | 01 - life - stock market managed fund | 261             | FP Accumulation 0.00% |                             | 1.2949                                | 1.2837                               | (0.86)                           |
| First State Asia Pacific Leaders ISA | 06 - life - overseas equity           | 122             | FP Accumulation 0.00% |                             | 2.4447                                | 2.2800                               | (6.73)                           |
| First State Emerging Markets ISA     | 06 - life - overseas equity           | 54              | FP Accumulation 0.00% |                             | 2.3427                                | 2.2213                               | (5.18)                           |
| Fixed Interest ISA                   | 01 - life - stock market managed fund | 149             | FP Accumulation 0.00% |                             | 1.2879                                | 1.4229                               | 10.48                            |
| Index Linked ISA                     | 01 - life - stock market managed fund | 67              | FP Accumulation 0.00% |                             | 1.3881                                | 1.6679                               | 20.16                            |
| Invesco Perpetual Corporate Bond ISA | 01 - life - stock market managed fund | 266             | FP Accumulation 0.00% |                             | 1.3401                                | 1.3312                               | (0.66)                           |
| Invesco Perpetual Distribution ISA   | 03 - life - defensive managed fund    | 127             | FP Accumulation 0.00% |                             | 1.4027                                | 1.4233                               | 1.46                             |
| Invesco Perpetual Global Bond ISA    | 01 - life - stock market managed fund | 33              | FP Accumulation 0.00% |                             | 1.4509                                | 1.5370                               | 5.93                             |
| Invesco Perpetual High Income ISA    | 05 - life - UK equity                 | 629             | FP Accumulation 0.00% |                             | 1.3760                                | 1.5235                               | 10.72                            |
| Invesco Perpetual Japan ISA          | 06 - life - overseas equity           | 5               | FP Accumulation 0.00% |                             | 1.4684                                | 1.1151                               | (24.06)                          |
| Investec Cautious Managed ISA        | 03 - life - defensive managed fund    | 722             | FP Accumulation 0.00% |                             | 1.3689                                | 1.3597                               | (0.67)                           |
| Investec UK Blue Chip ISA            | 05 - life - UK equity                 | 15              | FP Accumulation 0.00% |                             | 1.2678                                | 1.2022                               | (5.17)                           |

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

Name of insurer **Friends Life Limited**  
 Total business  
 Financial year ended **31 December 2011**  
 Units **£000**

| Fund name<br>1                    | Type of fund<br>2                     | Net assets<br>3 | Main series<br>4      | Unit management charge<br>5 | Price at previous valuation date<br>6 | Price at current valuation date<br>7 | Change in price during year<br>8 |
|-----------------------------------|---------------------------------------|-----------------|-----------------------|-----------------------------|---------------------------------------|--------------------------------------|----------------------------------|
| Investec UK Smaller Companies ISA | 05 - life - UK equity                 | 24              | FP Accumulation 0.00% |                             | 1.7639                                | 1.7497                               | (0.80)                           |
| JPM Cautious Total Return ISA     | 03 - life - defensive managed fund    | 61              | FP Accumulation 0.00% |                             | 1.2263                                | 1.1801                               | (3.76)                           |
| JPM Natural Resources ISA         | 06 - life - overseas equity           | 46              | FP Accumulation 0.00% |                             | 2.1637                                | 1.5404                               | (28.81)                          |
| Life- American                    | 06 - life - overseas equity           | 2169            | Accumulation 4        | 0.01                        | 8.4683                                | 8.4522                               | (0.19)                           |
| Life- Asian Growth                | 06 - life - overseas equity           | 2813            | Accumulation 4        | 0.01                        | 7.6283                                | 6.1859                               | (18.91)                          |
| Life- Commercial Property         | 07 - life - property                  | 218781          | Accumulation SY       |                             | 4.7405                                | 4.9791                               | 5.03                             |
| Life- Conscience                  | 05 - life - UK equity                 | 1311            | Accumulation 4        | 0.01                        | 3.5606                                | 3.3223                               | (6.69)                           |
| Life- Deposit                     | 03 - life - defensive managed fund    | 2462            | Accumulation 4        | 0.01                        | 5.7695                                | 5.7497                               | (0.34)                           |
| Life- European                    | 06 - life - overseas equity           | 9325            | Accumulation 4        | 0.01                        | 18.0051                               | 15.3176                              | (14.93)                          |
| Life- Extra Income Distribution   | 01 - life - stock market managed fund | 2641            | Accumulation 4        | 0.01                        | 1.1681                                | 1.1040                               | (5.48)                           |
| Life- Far Eastern Growth          | 06 - life - overseas equity           | 3267            | Accumulation 4        | 0.01                        | 6.7161                                | 5.4392                               | (19.01)                          |
| Life- Fixed Interest              | 01 - life - stock market managed fund | 14734           | Accumulation SY       |                             | 4.1861                                | 4.6308                               | 10.62                            |
| Life- Guaranteed Deposit          | 03 - life - defensive managed fund    | 864             | Accumulation 4        | 0.01                        | 5.8082                                | 5.8491                               | 0.71                             |
| Life- Income Accumulation         | 05 - life - UK equity                 | 12159           | Accumulation 4        | 0.01                        | 21.1301                               | 20.4604                              | (3.17)                           |
| Life- Income Distribution         | 01 - life - stock market managed fund | 4906            | Accumulation 4        | 0.01                        | 6.2157                                | 5.7558                               | (7.40)                           |
| Life- Global Equity               | 06 - life - overseas equity           | 7559            | Accumulation 4        | 0.01                        | 5.5031                                | 5.2282                               | (5.00)                           |
| Life- Managed                     | 04 - life - other managed fund        | 106507          | Accumulation SY       | 0.01                        | 1.0000                                | 0.9575                               | (4.25)                           |
| Life- Mixed                       | 04 - life - other managed fund        | 52372           | Accumulation 4        | 0.01                        | 15.5032                               | 14.7590                              | (4.80)                           |

**Long-term insurance business : Unit prices for internal linked funds**Name of insurer **Friends Life Limited**

Total business

Financial year ended **31 December 2011**Units **£000**

| Fund name<br>1  | Type of fund<br>2                                   | Net assets<br>3 | Main series<br>4      | Unit management charge<br>5 | Price at previous valuation date<br>6 | Price at current valuation date<br>7 | Change in price during year<br>8 |
|---|---|-----------------|-----------------------|-----------------------------|---------------------------------------|--------------------------------------|----------------------------------|
| Life- Tokyo Unit Trust                                  | 06 - life - overseas equity                         | 1920            | Accumulation 4        | 0.01                        | 6.2354                                | 5.1167                               | (17.94)                          |
| Life- UK Equity   | 05 - life - UK equity                               | 19960           | Accumulation 4        | 0.01                        | 13.9112                               | 13.0616                              | (6.11)                           |
| M&G Property Portfolio ISA                              | 07 - life - property                                | 463             | FP Accumulation 0.00% |                             | 0.9409                                | 0.9897                               | 5.18                             |
| Managed ISA   | 04 - life - other managed fund                      | 567             | FP Accumulation 0.00% |                             | 1.3310                                | 1.2637                               | (5.06)                           |
| Blackrock Special Situations ISA                        | 05 - life - UK equity                               | 106             | FP Accumulation 0.00% |                             | 1.4172                                | 1.3128                               | (7.37)                           |
| Blackrock UK Dynamic ISA                                | 05 - life - UK equity                               | 70              | FP Accumulation 0.00% |                             | 1.2351                                | 1.1226                               | (9.11)                           |
| Thames River Distribution ISA                           | 01 - life - stock market managed fund               | 359             | FP Accumulation 0.00% |                             | 1.1202                                | 1.0856                               | (3.09)                           |
| Thames River Equity Managed ISA                         | 01 - life - stock market managed fund               | 106             | FP Accumulation 0.00% |                             | 1.4935                                | 1.3133                               | (12.06)                          |
| North American ISA                                      | 06 - life - overseas equity                         | 29              | FP Accumulation 0.00% |                             | 1.3605                                | 1.3656                               | 0.37                             |
| Aviva Investors Sustainable Futures European Growth ISA | 06 - life - overseas equity                         | 5               | FP Accumulation 0.00% |                             | 1.2230                                | 1.0416                               | (14.83)                          |
| Pension- American                                       | 16 - individual pension - overseas equity           | 3594            | Accumulation C        | 0.01                        | 10.2990                               | 10.2345                              | (0.63)                           |
| Pension- Asian Growth                                   | 16 - individual pension - overseas equity           | 8568            | Accumulation C        | 0.01                        | 10.6141                               | 8.2551                               | (22.23)                          |
| Pension- Commercial Property                            | 17 - individual pension - property                  | 704527          | Accumulation SY       |                             | 6.2468                                | 6.6319                               | 6.16                             |
| Pension- Conscience                                     | 15 - individual pension - UK equity                 | 9388            | Accumulation C        | 0.01                        | 4.1704                                | 3.8789                               | (6.99)                           |
| Pension- Deposit  | 13 - individual pension - defensive managed fund    | 15547           | Accumulation SY       | 0.01                        | 1.0016                                | 1.0087                               | 0.71                             |
| Pension- European                                       | 16 - individual pension - overseas equity           | 24621           | Accumulation C        | 0.01                        | 14.6330                               | 12.3634                              | (15.51)                          |
| Pension- Far Eastern Growth                             | 16 - individual pension - overseas equity           | 11590           | Accumulation C        | 0.01                        | 8.7882                                | 6.8707                               | (21.82)                          |
| Pension- Fixed Interest                                 | 11 - individual pension - stock market managed fund | 48135           | Accumulation SY       |                             | 6.3757                                | 7.1386                               | 11.97                            |

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

Name of insurer **Friends Life Limited**  
Total business  
Financial year ended **31 December 2011**  
Units **£000**

| Fund name<br>1                   | Type of fund<br>2                                | Net assets<br>3 | Main series<br>4                  | Unit management charge<br>5 | Price at previous valuation date<br>6 | Price at current valuation date<br>7 | Change in price during year<br>8 |
|----------------------------------|--|-----------------|-----------------------------------|-----------------------------|---------------------------------------|--------------------------------------|----------------------------------|
| Pension- Greig Middleton         | 16 - individual pension - overseas equity        | 3611            | Accumulation C                    | 0.01                        | 5.9600                                | 5.5741                               | (6.47)                           |
| Pension- Guaranteed Deposit      | 13 - individual pension - defensive managed fund | 6087            | Accumulation C                    | 0.01                        | 5.4418                                | 5.4802                               | 0.71                             |
| Pension- Income Accumulation     | 15 - individual pension - UK equity              | 23593           | Accumulation C                    | 0.01                        | 11.5483                               | 11.1503                              | (3.45)                           |
| Pension- Global Equity           | 16 - individual pension - overseas equity        | 2025            | Accumulation C                    | 0.01                        | 4.2006                                | 3.9406                               | (6.19)                           |
| Pension- Managed                 | 14 - individual pension - other managed fund     | 478659          | Accumulation C                    | 0.01                        | 51.1471                               | 47.7735                              | (6.60)                           |
| Pension- Managed Balanced Exempt | 12 - individual pension - balanced managed fund  | 3063            | Accumulation C                    | 0.01                        | 5.0047                                | 4.7546                               | (5.00)                           |
| Pension- Mixed                   | 14 - individual pension - other managed fund     | 230828          | Accumulation C                    | 0.01                        | 8.3294                                | 7.7908                               | (6.47)                           |
| Pension- Tokyo                   | 16 - individual pension - overseas equity        | 7035            | Accumulation C                    | 0.01                        | 6.3547                                | 5.2327                               | (17.66)                          |
| Pension- UK Equity               | 15 - individual pension - UK equity              | 19099           | Accumulation C                    | 0.01                        | 8.9099                                | 8.3096                               | (6.74)                           |
| Stewardship ISA                  | 05 - life - UK equity                            | 621             | FP Accumulation 0.00%             |                             | 1.2892                                | 1.2132                               | (5.90)                           |
| Threadneedle Global Select ISA   | 06 - life - overseas equity                      | 80              | FP Accumulation 0.00%             |                             | 1.3715                                | 1.2725                               | (7.22)                           |
| UK Equity ISA                    | 05 - life - UK equity                            | 28              | FP Accumulation 0.00%             |                             | 1.4400                                | 1.3552                               | (5.89)                           |
| Old Mutual UK Select Mid Cap ISA | 05 - life - UK equity                            | 201             | FP Accumulation 0.00%             |                             | 1.0000                                | 0.9059                               | (9.41)                           |
| Activest Lux Chance (EUR)        | 06 - life - overseas equity                      | 392             | IRIS Accumulation                 | 2.40%                       | 0.8123                                | 0.7223                               | (11.08)                          |
| Activest Lux Ertrag (EUR)        | 06 - life - overseas equity                      | 51              | IRIS Accumulation                 | 1.95%                       | 0.7881                                | 0.7716                               | (2.10)                           |
| Activest Lux Wachstum (EUR)      | 06 - life - overseas equity                      | 56              | IRIS Accumulation                 | 2.35%                       | 0.7999                                | 0.7612                               | (4.84)                           |
| Cash                             | 03 - life - defensive managed fund               | 3175            | Accumulation - PRE                | 1.00%                       | 1.5710                                | 1.5628                               | (0.52)                           |
| European                         | 06 - life - overseas equity                      | 33361           | Multi Currency FPLAL Accumulation | 1.00%                       | 3.4500                                | 3.2080                               | (7.01)                           |

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

Name of insurer **Friends Life Limited**  
Total business  
Financial year ended **31 December 2011**  
Units **£000**

| Fund name<br>1                           | Type of fund<br>2                     | Net assets<br>3 | Main series<br>4                  | Unit management charge<br>5 | Price at previous valuation date<br>6 | Price at current valuation date<br>7 | Change in price during year<br>8 |
|--|---------------------------------------|-----------------|-----------------------------------|-----------------------------|---------------------------------------|--------------------------------------|----------------------------------|
| F&C Asia Pacific (EUR)                   | 06 - life - overseas equity           | 1144            | IRIS Accumulation                 | 1.75%                       | 1.0733                                | 0.8292                               | (22.74)                          |
| F&C European Equity (EUR)                | 06 - life - overseas equity           | 304             | Multi Currency FPLP Accumulation  | 1.00%                       | 0.9419                                | 0.8754                               | (7.06)                           |
| F&C Global Equity (EUR)                  | 06 - life - overseas equity           | 372             | Multi Currency FPLAL Accumulation | 1.00%                       | 1.0197                                | 0.9480                               | (7.02)                           |
| F&C High Yield Bond                      | 01 - life - stock market managed fund | 880             | Multi Currency FPLAL Accumulation | 1.00%                       | 1.3718                                | 1.3452                               | (1.93)                           |
| F&C Japan (EUR)                          | 06 - life - overseas equity           | 166             | Multi Currency FPLAL Accumulation | 1.00%                       | 0.9112                                | 0.7498                               | (17.71)                          |
| F&C Managed (EUR)                        | 04 - life - other managed fund        | 489             | Multi Currency FPLP Accumulation  | 1.00%                       | 0.8051                                | 0.7482                               | (7.07)                           |
| F&C Monthly Distribution                 | 01 - life - stock market managed fund | 1593            | Multi Currency FPLP Accumulation  | 1.00%                       | 1.2494                                | 1.2317                               | (1.42)                           |
| F&C North American Equity (EUR)          | 06 - life - overseas equity           | 79              | Multi Currency FPLAL Accumulation | 1.00%                       | 0.8302                                | 0.8203                               | (1.19)                           |
| F&C Stewardship International IRIS (EUR) | 06 - life - overseas equity           | 83              | IRIS Accumulation                 | 1.76%                       | 0.8498                                | 0.7602                               | (10.55)                          |
| F&C UK Property                          | 07 - life - property                  | 6723            | Accumulation - POST               | 1.00%                       | 1.1635                                | 1.2099                               | 3.99                             |
| Fidelity European Growth IRIS (EUR)      | 06 - life - overseas equity           | 4185            | Multi Currency FPLAL Accumulation | 2.25%                       | 0.7773                                | 0.6405                               | (17.59)                          |
| Fixed Interest                           | 01 - life - stock market managed fund | 7052            | Accumulation - POST               | 1.00%                       | 2.3220                                | 2.4892                               | 7.20                             |
| FPI East Capital Balkan (SEK)            | 06 - life - overseas equity           | 262             | Multi Currency FPLAL Accumulation | 2.50%                       | 0.7403                                | 0.4756                               | (35.75)                          |
| FPI East Capital Eastern (SEK)           | 06 - life - overseas equity           | 769             | Multi Currency FPLAL Accumulation | 2.50%                       | 1.2609                                | 0.8806                               | (30.16)                          |
| FPI Global Equity IRIS (EUR)             | 06 - life - overseas equity           | 8617            | Cross Holdings                    | 0.000%                      | 0.8147                                | 0.7649                               | (6.11)                           |
| FPI Lannebo Smabolag (SEK)               | 06 - life - overseas equity           | 1570            | Multi Currency FPLAL Accumulation | 1.75%                       | 1.7717                                | 1.4640                               | (17.37)                          |
| FPI Lannebo Sverige (SEK)                | 06 - life - overseas equity           | 465             | Multi Currency FPLAL Accumulation | 1.75%                       | 1.3292                                | 1.0625                               | (20.07)                          |
| FPI Model 1 Preservation IRIS (EUR)      | 03 - life - defensive managed fund    | 72              | Multi Currency FPLAL Accumulation | 0.00%                       | 0.8199                                | 0.7923                               | (3.37)                           |

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

Name of insurer **Friends Life Limited**  
Total business  
Financial year ended **31 December 2011**  
Units **£000**

| Fund name<br>1                               | Type of fund<br>2                  | Net assets<br>3 | Main series<br>4                  | Unit management charge<br>5 | Price at previous valuation date<br>6 | Price at current valuation date<br>7 | Change in price during year<br>8 |
|--|------------------------------------|-----------------|-----------------------------------|-----------------------------|---------------------------------------|--------------------------------------|----------------------------------|
| FPI Model 2 Cautious IRIS (EUR)              | 03 - life - defensive managed fund | 146             | Multi Currency FPLAL Accumulation | 1.75%                       | 0.7757                                | 0.7453                               | (3.91)                           |
| FPI Model 3 Balanced IRIS (EUR)              | 02 - life - balanced managed fund  | 1915            | Multi Currency FPLAL Accumulation | 1.75%                       | 0.7013                                | 0.6695                               | (4.54)                           |
| FPI Model 4 Growth IRIS (EUR)                | 02 - life - balanced managed fund  | 8360            | Multi Currency FPLAL Accumulation | 1.75%                       | 0.6443                                | 0.6078                               | (5.66)                           |
| FPI Model 5 Aggressive IRIS (EUR)            | 02 - life - balanced managed fund  | 17468           | Multi Currency FPLAL Accumulation | 1.75%                       | 0.6001                                | 0.5540                               | (7.67)                           |
| FPI Nordea SEK Reserve (SEK)                 | 06 - life - overseas equity        | 3261            | Multi Currency FPLAL Accumulation | 0.75%                       | 1.0367                                | 1.0420                               | 0.52                             |
| FPI Nordea Swedish Bond (SEK)                | 06 - life - overseas equity        | 742             | Multi Currency FPLAL Accumulation | 1.25%                       | 1.0371                                | 1.1378                               | 9.71                             |
| Templeton BRIC (USD)                         | 06 - life - overseas equity        | 3804            | Multi Currency FPLAL Accumulation | 2.25%                       | 1.2158                                | 0.8956                               | (26.33)                          |
| International Stewardship                    | 06 - life - overseas equity        | 5077            | Accumulation - POST               | 1.00%                       | 1.1552                                | 1.0528                               | (8.86)                           |
| Investec American Equity (USD)               | 06 - life - overseas equity        | 318             | Multi Currency FPLAL Accumulation | 1.50%                       | 0.8043                                | 0.6923                               | (13.92)                          |
| Investec Cautious Managed                    | 03 - life - defensive managed fund | 15440           | Accumulation - PRE                | 1.50%                       | 1.5438                                | 1.5064                               | (2.42)                           |
| Investec Global Strategy Global Energy (USD) | 06 - life - overseas equity        | 688             | Multi Currency FPLAL Accumulation | 1.75%                       | 0.8858                                | 0.7707                               | (12.99)                          |
| Investec UK Equity                           | 05 - life - UK equity              | 576             | Accumulation - PRE                | 1.50%                       | 1.6068                                | 1.5042                               | (6.38)                           |
| JPMF Euro Liquidity (EUR)                    | 03 - life - defensive managed fund | 1830            | Multi Currency FPLAL Accumulation | 0.75%                       | 0.9083                                | 0.8872                               | (2.32)                           |
| JPMF Euro Liquidity IRIS (EUR)               | 03 - life - defensive managed fund | 482             | Multi Currency FPLAL Accumulation | 1.55%                       | 0.8914                                | 0.8639                               | (3.09)                           |
| JPMF Euroland Equity (EUR)                   | 06 - life - overseas equity        | 346             | IRIS Accumulation                 | 2.25%                       | 0.6537                                | 0.5077                               | (22.33)                          |
| JPMF Global Balanced (EUR)                   | 02 - life - balanced managed fund  | 717             | Multi Currency FPLP Accumulation  | 1.50%                       | 1.1454                                | 1.0917                               | (4.69)                           |
| JPMF Sterling Liquidity                      | 03 - life - defensive managed fund | 2133            | Multi Currency FPLAL Accumulation | 0.75%                       | 1.1699                                | 1.1695                               | (0.04)                           |
| JPMF USD Liquidity (USD)                     | 03 - life - defensive managed fund | 456             | Multi Currency FPLAL Accumulation | 0.75%                       | 0.6870                                | 0.6885                               | 0.22                             |

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

Name of insurer **Friends Life Limited**  
Total business  
Financial year ended **31 December 2011**  
Units **£000**

| Fund name<br>1                                     | Type of fund<br>2                     | Net assets<br>3 | Main series<br>4              | Unit management charge<br>5 | Price at previous valuation date<br>6 | Price at current valuation date<br>7 | Change in price during year<br>8 |
|--|---------------------------------------|-----------------|-------------------------------|-----------------------------|---------------------------------------|--------------------------------------|----------------------------------|
| Life Kames Ethical Corporate Bond Accumulation     | 01 - life - stock market managed fund | 6171            | FP Accumulation 0.75% - FPLAL | 0.75%                       | 0.9883                                | 1.0475                               | 5.99                             |
| Life Kames Ethical Equity                          | 05 - life - UK equity                 | 3332            | FP Accumulation 0.75% - FPLAL | 0.75%                       | 1.0894                                | 1.0058                               | (7.67)                           |
| Life Kames Sterling Corporate Bond Income          | 01 - life - stock market managed fund | 2512            | FP Accumulation 0.75% - FPLAL | 0.75%                       | 0.9715                                | 1.0080                               | 3.75                             |
| Life American                                      | 06 - life - overseas equity           | 14410           | FP Accumulation 0.75% - PRE   | 0.75%                       | 2.9699                                | 2.9532                               | (0.56)                           |
| Life Artemis Income                                | 05 - life - UK equity                 | 11193           | FP Accumulation 0.75% - FPLAL | 0.75%                       | 1.3353                                | 1.3353                               | (0.00)                           |
| Life Artemis UK Growth                             | 05 - life - UK equity                 | 1773            | FP Accumulation 0.75% - FPLAL | 0.75%                       | 1.1265                                | 1.0862                               | (3.57)                           |
| Life Artemis UK Special Situations                 | 05 - life - UK equity                 | 5079            | FP Accumulation 0.75% - FPLAL | 0.75%                       | 1.3477                                | 1.2269                               | (8.96)                           |
| Life Baillie Gifford British 350                   | 05 - life - UK equity                 | 414             | FP Accumulation 0.65% - FPLAL | 0.65%                       | 1.6418                                | 1.5859                               | (3.41)                           |
| Life Baillie Gifford Income                        | 05 - life - UK equity                 | 286             | FP Accumulation 0.65% - FPLAL | 0.65%                       | 1.4666                                | 1.4161                               | (3.45)                           |
| Life Capital Growth                                | 03 - life - defensive managed fund    | 8655            | Ex LMA 5.00%                  | 5.00%                       | 43.8898                               | 41.6990                              | (4.99)                           |
| Life Cash  | 03 - life - defensive managed fund    | 60365           | FP Accumulation 0.75% - FPLAL | 0.75%                       | 3.3661                                | 3.3604                               | (0.17)                           |
| Life Credit Suisse Multi Manager Cautious Managed  | 03 - life - defensive managed fund    | 2215            | FP Accumulation 0.75% - FPLAL | 0.75%                       | 1.0620                                | 1.0071                               | (5.17)                           |
| Life Credit Suisse Multi Manager Constellation     | 06 - life - overseas equity           | 268             | FP Accumulation 0.75% - FPLAL | 0.75%                       | 1.0503                                | 0.9643                               | (8.18)                           |
| Life Credit Suisse Multi Manager Ethical Portfolio | 01 - life - stock market managed fund | 1917            | FP Accumulation 0.75% - FPLAL | 0.75%                       | 1.0809                                | 0.9291                               | (14.05)                          |
| Life Equity  | 05 - life - UK equity                 | 69547           | FP Accumulation 0.75% - PRE   | 0.75%                       | 9.7536                                | 9.2573                               | (5.09)                           |
| Life European                                      | 06 - life - overseas equity           | 54546           | FP Accumulation 0.75% - PRE   | 0.75%                       | 7.1266                                | 6.0568                               | (15.01)                          |
| Life F&C Stewardship Income                        | 05 - life - UK equity                 | 29822           | FP Accumulation 0.75% - FPLAL | 0.75%                       | 1.4990                                | 1.4715                               | (1.84)                           |
| Life Fidelity European                             | 06 - life - overseas equity           | 5353            | FP Accumulation 0.65% - FPLAL | 0.65%                       | 1.8237                                | 1.5707                               | (13.87)                          |



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

Name of insurer **Friends Life Limited**  
Total business  
Financial year ended **31 December 2011**  
Units **£000**

| Fund name<br>1                                 | Type of fund<br>2                     | Net assets<br>3 | Main series<br>4              | Unit management charge<br>5 | Price at previous valuation date<br>6 | Price at current valuation date<br>7 | Change in price during year<br>8 |
|--|---------------------------------------|-----------------|-------------------------------|-----------------------------|---------------------------------------|--------------------------------------|----------------------------------|
| Life Fidelity Money Builder Income             | 01 - life - stock market managed fund | 17688           | FP Accumulation 0.65% - FPLAL | 0.65%                       | 1.3134                                | 1.3906                               | 5.88                             |
| Life Fidelity Multi Manager Special Situations | 05 - life - UK equity                 | 768             | FP Accumulation 0.75% - FPLAL | 0.75%                       | 0.9372                                | 0.8121                               | (13.34)                          |
| Life Fidelity Portfolio                        | 02 - life - balanced managed fund     | 2903            | FP Accumulation 0.65% - FPLAL | 0.65%                       | 1.5752                                | 1.4770                               | (6.24)                           |
| Life Fidelity Special Situations               | 02 - life - balanced managed fund     | 4509            | FP Accumulation 0.65% - FPLAL | 0.65%                       | 1.8255                                | 1.5499                               | (15.10)                          |
| Life Fidelity Wealthbuilder                    | 02 - life - balanced managed fund     | 2919            | FP Accumulation 0.65% - FPLAL | 0.65%                       | 1.5602                                | 1.4001                               | (10.26)                          |
| Life First State Asian Pacific Leaders         | 06 - life - overseas equity           | 6897            | FP Accumulation 0.65% - FPLAL | 0.65%                       | 2.4304                                | 2.2805                               | (6.17)                           |
| Life First State Global Emerging Markets       | 06 - life - overseas equity           | 4811            | FP Accumulation 0.65% - FPLAL | 0.65%                       | 2.5778                                | 2.4411                               | (5.30)                           |
| Life Fixed Interest                            | 01 - life - stock market managed fund | 168354          | Cross Holdings                | 0.00%                       | 2.0640                                | 2.2573                               | 9.36                             |
| Life Thames River Equity Managed               | 01 - life - stock market managed fund | 15446           | FP Accumulation 0.75% - FPLAL | 0.75%                       | 1.6572                                | 1.4645                               | (11.63)                          |
| Life Henderson Cautious Managed                | 03 - life - defensive managed fund    | 10205           | FP Accumulation 0.65% - FPLAL | 0.65%                       | 1.1606                                | 1.1703                               | 0.84                             |
| Life Henderson China Opportunities             | 06 - life - overseas equity           | 3339            | FP Accumulation 0.75% - FPLAL | 0.75%                       | 2.4559                                | 1.9864                               | (19.12)                          |
| Life Henderson Emerging Markets Opportunities  | 06 - life - overseas equity           | 1455            | FP Accumulation 0.75% - FPLAL | 0.75%                       | 1.6805                                | 1.3090                               | (22.10)                          |
| Life Guaranteed Deposit                        | 03 - life - defensive managed fund    | 675             | Ex LMA 0.25%                  | 0.25%                       | 5.5994                                | 5.6316                               | 0.58                             |
| Life High Yield Distribution Accumulation      | 01 - life - stock market managed fund | 42187           | FP Accumulation 0.75% - FPLAL | 0.75%                       | 1.6872                                | 1.6812                               | (0.35)                           |
| Life High Yield Distribution Bond              | 01 - life - stock market managed fund | 49429           | Cross Holdings                | 0.00%                       | 1.0635                                | 0.9995                               | (6.01)                           |
| Life Income Distribution                       | 01 - life - stock market managed fund | 27997           | FP Accumulation 0.75% - PRE   | 0.75%                       | 1.2706                                | 1.1717                               | (7.78)                           |
| Life Indexed                                   | 01 - life - stock market managed fund | 44696           | FP Accumulation 0.75% - FPLAL | 0.75%                       | 3.9648                                | 4.5643                               | 15.12                            |
| Life Global Equity                             | 06 - life - overseas equity           | 62503           | Cross Holdings                | 0.00%                       | 1.6089                                | 1.5218                               | (5.42)                           |

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

Name of insurer **Friends Life Limited**  
Total business  
Financial year ended **31 December 2011**  
Units **£000**

| Fund name<br>1                                  | Type of fund<br>2                     | Net assets<br>3 | Main series<br>4              | Unit management charge<br>5 | Price at previous valuation date<br>6 | Price at current valuation date<br>7 | Change in price during year<br>8 |
|---|---------------------------------------|-----------------|-------------------------------|-----------------------------|---------------------------------------|--------------------------------------|----------------------------------|
| Life Invesco Perpetual Asian                    | 06 - life - overseas equity           | 1308            | FP Accumulation 0.75% - FPLAL | 0.75%                       | 2.2048                                | 1.9178                               | (13.02)                          |
| Life Invesco Perpetual Corporate Bond           | 01 - life - stock market managed fund | 24588           | FP Accumulation 0.75% - FPLAL | 0.75%                       | 1.2065                                | 1.1847                               | (1.81)                           |
| Life Invesco Perpetual Distribution             | 01 - life - stock market managed fund | 12042           | FP Accumulation 0.65% - FPLAL | 0.65%                       | 1.2452                                | 1.2459                               | 0.06                             |
| Life Invesco Perpetual Global Bond              | 01 - life - stock market managed fund | 5464            | FP Accumulation 0.75% - FPLAL | 0.75%                       | 1.2806                                | 1.3321                               | 4.02                             |
| Life Invesco Perpetual High Income              | 05 - life - UK equity                 | 38449           | FP Accumulation 0.75% - FPLAL | 0.75%                       | 1.4121                                | 1.5381                               | 8.93                             |
| Life Invesco Perpetual Japan                    | 06 - life - overseas equity           | 776             | FP Accumulation 0.75% - FPLAL | 0.75%                       | 1.4588                                | 1.1337                               | (22.28)                          |
| Life Invesco Perpetual Monthly Income Plus      | 01 - life - stock market managed fund | 7750            | FP Accumulation 0.75% - FPLAL | 0.75%                       | 1.1887                                | 1.1454                               | (3.64)                           |
| Life Investec American                          | 06 - life - overseas equity           | 4324            | FP Accumulation 0.65% - FPLAL | 0.65%                       | 1.3588                                | 1.1977                               | (11.86)                          |
| Life Investec Cautious Managed                  | 03 - life - defensive managed fund    | 38896           | FP Accumulation 0.65% - FPLAL | 0.65%                       | 1.5712                                | 1.5561                               | (0.96)                           |
| Life Investec Managed Distribution Accumulation | 01 - life - stock market managed fund | 2707            | FP Accumulation 0.65% - FPLAL | 0.65%                       | 1.3409                                | 1.3614                               | 1.53                             |
| Life Investec Managed Distribution              | 01 - life - stock market managed fund | 6563            | Cross Holdings                | 0.00%                       | 1.1658                                | 1.1613                               | (0.39)                           |
| Life Investec Sterling Bond                     | 01 - life - stock market managed fund | 2447            | FP Accumulation 0.65% - FPLAL | 0.65%                       | 1.3239                                | 1.3322                               | 0.62                             |
| Life Investec UK Blue Chip                      | 05 - life - UK equity                 | 2651            | FP Accumulation 0.65% - FPLAL | 0.65%                       | 1.5994                                | 1.5288                               | (4.41)                           |
| Life Investec UK Smaller Companies              | 05 - life - UK equity                 | 3643            | FP Accumulation 0.65% - FPLAL | 0.65%                       | 2.5601                                | 2.5299                               | (1.18)                           |
| Life Investment Trust                           | 01 - life - stock market managed fund | 63726           | Ex LMA 0.25%                  | 0.25%                       | 33.6975                               | 30.7085                              | (8.87)                           |
| Life Japan                                      | 05 - life - UK equity                 | 184             | Ex LMA 1.00%                  | 1.00%                       | 2.2566                                | 1.8540                               | (17.84)                          |
| Life JPM Cautious Total Return Income           | 03 - life - defensive managed fund    | 9111            | FP Accumulation 0.75% - FPLAL | 0.75%                       | 1.0761                                | 1.0203                               | (5.19)                           |
| Life JPM Natural Resources                      | 06 - life - overseas equity           | 3073            | FP Accumulation 0.75% - FPLAL | 0.75%                       | 1.7295                                | 1.2922                               | (25.29)                          |

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

Name of insurer **Friends Life Limited**  
Total business  
Financial year ended **31 December 2011**  
Units **£000**

| Fund name<br>1                         | Type of fund<br>2                     | Net assets<br>3 | Main series<br>4              | Unit management charge<br>5 | Price at previous valuation date<br>6 | Price at current valuation date<br>7 | Change in price during year<br>8 |
|--|---------------------------------------|-----------------|-------------------------------|-----------------------------|---------------------------------------|--------------------------------------|----------------------------------|
| Life Lazard European Alpha             | 06 - life - overseas equity           | 2694            | FP Accumulation 0.65% - FPLAL | 0.65%                       | 1.7668                                | 1.5655                               | (11.40)                          |
| Life Lazard UK Alpha                   | 05 - life - UK equity                 | 2759            | FP Accumulation 0.65% - FPLAL | 0.65%                       | 1.5827                                | 1.4452                               | (8.69)                           |
| Life Lazard UK Income                  | 05 - life - UK equity                 | 2577            | FP Accumulation 0.65% - FPLAL | 0.65%                       | 1.5221                                | 1.4790                               | (2.83)                           |
| Life M&G Global Basics                 | 06 - life - overseas equity           | 7631            | FP Accumulation 0.75% - FPLAL | 0.75%                       | 1.6053                                | 1.4508                               | (9.62)                           |
| Life M&G Recovery Accumulation         | 05 - life - UK equity                 | 9072            | FP Accumulation 0.80% - FPLAL | 0.80%                       | 1.2790                                | 1.2219                               | (4.47)                           |
| Life M&G Property                      | 07 - life - property                  | 9198            | FP Accumulation 0.65% - FPLAL | 0.65%                       | 0.8283                                | 0.8589                               | 3.70                             |
| Life Managed                           | 04 - life - other managed fund        | 680383          | FP Accumulation 0.75% - PRE   | 0.75%                       | 6.9442                                | 6.5873                               | (5.14)                           |
| Life Managed Stewardship               | 04 - life - other managed fund        | 39137           | FP Accumulation 0.75% - FPLAL | 0.75%                       | 1.5736                                | 1.4874                               | (5.48)                           |
| Life Blackrock American                | 06 - life - overseas equity           | 1344            | FP Accumulation 0.65% - FPLAL | 0.65%                       | 1.3058                                | 1.3373                               | 2.41                             |
| Life Blackrock Balanced Portfolio      | 02 - life - balanced managed fund     | 1507            | FP Accumulation 0.65% - FPLAL | 0.65%                       | 1.5510                                | 1.4074                               | (9.26)                           |
| Life Blackrock Corporate Bond          | 01 - life - stock market managed fund | 1517            | FP Accumulation 0.65% - FPLAL | 0.65%                       | 1.3017                                | 1.3470                               | 3.48                             |
| Life Blackrock Special Situations      | 05 - life - UK equity                 | 2243            | FP Accumulation 0.75% - FPLAL | 0.75%                       | 1.2745                                | 1.1601                               | (8.98)                           |
| Life Blackrock UK Dynamic              | 05 - life - UK equity                 | 3585            | FP Accumulation 0.75% - FPLAL | 0.75%                       | 1.2671                                | 1.1362                               | (10.33)                          |
| Life Blackrock UK Income               | 05 - life - UK equity                 | 2977            | FP Accumulation 0.65% - FPLAL | 0.65%                       | 1.8129                                | 1.7227                               | (4.97)                           |
| Life Money Maker                       | 03 - life - defensive managed fund    | 162             | Ex LMA 0.25%                  | 0.00                        | 7.1578                                | 6.7412                               | (5.82)                           |
| Life Monthly Distribution              | 01 - life - stock market managed fund | 385665          | Cross Holdings                |                             | 1.0366                                | 0.9878                               | (4.70)                           |
| Life Monthly Distribution Accumulation | 01 - life - stock market managed fund | 134694          | FP Accumulation 0.75% - FPLAL | 0.75%                       | 1.3867                                | 1.3705                               | (1.17)                           |
| Life Thames River Balanced Managed     | 02 - life - balanced managed fund     | 19267           | FP Accumulation 0.75% - FPLAL | 0.75%                       | 1.4548                                | 1.3154                               | (9.58)                           |

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

Name of insurer **Friends Life Limited**  
Total business  
Financial year ended **31 December 2011**  
Units **£000**

| Fund name<br>1   | Type of fund<br>2                     | Net assets<br>3 | Main series<br>4              | Unit management charge<br>5 | Price at previous valuation date<br>6 | Price at current valuation date<br>7 | Change in price during year<br>8 |
|--|---------------------------------------|-----------------|-------------------------------|-----------------------------|---------------------------------------|--------------------------------------|----------------------------------|
| Life Thames River Cautious Managed                       | 03 - life - defensive managed fund    | 23741           | FP Accumulation 0.75% - FPLAL | 0.75%                       | 1.3166                                | 1.2437                               | (5.54)                           |
| Life Thames River Distribution Accumulation              | 01 - life - stock market managed fund | 45612           | FP Accumulation 0.75% - FPLAL | 0.75%                       | 1.1228                                | 1.0770                               | (4.08)                           |
| Life Thames River Distribution Income                    | 01 - life - stock market managed fund | 48295           | Cross Holdings                | 0.00%                       | 0.9331                                | 0.8525                               | (8.64)                           |
| Life Henderson High Yield Bond                           | 01 - life - stock market managed fund | 1320            | FP Accumulation 0.75% - FPLAL | 0.75%                       | 1.0984                                | 1.0718                               | (2.42)                           |
| Life Henderson Higher Income                             | 01 - life - stock market managed fund | 403             | FP Accumulation 0.75% - FPLAL | 0.75%                       | 0.8039                                | 0.7883                               | (1.93)                           |
| Life Henderson Managed Distribution                      | 01 - life - stock market managed fund | 1151            | FP Accumulation 0.75% - FPLAL | 0.75%                       | 1.0128                                | 0.9776                               | (3.47)                           |
| Life Henderson UK Property                               | 07 - life - property                  | 7566            | FP Accumulation 0.65% - FPLAL | 0.65%                       | 0.8757                                | 0.8756                               | (0.01)                           |
| Life Aviva Investors Property Trust                      | 07 - life - property                  | 1604            | FP Accumulation 0.75% - FPLAL | 0.75%                       | 0.6604                                | 0.6442                               | (2.46)                           |
| Life Aviva Investors Sustainable Futures European Growth | 06 - life - overseas equity           | 1095            | FP Accumulation 0.75% - FPLAL | 0.75%                       | 1.0651                                | 0.8928                               | (16.18)                          |
| Life Pacific Basin                                       | 06 - life - overseas equity           | 18142           | FP Accumulation 0.75% - PRE   | 0.75%                       | 3.1612                                | 2.5732                               | (18.60)                          |
| Life Property  | 07 - life - property                  | 201992          | FP Accumulation 0.75% - FPLAL | 0.75%                       | 4.1265                                | 4.3020                               | 4.25                             |
| Life Schroder Alpha Plus                                 | 05 - life - UK equity                 | 2639            | FP Accumulation 0.65% - FPLAL | 0.65%                       | 1.8827                                | 1.7276                               | (8.24)                           |
| Life Schroder Gilt and Fixed Interest                    | 01 - life - stock market managed fund | 6379            | FP Accumulation 0.65% - FPLAL | 0.65%                       | 1.2283                                | 1.3530                               | 10.15                            |
| Life Schroder Income                                     | 05 - life - UK equity                 | 3450            | FP Accumulation 0.65% - FPLAL | 0.65%                       | 1.7737                                | 1.6214                               | (8.59)                           |
| Life Schroder S&P Managed Distribution Portfolio         | 03 - life - defensive managed fund    | 3270            | FP Accumulation 0.75% - FPLAL | 0.75%                       | 1.0123                                | 0.9784                               | (3.34)                           |
| Life Schroder UK Smaller Companies                       | 05 - life - UK equity                 | 654             | FP Accumulation 0.65% - FPLAL | 0.65%                       | 1.6245                                | 1.4600                               | (10.13)                          |
| Life Stewardship   | 05 - life - UK equity                 | 199841          | FP Accumulation 0.75% - PRE   | 0.01                        | 8.3824                                | 7.8147                               | (6.77)                           |
| Life Stewardship International                           | 06 - life - overseas equity           | 5002            | FP Accumulation 0.75% - FPLAL | 0.75%                       | 1.6594                                | 1.5448                               | (6.91)                           |

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

Name of insurer **Friends Life Limited**  
Total business  
Financial year ended **31 December 2011**  
Units **£000**

| Fund name<br>1                                | Type of fund<br>2                     | Net assets<br>3 | Main series<br>4                  | Unit management charge<br>5 | Price at previous valuation date<br>6 | Price at current valuation date<br>7 | Change in price during year<br>8 |
|---|---------------------------------------|-----------------|-----------------------------------|-----------------------------|---------------------------------------|--------------------------------------|----------------------------------|
| Life Stewardship Safeguard Optimiser          | 05 - life - UK equity                 | 44287           | FP Accumulation 0.75% - FPLAL     | 0.75%                       | 1.1787                                | 1.1507                               | (2.37)                           |
| Life Threadneedle Equity & Bond               | 01 - life - stock market managed fund | 5356            | FP Accumulation 0.65% - FPLAL     | 0.65%                       | 1.5591                                | 1.5388                               | (1.30)                           |
| Life Threadneedle Global Select               | 06 - life - overseas equity           | 1367            | FP Accumulation 0.75% - FPLAL     | 0.75%                       | 1.2364                                | 1.1482                               | (7.13)                           |
| Life Threadneedle UK Corporate Bond           | 01 - life - stock market managed fund | 3873            | FP Accumulation 0.65% - FPLAL     | 0.65%                       | 1.1980                                | 1.2344                               | 3.04                             |
| Life UK Index Tracker                         | 01 - life - stock market managed fund | 5288            | FP Accumulation 0.75% - FPLAL     | 0.75%                       | 1.3948                                | 1.3331                               | (4.43)                           |
| Life UK Safeguard Optimiser                   | 05 - life - UK equity                 | 33113           | FP Accumulation 0.75% - FPLAL     | 0.75%                       | 1.1630                                | 1.1383                               | (2.12)                           |
| Thames River Equity Managed                   | 04 - life - other managed fund        | 18190           | Accumulation - PRE                | 1.00%                       | 2.1444                                | 1.8681                               | (12.88)                          |
| Mixed   | 04 - life - other managed fund        | 34910           | Accumulation - PRE                | 1.00%                       | 1.9094                                | 1.8140                               | (5.00)                           |
| Morgan Stanley Euro Strategic Bond (EUR)      | 01 - life - stock market managed fund | 17108           | Cross Holdings                    | 0.00%                       | 1.1666                                | 1.1521                               | (1.24)                           |
| Morgan Stanley Euro Strategic Bond IRIS (EUR) | 01 - life - stock market managed fund | 17027           | Cross Holdings                    | 0.00%                       | 1.0560                                | 1.0429                               | (1.24)                           |
| Morgan Stanley European Property (EUR)        | 07 - life - property                  | 406             | Multi Currency FPLAL Accumulation | 1.50%                       | 1.1000                                | 0.9445                               | (14.14)                          |
| Morgan Stanley European Value Equity (EUR)    | 06 - life - overseas equity           | 209             | Multi Currency FPLAL Accumulation | 1.50%                       | 1.1490                                | 1.0334                               | (10.06)                          |
| Morgan Stanley Global Bond (USD)              | 01 - life - stock market managed fund | 352             | Multi Currency FPLAL Accumulation | 1.25%                       | 0.8420                                | 0.8665                               | 2.91                             |
| Morgan Stanley US Property (USD)              | 07 - life - property                  | 67              | Multi Currency FPLP Accumulation  | 1.50%                       | 1.0896                                | 1.1478                               | 5.35                             |
| Nordea North America Value (USD)              | 06 - life - overseas equity           | 252             | IRIS Accumulation                 | 2.25%                       | 0.4962                                | 0.4773                               | (3.80)                           |
| North American                                | 06 - life - overseas equity           | 13351           | Accumulation - PRE                | 1.00%                       | 2.0498                                | 2.0321                               | (0.87)                           |
| Overseas                                      | 06 - life - overseas equity           | 7447            | Accumulation - PRE                | 1.00%                       | 1.7522                                | 1.6415                               | (6.32)                           |
| Pacific Basin                                 | 06 - life - overseas equity           | 17324           | Accumulation - PRE                | 1.00%                       | 1.8684                                | 1.4575                               | (21.99)                          |

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

Name of insurer **Friends Life Limited**  
Total business  
Financial year ended **31 December 2011**  
Units **£000**

| Fund name<br>1                       | Type of fund<br>2                     | Net assets<br>3 | Main series<br>4                  | Unit management charge<br>5 | Price at previous valuation date<br>6 | Price at current valuation date<br>7 | Change in price during year<br>8 |
|--------------------------------------|---------------------------------------|-----------------|-----------------------------------|-----------------------------|---------------------------------------|--------------------------------------|----------------------------------|
| Pioneer America (USD)                | 06 - life - overseas equity           | 86              | IRIS Accumulation                 | 2.00%                       | 0.6264                                | 0.5900                               | (5.81)                           |
| Stewardship                          | 05 - life - UK equity                 | 16470           | Accumulation - PRE                | 1.00%                       | 2.4133                                | 2.2462                               | (6.93)                           |
| Templeton Euro Growth IRIS (EUR)     | 06 - life - overseas equity           | 3095            | Multi Currency FPLAL Accumulation | 2.25%                       | 0.6880                                | 0.6409                               | (6.85)                           |
| UK Equity                            | 05 - life - UK equity                 | 13260           | Accumulation - PRE                | 1.00%                       | 2.4085                                | 2.2467                               | (6.72)                           |
| UK Index Tracker                     | 01 - life - stock market managed fund | 2364            | Accumulation - POST               | 1.00%                       | 1.2265                                | 1.1605                               | (5.39)                           |
| Aberdeen Global Asia Pacific (USD)   | 06 - life - overseas equity           | 887             | IRIS Accumulation                 | 2.35%                       | 0.7686                                | 0.6498                               | (15.46)                          |
| Baring Eastern Europe (EUR)          | 06 - life - overseas equity           | 999             | IRIS Accumulation                 | 2.45%                       | 0.7531                                | 0.5242                               | (30.39)                          |
| Fidelity Eurobond (EUR)              | 01 - life - stock market managed fund | 208             | IRIS Accumulation                 | 1.95%                       | 0.9349                                | 0.9143                               | (2.20)                           |
| Fidelity Global Property             | 07 - life - property                  | 139             | Multi Currency FPLAL Accumulation | 1.50%                       | 0.9033                                | 0.8298                               | (8.14)                           |
| Fidelity Global Property (EUR)       | 07 - life - property                  | 113             | Multi Currency FPLAL Accumulation | 1.50%                       | 0.6102                                | 0.5611                               | (8.05)                           |
| Fidelity Multi-Asset Strategic (EUR) | 06 - life - overseas equity           | 188             | Multi Currency FPLAL Accumulation | 1.50%                       | 0.8815                                | 0.8268                               | (6.20)                           |
| Invesco Asia Infrastructure (USD)    | 06 - life - overseas equity           | 1063            | Multi Currency FPLAL Accumulation | 1.50%                       | 0.6663                                | 0.5560                               | (16.55)                          |
| Invesco Asia Infrastructure (USD)    | 06 - life - overseas equity           | 25              | Multi Currency FPLAL Accumulation | 1.50%                       | 0.4946                                | 0.4522                               | (8.59)                           |
| Invesco Asian Equity (USD)           | 06 - life - overseas equity           | 432             | Multi Currency FPLAL Accumulation | 1.50%                       | 0.7648                                | 0.6344                               | (17.05)                          |
| Invesco Euro Corporate Bond (EUR)    | 01 - life - stock market managed fund | 302             | Multi Currency FPLAL Accumulation | 1.25%                       | 1.0689                                | 1.0249                               | (4.12)                           |
| Invesco Sterling Bond                | 01 - life - stock market managed fund | 1594            | Multi Currency FPLAL Accumulation | 1.25%                       | 1.2835                                | 1.2998                               | 1.27                             |
| Invesco UK Equity                    | 05 - life - UK equity                 | 128             | Multi Currency FPLAL Accumulation | 1.75%                       | 0.8420                                | 0.8319                               | (1.20)                           |
| Lehner Multi Leaders (EUR)           | 06 - life - overseas equity           | 810             | IRIS Accumulation                 | 2.65%                       | 0.7359                                | 0.6396                               | (13.09)                          |

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

Name of insurer **Friends Life Limited**  
 Total business  
 Financial year ended **31 December 2011**  
 Units **£000**

| Fund name<br>1                         | Type of fund<br>2                     | Net assets<br>3 | Main series<br>4              | Unit management charge<br>5 | Price at previous valuation date<br>6 | Price at current valuation date<br>7 | Change in price during year<br>8 |
|--|---------------------------------------|-----------------|-------------------------------|-----------------------------|---------------------------------------|--------------------------------------|----------------------------------|
| Life Artemis Strategic Bond            | 01 - life - stock market managed fund | 2292            | FP Accumulation 0.75% - FPLAL | 0.75%                       | 1.0704                                | 1.0443                               | (2.44)                           |
| Life Blackrock UK Alpha Plus           | 05 - life - UK equity                 | 1702            | FP Accumulation 0.75% - FPLAL | 0.75%                       | 1.0684                                | 0.9982                               | (6.58)                           |
| Life Capital Assured 2                 | 03 - life - defensive managed fund    | 4686            | FP Accumulation 1.80% - FPLAL | 1.80%                       | 1.1387                                | 1.1308                               | (0.70)                           |
| Life Capital Assured Fund              | 03 - life - defensive managed fund    | 4029            | FP Accumulation 1.80% - FPLAL | 1.80%                       | 1.0821                                | 1.0697                               | (1.14)                           |
| Life Cazenove MM Diversity             | 05 - life - UK equity                 | 333             | FP Accumulation 0.85% - FPLAL | 0.85%                       | 1.0545                                | 1.0597                               | 0.49                             |
| Life Credit Suisse European Frontier   | 06- life -overseas equity             | 38              | FP Accumulation 0.85% - FPLAL | 0.85%                       | 0.9042                                | 0.6776                               | (25.07)                          |
| Life Enhanced Cash Fund                | 01 - life - stock market managed fund | 5562            | Cross Holdings                | 0.00%                       | 1.0958                                | 1.0968                               | 0.09                             |
| Life F&C Climate Opportunities         | 06- life -overseas equity             | 179             | FP Accumulation 0.80% - FPLAL | 0.80%                       | 0.9987                                | 0.8674                               | (13.15)                          |
| Life F&C Latin America                 | 06- life -overseas equity             | 501             | FP Accumulation 0.75% - FPLAL | 0.75%                       | 1.3657                                | 1.0964                               | (19.72)                          |
| Life F&C Lifestyle Balanced            | 01 - life - stock market managed fund | 667             | FP Accumulation 0.75% - FPLAL | 0.75%                       | 1.0131                                | 0.9385                               | (7.36)                           |
| Life F&C Lifestyle Cautious            | 03 - life - defensive managed fund    | 636             | FP Accumulation 0.75% - FPLAL | 0.75%                       | 1.0152                                | 0.9483                               | (6.59)                           |
| Life F&C Lifestyle Defensive           | 03 - life - defensive managed fund    | 455             | FP Accumulation 0.75% - FPLAL | 0.75%                       | 0.9550                                | 0.9079                               | (4.93)                           |
| Life F&C Lifestyle Growth              | 01 - life - stock market managed fund | 117             | FP Accumulation 0.75% - FPLAL | 0.75%                       | 1.0380                                | 0.9198                               | (11.38)                          |
| Life F&C Maximum Income Bond           | 01 - life - stock market managed fund | 29              | FP Accumulation 0.80% - FPLAL | 0.80%                       | 1.0579                                | 1.0423                               | (1.48)                           |
| Life F&C Stewardship Corporate Bond    | 01 - life - stock market managed fund | 2675            | FP Accumulation 0.75% - FPLAL | 0.75%                       | 1.1077                                | 1.1753                               | 6.10                             |
| Life Impax Environmental Markets       | 06- life -overseas equity             | 752             | FP Accumulation 0.75% - FPLAL | 0.75%                       | 1.0973                                | 0.8910                               | (18.80)                          |
| Life Insight Diversified High Income   | 01 - life - stock market managed fund | 28              | FP Accumulation 0.85% - FPLAL | 0.85%                       | 0.8779                                | 0.8374                               | (4.62)                           |
| Life Insight Diversified Target Return | 03 - life - defensive managed fund    | 183             | FP Accumulation 0.85% - FPLAL | 0.85%                       | 0.9172                                | 0.8769                               | (4.39)                           |

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

Name of insurer **Friends Life Limited**  
Total business  
Financial year ended **31 December 2011**  
Units **£000**

| Fund name<br>1                                   | Type of fund<br>2                     | Net assets<br>3 | Main series<br>4              | Unit management charge<br>5 | Price at previous valuation date<br>6 | Price at current valuation date<br>7 | Change in price during year<br>8 |
|--|---------------------------------------|-----------------|-------------------------------|-----------------------------|---------------------------------------|--------------------------------------|----------------------------------|
| Life Invesco Perpetual Monthly Income Plus (INC) | 05 - life - UK equity                 | 221             | FP Accumulation 0.75% - FPLAL | 0.75%                       | 0.9146                                | 0.8259                               | (9.69)                           |
| Life Investec Managed Growth                     | 05 - life - UK equity                 | 121             | FP Accumulation 0.75% - FPLAL | 0.75%                       | 0.9617                                | 0.8309                               | (13.60)                          |
| Life JPM Japan                                   | 06- life -overseas equity             | 24              | FP Accumulation 0.75% - FPLAL | 0.75%                       | 0.8408                                | 0.8385                               | (0.27)                           |
| Life Jupiter Ecology                             | 06- life -overseas equity             | 2266            | FP Accumulation 0.75% - FPLAL | 0.75%                       | 0.9510                                | 0.8603                               | (9.54)                           |
| Life Jupiter Emerging European Opportunities     | 06- life -overseas equity             | 367             | FP Accumulation 0.75% - FPLAL | 0.75%                       | 0.9141                                | 0.6266                               | (31.45)                          |
| Life Jupiter Income                              | 05 - life - UK equity                 | 1482            | FP Accumulation 0.75% - FPLAL | 0.75%                       | 0.8145                                | 0.8141                               | (0.05)                           |
| Life M&G America                                 | 06- life -overseas equity             | 73              | FP Accumulation 0.80% - FPLAL | 0.80%                       | 1.1290                                | 1.0582                               | (6.27)                           |
| Life M&G Cautious Multi Asset                    | 03 - life - defensive managed fund    | 9906            | FP Accumulation 0.75% - FPLAL | 0.75%                       | 1.1389                                | 1.1211                               | (1.56)                           |
| Life M&G High Yield Corporate Bond               | 01 - life - stock market managed fund | 147             | FP Accumulation 0.75% - FPLAL | 0.75%                       | 1.0997                                | 1.0636                               | (3.28)                           |
| Life M&G Optimal Income                          | 05 - life - UK equity                 | 8873            | FP Accumulation 0.75% - FPLAL | 0.75%                       | 1.2561                                | 1.3255                               | 5.53                             |
| Life Martin Currie North America                 | 06- life -overseas equity             | 148             | FP Accumulation 0.83% - FPLAL | 0.83%                       | 1.0500                                | 1.0002                               | (4.74)                           |
| Life Blackrock Gold & General                    | 05 - life - UK equity                 | 2088            | FP Accumulation 0.75% - FPLAL | 0.75%                       | 1.8338                                | 1.5531                               | (15.31)                          |
| Life Aviva Investors Global Balanced Income      | 01 - life - stock market managed fund | 274             | FP Accumulation 0.75% - FPLAL | 0.75%                       | 0.8962                                | 0.8572                               | (4.36)                           |
| Life Aviva Investors Global Cautious Income      | 03 - life - defensive managed fund    | 471             | FP Accumulation 0.75% - FPLAL | 0.75%                       | 1.0063                                | 1.0234                               | 1.70                             |
| Life Henderson European Growth                   | 06- life -overseas equity             | 126             | FP Accumulation 0.75% - FPLAL | 0.75%                       | 1.0754                                | 0.9427                               | (12.34)                          |
| Life Old Mutual Corporate Bond                   | 01 - life - stock market managed fund | 289             | FP Accumulation 0.75% - FPLAL | 0.75%                       | 0.9881                                | 1.0131                               | 2.53                             |
| Life Old Mutual UK Select Mid Cap                | 05 - life - UK equity                 | 9689            | FP Accumulation 0.75% - FPLAL | 0.01                        | 1.0879                                | 0.9731                               | (10.56)                          |
| Life Schroder Climate Change                     | 06- life -overseas equity             | 194             | FP Accumulation 0.75% - FPLAL | 0.75%                       | 1.0719                                | 0.9549                               | (10.92)                          |



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

Name of insurer **Friends Life Limited**  
Total business  
Financial year ended **31 December 2011**  
Units **£000**

| Fund name<br>1                                | Type of fund<br>2                     | Net assets<br>3 | Main series<br>4                  | Unit management charge<br>5 | Price at previous valuation date<br>6 | Price at current valuation date<br>7 | Change in price during year<br>8 |
|---|---------------------------------------|-----------------|-----------------------------------|-----------------------------|---------------------------------------|--------------------------------------|----------------------------------|
| Life Schroder Tokyo                           | 06- life -overseas equity             | 323             | FP Accumulation 0.75% - FPLAL     | 0.75%                       | 1.0566                                | 0.9925                               | (6.07)                           |
| Loys Global (EUR)                             | 06 - life - overseas equity           | 113             | IRIS Accumulation                 | 2.00%                       | 0.8278                                | 0.7575                               | (8.49)                           |
| M&G Global Basics (EUR)                       | 06 - life - overseas equity           | 3858            | IRIS Accumulation                 | 2.35%                       | 0.9128                                | 0.7949                               | (12.92)                          |
| M&G Global Leaders (EUR)                      | 06 - life - overseas equity           | 327             | IRIS Accumulation                 | 2.35%                       | 0.7917                                | 0.6897                               | (12.88)                          |
| M&G UK Property                               | 07 - life - property                  | 81              | Multi Currency FPLAL Accumulation | 1.50%                       | 0.6361                                | 0.6631                               | 4.25                             |
| Martin Currie Asia Pacific (EUR)              | 06 - life - overseas equity           | 219             | Multi Currency FPLAL Accumulation | 1.50%                       | 0.9008                                | 0.8116                               | (9.91)                           |
| Blackrock New Energy (EUR)                    | 06 - life - overseas equity           | 664             | Multi Currency FPLAL Accumulation | 1.95%                       | 0.5192                                | 0.4098                               | (21.06)                          |
| Blackrock US Flexible Equity (USD)            | 06 - life - overseas equity           | 271             | Multi Currency FPLAL Accumulation | 1.50%                       | 0.5135                                | 0.5160                               | 0.48                             |
| Blackrock World Gold (USD)                    | 06 - life - overseas equity           | 1901            | IRIS Accumulation                 | 2.50%                       | 1.2799                                | 1.0530                               | (17.73)                          |
| Aviva Investors UK Property                   | 07 - life - property                  | 103             | Multi Currency FPLAL Accumulation | 1.50%                       | 0.6756                                | 0.6595                               | (2.38)                           |
| Henderson Horizon European Growth (EUR)       | 06 - life - overseas equity           | 77              | Multi Currency FPLAL Accumulation | 1.75%                       | 0.7463                                | 0.6410                               | (14.12)                          |
| Oppenheim Global Absolute Return (EUR)        | 06 - life - overseas equity           | 547             | IRIS Accumulation                 | 2.25%                       | 0.7697                                | 0.6021                               | (21.77)                          |
| Oppenheim Global Selection                    | 06 - life - overseas equity           | 607             | IRIS Accumulation                 | 2.15%                       | 0.6999                                | 0.5704                               | (18.51)                          |
| Schroder ISF Global Property Securities (EUR) | 07 - life - property                  | 9               | Multi Currency FPLAL Accumulation | 1.50%                       | 0.6042                                | 0.5359                               | (11.30)                          |
| Schroder ISF Strategic Bond (EUR)             | 01 - life - stock market managed fund | 32              | Multi Currency FPLAL Accumulation | 1.25%                       | 1.0105                                | 0.9619                               | (4.81)                           |
| Thames River High Income                      | 05 - life - UK equity                 | 337             | Multi Currency FPLAL Accumulation | 2.00%                       | 1.0955                                | 0.9979                               | (8.91)                           |
| Thames River Property & Growth                | 07 - life - property                  | 113             | Multi Currency FPLAL Accumulation | 2.00%                       | 0.7432                                | 0.6726                               | (9.49)                           |
| Life Artemis Strategic Bond Distribution      | 01 - life - stock market managed fund | 10              | FP Accumulation 0.75% - FPLAL     | 0.75%                       | 0.9864                                | 0.9146                               | (7.27)                           |

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

Name of insurer **Friends Life Limited**  
Total business  
Financial year ended **31 December 2011**  
Units **£000**

| Fund name<br>1                              | Type of fund<br>2                     | Net assets<br>3 | Main series<br>4                  | Unit management charge<br>5 | Price at previous valuation date<br>6 | Price at current valuation date<br>7 | Change in price during year<br>8 |
|---|---------------------------------------|-----------------|-----------------------------------|-----------------------------|---------------------------------------|--------------------------------------|----------------------------------|
| Life Old Mutual Corporate Bond Distribution | 01 - life - stock market managed fund | 19              | FP Accumulation 0.75% - FPLAL     | 0.75%                       | 0.8978                                | 0.8799                               | (2.00)                           |
| Life Fidelity Moneybuilder Distribution     | 01 - life - stock market managed fund | 153             | FP Accumulation 0.65% - FPLAL     | 0.65%                       | 0.9906                                | 1.0057                               | 1.53                             |
| Life Newton Global Higher Income            | 06 - life - overseas equity           | 62              | FP Accumulation 0.75% - FPLAL     | 0.75%                       | 1.1551                                | 1.1877                               | 2.82                             |
| Life Kames Global Bond                      | 01 - life - stock market managed fund | 55              | FP Accumulation 0.75% - FPLAL     | 0.75%                       | 1.1244                                | 1.1258                               | 0.12                             |
| Life Allianz BRIC Allstars                  | 06 - life - overseas equity           | 158             | FP Accumulation 0.78% - FPLAL     | 0.78%                       | 1.0539                                | 0.7754                               | (26.43)                          |
| Life Jupiter Merlin Balanced                | 02 - life - balanced managed fund     | 132             | FP Accumulation 0.75% - FPLAL     | 0.75%                       | 1.1705                                | 1.1314                               | (3.34)                           |
| Life Jupiter Merlin Growth                  | 01 - life - stock market managed fund | 236             | FP Accumulation 0.75% - FPLAL     | 0.75%                       | 1.2068                                | 1.1542                               | (4.36)                           |
| Life Jupiter Merlin Income                  | 03 - life - defensive managed fund    | 740             | FP Accumulation 0.75% - FPLAL     | 0.75%                       | 1.1369                                | 1.1408                               | 0.34                             |
| Life M&G Managed Growth                     | 01 - life - stock market managed fund | 77              | FP Accumulation 0.80% - FPLAL     | 0.80%                       | 1.2157                                | 1.0693                               | (12.04)                          |
| Life Neptune European Opportunities         | 06 - life - overseas equity           | 43              | FP Accumulation 0.78% - FPLAL     | 0.78%                       | 1.0700                                | 0.9503                               | (11.19)                          |
| Life Neptune Global Equity                  | 06 - life - overseas equity           | 58              | FP Accumulation 0.78% - FPLAL     | 0.78%                       | 1.0845                                | 0.8982                               | (17.18)                          |
| Life Kames Global Bond Distribution         | 01 - life - stock market managed fund | 14              | FP Accumulation 0.70% - FPLAL     | 0.70%                       | 0.9892                                | 0.9388                               | (5.10)                           |
| F&C Global Climate Change                   | 06 - life - overseas equity           | 46              | IRIS Accumulation                 | 2.10%                       | 0.8191                                | 0.6916                               | (15.57)                          |
| Schroder Global Climate Change              | 06 - life - overseas equity           | 85              | IRIS Accumulation                 | 2.19%                       | 0.7820                                | 0.6753                               | (13.64)                          |
| JPM Natural Resources                       | 06 - life - overseas equity           | 912             | Multi Currency FPLAL Accumulation | 1.50%                       | 0.9901                                | 0.7029                               | (29.01)                          |
| Sarasin Global Sar                          | 01 - life - stock market managed fund | 239             | Multi Currency FPLAL Accumulation | 1.50%                       | 0.8400                                | 0.7824                               | (6.85)                           |
| DWS Global Agribusiness                     | 06 - life - overseas equity           | 613             | Multi Currency FPLAL Accumulation | 1.75%                       | 0.6107                                | 0.5286                               | (13.45)                          |
| Schroder ISF Middle East                    | 06 - life - overseas equity           | 75              | Multi Currency FPLAL Accumulation | 1.75%                       | 0.5041                                | 0.4033                               | (19.99)                          |

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

Name of insurer **Friends Life Limited**  
Total business  
Financial year ended **31 December 2011**  
Units **£000**

| Fund name<br>1                   | Type of fund<br>2                     | Net assets<br>3 | Main series<br>4                  | Unit management charge<br>5 | Price at previous valuation date<br>6 | Price at current valuation date<br>7 | Change in price during year<br>8 |
|----------------------------------|---------------------------------------|-----------------|-----------------------------------|-----------------------------|---------------------------------------|--------------------------------------|----------------------------------|
| Pioneer Global Ecology           | 06 - life - overseas equity           | 243             | IRIS Accumulation                 | 2.20%                       | 0.7822                                | 0.6648                               | (15.01)                          |
| C-Quadrat ARTS Best Momentum     | 06 - life - overseas equity           | 318             | IRIS Accumulation                 | 2.60%                       | 1.0825                                | 0.8773                               | (18.95)                          |
| C-Quadrat Total Return Dynamic   | 06 - life - overseas equity           | 620             | IRIS Accumulation                 | 2.50%                       | 1.1187                                | 0.9334                               | (16.57)                          |
| DJE Managed Depot Ertag          | 01 - life - stock market managed fund | 370             | IRIS Accumulation                 | 1.75%                       | 0.9658                                | 0.8889                               | (7.96)                           |
| DJE Managed Depot Wachstum       | 01 - life - stock market managed fund | 2528            | IRIS Accumulation                 | 1.75%                       | 1.0134                                | 0.8911                               | (12.07)                          |
| DJE Managed Depot Chance         | 01 - life - stock market managed fund | 1229            | IRIS Accumulation                 | 1.75%                       | 1.1057                                | 0.9286                               | (16.02)                          |
| FPI IAM ProVita World Fund       | 06 - life - overseas equity           | 336             | IRIS Accumulation                 | 2.35%                       | 1.0124                                | 0.7599                               | (24.94)                          |
| Prima Welt - Invest              | 01 - life - stock market managed fund | 206             | IRIS Accumulation                 | 2.10%                       | 1.0705                                | 0.8352                               | (21.98)                          |
| Systematiska Covered Call        | 06 - life - overseas equity           | 2649            | Multi Currency FPLAL Accumulation | 2.00%                       | 1.2721                                | 1.1287                               | (11.28)                          |
| Oppenheim Inovesta               | 06 - life - overseas equity           | 13              | IRIS Accumulation                 | 2.66%                       | 1.0991                                | 0.8577                               | (21.96)                          |
| Oppenheim Inovesta Classic       | 06 - life - overseas equity           | 30              | IRIS Accumulation                 | 2.68%                       | 1.1422                                | 0.9654                               | (15.48)                          |
| Carmignac Patrimoine             | 01 - life - stock market managed fund | 5960            | IRIS Accumulation                 | 2.45%                       | 0.9474                                | 0.9075                               | (4.22)                           |
| IAM Taerget Global Portfolio     | 06 - life - overseas equity           | 177             | IRIS Accumulation                 | 2.35%                       | 0.8259                                | 0.7075                               | (14.33)                          |
| Haspa Portfolio Stabil           | 01 - life - stock market managed fund | 3794            | IRIS Accumulation                 | 1.85%                       | 0.8729                                | 0.8158                               | (6.55)                           |
| Warburg Portfolio Act Assets     | 01 - life - stock market managed fund | 8466            | IRIS Accumulation                 | 1.95%                       | 0.9855                                | 0.8246                               | (16.33)                          |
| FPI Portfolio Quality Selections | 01 - life - stock market managed fund | 1140            | IRIS Accumulation                 | 1.85%                       | 0.9525                                | 0.8657                               | (9.11)                           |
| DWS Invest Chinese Equity        | 06 - life - overseas equity           | 80              | IRIS Accumulation                 | 0.00%                       | 1.0002                                | 0.7835                               | (21.67)                          |
| JPM Global Focus                 | 06 - life - overseas equity           | 29              | IRIS Accumulation                 | 0.00%                       | 1.1483                                | 0.9693                               | (15.58)                          |

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

Name of insurer **Friends Life Limited**  
Total business  
Financial year ended **31 December 2011**  
Units **£000**

| Fund name<br>1   | Type of fund<br>2                     | Net assets<br>3 | Main series<br>4                  | Unit management charge<br>5 | Price at previous valuation date<br>6 | Price at current valuation date<br>7 | Change in price during year<br>8 |
|--|---------------------------------------|-----------------|-----------------------------------|-----------------------------|---------------------------------------|--------------------------------------|----------------------------------|
| BNY Mellon Euroland Bond                               | 01 - life - stock market managed fund | 12              | IRIS Accumulation                 | 0.00%                       | 0.8926                                | 0.8718                               | (2.32)                           |
| BNY Mellon Global Bond                                 | 01 - life - stock market managed fund | 46              | IRIS Accumulation                 | 0.00%                       | 0.9830                                | 1.0434                               | 6.14                             |
| JPM India  | 06 - life - overseas equity           | 61              | IRIS Accumulation                 | 0.00%                       | 0.8261                                | 0.5579                               | (32.46)                          |
| FPI Monyx Strategi Vida Varlden                        | 01 - life - stock market managed fund | 5243            | Multi Currency FPLAL Accumulation | 2.25%                       | 1.0275                                | 0.9353                               | (8.97)                           |
| FPI Monyx Stragtegi Svenskt Fokus                      | 01 - life - stock market managed fund | 2015            | Multi Currency FPLAL Accumulation | 2.00%                       | 1.0680                                | 0.9448                               | (11.54)                          |
| FPI Naventi Aktiv Forvaltning Balanserad               | 02 - life - balanced managed fund     | 2213            | Multi Currency FPLAL Accumulation | 2.10%                       | 1.0170                                | 0.8726                               | (14.20)                          |
| FPI Naventi Aktiv Forvaltning Offensiv                 | 02 - life - balanced managed fund     | 6798            | Multi Currency FPLAL Accumulation | 2.10%                       | 1.0625                                | 0.8271                               | (22.16)                          |
| Life Stewardship Safeguard Optimiser 2                 | 05 - life - UK equity                 | 23870           | FP Accumulation 1.35% - FPLAL     | 0.01                        | 0.9500                                | 1.1502                               | 21.07                            |
| Life UK Safeguard Optimiser 2                          | 05 - life - UK equity                 | 22569           | FP Accumulation 1.35% - FPLAL     | 0.01                        | 0.9500                                | 1.1514                               | 21.20                            |
| Life Invesco Perpetual High Income (Skipton)           | 05 - life - UK equity                 | 386             | FP Accumulation 0.70% - FPLAL     | 0.75%                       | 0.9500                                | 1.1956                               | 25.85                            |
| Life Invesco Perpetual Monthly Income Plus (Skipton)   | 01 - life - stock market managed fund | 448             | FP Accumulation 0.70% - FPLAL     | 0.75%                       | 0.9500                                | 1.0435                               | 9.84                             |
| Life Invesco Perpetual Distribution (Skipton)          | 01 - life - stock market managed fund | 1100            | FP Accumulation 0.70% - FPLAL     | 0.75%                       | 0.9500                                | 1.0402                               | 9.49                             |
| Life Henderson Cautious Managed (Skipton)              | 03 - life - defensive managed fund    | 403             | FP Accumulation 0.70% - FPLAL     | 0.65%                       | 0.9500                                | 1.0373                               | 9.19                             |
| Life Jupiter Merlin Growth Portfolio (Skipton)         | 06 - life - overseas equity           | 639             | FP Accumulation 0.70% - FPLAL     | 0.75%                       | 0.9500                                | 1.2356                               | 30.06                            |
| Life Jupiter Merlin Income Portfolio (Skipton)         | 03 - life - defensive managed fund    | 2695            | FP Accumulation 0.70% - FPLAL     | 0.75%                       | 0.9500                                | 1.1238                               | 18.29                            |
| Life Schroder Multi-Manager Cautious Managed (Skipton) | 01 - life - stock market managed fund | 47              | FP Accumulation 0.70% - FPLAL     | 0.75%                       | 0.9500                                | 1.0915                               | 14.90                            |
| ComInvest Fondak S1 (EUR)                              | 01 - life - stock market managed fund | 87              | IRIS Accumulation                 | 2.20%                       | 0.9883                                | 0.7708                               | (22.01)                          |
| Carmignac Investissement S1 (EUR)                      | 06 - life - overseas equity           | 1240            | IRIS Accumulation                 | 2.35%                       | 0.9544                                | 0.8300                               | (13.03)                          |

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

Name of insurer **Friends Life Limited**  
Total business  
Financial year ended **31 December 2011**  
Units **£000**

| Fund name<br>1                         | Type of fund<br>2                     | Net assets<br>3 | Main series<br>4  | Unit management charge<br>5 | Price at previous valuation date<br>6 | Price at current valuation date<br>7 | Change in price during year<br>8 |
|--|---------------------------------------|-----------------|-------------------|-----------------------------|---------------------------------------|--------------------------------------|----------------------------------|
| Ethna Aktiv S1 (EUR)                   | 01 - life - stock market managed fund | 1487            | IRIS Accumulation | 2.35%                       | 0.8881                                | 0.8399                               | (5.43)                           |
| Ethna Global Defensiv S1 (EUR)         | 03 - life - defensive managed fund    | 226             | IRIS Accumulation | 1.95%                       | 0.8730                                | 0.8298                               | (4.95)                           |
| Blackrock World Mining S1 (EUR)        | 06 - life - overseas equity           | 328             | IRIS Accumulation | 2.33%                       | 1.0352                                | 0.7007                               | (32.32)                          |
| Top Trend AMI P S1 (EUR)               | 01 - life - stock market managed fund | 9               | Cross Holdings    | 0.00%                       | 0.8981                                | 0.8098                               | (9.84)                           |
| FPI Basket Alte und Neue Welt S1 (EUR) | 01 - life - stock market managed fund | 48              | IRIS Accumulation | 2.45%                       | 0.9176                                | 0.7848                               | (14.48)                          |
| FPI Basket Asianisierung S1 (EUR)      | 01 - life - stock market managed fund | 23              | IRIS Accumulation | 2.55%                       | 0.8943                                | 0.7065                               | (21.00)                          |
| FPI Basket Klassiker S1 (EUR)          | 01 - life - stock market managed fund | 9               | IRIS Accumulation | 2.45%                       | 0.9209                                | 0.7888                               | (14.34)                          |
| FPI PIMCO Global Multi Asset S1 (EUR)  | 06 - life - overseas equity           | 135             | IRIS Accumulation | 2.65%                       | 0.8592                                | 0.8049                               | (6.31)                           |
| FPI Basket Vermögensverwalter S1 (EUR) | 01 - life - stock market managed fund | 14              | IRIS Accumulation | 2.31%                       | 0.8967                                | 0.7856                               | (12.39)                          |
| FPI Comgest Magellan S1 (EUR)          | 06 - life - overseas equity           | 13              | IRIS Accumulation | 2.57%                       | 0.8558                                | 0.8240                               | (3.71)                           |
| FPI Smart-Invest Helios S1 (EUR)       | 06 - life - overseas equity           | 9               | Cross Holdings    | 0.00%                       | 0.8558                                | 0.8191                               | (4.29)                           |
|  |                                       |                 |                   |                             |                                       |                                      |                                  |
|  |                                       |                 |                   |                             |                                       |                                      |                                  |
|  |                                       |                 |                   |                             |                                       |                                      |                                  |
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|  |                                       |                 |                   |                             |                                       |                                      |                                  |
|  |                                       |                 |                   |                             |                                       |                                      |                                  |

**Long-term insurance business: Analysis of valuation interest rate**Name of insurer **Friends Life Limited**Subfund **With Profit Fund**Financial year ended **31 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 F51 L&GA WP                   | 1652655                        | 2.30%                            | 2.88%                              | 3.51%                                       |
| UK F51 L&GA NP                   | 96396                          | 1.90%                            | 2.38%                              | 3.51%                                       |
| UK F52 L&GA                      | 1065939                        | 2.30%                            | 2.88%                              | 3.51%                                       |
| UK F53 L&GA NL                   | 4509                           | 1.90%                            | 2.38%                              | 3.51%                                       |
| UK F51 Pensions WP               | 1655833                        | 2.90%                            | 2.90%                              | 3.52%                                       |
| UK F51 Pensions NP               | 178071                         | 2.40%                            | 2.40%                              | 3.52%                                       |
| UK F51 Pensions NP               | 2068956                        | 4.09%                            | 4.09%                              | 4.22%                                       |
| UK F52 Pensions                  | 2612036                        | 2.90%                            | 2.90%                              | 3.52%                                       |
| UK F53 Pensions NL               | 40256                          | 2.40%                            | 2.40%                              | 3.52%                                       |
| OS F51 NP                        | 622                            | 2.40%                            | 2.40%                              | 3.52%                                       |
| OS F52                           | 159097                         | 2.90%                            | 2.90%                              | 3.52%                                       |
| OS F53 NL                        | 510                            | 2.40%                            | 2.40%                              | 3.52%                                       |
| Miscellaneous UK F51 L&GA WP     | 7116                           | n/a                              | n/a                                | 3.76%                                       |
| Miscellaneous UK F51 L&GA NP     | 4630                           | n/a                              | n/a                                | 3.76%                                       |
| Miscellaneous UK F52 L&GA        | 1427                           | n/a                              | n/a                                | 3.76%                                       |
| Miscellaneous UK F53 L&GA NL     | 2055                           | n/a                              | n/a                                | 3.76%                                       |
| Miscellaneous UK F51 Pensions WP | 139403                         | n/a                              | n/a                                | 3.76%                                       |
| Miscellaneous UK F51 Pensions NP | 32224                          | n/a                              | n/a                                | 4.17%                                       |
| Miscellaneous UK F52 Pensions    | 7830                           | n/a                              | n/a                                | 3.76%                                       |
| <b>Total</b>                     | 9729565                        |                                  |                                    |   |

**Long-term insurance business: Analysis of valuation interest rate**Name of insurer **Friends Life Limited**Subfund **With Profit Fund**Financial year ended **31 December 2011**Units **£000**

| Product group<br>1               | Net mathematical<br>reserves<br>2 | Net valuation<br>interest rate<br>3 | Gross valuation<br>interest rate<br>4 | Risk adjusted<br>yield on<br>matching assets<br>5 |
|----------------------------------|-----------------------------------|-------------------------------------|---------------------------------------|---|
| Miscellaneous UK F53 Pensions NL | 3313                              | n/a                                 | n/a                                   | 3.76%   |
| Miscellaneous OS F53 NL          | 115                               | n/a                                 | n/a                                   | 3.76%   |
|                                  |                                   |                                     |                                       |   |
|                                  |                                   |                                     |                                       |   |
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|                                  |                                   |                                     |                                       |   |
|                                  |                                   |                                     |                                       |   |
|                                  |                                   |                                     |                                       |   |
| <b>Total</b>                     | 9732993                           |                                     |                                       |   |

**Long-term insurance business: Analysis of valuation interest rate**Name of insurer **Friends Life Limited**Subfund **Non Profit Fund**Financial year ended **31 December 2011**Units **£000**

| Product group                    | Net mathematical reserves | Net valuation interest rate | Gross valuation interest rate | Risk adjusted yield on matching assets |
|----------------------------------|---------------------------|-----------------------------|-------------------------------|--|
| 1                                | 2                         | 3                           | 4                             | 5                                      |
| UK F51 L&GA NP                   | (60465)                   | 1.90%                       | 2.38%                         | 2.48%                                  |
| UK F51 L&GA NP                   | 19734                     | 1.90%                       | 2.38%                         | 2.46%                                  |
| UK F51 L&GA NP                   | 197590                    | 2.40%                       | 2.40%                         | 3.75%                                  |
| UK F51 L&GA NP                   | 14026                     | n/a                         | n/a                           | 0.00%                                  |
| UK F52 L&GA                      | 147                       | 2.30%                       | 2.88%                         | 2.97%                                  |
| UK F53 L&GA NL                   | 25813                     | 1.90%                       | 2.38%                         | 2.46%                                  |
| UK F51 Pensions NP               | 5692                      | n/a                         | n/a                           | 0.00%                                  |
| UK F51 Pensions NP               | 4548                      | 3.57%                       | 3.57%                         | 4.95%                                  |
| UK F51 Pensions NP               | 27772                     | 2.40%                       | 2.40%                         | 2.97%                                  |
| UK F52 Pensions                  |                           | 2.90%                       | n/a                           | n/a                                    |
| UK F53 Pensions NL               | 1569                      | 2.40%                       | 2.40%                         | 2.97%                                  |
| OS F51 NP                        | (15573)                   | 2.40%                       | 2.40%                         | 2.48%                                  |
| OS F52                           | 57                        | 2.90%                       | 2.90%                         | 2.97%                                  |
| OS F53 NL                        | 44205                     | 2.40%                       | 2.40%                         | 3.04%                                  |
| Miscellaneous UK F51 L&GA NP     |                           | n/a                         | n/a                           |  |
| Miscellaneous UK F52 L&GA        |                           | n/a                         | n/a                           |  |
| Miscellaneous UK F53 L&GA NL     | 467                       | n/a                         | n/a                           | 0.00%                                  |
| Miscellaneous UK F51 Pensions NP | 2703                      | n/a                         | n/a                           | 0.00%                                  |
| Miscellaneous UK F53 Pensions NL | 25995                     | n/a                         | n/a                           | 0.00%                                  |
| Miscellaneous OS F53 NL          | (44)                      | n/a                         | n/a                           | 2.48%                                  |
| UK F54 Life Index Linked         | 25770                     | n/a                         | n/a                           | 2.47%                                  |
|                                  |                           |                             |                               |  |
|                                  |                           |                             |                               |  |
| <b>Total</b>                     | 320005                    |                             |                               |  |



**Long-term insurance business: Analysis of valuation interest rate**Name of insurer **Friends Life Limited**Subfund **Closed With Profit Fund**Financial year ended **31 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 F51 L&GA WP                   | 97598                          | 1.70%                            | 1.88%                              | 3.11%                                       |
| UK F51 L&GA NP                   | 2124                           | 1.90%                            | 2.10%                              | 3.11%                                       |
| UK F51 Pensions WP               | 42385                          | 2.20%                            | 2.20%                              | 3.11%                                       |
| UK F51 Pensions WP               | 43889                          | 2.40%                            | 2.40%                              | 3.11%                                       |
| UK F51 Pensions NP               | 60808                          | 2.40%                            | 2.40%                              | 3.11%                                       |
| Miscellaneous UK F51 L&GA WP     | 1212                           | n/a                              | n/a                                | 1.87%                                       |
| Miscellaneous UK F51 Pensions WP | 1197                           | n/a                              | n/a                                | 1.87%                                       |
|                                  |                                |                                  |                                    |   |
|                                  |                                |                                  |                                    |   |
|                                  |                                |                                  |                                    |   |
|                                  |                                |                                  |                                    |   |
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|                                  |                                |                                  |                                    |   |
|                                  |                                |                                  |                                    |   |
|                                  |                                |                                  |                                    |   |
| <b>Total</b>                     | 249214                         |                                  |                                    |   |

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

Name of insurer **Friends Life Limited**  
 Total business / subfund **Summary**  
 Financial year ended **31 December 2011**  
 Units **£000**

| Financial year<br>1 | Previous year<br>2 |
|---------------------|--------------------|
|---------------------|--------------------|

**Valuation result**

|   |    |          |          |
|---|----|----------|----------|
| Fund carried forward  | 11 | 14645489 | 11942727 |
| Bonus payments in anticipation of a surplus   | 12 | 240520   | 177860   |
| Transfer to non-technical account   | 13 | 88168    | 76481    |
| Transfer to other funds / parts of funds  | 14 |          |          |
| Subtotal (11 to 14)   | 15 | 14974176 | 12197068 |
| Mathematical reserves   | 21 | 14643819 | 12029435 |
| Surplus including contingency and other reserves held towards the capital requirements (deficiency) (15-21) | 29 | 330357   | 167633   |

**Composition of surplus**

|   |    |         |         |
|---|----|---------|---------|
| Balance brought forward                   | 31 | (97507) | (78958) |
| Transfer from non-technical account       | 32 |         |         |
| Transfer from other funds / parts of fund | 33 |         |         |
| Surplus arising since the last valuation  | 34 | 427864  | 246591  |
| Total                                     | 39 | 330357  | 167633  |

**Distribution of surplus**

|   |    |         |         |
|---|----|---------|---------|
| Bonus paid in anticipation of a surplus     | 41 | 240520  | 177860  |
| Cash bonuses                                | 42 |         |         |
| Reversionary bonuses                        | 43 | 12023   | 10799   |
| Other bonuses                               | 44 |         |         |
| Premium reductions                          | 45 |         |         |
| Total allocated to policyholders (41 to 45) | 46 | 252543  | 188659  |
| Net transfer out of fund / part of fund     | 47 | 88168   | 76481   |
| Total distributed surplus (46+47)           | 48 | 340711  | 265140  |
| Surplus carried forward                     | 49 | (10354) | (97507) |
| Total (48+49)                               | 59 | 330357  | 167633  |

**Percentage of distributed surplus allocated to policyholders**

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

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

Name of insurer **Friends Life Limited**  
Total business / subfund **With Profit Fund**  
Financial year ended **31 December 2011**  
Units **£000**

| Financial year<br>1 | Previous year<br>2 |
|---------------------|--------------------|
|---------------------|--------------------|

**Valuation result**

|   |    |         |          |
|---|----|---------|----------|
| Fund carried forward  | 11 | 9555583 | 9787614  |
| Bonus payments in anticipation of a surplus   | 12 | 227433  | 177860   |
| Transfer to non-technical account   | 13 | 13168   | 6481     |
| Transfer to other funds / parts of funds  | 14 |         |          |
| Subtotal (11 to 14)   | 15 | 9796184 | 9971955  |
| Mathematical reserves   | 21 | 9764360 | 10046572 |
| Surplus including contingency and other reserves held towards the capital requirements (deficiency) (15-21) | 29 | 31824   | (74617)  |

**Composition of surplus**

|   |    |          |          |
|---|----|----------|----------|
| Balance brought forward                   | 31 | (269757) | (269757) |
| Transfer from non-technical account       | 32 |          |          |
| Transfer from other funds / parts of fund | 33 |          |          |
| Surplus arising since the last valuation  | 34 | 301581   | 195140   |
| Total                                     | 39 | 31824    | (74617)  |

**Distribution of surplus**

|   |    |          |          |
|---|----|----------|----------|
| Bonus paid in anticipation of a surplus     | 41 | 227433   | 177860   |
| Cash bonuses                                | 42 |          |          |
| Reversionary bonuses                        | 43 | 10980    | 10799    |
| Other bonuses                               | 44 |          |          |
| Premium reductions                          | 45 |          |          |
| Total allocated to policyholders (41 to 45) | 46 | 238413   | 188659   |
| Net transfer out of fund / part of fund     | 47 | 13168    | 6481     |
| Total distributed surplus (46+47)           | 48 | 251581   | 195140   |
| Surplus carried forward                     | 49 | (219757) | (269757) |
| Total (48+49)                               | 59 | 31824    | (74617)  |

**Percentage of distributed surplus allocated to policyholders**

|                  |    |       |       |
|------------------|----|-------|-------|
| Current year     | 61 | 94.77 | 96.68 |
| Current year - 1 | 62 | 96.68 | 97.06 |
| Current year - 2 | 63 | 97.06 | 95.58 |
| Current year - 3 | 64 | 95.58 | 96.19 |

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

Name of insurer **Friends Life Limited**  
 Total business / subfund **Non Profit Fund**  
 Financial year ended **31 December 2011**  
 Units **£000**

| Financial year<br>1 | Previous year<br>2 |
|---------------------|--------------------|
|---------------------|--------------------|

**Valuation result**

|   |    |         |         |
|---|----|---------|---------|
| Fund carried forward  | 11 | 4815691 | 2155113 |
| Bonus payments in anticipation of a surplus   | 12 |         |         |
| Transfer to non-technical account   | 13 | 75000   | 70000   |
| Transfer to other funds / parts of funds  | 14 |         |         |
| Subtotal (11 to 14)   | 15 | 4890691 | 2225113 |
| Mathematical reserves   | 21 | 4631288 | 1982863 |
| Surplus including contingency and other reserves held towards the capital requirements (deficiency) (15-21) | 29 | 259403  | 242250  |

**Composition of surplus**

|   |    |        |        |
|---|----|--------|--------|
| Balance brought forward                   | 31 | 172250 | 190799 |
| Transfer from non-technical account       | 32 |        |        |
| Transfer from other funds / parts of fund | 33 |        |        |
| Surplus arising since the last valuation  | 34 | 87153  | 51451  |
| Total                                     | 39 | 259403 | 242250 |

**Distribution of surplus**

|   |    |        |        |
|---|----|--------|--------|
| Bonus paid in anticipation of a surplus     | 41 |        |        |
| Cash bonuses                                | 42 |        |        |
| Reversionary bonuses                        | 43 |        |        |
| Other bonuses                               | 44 |        |        |
| Premium reductions                          | 45 |        |        |
| Total allocated to policyholders (41 to 45) | 46 |        |        |
| Net transfer out of fund / part of fund     | 47 | 75000  | 70000  |
| Total distributed surplus (46+47)           | 48 | 75000  | 70000  |
| Surplus carried forward                     | 49 | 184403 | 172250 |
| Total (48+49)                               | 59 | 259403 | 242250 |

**Percentage of distributed surplus allocated to policyholders**

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

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

Name of insurer **Friends Life Limited**  
 Total business / subfund **Closed With Profit Fund**  
 Financial year ended **31 December 2011**  
 Units **£000**

| Financial year<br>1 | Previous year<br>2 |
|---------------------|--------------------|
|---------------------|--------------------|

**Valuation result**

|   |    |        |  |
|---|----|--------|--|
| Fund carried forward  | 11 | 274214 |  |
| Bonus payments in anticipation of a surplus   | 12 | 13087  |  |
| Transfer to non-technical account   | 13 |        |  |
| Transfer to other funds / parts of funds  | 14 |        |  |
| Subtotal (11 to 14)   | 15 | 287301 |  |
| Mathematical reserves   | 21 | 248171 |  |
| Surplus including contingency and other reserves held towards the capital requirements (deficiency) (15-21) | 29 | 39130  |  |

**Composition of surplus**

|   |    |       |  |
|---|----|-------|--|
| Balance brought forward                   | 31 |       |  |
| Transfer from non-technical account       | 32 |       |  |
| Transfer from other funds / parts of fund | 33 |       |  |
| Surplus arising since the last valuation  | 34 | 39130 |  |
| Total                                     | 39 | 39130 |  |

**Distribution of surplus**

|   |    |       |  |
|---|----|-------|--|
| Bonus paid in anticipation of a surplus     | 41 | 13087 |  |
| Cash bonuses                                | 42 |       |  |
| Reversionary bonuses                        | 43 | 1043  |  |
| Other bonuses                               | 44 |       |  |
| Premium reductions                          | 45 |       |  |
| Total allocated to policyholders (41 to 45) | 46 | 14130 |  |
| Net transfer out of fund / part of fund     | 47 |       |  |
| Total distributed surplus (46+47)           | 48 | 14130 |  |
| Surplus carried forward                     | 49 | 25000 |  |
| Total (48+49)                               | 59 | 39130 |  |

**Percentage of distributed surplus allocated to policyholders**

|                  |    |        |  |
|------------------|----|--------|--|
| Current year     | 61 | 100.00 |  |
| Current year - 1 | 62 | 100.00 |  |
| Current year - 2 | 63 | 100.00 |  |
| Current year - 3 | 64 | 100.00 |  |

## Form 59A

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

Name of insurer **Friends Life Limited**  
 Original insurer **Friends Provident Life and Pensions Limited**  
 Date of maturity value / open market option **01 March 2012**

| Category of with-profits policy | Original term (years) | Maturity value / open market option | Terminal bonus | MVA | CWP / UWP | MVA permitted? | Death benefit |
|---------------------------------|-----------------------|-------------------------------------|----------------|-----|-----------|----------------|---------------|
| 1                               | 2                     | 3                                   | 4              | 5   | 6         | 7              | 8             |
| Endowment assurance             | 10                    | 7179                                | 1602           | 0   | UWP       | N              | 7179          |
| Endowment assurance             | 15                    | 11231                               | 2404           | 0   | UWP       | N              | 11231         |
| Endowment assurance             | 20                    | 21856                               | 3756           | 0   | CWP       | N              | 24810         |
| Endowment assurance             | 25                    | 27484                               | 6647           | 0   | CWP       | N              | 39773         |
| Regular premium pension         | 5                     | 15262                               | 2981           | 0   | UWP       | N              | 15262         |
| Regular premium pension         | 10                    | 33613                               | 8326           | 0   | UWP       | N              | 33613         |
| Regular premium pension         | 15                    | 50663                               | 11396          | 0   | UWP       | N              | 50663         |
| Regular premium pension         | 20                    | 78899                               | 5104           | 0   | UWP       | N              | 78899         |
| Single premium pension          | 5                     | 12205                               | 1723           | 0   | UWP       | N              | 12205         |
| Single premium pension          | 10                    | 17143                               | 5579           | 0   | UWP       | N              | 17143         |
| Single premium pension          | 15                    | 20753                               | 5190           | 0   | UWP       | N              | 20753         |
| Single premium pension          | 20                    | 34603                               | 4013           | 0   | UWP       | N              | 34603         |

## Form 59B

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

Name of insurer **Friends Life Limited**  
 Original insurer **Friends Provident Life and Pensions Limited**  
 Date of surrender value **01 March 2012**

| Category of with-profits policy<br>1 | Duration at<br>surrender<br>(years)<br>2 | Surrender value<br>3 | Terminal bonus<br>4 | MVA<br>5 | CWP /<br>UWP<br>6 | MVA<br>permitted?<br>7 | Death benefit<br>8 |
|--------------------------------------|--|----------------------|---------------------|----------|-------------------|------------------------|--------------------|
| Endowment assurance                  | 5  | 2636                 | 437                 | 0        | UWP               | Y                      | 11687              |
| Endowment assurance                  | 10                                       | 6534                 | 1413                | 0        | UWP               | Y                      | 12663              |
| Endowment assurance                  | 15                                       | 10865                | 2327                | 0        | UWP               | Y                      | 13577              |
| Endowment assurance                  | 20                                       | 18259                | 3688                | 0        | CWP               | N                      | 38951              |
| 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  | 11787                | 1384                | 0        | UWP               | Y                      | 11891              |
| With-profits bond                    | 10                                       | 14999                | 3839                | 0        | UWP               | Y                      | 15111              |
| Single premium pension               | 2  | 11428                | 1242                | 0        | UWP               | Y                      | 11428              |
| Single premium pension               | 3  | 16042                | 5790                | 0        | UWP               | Y                      | 16042              |
| Single premium pension               | 5  | 12205                | 1723                | 0        | UWP               | Y                      | 12205              |
| Single premium pension               | 10                                       | 17143                | 5579                | 0        | UWP               | Y                      | 17143              |

## Form 59A

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

Name of insurer **Friends Life Limited**  
 Original insurer **London and Manchester**  
 Date of maturity value / open market option **01 March 2012**

| Category of with-profits policy | Original term (years) | Maturity value / open market option | Terminal bonus | MVA | CWP / UWP | MVA permitted? | Death benefit |
|---------------------------------|-----------------------|-------------------------------------|----------------|-----|-----------|----------------|---------------|
| 1                               | 2                     | 3                                   | 4              | 5   | 6         | 7              | 8             |
| Endowment assurance             | 10                    | N/A                                 | N/A            | N/A | N/A       | N/A            | N/A           |
| Endowment assurance             | 15                    | 10920                               | 2562           | 0   | UWP       | N              | 10920         |
| Endowment assurance             | 20                    | 17973                               | 5674           | 0   | UWP       | N              | 17973         |
| Endowment assurance             | 25                    | 40398                               | 13102          | 0   | CWP       | N              | 40398         |
| 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                    | 48565                               | 11310          | 0   | UWP       | N              | 48565         |
| Regular premium pension         | 20                    | 81686                               | 25625          | 0   | UWP       | N              | 81686         |
| 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                    | 22869                               | 8576           | 0   | UWP       | N              | 22869         |
| Single premium pension          | 20                    | 41935                               | 20539          | 0   | UWP       | N              | 41935         |



## Form 59B

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

Name of insurer **Friends Life Limited**  
 Original insurer **London and Manchester**  
 Date of surrender value **01 March 2012**

| Category of with-profits policy<br>1 | Duration at<br>surrender<br>(years)<br>2 | Surrender value<br>3 | Terminal bonus<br>4 | MVA<br>5 | CWP /<br>UWP<br>6 | MVA<br>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                                       | 10231                | 2073                | 0        | UWP               | Y                      | 13465              |
| Endowment assurance                  | 20                                       | 17416                | 5029                | 0        | UWP               | Y                      | 17730              |
| With-profits bond                    | 2  | N/A                  | N/A                 | N/A      | N/A               | N/A                    | N/A                |
| With-profits bond                    | 3  | N/A                  | N/A                 | N/A      | N/A               | N/A                    | N/A                |
| With-profits bond                    | 5  | N/A                  | N/A                 | N/A      | N/A               | N/A                    | N/A                |
| With-profits bond                    | 10                                       | N/A                  | N/A                 | N/A      | N/A               | N/A                    | N/A                |
| Single premium pension               | 2  | N/A                  | N/A                 | N/A      | N/A               | N/A                    | N/A                |
| Single premium pension               | 3  | N/A                  | N/A                 | N/A      | N/A               | N/A                    | N/A                |
| Single premium pension               | 5  | N/A                  | N/A                 | N/A      | N/A               | N/A                    | N/A                |
| Single premium pension               | 10                                       | N/A                  | N/A                 | N/A      | N/A               | N/A                    | N/A                |

Form 59A

**Long-term insurance business : With-profits payouts on maturity (normal retirement)**Name of insurer **Friends Life Limited**Original insurer **UK Provident**Date of maturity value / open market option **01 March 2012**

| Category of with-profits policy | Original term (years) | Maturity value / open market option | Terminal bonus | MVA | CWP / UWP | MVA permitted? | Death benefit |
|---------------------------------|-----------------------|-------------------------------------|----------------|-----|-----------|----------------|---------------|
| 1                               | 2                     | 3                                   | 4              | 5   | 6         | 7              | 8             |
| Endowment assurance             | 10                    | N/A                                 | N/A            | N/A | N/A       | N/A            | N/A           |
| Endowment assurance             | 15                    | N/A                                 | N/A            | N/A | N/A       | N/A            | N/A           |
| Endowment assurance             | 20                    | N/A                                 | N/A            | N/A | N/A       | N/A            | N/A           |
| Endowment assurance             | 25                    | N/A                                 | N/A            | N/A | N/A       | N/A            | N/A           |
| Regular premium pension         | 5                     | 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                    | N/A                                 | N/A            | N/A | N/A       | N/A            | N/A           |
| Regular premium pension         | 20                    | N/A                                 | N/A            | N/A | N/A       | N/A            | N/A           |
| Single premium pension          | 5                     | 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                    | N/A                                 | N/A            | N/A | N/A       | N/A            | N/A           |
| Single premium pension          | 20                    | N/A                                 | N/A            | N/A | N/A       | N/A            | N/A           |

## Form 59B

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

Name of insurer **Friends Life Limited**  
 Original insurer **UK Provident**  
 Date of surrender value **01 March 2012**

| Category of with-profits policy<br>1 | Duration at<br>surrender<br>(years)<br>2 | Surrender value<br>3 | Terminal bonus<br>4 | MVA<br>5 | CWP /<br>UWP<br>6 | MVA<br>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                                       | N/A                  | N/A                 | N/A      | N/A               | N/A                    | N/A                |
| Endowment assurance                  | 20                                       | N/A                  | N/A                 | N/A      | N/A               | N/A                    | N/A                |
| With-profits bond                    | 2  | N/A                  | N/A                 | N/A      | N/A               | N/A                    | N/A                |
| With-profits bond                    | 3  | N/A                  | N/A                 | N/A      | N/A               | N/A                    | N/A                |
| With-profits bond                    | 5  | N/A                  | N/A                 | N/A      | N/A               | N/A                    | N/A                |
| With-profits bond                    | 10                                       | N/A                  | N/A                 | N/A      | N/A               | N/A                    | N/A                |
| Single premium pension               | 2  | N/A                  | N/A                 | N/A      | N/A               | N/A                    | N/A                |
| Single premium pension               | 3  | N/A                  | N/A                 | N/A      | N/A               | N/A                    | N/A                |
| Single premium pension               | 5  | N/A                  | N/A                 | N/A      | N/A               | N/A                    | N/A                |
| Single premium pension               | 10                                       | N/A                  | N/A                 | N/A      | N/A               | N/A                    | N/A                |

## Form 59A

**Long-term insurance business : With-profits payouts on maturity (normal retirement)**Name of insurer **Friends Life Limited**Original insurer **NM**Date of maturity value / open market option **01 March 2012**

| Category of with-profits policy | Original term (years) | Maturity value / open market option | Terminal bonus | MVA | CWP / UWP | MVA permitted? | Death benefit |
|---------------------------------|-----------------------|-------------------------------------|----------------|-----|-----------|----------------|---------------|
| 1                               | 2                     | 3                                   | 4              | 5   | 6         | 7              | 8             |
| Endowment assurance             | 10                    | N/A                                 | N/A            | N/A | N/A       | N/A            | N/A           |
| Endowment assurance             | 15                    | N/A                                 | N/A            | N/A | N/A       | N/A            | N/A           |
| Endowment assurance             | 20                    | 34956                               | 18231          | 0   | CWP       | N              | 34956         |
| Endowment assurance             | 25                    | 54658                               | 25891          | 0   | CWP       | N              | 54658         |
| 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                    | N/A                                 | N/A            | N/A | N/A       | N/A            | N/A           |
| Regular premium pension         | 20                    | 149336                              | 66371          | 0   | CWP       | N              | 149336        |
| 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                    | N/A                                 | N/A            | N/A | N/A       | N/A            | N/A           |
| Single premium pension          | 20                    | N/A                                 | N/A            | N/A | N/A       | N/A            | N/A           |

## Form 59B

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

Name of insurer **Friends Life Limited**  
 Original insurer **NM**  
 Date of surrender value **01 March 2012**

| Category of with-profits policy<br>1 | Duration at<br>surrender<br>(years)<br>2 | Surrender value<br>3 | Terminal bonus<br>4 | MVA<br>5 | CWP /<br>UWP<br>6 | MVA<br>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                                       | N/A                  | N/A                 | N/A      | N/A               | N/A                    | N/A                |
| Endowment assurance                  | 20                                       | 32792                | 17102               | 0        | CWP               | N                      | 44811              |
| With-profits bond                    | 2  | N/A                  | N/A                 | N/A      | N/A               | N/A                    | N/A                |
| With-profits bond                    | 3  | N/A                  | N/A                 | N/A      | N/A               | N/A                    | N/A                |
| With-profits bond                    | 5  | N/A                  | N/A                 | N/A      | N/A               | N/A                    | N/A                |
| With-profits bond                    | 10                                       | N/A                  | N/A                 | N/A      | N/A               | N/A                    | N/A                |
| Single premium pension               | 2  | N/A                  | N/A                 | N/A      | N/A               | N/A                    | N/A                |
| Single premium pension               | 3  | N/A                  | N/A                 | N/A      | N/A               | N/A                    | N/A                |
| Single premium pension               | 5  | N/A                  | N/A                 | N/A      | N/A               | N/A                    | N/A                |
| Single premium pension               | 10                                       | N/A                  | N/A                 | N/A      | N/A               | N/A                    | N/A                |

**Long-term insurance capital requirement**Name of insurer **Friends Life Limited**

Global business

Financial year ended **31 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%  | 42499287  | 15296271 | 0.50 | 21250  | 658   |
| Classes I (other), II and IX | 13 | 0.15% |           |          |      |        |       |
| Classes I (other), II and IX | 14 | 0.3%  | 86306514  | 32242687 |      | 129460 | 28138 |
| Classes III, VII and VIII    | 15 | 0.3%  | 2454557   | 2452846  | 1.00 | 7359   | 5233  |
| <b>Total</b>                 | 16 |       | 131260358 | 49991805 |      | 158068 | 34029 |

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

|  |    |  |  |  |  |       |       |
|--|----|--|--|--|--|-------|-------|
| Class IV supplementary classes 1 and 2 and life protection reinsurance | 21 |  |  |  |  | 23437 | 25712 |
|--|----|--|--|--|--|-------|-------|

**Insurance expense risk capital component**

|  |    |     |          |         |      |        |        |
|--|----|-----|----------|---------|------|--------|--------|
| Life protection and permanent health reinsurance   | 31 | 0%  |          |         |      |        |        |
| Classes I (other), II and IX                       | 32 | 1%  | 12017473 | 9906032 | 0.85 | 102149 | 100547 |
| Classes III, VII and VIII (investment risk)        | 33 | 1%  | 332339   | 221152  | 0.85 | 2825   | 1687   |
| Classes III, VII and VIII (expenses fixed 5 yrs +) | 34 | 1%  | 239991   | 62947   | 0.85 | 2040   | 1586   |
| Classes III, VII and VIII (other)                  | 35 | 25% |          |         |      | 2730   | 1661   |
| Class IV (other)                                   | 36 | 1%  | 362195   | 255518  | 0.85 | 3079   | 2653   |
| Class V  | 37 | 1%  |          |         |      |        |        |
| Class VI   | 38 | 1%  |          |         |      |        |        |
| <b>Total</b>                                       | 39 |     |          |         |      | 112822 | 108134 |

**Insurance market risk capital component**

|  |    |    |          |          |      |        |        |
|--|----|----|----------|----------|------|--------|--------|
| Life protection and permanent health reinsurance   | 41 | 0% |          |          |      |        |        |
| Classes I (other), II and IX                       | 42 | 3% | 12017473 | 9906032  | 0.85 | 306446 | 301641 |
| Classes III, VII and VIII (investment risk)        | 43 | 3% | 332339   | 221152   | 0.85 | 8475   | 5062   |
| Classes III, VII and VIII (expenses fixed 5 yrs +) | 44 | 0% | 239991   | 62947    |      |        |        |
| Classes III, VII and VIII (other)                  | 45 | 0% | 8227232  | 4210194  |      |        |        |
| Class IV (other)                                   | 46 | 3% | 362195   | 255518   | 0.85 | 9236   | 7959   |
| Class V  | 47 | 0% |          |          |      |        |        |
| Class VI   | 48 | 3% |          |          |      |        |        |
| <b>Total</b>                                       | 49 |    | 21179229 | 14655845 |      | 324156 | 314662 |

|  |    |  |  |  |  |        |        |
|--|----|--|--|--|--|--------|--------|
| <b>Long term insurance capital requirement</b> | 51 |  |  |  |  | 618483 | 482537 |
|--|----|--|--|--|--|--------|--------|

## Returns under the Interim Prudential Sourcebook for Insurers

### Supplementary notes to the Return

Friends Life Limited

Global business

Financial year ended 31 December 2011

#### **\*0201\* Section 148 of the Financial Services and Markets Act 2000**

The Financial Services Authority, on the application of the firm, made a direction in December 2011, under section 148 of the Financial Services and Markets. Under the direction allows the Company to include, under INSPRU 6.1, the 6.875% Step up Tier 1 Insurance Capital Securities, as innovative tier one resources.

The 6.875% Step up Tier 1 Insurance Capital Securities, issued by Friends Provident Plc on 18 November 2003, in respect of which the rights and obligations of Friends Provident plc were novated to Friends Life Group plc (formerly Friends Provident Holdings (UK) plc) on 15 December 2010.

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

|  | <b><u>2011</u></b><br><b><u>£000</u></b> | <b><u>2010</u></b><br><b><u>£000</u></b> |
|--|--|--|
| Total admissible assets (long-term)                              | 19,265,325                               | 16,335,775                               |
| Total admissible assets (other than long-term)                   | 1,783,558                                | 760,006                                  |
| Less:  |  |  |
| Mathematical reserves, after distribution of surplus (long-term) | (14,655,844)                             | (12,040,234)                             |
| Total other insurance and non-insurance liabilities (long-term)  | (2,874,265)                              | (2,525,047)                              |
| Total liabilities (other than long-term)                         | (124,872)                                | (1,622)                                  |
| Rounding differences   | (2)                                      | -  |
| Net admissible assets  | 3,393,900                                | 2,528,878                                |
| Add:   |  |  |
| Capital requirements of regulated related undertakings           | 3,145,509                                | 339,995                                  |
| Total capital resources after deductions                         | 6,539,409                                | 2,868,872                                |

#### **\*0304\* Restriction of innovative tier one capital**

The amounts at line 25, 27 and 52 contain the 2003 STICS of £300m and 2005 STICS of £495m plus interest accrued of £15.8m. The amounts at line 25 and 52 include £51m and £162m respectively.

## Returns under the Interim Prudential Sourcebook for Insurers

### Supplementary notes to the Return

Friends Life Limited

Global business

Financial year ended 31 December 2011

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

Positive valuation differences included within line 14 are:

In respect of assets and liabilities valued lower than in the Companies Act Accounts:

|  | <b><u>2011</u></b><br><b><u>£000</u></b> | <b><u>2010</u></b><br><b><u>£000</u></b> |
|--|--|--|
| Realistic Balance Sheet Long Term Business Provision                       | 1,318,146                                | 1,387,051                                |
| Reduction of liabilities arising from reinsurance agreement with Munich Re | 39,342                                   | -  |
| Deferred front end fee   | 10,715                                   | 999                                      |
| Liability at amortised cost  | 60,954                                   | 19,211                                   |
|  | <hr/> 1,429,157                          | <hr/> 1,407,261                          |

In respect of assets and liabilities valued higher than in the Companies Act Accounts:

|   |                 |                 |
|---|-----------------|-----------------|
| Removal of reinsurers' credit risk adjustment | 23,978          | 4,688           |
| Actuarial reserve for whole of life guarantee | 6,236           | 4,440           |
| Other actuarial reserve                       | 13,000          | 9,000           |
| Actuarial reserve for strategic review costs  | -               | 10,000          |
| Valuation of assets                           | 20,437          | 17,228          |
|   | <hr/> 63,651    | <hr/> 45,356    |
| Total equalling Form 3 Line 14                | <hr/> 1,365,506 | <hr/> 1,361,905 |

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

|   | <b><u>2011</u></b><br><b><u>£000</u></b> |
|---|--|
| Profit and loss account reserves b/fwd                              | 1,092,786                                |
| Profit and loss account reserves c/fwd                              | 912,278                                  |
| Movement  | (180,508)                                |
| Remove FSA transfer from technical account to non technical account | 88,168                                   |
| Surplus arising on the long-term business technical account         | (258,140)                                |
| Payment of 2005 STICS interest                                      | 31,510                                   |
| Total equalling Form 16 line 59                                     | <hr/> (318,970)                          |



## Returns under the Interim Prudential Sourcebook for Insurers

### Supplementary notes to the Return

Friends Life Limited

Global business

Financial year ended 31 December 2011

### **\*1102\* Restatement of Prior Year Comparatives**

The prior year comparative has been restated to reflect the Part VII transfer of FPLAL and BHA business into FLL. The restatement has included the zeroisation in 2011 (and prior years) of Life Protection reinsurance accepted from FPLAL. This has resulted in a restatement of the figures in Column 2 as indicated in the table below. The brought forward figure is unchanged.

|   |  | <b>2011<br/>Column 2<br/>£000</b> | <b>2010<br/>Column 1<br/>£000</b> |
|---|--|-----------------------------------|-----------------------------------|
| Gross premiums written  | 11   | 214755                            | 187569                            |
| Premiums taxes and levies (included in line 11)   | 12   |                                   |                                   |
| Premiums written net of taxes and levies (11-12)  | 13   | 214755                            | 187569                            |
| Premiums for classes 11, 12 or 13 (included in line 13)   | 14   |                                   |                                   |
| Premiums for "actuarial health insurance" (included in line 13)   | 15   | 47870                             |                                   |
| Sub-total A (13 + 1/2 14 - 2/3 15)  | 16   | 182842                            | 187569                            |
| Gross premiums earned   | 21   | 217084                            | 187569                            |
| Premium taxes and levies (included in line 21)  | 22   |                                   |                                   |
| Premiums earned net of taxes and levies (21-22)   | 23   | 217084                            | 187569                            |
| Premiums for classes 11, 12 or 13 (included in line 23)   | 24   |                                   |                                   |
| Premiums for "actuarial health insurance" (included in line 23)   | 25   | 50199                             | 187569                            |
| Sub-total H (23 + 1/2 24 - 2/3 25)  | 26   | 183618                            | 187569                            |
| Sub-total I (higher of sub-total A and sub-total H)   | 30   | 183618                            | 187569                            |
| Adjusted sub-total I if financial year is not a 12 month period to produce an annual figure                                   | 31   |                                   |                                   |
| Division of gross adjusted premiums amount sub-total I (or adjusted sub-total I if appropriate)                               | x 0.18   | 32                                | 33051                             |
|   | Excess (if any) over 57.5M EURO x 0.02                             | 33                                | 2673                              |
| Sub-total J (32-33)   | 34   | 30378                             | 31010                             |
| Claims paid in period of 3 financial years  | 41   | 347994                            | 192920                            |
| Claims outstanding carried forward at the end of the 3 year period  | For insurance business accounted for on an underwriting year basis | 42                                |                                   |
|   | For insurance business accounted for on an accident year basis     | 43                                | 256267                            |
| Claims outstanding brought forward at the beginning of the 3 year period  | For insurance business accounted for on an underwriting year basis | 44                                |                                   |
|   | For insurance business accounted for on an accident year basis     | 45                                | 235100                            |
| Sub-total C (41+42+43-44-45)  | 46   | 369161                            | 183962                            |
| Amounts recoverable from reinsurers in respect of claims included in Sub-total C  | 47   | 173018                            | 31430                             |
| Sub-total D (46-47)   | 48   | 196143                            | 152532                            |
| Reinsurance Ratio (Sub-total D /sub-total C or, if more, 0.50 or, if less, 1.00)  | 49   | 0.53                              | 0.83                              |
| Premiums amount (Sub-total J x reinsurance ratio)   | 50   | 16140                             | 25712                             |
| Provision for claims outstanding (before discounting and net of reinsurance)  | 51   | 218363                            | 181131                            |
| Provision for claims outstanding (before discounting and gross of reinsurance) if both 51.1 and 51.2 are zero, otherwise zero | 52   |                                   |                                   |
| Brought forward amount (See instruction 4)  | 53   | 23437                             | 23437                             |
| Greater of lines 50 and 53  | 54   | 23437                             | 25712                             |

## Returns under the Interim Prudential Sourcebook for Insurers

### Supplementary notes to the Return

Friends Life Limited

Global business

Financial year ended 31 December 2011

#### **\*1202\* Restatement of Prior Year Comparatives**

The prior year comparative has been restated to reflect the Part VII transfer of FPLAL and BHA business into FLL. The restatement has included the zeroisation in 2011 (and prior years) of Life Protection reinsurance accepted from FPLAL. This has resulted in a restatement of the figures in Column 2 as indicated in the table below. The brought forward figure is unchanged.

|  |  |    | <b>2011<br/>Column 2<br/>£000</b> | <b>2010<br/>Column 1<br/>£000</b> |
|--|--|----|-----------------------------------|-----------------------------------|
| Reference period (No. of months) See INSPRU 1.1.63R  |  | 11 | 36                                | 36                                |
| Claims paid in reference period  |  | 21 | 347994                            | 192920                            |
| Claims outstanding carried forward at the end of the reference period  | For insurance business accounted for on an underwriting year basis | 22 |                                   |                                   |
|  | For insurance business accounted for on an accident year basis     | 23 | 256267                            | 199457                            |
| Claims outstanding brought forward at the beginning of the reference period  | For insurance business accounted for on an underwriting year basis | 24 |                                   |                                   |
|  | For insurance business accounted for on an accident year basis     | 25 | 235100                            | 208415                            |
| Claims incurred in reference period (21+22+23-24-25)   |  | 26 | 369161                            | 183962                            |
| Claims incurred for classes 11, 12 or 13 (included in 26)  |  | 27 |                                   |                                   |
| Claims incurred for "actuarial health insurance" (included in 26)  |  | 28 | 44904                             |                                   |
| Sub-total E (26 +1/2 27 - 2/3 28)  |  | 29 | 339225                            | 183962                            |
| Sub-total F - Conversion of sub-total E to annual figure (multiply by 12 and divide by number of months in the reference period) |  | 31 | 113075                            | 61321                             |
| Division of sub-total F (gross adjusted claims amount)   | x 0.26   | 32 | 29399                             | 15943                             |
|  | Excess (if any) over 40.3M EURO x 0.03                             | 33 | 2342                              | 789                               |
| Sub-total G (32-33)  |  | 39 | 27057                             | 15154                             |
| Claims amount Sub-total G x reinsurance ratio (11.49)  |  | 41 | 14376                             | 12565                             |
| Higher of premiums amount and brought forward amount (11.54)   |  | 42 | 23437                             | 25712                             |
| General insurance capital requirement (higher of lines 41 and 42)  |  | 43 | 23437                             | 25712                             |

#### **\*1111\* Restatement of Prior Year Comparatives**

The prior year comparative has been restated as explained in Note 1102 above.

#### **\*1211\* Restatement of Prior Year Comparatives**

The prior year comparative has been restated as explained in Note 1202 above.

## **Returns under the Interim Prudential Sourcebook for Insurers**

### **Supplementary notes to the Return**

Friends Life Limited

Global business

Financial year ended 31 December 2011

#### **\*1301\* & \*1308\* Aggregate value of investments:**

- i) The company held unlisted equity, fixed & variable interest securities valued at £389m.
- ii) Lines 41, 46 & 48 include assets to the value of £20.5m where, due to market conditions the latest valuation available did not reflect active trading as at the valuation date.
- iii) There were no units or beneficial interests in collective schemes, which were not UCITS Directive/FSMA-recognised schemes.
- iv) There were no reversionary interest or remainders in property other than land or buildings.

#### **\*1302\* & \*1309\* Hybrid securities**

The Company held hybrid securities valued at £307m in the long-term fund and £14.1m in the shareholder fund.

#### **\*1304\* & \*1310\* Amounts receivable and payable**

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

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

The Company has operated its investment guidelines throughout the period in line with INSPRU 2.1.22R. Investments are managed with reference to the limits prescribed by counterparty and asset exposure limits. Circumstances can exist where, on occasion, the Company maintains holdings in excess of permitted asset and counterparty exposure limits; in these cases, the continued holding has to be reported to the Investment Oversight Committee and Actuarial Function Holder of the Company. The Company's principal fund manager, F&C Asset Management plc (F&C), maintains a list of approved counterparties with limits based on the degree of risk inherent in each counterparty. F&C monitors regularly that actual exposures fall within approved limits. These restrictions apply equally to counterparties other than approved counterparties.

Actual counterparty exposure is regularly monitored through reports to the Investment Oversight Committee.

There were no occasions during the financial year on which counterparty limits specified in the investment guidelines were exceeded.

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

A reinsurance agreement was transferred to the Company as part of the Part VII Scheme transfer that was originally entered into by Friends Life and Pensions (FLP).

During April 2007 FLP entered into a reinsurance treaty with Windsor Life Assurance Company Limited, a subsidiary of Swiss Re. The agreement, which took effect from 1 January 2007, reinsures the mortality and investment risk, but not expense risk, of 100% of FLP's in-force annuity book as at 31 December 2006. Business written after 31 December 2006 was not reinsured under the treaty.

As a result of this treaty the Company transferred assets backing the annuity book in exchange for a LIBOR note from HSBC plc. The value of the LIBOR note at 31 December 2011 was £1,800m.

A creditor with Windsor Life to the value of the LIBOR note was set up and the amount due to Windsor Life at 31 December 2011 was £1,800m.

## Returns under the Interim Prudential Sourcebook for Insurers

### Supplementary notes to the Return

Friends Life Limited

Global business

Financial year ended 31 December 2011

#### **\*1307\* & \*1313\* Fully secured rights**

The aggregate amount of fully secured rights is £39.3m; this has been included in the Form 3 line 93.

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

|                                | <b><u>2011</u></b><br><b><u>£000</u></b> | <b><u>2010</u></b><br><b><u>£000</u></b> |
|--------------------------------|--|--|
| <b>With Profit</b>             |  |  |
| Variation margin               | (9,584)                                  | (4,358)                                  |
| Taxation                       | (19,002)                                 | (26,413)                                 |
|                                | <hr/> (28,586)                           | <hr/> (30,771)                           |
| <b>Non Profit</b>              |  |  |
| Intercompany                   | -  | 605                                      |
| Taxation                       | (671)                                    | (671)                                    |
|                                | <hr/> (671)                              | <hr/> (66)                               |
| <b>Closed With Profit Fund</b> |  |  |
| Variation margin               | (113)                                    | -  |
|                                | <hr/> (113)                              | <hr/> -                                  |
| <b>Shareholders</b>            |  |  |
| Taxation                       | (44,511)                                 | -  |
| Intercompany                   | (4,015)                                  | -  |
|                                | <hr/> (48,526)                           | <hr/> -                                  |

#### **\*1322\* Total long term fund**

The intra fund transactions between the With Profit fund, Closed With Profit fund and the Non Profit fund have been eliminated for the total long-term fund on Forms 13 and 14.

#### **\*1323\* Capital support account assets**

The FSA issued to the firm in December 2008 a direction under section 148 of the Act. The effect of this direction is to allow the firm to include in its realistic balance sheet (at line 27 of Form 19 for the With Profit Fund) the Capital Support Account assets (as defined in the firm's Scheme pursuant to Section 49 of and Part I of Schedule 2C to the Insurance Companies Act 1982, under which part of Friends Life Limited business was transferred to the firm). This additional amount corresponds to the support which the Capital Support Account assets which have not been transferred to the With Profit Fund give to the policies transferred under the scheme. These assets are also included in line 89 of Form 13 for the Non Profit Fund

#### **\*1324\* Market risk and counterparty limits**

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

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

## Returns under the Interim Prudential Sourcebook for Insurers

### Supplementary notes to the Return

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#### **\*1401\* & \*1501\* Provision for reasonably foreseeable adverse variations**

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

The contracts for differences shown in Form 17 lines 12 to 13 are held as part of the Company's arrangements to hedge against liabilities arising under guaranteed annuity options. The contracts for differences are covered and therefore there is no requirement for a provision for reasonably foreseeable adverse variances under INSPRU 3.2.17R

#### **\*1402\* & \*1502\* Contingent liabilities, guarantees and contractual commitments**

- 1) No charge has been made on the assets of the Company (other than liabilities under an insurance contract).
- 2) Provision has been made for the total potential liability of £1.1m (2010: £33.1m) relating to taxation on unrealised capital gains arising in linked funds. There are no further contingent liabilities relating to tax on unrealised capital gains .
- 3) In accordance with guidance issued by the Financial Services Authority, the Company has reviewed the appropriateness of advice given to policyholders who purchased personal pensions contracts after 1988.

These reviews have long since been substantially completed. £nil (2010: £4m) remains within the long-term business provision in respect of residual associated costs and contingencies. During the year £4m (2010: £nil) was released into surplus.

- 4) The Company has made provision for the estimated cost of settling complaints in respect of past sales. Although the provisions are regularly reviewed, the final outcome could be different from the provisions established as these costs cannot be calculated with certainty and are influenced by external factors beyond the control of management. Such uncertainties include future regulatory actions, media attention and investment performance. The majority of the uncertainty relates to endowment mortgages although a number of other products are being reviewed as an ongoing process. It is expected that the majority of endowment cases requiring compensation will be settled in the year.
- 5) The FSA and other regulatory bodies may wish, in future, to examine the suitability of past sales and associated administration of products that could affect the Company and the industry in general. The directors of the Company also conduct ongoing reviews of such products. As a result, it is possible that additional unprovided liabilities could arise.
- 6) The Company has no other contingent liabilities

## Returns under the Interim Prudential Sourcebook for Insurers

### Supplementary notes to the Return

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#### **\*1402\* & \*1502\* Contingent liabilities, guarantees and contractual commitments (continued)**

7) The Company has the following guarantees:

- (i) 6.875% Step-up Tier one Insurance Capital Securities (STICS) issued by Friends Provident plc<sup>1</sup> (2003 STICS)

On 21 November 2003, Friends Provident plc issued £300m of STICS, which bear interest from 21 November 2003 to 20 November 2019 at a rate of 6.875%. The 2003 STICS have no maturity date but are redeemable at the option of the issuer on 21 November 2019 and thereafter on the coupon payment date falling on or nearest successive fifth anniversaries of this date. The 2003 STICS are perpetual securities and are not redeemable at the option of the holder at any time. The 2003 STICS are irrevocably guaranteed on a subordinated basis by the Company.

The guarantee is intended to provide the holder with rights against the Company in respect of the guaranteed payments which are as nearly as possible equivalent to those which they would have had if the 2003 STICS had been directly issued preference shares of the Company.

This guarantee does not meet the definition of a financial guarantee under FRS 26 as the Company is able to defer its obligation to make payments under the guarantee to holders of STICS for an unlimited period, and the holders have no right to enforce the obligation on the Company.

- (ii) 6.292% Step-up Tier one Insurance Capital Securities (STICS) issued by Friends Provident plc<sup>1</sup> (2005 STICS)

On 27 June 2005, Friends Provident plc issued £500m of STICS, which bear interest from 30 June 2005 to 30 June 2015 at a rate of 6.292%. The 2005 STICS have no maturity date but are redeemable at the option of the issuer on 1 July 2015 and thereafter on every fifth anniversary of this date. The 2005 STICS are perpetual securities and are not redeemable at the option of the holder at any time. The 2005 STICS are guaranteed on a limited and subordinated basis by the Company.

This guarantee does not meet the definition of a financial guarantee under FRS 26 as the Company is able to defer its obligation to make payments under the guarantee to holders of 2005 STICS for an unlimited period, and the holders have no right to enforce the obligation on the Company.

On 21 May 2010, Friends Provident plc carried out a financial restructuring by exchanging £90m of its £300m 6.875% Step-Up Tier one Insurance Capital Securities issued on 21 November 2003 (the 2003 STICS) and £232m of its £500m 6.292% Step-Up Tier one Insurance Capital Securities issued on 30 June 2005 (the 2005 STICS) for £162m 12% Sterling Denominated Fixed Rate Subordinated Guaranteed Notes due 2021, irrevocably guaranteed on a subordinated basis by Friends Life Limited.

On 6 July 2010, as part of its reorganisation of the Group, Friends Life Group plc (formerly Friends Provident Holdings (UK) plc) was substituted for Friends Provident plc as the issuer of the 2003 STICS and 2005 STICS.

<sup>1</sup> Friends Provident plc was re-registered as a private limited company in November 2010.

8) The Company is not aware of any other fundamental uncertainties.

## Returns under the Interim Prudential Sourcebook for Insurers

### Supplementary notes to the Return

Friends Life Limited

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#### **\*1402\* & \*1502\* Contingent liabilities, guarantees and contractual commitments (continued)**

- 9) The Company has made provision for the estimated cost of settling complaints in respect of past sales. Although the provisions are regularly reviewed, the final outcome could be different from the provisions established as these costs cannot be calculated with certainty and are influenced by external factors beyond the control of management. Such uncertainties include future regulatory actions, media attention and investment performance. The majority of the uncertainty relates to endowment mortgages although a number of other products are being reviewed as an ongoing process. It is expected that the majority of endowment cases requiring compensation will be settled in the year.
- 10) Contractual commitments consist of equity investments of £38m due within one year and £81m due 2-5 years.

#### **\*1405\* Other adjustments to liabilities**

|   | <b><u>2011</u></b> | <b><u>2010</u></b> |
|---|--------------------|--------------------|
|   | <b>£000</b>        | <b>£000</b>        |
| <b>With Profit</b>  |                    |                    |
| Deferred taxation   | 19,002             | 26,413             |
| Long term business provision                                | (1,293,387)        | (1,385,870)        |
| Intercompany with Non Profit funds                          | 5,782              | (11,536)           |
| Variation margin  | 9,584              | 4,358              |
|   | <hr/> (1,259,019)  | <hr/> (1,366,634)  |
| <b>Non Profit</b>   |                    |                    |
| Deferred taxation   | 671                | 671                |
| Long term business provision                                | (18,999)           | 7,754              |
| Reduction in liabilities arising from reinsurance agreement |                    |                    |
| With Munich Re  | (39,342)           | -                  |
| Intercompany with With Profit funds                         | (5,782)            | 11,536             |
| Deferred front end fee                                      | (10,715)           | (999)              |
|   | <hr/> (74,167)     | <hr/> 18,962       |
| <b>Closed With Profit Fund</b>                              |                    |                    |
| Long term business provision                                | (23,564)           | -                  |
| Variation margin  | 113                | -                  |
|   | <hr/> (23,451)     | <hr/> -            |

#### **\*1507\* Other adjustments**

| <b><u>Shareholders</u></b> | <b><u>2011</u></b> | <b><u>2010</u></b> |
|----------------------------|--------------------|--------------------|
|                            | <b>£000</b>        | <b>£000</b>        |
| Taxation                   | 44,511             | -                  |
| Intercompany               | 4,015              | -                  |
|                            | <hr/> 48,526       | <hr/> -            |

## Returns under the Interim Prudential Sourcebook for Insurers

### Supplementary notes to the Return

Friends Life Limited

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#### **\*1601\* & \*4005\* Foreign currency translation**

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

#### **\*1603\* - Other income and charges**

The amount included at Line 21 relates to:

|                  | <b><u>2011</u></b><br><b><u>£000</u></b> | <b><u>2010</u></b><br><b><u>£000</u></b> |
|------------------|--|--|
| Exceptional item | 263,049                                  | -  |
|                  | <hr/> 263,049                            | <hr/> -                                  |

On 1 December 2011 the surplus assets of the Friends Provident Life Assurance Limited ("FPLAL") Other Business Fund and the long-term fund of Bupa Health Assurance Limited ("BHA") were transferred into the Company's shareholder fund in accordance with a Part VII scheme. This transfer resulted in exceptional income of £263m within the shareholder fund.

There were no exceptional items arising in the financial year ended 31 December 2010.

#### **\*1700\* Forms omitted from the return**

Form 17 for other than long-term insurance business has been omitted because all entries would be blank. Form 17 for long-term insurance business – non profit fund has been omitted because all entries would be blank.

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

The aggregate amount of excess variation margin needed to be repaid due to underlying market movements is £31,820k. Variation margin of £226,538k has been included in Form 13 line 44.

#### **\*1702\* Quasi-derivatives**

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

#### **\*1801\* Capital support account assets**

The FSA issued to the firm in December 2008 a direction under section 148 of the Act. The effect of the direction is to allow the firm to include in line 65, the value, in the most adverse scenario, of future repayments from the With Profits Fund of Friends Life Limited ("FLL") to the Non Profit Fund in respect of any amounts outstanding under any Contingent Loans (as defined in the Scheme pursuant to Schedule 2C of The Insurance Companies Act 1982 dated 26 April 2001, and amended on 29 July 2004, by which the long term business of Friends Provident Life Office was transferred to FLL) made by the Non Profit Fund to the With Profits Fund.



## Returns under the Interim Prudential Sourcebook for Insurers

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#### **\*1901\* Capital support account assets**

The FSA issued to the firm in December 2008 a direction under section 148 of the Act. The effect of this direction is to allow the firm to include in its realistic balance sheet (at line 27) the Capital Support Account assets (as defined in the firm's Scheme pursuant to Section 49 of and Part I of Schedule 2C to the Insurance Companies Act 1982, under which part of Friends Life Limited business was transferred to the firm). This additional amount corresponds to the support which the Support Account assets which have not been transferred to the With-Profits Fund give to the policies transferred under the scheme. These assets are also included in line 89 of Form 13 for the Non Profit Fund

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

Other income in the With Profits Fund comprises of:

|                                  | <b><u>2011</u></b><br><b><u>£000</u></b> | <b><u>2010</u></b><br><b><u>£000</u></b> |
|----------------------------------|--|--|
| FLP management charges           | 22,713                                   | 22,696                                   |
| FLL management and other charges | 23,091                                   | 13,128                                   |
| Policy loan income               | 222                                      | 248                                      |
| Total other income               | 46,026                                   | 36,072                                   |

Other income in the Closed With Profit Fund comprises of:

|                    | <b><u>2011</u></b><br><b><u>£000</u></b> | <b><u>2010</u></b><br><b><u>£000</u></b> |
|--------------------|--|--|
| Policy loan income | 11                                       | -  |
| Total other income | 11                                       | -  |

Other expenditure in the Non Profit Fund relates to:

|                                  | <b><u>2011</u></b><br><b><u>£000</u></b> | <b><u>2010</u></b><br><b><u>£000</u></b> |
|----------------------------------|--|--|
| FLL management and other charges | 33,166                                   | 27,025                                   |
| Interest on reinsurance          | 39,089                                   | 102,380                                  |
| Total other expenditure          | 72,255                                   | 129,405                                  |

#### **\*4004\* Business transfers-in**

On 1 December 2011 the long-term fund of FPLAL and Bupa Health Assurance ("BHA"), and part of the long-term fund of FLP were transferred into the Company in accordance with a Part VII scheme. The total amounts transferred to the FLL Non-Profit Fund were:

- £1,513.6m from FPLAL, which equaled the value of the mathematical reserves and the long term fund assets transferred.
- £5.0m from BHA, which equaled the value of the mathematical reserves and the long term fund assets transferred.
- £32.6m from FLP, which equaled the value of the mathematical reserves and the long term fund assets transferred.

The total amount transferred to the New Closed With Profit Fund was £242.7m, which represented the complete value of the FPLAL Closed Fund.

Net assets of £263m were transferred to the FLL Shareholder Fund.

## **Returns under the Interim Prudential Sourcebook for Insurers**

### **Supplementary notes to the Return**

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Financial year ended 31 December 2011

#### **\*4006\* Principles and methods of apportioning between long term funds**

There are separate pools of assets for the With Profits and Non Profit Funds. Income earned and other expenses incurred are borne directly in each fund with no apportionment taking place.

Investment income and expenses:

Investment income earned on the assets of each fund and investment expenses are borne directly by the relevant fund.

Expenses:

(i) Directly attributable expenses are charged to the individual fund.

(ii) An expense agreement was set up in 2001 allowing the Non Profit Fund to charge the With Profits Fund management expenses in connection with the administration of With Profits policies. This agreement is formalised in Schedule 2 of the Scheme, which sets out the specific charging arrangements which define the expenses that the With Profits Fund can suffer.

Increase or decrease in the value of non-linked assets brought into account:

The amounts brought into account in each fund have regard to the nature of the changes in the Long Term liabilities of that fund including liabilities in respect of the current bonus declaration.

Taxation:

Taxation is computed separately for the With Profits and Non Profit funds. Taxation in respect of realised investment appreciation is charged to the investment reserve for non-linked assets; other taxation is charged to the revenue account and is determined by reference to the income and expenses of each fund.

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

Management services were provided during the year by Friends Provident Management Services Limited, a wholly owned subsidiary of Friends Life Group plc. Friends Life Limited (the Company) is a wholly owned subsidiary of Friends Life Limited.

Investment management and advisory services were provided during the year by F&C Asset Management Limited and F&C REIT, both wholly owned subsidiaries of F&C Asset Management plc.

#### **\*4009\* Material connected party transactions**

##### **Reassurance agreements with Friends Provident Life Assurance Limited (FPLAL)**

Unit linked life business written pre 2004 in FPLP are reinsured to the company under an agreement dated 28 October 2009. The aggregate amount reassured in 2011 was £1,620m income.

Reassurance agreements with FPLAL were either recaptured during the year or collapsed on Part VII transfer.

#### **\*4012\* Total long term fund**

The intra fund transactions between the With Profit fund and the Non Profit fund have been eliminated for the total long-term fund on Forms 40, 41 and 42.

## Returns under the Interim Prudential Sourcebook for Insurers

### Supplementary notes to the Return

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#### **\*4401\* Basis of asset valuation within internal linked funds**

Assets within this form have been valued as follows:

- (a) Land and buildings have been valued at open market value.
- (b) Listed investments have been valued at market prices consistent with the pricing basis within those funds.
- (c) OEICs are carried at the market value at the balance sheet date.

All other investments have been valued on a prudent basis having regard to their likely realisable value.

#### **\*4402\* Rights and liabilities under derivative contracts**

At the end of 2011 the internal linked funds held rights of £482,465 and liabilities of £2,454,287 under derivative contracts.

#### **\*4502\* Other expenditure – Linked funds**

Other income and expenditure consists of

|                                | <b><u>2011</u></b><br><b><u>£000</u></b> | <b><u>2010</u></b><br><b><u>£000</u></b> |
|--------------------------------|--|--|
| Reinsurance with FPLAL         | 1,644,360                                | 114,538                                  |
| Part VII transfer in           | 1,480,265                                | -  |
| Total other income             | 3,124,625                                | 114,538                                  |
|                                | <b><u>2011</u></b><br><b><u>£000</u></b> | <b><u>2010</u></b><br><b><u>£000</u></b> |
| Interest on reinsurance        | 39,089                                   | 102,380                                  |
| Investment related expenditure | 935                                      | 727                                      |
| Total other expenditure        | 40,024                                   | 103,107                                  |

Amounts in other expenditure include an amount of £39.8m relating to interest on the loan, £0.6m in relation to the purchase and sales of investments and further £0.3m relating to property expenditure.

#### **\*4802\* Interest in default**

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

#### **\*4804\* Derivative yields**

Lines 28.1 and 25.2 for the With Profits Fund contain put options with a value of £112.9m. These combine with equity having a value of £908.8m with yield 7.23% to give a combined value of £1,021.7m with yield 4.09%.

#### **\*4806\* Assets used to calculate investment returns**

The investment returns in lines 21-29 column 5 for the With Profits Fund and Closed With Profits Fund have been based upon a specific portfolio of assets identified to back asset shares and on which the return credited to asset shares is based. The main exclusions from the assets in Form 48 backing with profits liabilities are derivatives and other assets earmarked to back guarantees.

#### **\*4901\* Rating agencies**

The majority of ratings used in Form 49 were provided by either Standard & Poor's or Moody's. Where ratings were not available from these agencies, ratings provided by Fitch rating agency have been used where available. It was not possible to separately identify "CCC" rated bonds from those of non-investment grade. All "CCC" rated bonds have, therefore, been included in L38.

## Returns under the Interim Prudential Sourcebook for Insurers

### Supplementary notes to the Return

Friends Life Limited

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Financial year ended 31 December 2011

#### **\*5010\* Inter-Fund Reinsurance**

The figures given include any inter-fund reinsurance arrangements within FLL. This has the effect of increasing the gross figures by the total amount reinsured. This is offset by the same total being added in the intra-company reinsurance section, thus giving the correct overall net position. The amounts reinsured within FLL at the end of December 2011 were:

|                       |          |
|-----------------------|----------|
| Form 51 – Non Profit: | £        |
| UK Pension            | 59.5m    |
| Form 52:              | £        |
| UK Life               | 66.1m    |
| UK Pension            | 57.7m    |
| Overseas              | 70.1m    |
| Form 53 - Linked:     | £        |
| UK Life               | 1,074.3m |
| Overseas              | 99.5m    |
| Form 54 - Linked:     | £        |
| UK Pension            | 5.0m     |

#### **\*5600\* Index-linked assets**

Index-linked assets do not exceed £100m, and consequently there is no requirement to complete Form 56.

#### **\*5701\* Negative reserves**

The interest rate shown in Form 57 is that in respect of positive liabilities. The interest rate for policies with negative liabilities is shown in the response to question 4(2) of Appendix 9.4.

Where positive mathematical reserves have been entirely offset by negative reserves, the yield on backing assets is shown as the INSPRU 3.1.45 yield on which the valuation interest rate is based.

## Returns under the Interim Prudential Sourcebook for Insurers

### Supplementary notes to the Return

Friends Life Limited

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Financial year ended 31 December 2011

#### **\*5702\* Risk adjusted yield**

The FSA, on application of the firm, made a direction under section 148 of the Financial Services and Markets Act 2000 in August 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.

The yields in accordance with INSPRU 3.1.35R as amended, before and after risk adjustment, are shown below.

| Product Group                    | With Profit Fund |                     | Closed With Profit Fund |                     | Non Profit Fund |                     |
|----------------------------------|------------------|---------------------|-------------------------|---------------------|-----------------|---------------------|
|                                  | Yield            | Risk Adjusted Yield | Yield                   | Risk Adjusted Yield | Yield           | Risk Adjusted Yield |
| UK F51 L&GA WP                   | 3.89%            | 3.51%               | 3.12                    | 3.11                |                 |                     |
| UK F51 L&GA NP                   | 3.89%            | 3.51%               | 3.12                    | 3.11                | 2.48%           | 2.48%               |
| UK F51 L&GA NP                   |                  |                     |                         |                     | 2.55%           | 2.46%               |
| UK F51 L&GA NP                   |                  |                     |                         |                     | 4.62%           | 3.75%               |
| UK F51 L&GA NP                   |                  |                     |                         |                     | 0.00%           | 0.00%               |
| UK F52 L&GA                      | 3.89%            | 3.51%               |                         |                     | 3.36%           | 2.97%               |
| UK F53 L&GA NL                   | 3.89%            | 3.51%               |                         |                     | 2.55%           | 2.46%               |
| UK F51 Pensions WP               | 3.53%            | 3.52%               | 3.12                    | 3.11                |                 |                     |
| UK F51 Pensions WP               |                  |                     | 3.12                    | 3.11                |                 |                     |
| UK F51 Pensions NP               | 3.53%            | 3.52%               | 3.12                    | 3.11                | 0.00%           | 0.00%               |
| UK F51 Pensions NP               | 4.97%            | 4.22%               |                         |                     | 5.83%           | 4.95%               |
| UK F51 Pensions NP               |                  |                     |                         |                     | 3.36%           | 2.97%               |
| UK F52 Pensions                  | 3.53%            | 3.52%               |                         |                     |                 |                     |
| UK F53 Pensions NL               | 3.53%            | 3.52%               |                         |                     | 3.36%           | 2.97%               |
| OS F51 NP                        | 3.53%            | 3.52%               |                         |                     | 2.48%           | 2.48%               |
| OS F52                           | 3.53%            | 3.52%               |                         |                     | 3.36%           | 2.97%               |
| OS F53 NL                        | 3.53%            | 3.52%               |                         |                     | 3.48%           | 3.04%               |
| Miscellaneous UK F51 L&GA WP     | 4.31%            | 3.76%               | 1.87                    | 1.87                |                 |                     |
| Miscellaneous UK F51 L&GA NP     | 4.31%            | 3.76%               |                         |                     |                 |                     |
| Miscellaneous UK F52 L&GA        | 4.31%            | 3.76%               |                         |                     |                 |                     |
| Miscellaneous UK F53 L&GA NL     | 4.31%            | 3.76%               |                         |                     | 0.00%           | 0.00%               |
| Miscellaneous UK F51 Pensions WP | 4.31%            | 3.76%               | 1.87                    | 1.87                |                 |                     |
| Miscellaneous UK F51 Pensions NP | 4.90%            | 4.17%               |                         |                     | 0.00%           | 0.00%               |
| Miscellaneous UK F52 Pensions    | 4.31%            | 3.76%               |                         |                     |                 |                     |
| Miscellaneous F53 Pensions NL    | 4.31%            | 3.76%               |                         |                     | 0.00%           | 0.00%               |
| Miscellaneous OS F53 NL          | 4.31%            | 3.76%               |                         |                     | 2.48%           | 2.48%               |
| UK F54 Life Index Linked         |                  |                     |                         |                     | 2.47%           | 2.47%               |

#### **\*5803\* Distribution of Surplus**

The percentage of distributed surplus allocated to policyholders is a combined total for conventional and unitised with profits policies. When taken individually there is no change in the distributed surplus since December 2010, with 100% of surplus distributed for unitised with profit policies, and 90% of surplus distribution for conventional with profits policies.

## **Returns under the Interim Prudential Sourcebook for Insurers**

### **Supplementary notes to the Return**

Friends Life Limited

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Financial year ended 31 December 2011

#### **\*5812\* Surplus Carried Forward**

Surplus assets of £25m in respect of the Closed With Profit fund are shown as carried forward and unappropriated within the long term fund on Form 58 Line 49. The excess has not been allocated and is not available for transfer to the other than long term fund or for bonus declaration until such allocation has been undertaken.

#### **\*5901\* With Profits Reserves for UK Provident**

The with-profits mathematical reserves relating to the business of UK Provident exceed £100m. All of these policies are over 25 years old.

#### **\*6011\* Restatement of Prior Year Comparatives**

The recapture on 31 May 2011 of reinsurance arrangements between Friends Life and Pensions Limited and Friends Life Limited (FLL) and the former Friends Provident Life Assurance Limited (FPLAL), and the subsequent Part VII transfer of FPLAL into FLL, has resulted in a restatement of the 2010 figures in Form 12. Consequently, the 2010 value of Line 21 Column 6 of Form 60 of £25,712k no longer matches the restated figure of £23,437k in Column 2 Line 43 of Form 12.

**Additional information on derivative and quasi-derivative contracts  
(IPRU (INS) rule 9.29)  
Friends Life Limited  
Financial year ended 31 December 2011**

**Derivative Contracts**

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

- a) Investment Guidelines.  
Investment guidelines operated by the company during 2011 were to use derivative contracts only for the purpose of efficient portfolio management or a reduction in investment risk. Derivatives are not permitted to be used without specific authority of senior management. All obligations arising out of derivative contracts are required to be covered. All over the counter derivatives are collateralised to minimise counterparty default risk
- b) Guidelines in respect of derivatives not likely to be exercised.  
The guidelines make no explicit provision for the use of derivatives which the Company has a right or obligation to acquire or dispose of assets which are not, at the time when the contract is entered into, reasonably likely to be exercised. Therefore, providing such derivatives meet the over arching investment guidelines stated above, that they are held for efficient portfolio management or a reduction in investment risks, they are permitted.
- c) Use of derivatives not likely to be exercised.  
The long-term fund held derivatives during the year, which at the time when acquired were not likely to be exercised. These were held for purpose of protecting the fund from falling equity markets & interest rate sensitivity.  
No other contracts were entered into during the financial year that were not, at the time of entry, reasonably likely to be exercised.
- d) The Company held no derivative contracts during the financial year other than permitted derivative contracts under permitted links rules, and nor did any contracts require a significant provision to be made under INSPRU 3.2.17R.
- e) The company did not grant rights under derivative contracts during the financial year.

**Returns under the Interim Prudential Sourcebook for Insurers**  
**Statement of additional information on controllers required by IPRU (INS) 9.30**  
**Friends Life Limited**  
**Financial year ended 31 December 2011**

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

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

- (i) Friends Life FPL Limited (formerly Friends Provident Limited);
- (ii) Friends Life FPG Limited (formerly Friends Provident Group plc);
- (iii) Friends Life Group plc (formerly Friends Provident Holdings (UK) plc);
- (iv) Resolution Holdings (Guernsey) Limited;
- (v) Resolution Holdco No 1 LP;
- (vi) Resolution Limited;

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

- (i) Resolution Limited

As at 31 December 2011, Resolution Limited owned 99.99% of the Shares of Resolution Holdco No 1 LP, a company of which Friends Provident Pensions Limited is a subsidiary undertaking and was able to exercise 100% of the voting power at any general meeting.

- (ii) Resolution Holdco No 1 LP

As at 31 December 2011, Resolution Holdco No 1 LP owned 100% of the Shares of Resolution Holdings (Guernsey) Limited, a company of which Friends Provident Pensions Limited is a subsidiary undertaking and was able to exercise 100% of the voting power at any general meeting.

- (iii) Resolution Holdings (Guernsey) Limited

As at 31 December 2011, Resolution Holdings (Guernsey) Limited owned 100% of the Shares of Friends Life Group plc, a company of which Friends Provident Pensions Limited is a subsidiary undertaking and was able to exercise 100% of the voting power at any general meeting.

- (iv) Friends Life Group plc

As at 31 December 2011, Friends Life Group plc owned 100% of the Shares of Friends Life FPG Limited, a company of which Friends Provident Pensions Limited is a subsidiary undertaking and was able to exercise 100% of the voting power at any general meeting.

- (v) Friends Life FPG Limited

As at 31 December 2011, Friends Life FPG Limited owned 100% of the Shares of Friends Life FPL Limited, a company of which Friends Provident Pensions Limited is a subsidiary undertaking and was able to exercise 100% of the voting power at any general meeting.

- (vi) Friends Life FPL Limited

As at 31 December 2011, Friends Life FPL Limited owned 100% of the Shares of Friends Life Limited, a company of which Friends Provident Pensions Limited is a subsidiary undertaking and was able to exercise 100% of the voting power at any general meeting.



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

### **1. Introduction**

- (1) The investigation relates to 31 December 2011.
- (2) The previous investigation related to 31 December 2010.
- (3) Not applicable.

### **2. Product Range**

All business formerly written or reinsured to Friends Provident Life Assurance Limited (FPLAL) and Bupa Health Assurance Ltd (BHA) was subject to a Part VII transfer into Friends Life Limited on 1 December 2011.

In addition, the following products were subject to a Part VII transfer from Friends Life and Pensions Limited (FLP):

- all pension immediate annuity policies externally reinsured to Windsor Life;
- all immediate annuities written by London & Manchester Pensions up to and including 31 December 1998;
- all annuities written by Friends Provident Corporate Pensions from and including 1 January 1999 to and including 8 July 2001;
- the immediate annuities reinsurance to FLP from F&C Managed Pension Funds.
- all pension protection products;
- all level term assurance, decreasing term assurance and life insurance products written by FLP.

The With Profits Fund is open to new with-profits business reinsured from the Non Profit Fund of Friends Life Limited and FLP.

The Closed Fund is a sub-fund of the long-term fund that contains predominantly with-profits business. It is closed to new business except by increment.

#### New products

Friends Life Protect+ was launched for the intermediary market on 24 October 2011. This includes the following products:

#### **1. Critical Illness Cover**

Defaqto 5 star rated; 14 ABI+ conditions; eight partial payments in addition to the main benefit; premium reductions for exclusions at underwriting stage; Child Cover covering congenital conditions.

#### **2. Life Cover**

Family Income Benefit available; optional features available including fracture cover.

#### **3. Critical Illness with Life Cover**

#### **4. Income Protection**

Defaqto 5 star rated; range of terms and deferred periods to meet your clients' requirements; child care, trauma and therapy benefit.

## 5. Business Protection

Comprehensive product range; covers key partners, shareholders and loans.

### Changes to existing products

#### 1. Group Income Protection

Enhancements were made in order to conform with the removal of the Default Retirement Age and the exemption granted to Group Protection products in April 2011, prior to the removal of the product in July 2011 (see below).

The following enhancements relate to ex-BHA business (for all former BHA business, FLL replaced BHA as the insurer in December 2011):

#### 2. Income Protection

The following product enhancements were made in October 2011: Introduced NHS Doctors sick pay initiative; removed alcohol/drugs exclusion on hospitalisation benefit; introduced AWE, 3% and 5% indexation.

#### 3. Standalone Critical Illness and Accelerated Critical Illness

The following product enhancements were made in October 2011: Enhanced definitions for stroke, paralysis and MS; introduced partial payment for removal of one or more lobe(s) of the lung; introduced partial payment for carcinoma in situ of the urinary bladder; introduced intensive care child benefit; enhanced ductal carcinoma in situ; changed escalation from AEI to AWE.

#### 4. Life products

The following product enhancement was made in October 2011: Changed escalation from AEI to AWE.

#### 5. Individual Protection

In addition to the above, the following enhancements were made across the Individual Protection product range (Income Protection, Critical Illness and Life Insurance): ADB increased from £150,000 to £500,000 with suicide exclusion; introduced free cover following underwriting where cover has been taken out to protect the mortgage; Best Doctors offered throughout the term, including spouses and children up to age 18, or 23 if still in full time education.

#### 6. Group Critical Illness

Five conditions enhanced beyond the ABI definitions; 4 new conditions added to the comprehensive product; minimum age for children reduced from 12 months to 6 months; reduced the minimum assessment period for TPD from 12 months to 6 months.

### Products Withdrawn

The following products were withdrawn at the end of March 2011:

#### 1. Select Protection

#### 2. Standalone Critical Illness Cover

The following ex-FPLP products were withdrawn from the IFA market only on 21 October 2011, to make way for the Friends Life Protect+ proposition:

#### 3. Life Cover

#### 4. Life or earlier Critical Illness Cover

#### 5. Level Term and Homebuyer Protection

#### 6. Business Protection

7. Executive Income Protection
8. Income Protection
9. Pension Contribution Protection Benefit (PCPB)
10. Houseperson's Cover

The following was withdrawn in July 2011 and replaced by the rebranded BHA product:

11. Group Income Protection

### 3. Discretionary Charges and Benefits

- (1) No market value reduction (MVR) factors were applied during 2011.
- (2) Changes to premiums on reviewable products for ex-BHA business are set out in the table below:

|                              | No policies reviewable during 2011 | Annualised/Single Premiums (£000) | Minimum Premium Increase (%) | Maximum Premium Increase (%) |
|------------------------------|------------------------------------|-----------------------------------|------------------------------|------------------------------|
| Stand Alone Critical Illness | 57                                 | 64                                | 0                            | 7                            |
| Accelerated Critical Illness | 565                                | 540                               | -9                           | 7                            |
| Income Protection            | 66                                 | 41                                | -28                          | 154                          |
| Long Term Care (RP)          | 85                                 | 109                               | 0                            | 13                           |
| Long Term Care (SP)          | 33                                 | 487                               | 0                            | 0                            |

There have been no other changes to premiums on reviewable protection policies during the year.

- (3) Not applicable.
- (4) Policy fees for a number of products increase in line with the RPI. The RPI increased by 4.5% for the period October 2009 to October 2010. However, as it decreased by 0.8% for the same period during the previous year, and a decision was taken to freeze charges during 2010, the increase applied to policy fees for 2011 was set at 3.7%. The relevant business is:
  - Series 2 Pensions sold through IFAs;
  - All former London and Manchester Assurance (LMA) products, other than those set out below;
  - Optimum Life Plan (ex-FPLAL);
  - Income Replacement Plan (ex-FPLAL);
  - Universal Pension Account (ex-FPLAL). Increases in UPA charges are discretionary, and are currently indexed with RPI, in line with Series 2 Pensions.

Policy fees for some former LMA products were reduced in line with inflation last year. As such, the full RPI increase of 4.5% was applied to these products for 2011. The relevant business is:

- Former LMA Group Money Purchase Plans.

Policy fees for certain products are linked to the index of Average Weekly Earnings (AWE). This is used in place of the National Average Earnings Index (NAEI), which has been discontinued since last year. The charges for 2011 were 2.1% greater than in 2010. The relevant business is:

- Retirement Investment Bond;
  - Series 1 Pensions;
  - Series 2 Pensions sold directly;
  - Personal Pension Scheme (ex-FPLAL).
- (5) There have been no changes to benefit charges (mortality, morbidity, etc) on linked policies during the year.
- (6) There have been no changes to unit management charges or notional charges to accumulating with-profit policies during the year.
- (7) Unit pricing
- (a) Description of methods
- (i) Units are allocated to policies at offer price and cancelled at bid price.
- (ii) Normally the valuation will take into account the cost of acquisition or sale of the constituent assets and any taxes, duties, charges or other expense payable on purchase/sale.
- If a fund is being priced on a 'creation' or 'steady state' basis (see (iii) below), the offer price is calculated by adjusting the unit price calculated on that basis, including any initial charge, to allow for the accrued annual management charge and any tax provision on gains and rounding. The bid price is then calculated by deducting the initial management charge, if any.
- If a fund is being priced on a 'cancellation' basis, the bid price is calculated by adjusting the unit price calculated on that basis to allow for the accrued annual management charge, provision for tax on gains and rounding. The offer price is then calculated by adding the initial management charge, if any.
- (iii) The net asset value of units is determined at valuations of the appropriate funds, required to be made at least once each calendar month but normally made daily at midnight. The use of a 'creation' or 'steady state' or 'cancellation' basis depends on whether or not the Company considers that a fund is growing, steady or declining. For the 'creation' basis, asset valuations will be based on the prices at which the funds can buy assets in the market. For the 'cancellation' basis, asset valuations will be based on the prices at which funds can sell assets in the market. For the 'steady state' basis, asset valuations will be based on a mid market value.
- (iv) Regular premiums are allocated at the current day's price, based on the previous midnight pricing valuation point. Single premiums are allocated in accordance with policy conditions, which vary by product, and are generally based on previous day or current day's price. Switches are generally dealt with as follows:
- If the request is received by post, the current day's price is used.
  - If the request is received online, by fax, or by email, the next day's price is used.
- (b) There is no variation between the pricing bases used for different policies other than through the use of different initial and annual management charges.
- (c) For collective investment schemes, the processes are similar to those for internal linked funds.

- (8) The tax liability is withdrawn from the internal linked funds with respect to realised gains net of realised losses in April following the year of realisation. With respect to Unit Trust and Open-Ended Investment Companies (OEICs) investments, where notional gains are subject to Capital Gains Tax, the tax liability withdrawn from the internal linked fund in April is that relating to one seventh of the current year notional gain, plus a seventh of each prior period gain remaining in the liability. Realised losses are offset against realised gains, including those brought forward from previous years that have yet to fall into the company's actual tax computation. The tax liability for unrealised gains net of unrealised losses continues to be held in the internal fund and is not discounted. Instead assets are held in the internal fund of an equal value to the tax liability, which yield an investment return for the fund. Unrealised losses are offset against unrealised gains falling into the current tax computation and any excess unrealised losses are carried forward. The relevant tax rates used are:

|                |      |
|----------------|------|
| Cash           | 0%;  |
| Fixed Interest | 20%; |
| Index Linked   | 20%; |
| Other          | 20%. |

- (9) For each internal linked fund the provision for tax on realised and unrealised capital gains is determined daily by adjusting the previous day's provision by a percentage of the chargeable gain or loss over the previous day. The percentage is regularly reviewed and where necessary adjusted to reflect the actual liability for tax on realised and unrealised gains, where the liability for unrealised gains is calculated as the capital gains tax liability that would be incurred if all assets were sold at the valuation date.

During 2011 the percentage was applied in order to achieve tax provisions on gains as follows:

|                |      |
|----------------|------|
| Cash           | 0%;  |
| Fixed Interest | 20%; |
| Index Linked   | 20%; |
| Other          | 20%. |

- (10) Where internal linked funds invest in permitted scheme interests that are exclusively authorised OEICs managed by F&C Asset Management Limited, the internal linked fund receives a management charge rebate up to 1.1% to ensure that the overall annual management charge to the policyholders is maintained.

#### 4. Valuation Basis (Other Than for Special Reserves)

Except as noted below, all policies have been valued using prospective methods.

##### (1) Valuation Methods Used

###### (a) General Method

- (i) For conventional with-profit and non-profit business a gross premium valuation has been adopted, in accordance with INSPRU 1.2.35G, given FLL is a realistic basis life company.

For ex-FPLAL conventional with-profit business a net premium valuation method has been used. The liabilities are calculated as the differences between the present value of the sums assured and bonuses and of the future net premiums. The net premiums are based on the rates of interest and mortality used in the valuation, and are limited to a maximum of the office premium.

- (ii) The valuation liabilities for unit-linked contracts shown in Form 53 are equal to the value of units allocated together with mortality and sterling reserves where appropriate. The method for calculating sterling reserves is that described in JIA Vol. 105 Part III (except that a prudent allowance is made for policies becoming paid-up). Sterling reserves are calculated allowing for any surrender penalties. If a negative sterling reserve is calculated then the amount is limited to the size of the surrender penalty.

- (iii) The reserve for accumulating with-profits contracts is determined by calculating:

- the face value of the contract (allowing for guaranteed bonus rates where applicable) and
- the amount that would reasonably be expected to be paid in the event of a significant level of policy discontinuances. This amount is calculated taking into account any circumstances in which an MVR is guaranteed not to apply and allowing for future reversionary bonus implicit in treating customers fairly in the event that experience were to follow the valuation basis.

The lower of these two is compared with the result of a bonus reserve valuation and the reserve is taken to be the higher.

(b) General Principles

- (i) All policies are individually valued and, apart from non-profit protection products, any negative reserves arising on individual contracts as the result of the valuation method adopted have been eliminated. As a result these contracts are not treated as an asset. For non-profit protection products negative reserves are permitted.
- (ii) For conventional non-profit life, critical illness and income protection policies, a prudent allowance for lapses has been made. In addition a prudent allowance is made for regular withdrawals on products where this increases the liability.
- (iii) The reserves have a lower limit, at a contract level, of any guaranteed surrender values.
- (iv) Apart from policies reassured to Windsor Life, the valuation liabilities ceded to external reinsurers, where positive, have been reduced by 5% to allow for credit risk. Where reserves ceded are negative, there is no credit risk. Credit risk is quantified by projecting reinsurance credit risk exposures, multiplying by a prudent estimate of the probability of default and then discounting to the valuation date to arrive at the total cost. The treatment of credit risk in respect of the treaty with Windsor Life is explained in detail in section 9 (n).

(c) Conservative Approximations

- (i) For all deferred annuity business where there is either a return of fund or a return of premiums with interest on death, mortality is ignored in the valuation.

(d) Non Standard Methods

Exceptions where a non standard method has been used are as follows:

- The reserves for certain decreasing term assurances attaching to with-profit mortgage endowments have been set at 4.5 times the office premium. The reserves for certain other decreasing term assurances, family income benefits and risk premium reassurances accepted are taken as one year's office premium and for increasing family income benefits as 1.5 times the office premium. The reserves for risk premium reassurances ceded are taken as zero.
- For late retirements where the benefit is equal to the cash option at retirement plus interest, the reserves have been calculated by accumulating the cash option with interest at a rate not less than the average rate earned by existing policyholders.
- Friends Provident London and Manchester Assurance (FPLMA) individual income protection and waiver of premium reserves are taken as a proportion of total premiums paid. Reserves for FPLMA group income protection have been taken as one year's annual premium. Other annual premium income protection business is valued using a gross premium method. In all cases claims in payment are valued in addition to the above. Hospitalisation benefit claims are assumed to be 0.006% of the annual policy benefit, although, in practice, the amount of hospitalisation benefit is not related to policy benefit.
- For single premium income protection business, other than FPLMA, the liability in respect of benefits secured by premiums paid during the preceding three years is 90% of those premiums. Where claims are in course of payment after three years, they are valued individually as life annuities ceasing on the earlier of recovery, death or ceasing age. For FPLMA business the liability is equal to one year's premium plus the value of all claims in payment.
- Where an extra premium is payable on a life assurance policy to cover additional mortality risk, a reserve of three times the extra premium is held. Except for income protection business, where an extra premium is payable, the assumed inception rates are increased by a proportion equal to twice the extra premium divided by the total premium.
- A reserve equal to a multiple of premium is held for some minor ancillary benefits relating to ex-FPLAL products.

- For ex-FPLP and ex-FPLAL individual income protection policy reserving, claims are restricted such that the claim amount for policies currently in claim is 75% of the last recorded claim amount and 25% of the sum assured, and for future claims the modelled claim amount is the sum assured multiplied by 90%. Income protection contracts may pay less than the full sum assured when a claimant is able to work part time or where benefits exceed a specified proportion of current earnings. Hence, it is assumed that the claims are, on average, 10% less than the full sum assured where there is currently no claim in force. Where there is currently a claim in force, the sum assured is assumed to be reduced by 75% of the difference between the current amount of the claim and the full sum insured.
- For ex-BHA Group Risk contracts, the reserves are calculated as the unexpired period to the next premium due, times the annual premium plus an amount to cover claims incurred but not reported. This is calculated as a factor derived from run-off triangles and applied to the annualised in force premium. The factor varies by product.
- For reassured policies, the net reserve was calculated by modelling the premiums assuming that the current reinsurance premium rates continue.

## (2) Valuation Interest Rates

Interest rates assumed for policies where negative reserves are not permitted:

|   | 31.12.2011 |         |           |         | 31.12.2010 |         |           |         |
|---|------------|---------|-----------|---------|------------|---------|-----------|---------|
|   | L & GA     |         | Pens<br>% | IP<br>% | L & GA     |         | Pens<br>% | IP<br>% |
|   | UK<br>%    | OS<br>% |           |         | UK<br>%    | OS<br>% |           |         |
| Annuities in possession (Pre-July 2001)                             | 1.90       | 3.57    | 4.09      |         | 2.80       | 4.46    | 4.81      |         |
| Annuities in possession (Post-July 2001)                            | 1.90       | 3.57    | 3.57      |         | 2.80       | 4.46    | 4.46      |         |
| Other non-profit business   | 1.90       | 2.40    | 2.40      | 2.40    | 2.80       | 3.50    | 3.50      | 3.50    |
| With-profits deferred annuities<br>in deferment                     | 2.30       |         | 2.90      |         | 2.80       |         | 3.50      |         |
| in possession   | 2.30       |         | Variable* |         | 2.80       |         | Variable* |         |
| With-profits deferred annuities (ex-FPLAL pre-2003)<br>in deferment |            |         | 2.20      |         |            |         | 3.30      |         |
| in possession   |            |         | 2.40      |         |            |         | 3.30      |         |
| With-profits assurances (ex-FPLAL pre-2003)                         | 1.70       |         | 2.20      |         | 2.6        |         | 3.3       |         |
| Other conventional with-profits business                            | 2.30       |         | 2.90      |         | 2.80       |         | 3.50      |         |
| Unitised with-profits   | 2.30       | 2.90    | 2.90      |         | 2.80       | 3.50    | 3.50      |         |

\* In possession assumes a reinvestment rate. This is equal to 97.5% of the rates derived from the forward gilt yield curve.

Interest rates assumed for policies where negative reserves are permitted:

|           | 31.12.2011 |         |           |         | 31.12.2010 |         |           |         |
|-----------|------------|---------|-----------|---------|------------|---------|-----------|---------|
|           | L & GA     |         | Pens<br>% | IP<br>% | L & GA     |         | Pens<br>% | IP<br>% |
|           | UK<br>%    | OS<br>% |           |         | UK<br>%    | OS<br>% |           |         |
| Low rate  | 1.40       | 1.90    | 1.90      | 1.90    | 2.30       | 3.00    | 3.00      | 3.00    |
| High rate | 3.50       | 3.50    | 3.50      | 3.50    | 5.00       | 5.00    | 5.00      | 5.00    |

The low rate is applied to product types with an overall positive liability and the high rate is applied to product types with an overall negative liability.

The valuation interest rate for each ex-BHA product type is set out in the table below. For regular premium policies appearing on Form 54, the nominal valuation rate has been reduced by 2.9% to obtain a real yield. In the following table, TP stands for Trading Profits tax basis and I – E stands for I – E tax basis.

|  | 31.12.2011                |                           | 31.12.2010              |                      |
|--|---------------------------|---------------------------|-------------------------|----------------------|
|  | Policy as a Liability %   | Policy as an Asset %      | Policy as a Liability % | Policy as an Asset % |
| Accelerated Critical Illness (pre 31/01/2011)  | 2.23                      | 4.14                      | 2.65                    | 4.56                 |
| Accelerated Critical Illness (post 31/01/2011) | 2.23 (TP)<br>1.73 (I – E) | 4.14 (TP)<br>3.64 (I – E) |                         |                      |
| Stand-alone Critical Illness (pre 31/01/2011)  | 2.23                      | 4.14                      | 3.41                    | 5.32                 |
| Stand-alone Critical Illness (post 31/01/2011) | 2.23 (TP)<br>1.73 (I – E) | 4.14 (TP)<br>3.64 (I – E) |                         |                      |
| Life   | 2.23 (TP)<br>1.73 (I – E) | 4.14 (TP)<br>3.64 (I – E) | 2.65                    | 4.56                 |
| Income Protection                              | 2.23                      | n/a                       | 3.41                    | 5.32                 |
| Immediate Needs (Level)                        | 2.23                      | n/a                       | 2.27                    | n/a                  |
| Long Term Care                                 | 2.23                      | n/a                       | 3.41                    | 5.32                 |
| Claims in Payment                              | 2.23                      | n/a                       | 2.45                    | n/a                  |

(3) Adjustment of Yields for Risk

- Yields on British Government fixed-interest and index linked securities are assumed to be free of default risk and therefore no adjustments are made to their yields.
- The internal rates of return on corporate bonds have been reduced to make a prudent allowance for the risk of default. This allowance assumes a long-term expected level of defaults, based on an analysis of the historical losses and recoveries from 1920 onwards, plus a margin for prudence. In addition, a further short-term deduction has been applied to the yields to reflect the increased likelihood of defaults given the recent stressed conditions within the credit markets.

The deduction for individual bonds may be restricted such that the risk-adjusted yield is not less than that on a British Government security of equivalent duration.

The following deductions have been made from gross redemption yields:

| Credit Rating | Term to Redemption (years) |       |     |
|---------------|----------------------------|-------|-----|
|               | 0-10                       | 10-20 | 20+ |
| AAA           | 11                         | 13    | 14  |
| AA            | 70                         | 52    | 47  |
| A             | 132                        | 83    | 74  |
| BBB           | 254                        | 167   | 150 |
| BB            | 432                        | 307   | 266 |
| B             | 678                        | 505   | 438 |
| Below B       | 1485                       | 924   | 757 |

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

- In compliance with INSPRU 3.1.37R, the running yield on equities is calculated as the greater of the dividend yield and the average of the dividend yield and the earnings yield. This yield and the yield on property are capped at the long-term gilt yield plus 4% p.a.



(4) The mortality tables used in the valuation are as follows (ultimate mortality except where stated):

|  | 31.12.2011                    |                               | 31.12.2010                    |                               |
|--|-------------------------------|-------------------------------|-------------------------------|-------------------------------|
|  | Male                          | Female                        | Male                          | Female                        |
| <b>All lives except as noted below</b>                       | 120% AMC00                    | 120% AFC00                    | 120% AMC00                    | 120% AFC00                    |
| <b>Linked Business</b>                                       |                               |                               |                               |                               |
| - Life (regular premium)                                     | 130% AMC00                    | 130% AFC00                    | 130% AMC00                    | 130% AFC00                    |
| - Life (other)   | 110% AMC00                    | 110% AFC00                    | 110% AMC00                    | 110% AFC00                    |
| - Pre-2003 Business (ex-FPLAL)                               | 80% A67/70                    | 80% A67/70                    | 80% A67/70                    | 80% A67/70                    |
| <b>Regular Premium Income Protection</b>                     |                               |                               |                               |                               |
| - Lives not claiming   | 60% AM80                      | 60% AF80                      | 60% AM80                      | 60% AF80                      |
| - Lives claiming   | 58.5% CMI12<br>for sick lives | 58.5% CMI12<br>for sick lives | 58.5% CMI12<br>for sick lives | 58.5% CMI12<br>for sick lives |
| <b>Term assurances paying death benefits only</b>            |                               |                               |                               |                               |
| - Smokers  | 83%<br>TMS00(5)               | 77%<br>TFS00(5)               | 93%<br>TMS00(5)               | 88%<br>TFS00(5)               |
| - Non-Smokers  | 99%<br>TMN00(5)               | 72%<br>TFN00(5)               | 93%<br>TMN00(5)               | 86%<br>TFN00(5)               |
| - Non-Differentiated <sup>(1)</sup>                          | 110%<br>TMN00(5)              | 110%<br>TFN00(5)              | 105%<br>TMN00(5)              | 105%<br>TFN00(5)              |
| - With Profit Term Assurance (ex-FPLAL)                      | 110% TMN00<br>(Select) (5)    | 110% TFN00<br>(Select) (5)    | 105% TMN00<br>(Select) (5)    | 105% TFN00<br>(Select) (5)    |
| - With Profit Endowments (ex-FPLAL)                          | 80% AM80                      | 80% AF80                      | 80% AM80                      | 80% AF80                      |
| <b>Deferred annuities</b>                                    |                               |                               |                               |                               |
| - in deferment   | 65% AMC00                     | 55% AFC00                     | 65% AMC00                     | 55% AFC00                     |
| - non-profit pension annuity options on vesting (individual) | 75-92%<br>PCMA00              | 78-87%<br>PCFA00              | 59-93%<br>RMV00               | 61-93%<br>RFV00               |
| - other annuity options on vesting (group)                   | 73-97%<br>PCMA00              | 83-92%<br>PCFA00              | 70-93%<br>PCMA00              | 77-93%<br>PCFA00              |
| <b>Annuities in possession - individual contracts</b>        |                               |                               |                               |                               |
| - Life business  | 95% IM92<br>U2005             | 95% IF92<br>U2005             | 95% IM92<br>U2005             | 95% IF92<br>U2005             |
| - Pension business (pre-July 2001)                           | 83-92%<br>PCMA00              | 74-87%<br>PCFA00              | 84-93%<br>RMV00               | 87-93%<br>RFV00               |
| - Pension business (post-July 2001)                          | 75-92%<br>PCMA00              | 78-87%<br>PCFA00              | 59-93%<br>RMV00               | 61-93%<br>RFV00               |
| <b>Annuities in possession - group contracts</b>             |                               |                               |                               |                               |
| - Pension business (pre-July 2001)                           | 97% PCMA00                    | 92% PCFA00                    | 82-93%<br>PCMA00              | 90-93%<br>PCFA00              |
| - Pension business (post-July 2001)                          | 73-97%<br>PCMA00              | 83-92%<br>PCFA00              | 70-93%<br>PCMA00              | 77-93%<br>PCFA00              |
| <b>With Profit Business – Annuity Fund</b>                   |                               |                               |                               |                               |
| - Individual deferred annuity (in deferment)                 | 65% AMC00                     | 55% AFC00                     | 65% AMC00                     | 55% AFC00                     |

|   | 31.12.2011        |                   | 31.12.2010        |                   |
|---|-------------------|-------------------|-------------------|-------------------|
|   | Male              | Female            | Male              | Female            |
| - Individual deferred annuity (in possession) | 95% IM92<br>C2025 | 95% IF92<br>C2025 | 95% IM92<br>C2025 | 95% IF92<br>C2025 |
| <b>With Profit Business – Pension Fund</b>    |                   |                   |                   |                   |
| - Individual deferred annuity (in deferment)  | 65% AMC00         | 55% AFC00         | 65% AMC00         | 55% AFC00         |
| - Individual deferred annuity (in possession) | 75-92%<br>PCMA00  | 78-87%<br>PCFA00  | 59-93%<br>RMV00   | 61-93%<br>RFV00   |
| - Scheme deferred annuity (in deferment)      | 65% AMC00         | 55% AFC00         | 65% AMC00         | 55% AFC00         |
| - Scheme deferred annuity (in possession)     | 73-97%<br>PCMA00  | 83-92%<br>PCFA00  | 70-93%<br>PCMA00  | 77-93%<br>PCFA00  |
| - Term assurance                              | 110%<br>TMN00 (5) | 110%<br>TFN00 (5) | 105%<br>TMN00 (5) | 105%<br>TFN00 (5) |

<sup>(1)</sup>Non-differentiated produces higher rates as this refers to a separate block of business where smoker status was not disclosed. This business is assumed to have a different mortality experience to business sold where smoker status was required to be disclosed and hence uses a different percentage of the mortality table.

Where a range of percentages is shown the percentage varies by age.

For ex-BHA business, a table showing the mortality bases used for each of the main product groups is set out below:

| Product Type                 | Table                  | 31.12.2011 (%) |       |        |       | 31.12.2010 (%) |       |        |       |
|------------------------------|------------------------|----------------|-------|--------|-------|----------------|-------|--------|-------|
|                              |                        | Male           |       | Female |       | Male           |       | Female |       |
|                              |                        | NS             | S     | NS     | S     | NS             | S     | NS     | S     |
| Stand-alone Critical Illness | TM92 Ult<br>TF92 Ult   | 37.5           | 75    | 37.5   | 75    | 37.5           | 75    | 37.5   | 75    |
| Life                         | TMN/S 00S<br>TFN/S 00S | 72.45          | 81.65 | 74.75  | 75.90 | 72.45          | 81.65 | 74.75  | 75.90 |
| Income Protection            | AM80 Sel<br>AF80 Sel   | 100            | 100   | 100    | 100   | 100            | 100   | 100    | 100   |
| Immediate Needs              | PMA80 Ult<br>PFA80 Ult | 72.25          | 72.25 | 85     | 85    | 72.25          | 72.25 | 85     | 85    |
| Long Term Care               | PMA80 Ult<br>PFA80 Ult | 80             | 80    | 80     | 80    | 80             | 80    | 80     | 80    |

For annuities in payment and annuities in deferment, the complete expectation of life assumed by the above mortality tables, having applied the percentages given, is shown below:

Annuities in possession – individual contracts – pension business (Pre-July 2001):  
Modified PCMA00/PCFA00 for 2011, modified RMV00/RFV00 for 2010.

| Current Age | Expectation at Age | 31.12.2011 |        | 31.12.2010 |        |
|-------------|--------------------|------------|--------|------------|--------|
|             |                    | Male       | Female | Male       | Female |
| 45          | 65                 | 28.57      | 30.94  | 29.49      | 30.88  |
| 55          | 65                 | 26.95      | 29.42  | 27.15      | 29.06  |
| 65          | 65                 | 25.44      | 27.88  | 24.94      | 27.32  |
| 75          | 75                 | 15.77      | 17.70  | 15.47      | 17.27  |

Annuities in possession - group contracts - pension business (post-July 2001) and  
With-profit business – pension fund – scheme deferred annuity (in possession) and  
Deferred annuities - other annuity options on vesting (group):  
Modified PCMA00/PCFA00 for 2011, modified PCMA00/PCFA00 for 2010.

| Current Age | Expectation at Age | 31.12.2011 |        | 31.12.2010 |        |
|-------------|--------------------|------------|--------|------------|--------|
|             |                    | Male       | Female | Male       | Female |
| 45          | 65                 | 28.40      | 30.24  | 29.60      | 30.05  |
| 55          | 65                 | 26.81      | 28.68  | 27.15      | 28.11  |
| 65          | 65                 | 25.35      | 27.12  | 24.83      | 26.26  |
| 75          | 75                 | 15.48      | 17.04  | 15.21      | 16.50  |

Annuities in possession – individual contract - life business:

Modified IM92/IF92 U2005 Ultimate for 2011, modified IM92/IF92 U2005 Ultimate for 2010.

(The 2010 figures have been restated.)

| Current Age | Expectation at Age | 31.12.2011 |        | 31.12.2010 |        |
|-------------|--------------------|------------|--------|------------|--------|
|             |                    | Male       | Female | Male       | Female |
| 45          | 65                 | 22.20      | 24.86  | 22.15      | 24.83  |
| 55          | 65                 | 21.70      | 24.50  | 21.64      | 24.46  |
| 65          | 65                 | 21.04      | 24.03  | 20.96      | 23.98  |
| 75          | 75                 | 12.79      | 14.74  | 12.74      | 14.70  |

Annuities in possession – group contracts - pension business (pre-July 2001):

Modified PCMA00/PCFA00 for 2011, modified PCMA00/PCFA00 for 2010.

| Current Age | Expectation at Age | 31.12.2011 |        | 31.12.2010 |        |
|-------------|--------------------|------------|--------|------------|--------|
|             |                    | Male       | Female | Male       | Female |
| 45          | 65                 | 27.61      | 29.98  | 29.60      | 30.05  |
| 55          | 65                 | 25.93      | 28.40  | 27.15      | 28.11  |
| 65          | 65                 | 24.42      | 26.80  | 24.83      | 26.26  |
| 75          | 75                 | 14.95      | 16.84  | 15.21      | 16.50  |

Annuities in possession - individual contracts - pension business (post-July 2001) and

With Profit Business - pension fund - individual deferred annuity (in possession) and

Deferred annuities - non-profit pension annuity options on vesting (individual):

Modified PCMA00/PCFA00 for 2011, modified RMV00/RFV00 for 2010.

| Current Age | Expectation at Age | 31.12.2011 |        | 31.12.2010 |        |
|-------------|--------------------|------------|--------|------------|--------|
|             |                    | Male       | Female | Male       | Female |
| 45          | 65                 | 28.85      | 30.74  | 30.46      | 31.59  |
| 55          | 65                 | 27.26      | 29.19  | 28.21      | 29.83  |
| 65          | 65                 | 25.77      | 27.63  | 26.09      | 28.16  |
| 75          | 75                 | 15.97      | 17.55  | 16.07      | 17.77  |

With Profit Business - annuity fund - individual deferred annuity (in possession):

Modified IM92/IF92 C2025 for 2011, modified IM92/IF92 C2025 for 2010.

| Current Age | Expectation at Age | 31.12.2011 |        | 31.12.2010 |        |
|-------------|--------------------|------------|--------|------------|--------|
|             |                    | Male       | Female | Male       | Female |
| 45          | 65                 | 21.21      | 24.01  | 20.82      | 23.66  |
| 55          | 65                 | 21.21      | 24.01  | 20.82      | 23.66  |
| 65          | 65                 | 21.21      | 24.01  | 20.82      | 23.66  |
| 75          | 75                 | 13.14      | 14.99  | 12.80      | 14.66  |

For the 31.12.2011 valuation improvements are applied from 2001 to the standard tables based on 100% of the CMI\_2011 mortality projections model with a long term rate of 2%.

For the 31.12.2010 valuation modifications to standard tables were based on CMI Working Paper 1 entitled "An interim basis for adjusting the '92' series mortality projections for cohort effects". An allowance was made for future improvement, applied from 2001, using percentages of the Medium Cohort. The percentages used were 100% for males and 75% for females, subject to a minimum annual

rate of improvement. For males, this minimum was assumed to be 1.5% p.a. before 2010 and 2.1% p.a. after 2010; for females it was 1.25% p.a. before 2010 and 1.8% p.a. after 2010.

(5) The morbidity tables assumed in the valuation of the various categories of contracts are shown below.

- (a) For Income Protection business, except as noted below, the inception and recovery rates used are those published in CMI Report No. 12. The inception rates for occupation class 1 have been adjusted by the following proportions, for business with a deferred period of 13 weeks, which is the most common deferred period:

|                      | 31.12.2011 | 31.12.2010 |
|----------------------|------------|------------|
| Males Smokers        | 48%        | 53%        |
| Males Non-smokers    | 42%        | 46%        |
| Males Unclassified   | 44%        | 48%        |
| Females Smokers      | 87%        | 122%       |
| Females Non-smokers  | 75%        | 106%       |
| Females Unclassified | 79%        | 111%       |

The recovery rates have been adjusted by the following proportions:

| Policy Year | 31.12.2011 | 31.12.2010 |
|-------------|------------|------------|
| 1           | 32%        | 32%        |
| 2           | 59%        | 59%        |
| 3-5         | 68%        | 68%        |
| 6+          | 41%        | 41%        |

- (b) The valuation of single premium Income Protection claims in payment, for both the 2011 and 2010 valuations, are assumed to have 40% of the ultimate recovery and mortality rates for sick lives published in the CMI Report No. 12.
- (c) The mortality and morbidity tables for critical illness used in the 2011 valuation are as follows:

|   | 31.12.2011                |                            | 31.12.2010                |                            |
|---|---------------------------|----------------------------|---------------------------|----------------------------|
|   | Male                      | Female                     | Male                      | Female                     |
| <b>Accelerated Critical Illness Mortality</b> |                           |                            |                           |                            |
| - Smokers                                     | 89%<br>CIBT02 (2)<br>mort | 111%<br>CIBT02 (2)<br>mort | 89%<br>CIBT02 (2)<br>mort | 111%<br>CIBT02 (2)<br>mort |
| - Non-Smokers                                 | 45%<br>CIBT02 (2)<br>mort | 51%<br>CIBT02 (2)<br>mort  | 45%<br>CIBT02 (2)<br>mort | 51%<br>CIBT02 (2)<br>mort  |
| <b>Standalone Critical Illness Morbidity</b>  |                           |                            |                           |                            |
| - Smokers                                     | 87%<br>CIBT02 (2)         | 89%<br>CIBT02 (2)          | 87%<br>CIBT02 (2)         | 89%<br>CIBT02 (2)          |
| - Non-Smokers                                 | 51%<br>CIBT02 (2)         | 64%<br>CIBT02 (2)          | 51%<br>CIBT02 (2)         | 64%<br>CIBT02 (2)          |

In policy year one and two, the rates shown above are reduced by 20% and 5% respectively.

Future deterioration is allowed for by applying the factors below to the basic critical illness morbidity rates:

|         | <b>Per annum Deterioration Factors<br/>(no Maximum Values)</b> |                   |
|---------|--|-------------------|
|         | <b>31.12.2011</b>  | <b>31.12.2010</b> |
| Males   | 1.25%  | 1.25%             |
| Females | 1.50%  | 1.50%             |

(d) For valuing FPLMA group Income Protection the following termination rates have been used

| <b>Term from Commencement<br/>of Disability to Retirement</b> | <b>31.12.2011</b> |            |               | <b>31.12.2010</b> |            |               |
|---|-------------------|------------|---------------|-------------------|------------|---------------|
|   | <b>Under 2</b>    | <b>2-5</b> | <b>Over 5</b> | <b>Under 2</b>    | <b>2-5</b> | <b>Over 5</b> |
| Up to 10 years  | 7%                | 3%         | 1%            | 7%                | 3%         | 1%            |
| Over 10 years   | 12%               | 5%         | 2%            | 12%               | 5%         | 2%            |

(e) Tables showing the morbidity inception and termination assumptions used for each of the main ex-BHA product groups and tranche, where relevant, are set out below. These rates apply to guaranteed policies. There is a reduction of 5% in the provision for adverse deviation on reviewable CIC policies.

(i) Inceptions

| Product Type                                    | Table                                  | Inception Rates as Percentage of<br>table CIBT02 at 31.12.2011 |        |         |        | Inception Rates as Percentage of<br>table CIBT93 at 31.12.2010 |        |         |        |
|---|--|--|--------|---------|--------|--|--------|---------|--------|
|   |  | M<br>NS  | M<br>S | F<br>NS | F<br>S | M<br>NS  | M<br>S | F<br>NS | F<br>S |
| Accelerated<br>Critical Illness<br>– Feb 2011   | CIBT02                                 | 41.7   | 78.3   | 53.0    | 106.0  | 46.7   | 77.0   | 63.1    | 89.6   |
| Accelerated<br>Critical Illness<br>– Apr 2007   | CIBT02                                 | 41.7   | 78.3   | 53.0    | 106.0  | 46.7   | 77.0   | 63.1    | 89.6   |
| Accelerated<br>Critical Illness<br>– Old series | See sample<br>rates below <sup>1</sup> | 140  | 140    | 140     | 140    | 140  | 140    | 140     | 140    |
| Accelerated<br>Critical Illness<br>– Feb 2011   | CIBT02                                 | 49.4   | 83.2   | 55.9    | 74.1   | 61.1   | 97.5   | 76.7    | 92.3   |
| Accelerated<br>Critical Illness<br>– Apr 2007   | CIBT02                                 | 49.4   | 83.2   | 55.9    | 74.1   | 61.1   | 97.5   | 76.7    | 92.3   |
| Stand-alone<br>Critical Illness<br>– Old series | See sample<br>rates below <sup>2</sup> | 140  | 140    | 140     | 140    | 140  | 140    | 140     | 140    |
| Income<br>Protection (pre<br>2006)              | CMIR 12<br>Inceptions*                 | 120  | 159.6  | 180     | 239.4  | 120  | 159.6  | 180     | 239.4  |
| Income<br>Protection<br>– Jan 2006              | CMIR 12<br>Inceptions*                 | 118.2  | 165.5  | 224.6   | 314.4  | 118.2  | 165.5  | 224.6   | 314.4  |
| Income<br>Protection<br>– Jul 2010              | CMIR 12<br>Inceptions*                 | 132.4  | 185.4  | 251.5   | 352.1  | 132.4  | 185.4  | 251.5   | 352.1  |

\*The following adjustments are made to income protection inception rates according to product series and occupational class.

| Occupational<br>Class | IP Loading % (pre 2006 start date) |            | IP Loading % (start date 2006<br>onwards) |            |
|-----------------------|------------------------------------|------------|---|------------|
|                       | 31.12.2011                         | 31.12.2010 | 31.12.2011                                | 31.12.2010 |
| 1                     | 90                                 | 90         | 90  | 90         |

| Occupational Class | IP Loading % (pre 2006 start date) |            | IP Loading % (start date 2006 onwards) |            |
|--------------------|------------------------------------|------------|--|------------|
| Valuation Date     | 31.12.2011                         | 31.12.2010 | 31.12.2011                             | 31.12.2010 |
| 2                  | 120                                | 120        | 95                                     | 95         |
| 3                  | 190                                | 190        | 125                                    | 125        |
| 4                  | 290                                | 290        | 180                                    | 180        |
| 5                  | 390                                | 390        | 250                                    | 250        |

\*Further adjustments are made to income protection incidence rates according to deferred period

| Deferred Period (weeks) | Factor (pre 2006 start date) |            | Factor (start date 2006 onwards) |            |
|-------------------------|------------------------------|------------|----------------------------------|------------|
| Valuation Date          | 31.12.2011                   | 31.12.2010 | 31.12.2011                       | 31.12.2010 |
| 4                       | 100                          | 100        | 25                               | 25         |
| 13                      | 100                          | 100        | 40                               | 40         |
| 26                      | 100                          | 100        | 70                               | 70         |
| 52                      | 100                          | 100        | 195                              | 195        |

(ii) Termination/Recovery rates

| Product Type                                 | Table                     | Recovery Rates as Percentage of table at 31.12.2011 |                                       |                                       |                                       | Recovery Rates as Percentage of table at 31.12.2010 |                          |                          |                          |
|--|---------------------------|---|---------------------------------------|---------------------------------------|---------------------------------------|---|--------------------------|--------------------------|--------------------------|
| Sex Smoker                                   |                           | M NS  | M S                                   | F NS                                  | F S                                   | M NS  | M S                      | F NS                     | F S                      |
| Income Protection                            | CMIR 12 Recovery Rates    | 60 y1<br>65 y2<br>75 y3                             | 60 y1<br>65 y2<br>75 y3               | 60 y1<br>65 y2<br>75 y3               | 60 y1<br>65 y2<br>75 y3               | 60 y1<br>65 y2<br>75 y3                             | 60 y1<br>65 y2<br>75 y3  | 60 y1<br>65 y2<br>75 y3  | 60 y1<br>65 y2<br>75 y3  |
| Long Term Care                               | See sample rates below    | 116.4   | 128.4                                 | 116.4                                 | 128.4                                 | 116.4   | 128.4                    | 116.4                    | 128.4                    |
| Group Risk Claims in Payment (IP)            | CMIR 12 Termination Rates | 35 y1<br>100 y2<br>110 y3-5<br>80 y5+               | 35 y1<br>100 y2<br>110 y3-5<br>80 y5+ | 35 y1<br>100 y2<br>110 y3-5<br>80 y5+ | 35 y1<br>100 y2<br>110 y3-5<br>80 y5+ | 40 y1<br>65 y2<br>85 y3+                            | 40 y1<br>65 y2<br>85 y3+ | 40 y1<br>65 y2<br>85 y3+ | 40 y1<br>65 y2<br>85 y3+ |
| Individual Protection Claims in Payment (IP) | CMIR 12 Termination Rates | 60 y1<br>65 y2<br>75 y3+                            | 60 y1<br>65 y2<br>75 y3+              | 60 y1<br>65 y2<br>75 y3+              | 60 y1<br>65 y2<br>75 y3+              | 60 y1<br>65 y2<br>75 y3+                            | 60 y1<br>65 y2<br>75 y3+ | 60 y1<br>65 y2<br>75 y3+ | 60 y1<br>65 y2<br>75 y3+ |

- (iii) An allowance for future deterioration in morbidity experience is made on guaranteed and reviewable policies by applying factors to the morbidity rates shown in this section. Morbidity deterioration factors are calculated by compound increases to the underlying table rates according to the percentages below.

| Product Type and launch date where appropriate | Annual Percentage |            |            |
|--|-------------------|------------|------------|
|  | Guaranteed        |            | Reviewable |
| Valuation date                                 | 31.12.2011        | 31.12.2010 | 31.12.2011 |
| Future Care (Security)                         | 2                 | 2          | 1          |
| Accelerated Critical Illness – Apr 2007        | 0.5               | 0.5        | 0.25       |
| Accelerated Critical Illness – Nov 2001        | 1                 | 1          | 0.5        |
| Accelerated Critical Illness – Old series      | 1                 | 1          | 0.5        |
| Stand-alone Critical Illness – Apr 2007        | 1                 | 1          | 0.5        |
| Stand-alone Critical Illness – Nov 2001        | 2                 | 2          | 1          |
| Stand-alone Critical Illness – Old series      | 2                 | 2          | 1          |
| Income Protection (pre 2006)                   | 0                 | 0          | 0          |
| Income Protection (2006 onwards)               | 0                 | 0          | 0          |

- (iv) The table below shows the sample morbidity rates for the old series of Accelerated Critical Illness policies, (written before November 2001).

| Accelerated CI Rates per £10,000 Sum Assured | 31.12.2011 |        |         |        | 31.12.2010 |        |         |        |
|--|------------|--------|---------|--------|------------|--------|---------|--------|
| Sex<br>Smoker                                | M<br>NS    | M<br>S | F<br>NS | F<br>S | M<br>NS    | M<br>S | F<br>NS | F<br>S |
| 25   | 10.00      | 16.67  | 7.43    | 11.97  | 10.00      | 16.67  | 7.43    | 11.97  |
| 35   | 14.78      | 25.30  | 14.32   | 24.44  | 14.78      | 25.30  | 14.32   | 24.44  |
| 45   | 44.14      | 77.25  | 32.62   | 56.07  | 44.14      | 77.25  | 32.62   | 56.07  |
| 55   | 120.58     | 210.66 | 81.51   | 138.87 | 120.58     | 210.66 | 81.51   | 138.87 |

- (v) The table below shows the sample morbidity rates for the old series of Stand Alone Critical Illness policies, (written before November 2001).

| Stand Alone CI per £10,000 Sum Assured | 31.12.2011 |        |         |        | 31.12.2010 |        |         |        |
|--|------------|--------|---------|--------|------------|--------|---------|--------|
| Sex<br>Smoker                          | M<br>NS    | M<br>S | F<br>NS | F<br>S | M<br>NS    | M<br>S | F<br>NS | F<br>S |
| 25                                     | 4.62       | 6.72   | 5.88    | 8.82   | 4.62       | 6.72   | 5.88    | 8.82   |
| 35                                     | 10.22      | 18.76  | 13.72   | 24.92  | 10.22      | 18.76  | 13.72   | 24.92  |
| 45                                     | 31.22      | 65.24  | 29.26   | 62.72  | 31.22      | 65.24  | 29.26   | 62.72  |
| 55                                     | 77.28      | 166.04 | 58.38   | 133.42 | 77.28      | 166.04 | 58.38   | 133.42 |

- (vi) The table below shows Future Care Continuous incidence rates.

| Future Care<br>(Continuous)<br>per £10,000<br>Sum Assured | 31.12.2011 |        |         |        | 31.12.2010 |        |         |        |
|---|------------|--------|---------|--------|------------|--------|---------|--------|
| Sex<br>Smoker   | M<br>NS    | M<br>S | F<br>NS | F<br>S | M<br>NS    | M<br>S | F<br>NS | F<br>S |
| 25  | 2.64       | 2.88   | 3.95    | 4.31   | 2.64       | 2.88   | 3.95    | 4.31   |
| 35  | 3.83       | 4.19   | 4.89    | 5.34   | 3.83       | 4.19   | 4.89    | 5.34   |
| 45  | 7.12       | 7.78   | 7.81    | 8.54   | 7.12       | 7.78   | 7.81    | 8.54   |
| 55  | 15.9       | 17.37  | 16.99   | 18.56  | 15.9       | 17.37  | 16.99   | 18.56  |
| 65  | 44.2       | 48.3   | 51.21   | 55.96  | 44.2       | 48.3   | 51.21   | 55.96  |
| 75  | 119.29     | 130.36 | 157.69  | 172.23 | 119.29     | 130.36 | 157.69  | 172.23 |
| 85  | 369.46     | 403.74 | 554.17  | 605.59 | 369.46     | 403.74 | 554.17  | 605.59 |

- (vii) The tables below show the annuity value at claim inception per £1000 p.m. benefit for moderate and continuous policies respectively.

Future Care, Moderate

(annuity at claim inception per £1000 p.m.)

| Age | Male<br>Level<br>D3 | Male<br>Level<br>D12 | Male<br>Indexed<br>D3 | Male<br>Indexed<br>D12 | Female<br>Level<br>D3 | Female<br>Level<br>D12 | Female<br>Indexed<br>D3 | Female<br>Indexed<br>D12 |
|-----|---------------------|----------------------|-----------------------|------------------------|-----------------------|------------------------|-------------------------|--------------------------|
| 50  | 82046.32            | 72980.93             | 108465.94             | 99163.49               | 83209.72              | 74140.66               | 110953.96               | 101647.06                |
| 60  | 76552.32            | 67512.86             | 98078.90              | 88802.74               | 79417.90              | 70365.76               | 103165.76               | 93877.04                 |
| 70  | 65251.95            | 56302.99             | 79939.63              | 70758.82               | 70457.37              | 61452.83               | 87736.00                | 78496.38                 |
| 80  | 48880.01            | 40191.60             | 56928.97              | 48015.39               | 53980.64              | 45178.81               | 63759.83                | 54729.29                 |

Future Care, Continuous

(annuity at claim inception per £1000 p.m.)

| Age | Male<br>Level<br>D3 | Male<br>Level<br>D12 | Male<br>Indexed<br>D3 | Male<br>Indexed<br>D12 | Female<br>Level<br>D3 | Female<br>Level<br>D12 | Female<br>Indexed<br>D3 | Female<br>Indexed<br>D12 |
|-----|---------------------|----------------------|-----------------------|------------------------|-----------------------|------------------------|-------------------------|--------------------------|
| 50  | 49556.69            | 41381.00             | 60735.44              | 52363.64               | 49969.29              | 41804.22               | 61474.09                | 53101.73                 |
| 60  | 47310.46            | 39169.81             | 57097.77              | 48751.29               | 48546.30              | 40393.77               | 59042.80                | 50680.16                 |
| 70  | 41839.81            | 33800.06             | 49130.23              | 40885.79               | 44571.43              | 36472.26               | 52921.89                | 44614.76                 |
| 80  | 32681.42            | 24919.47             | 37025.29              | 29066.91               | 35719.16              | 27835.22               | 40888.59                | 32804.87                 |



(6) Expense Bases

Renewal commission is allowed for at the actual rate payable for each business type.

Tax relief in the life fund is assumed to be:

- 20% for maintenance expenses
- 16% for acquisition expenses

The expenses shown below are in respect of all maintenance expenses for conventional business and attributable expenses for unitised business.

## With Profit Fund

| With-Profit Fund                         |                | 31.12.2011          |                     |                                       |              | 31.12.2010          |                     |                                       |              |
|--|----------------|---------------------|---------------------|---------------------------------------|--------------|---------------------|---------------------|---------------------------------------|--------------|
| Class                                    |                | Zilmer Adj.<br>% SA | Annual Expense<br>£ | Investment Expense<br>% of Fund<br>pa | % of Premium | Zilmer Adj.<br>% SA | Annual Expense<br>£ | Investment Expense<br>% of Fund<br>pa | % of Premium |
| CWP Savings Endowment (120)              | Premium Paying | N/a                 | 26.10               | 0.125                                 | 0            | N/a                 | 26.31               | 0.125                                 | 0            |
|  | Otherwise      | N/a                 | 18.27               | 0.125                                 | 0            | N/a                 | 18.41               | 0.125                                 | 0            |
| CWP Target Cash Endowment (125)          | Premium Paying | N/a                 | 26.10               | 0.125                                 | 0            | N/a                 | 26.31               | 0.125                                 | 0            |
|  | Otherwise      | N/a                 | 18.27               | 0.125                                 | 0            | N/a                 | 18.41               | 0.125                                 | 0            |
| CWP Pensions (155 / 165)                 | Premium Paying | N/a                 | 31.32               | 0.125                                 | 0            | N/a                 | 31.57               | 0.125                                 | 0            |
|  | Otherwise      | N/a                 | 23.49               | 0.125                                 | 0            | N/a                 | 23.68               | 0.125                                 | 0            |
| Term Assurance (325 / 330)               | Premium Paying | N/a                 | 18.22               | 0.125                                 | 0            | N/a                 | 22.70               | 0.125                                 | 0            |
|  | Otherwise      | N/a                 | 15.66               | 0.125                                 | 0            | N/a                 | 15.78               | 0.125                                 | 0            |
| Critical Illness (340 / 345 / 350 / 355) | Premium Paying | N/a                 | 18.22               | 0.125                                 | 0            | N/a                 | 22.70               | 0.125                                 | 0            |
|  | Otherwise      | N/a                 | 15.66               | 0.125                                 | 0            | N/a                 | 15.78               | 0.125                                 | 0            |
| Annuity (400)                            | All            | N/a                 | 11.54               | 0.060                                 | 0            | N/a                 | 18.45               | 0.060                                 | 0            |
| UWP Bond (500)                           | All            | N/a                 | 29.23               | 0.125                                 | 0            | N/a                 | 29.80               | 0.125                                 | 0            |
| UWP Savings Endowment (510)              | Premium Paying | N/a                 | 34.01               | 0.125                                 | 0            | N/a                 | 34.28               | 0.125                                 | 0            |
|  | Otherwise      | N/a                 | 29.23               | 0.125                                 | 0            | N/a                 | 29.80               | 0.125                                 | 0            |
| UWP target Cash Endowment (515)          | Premium Paying | N/a                 | 34.01               | 0.125                                 | 0            | N/a                 | 34.28               | 0.125                                 | 0            |
|  | Otherwise      | N/a                 | 29.23               | 0.125                                 | 0            | N/a                 | 29.80               | 0.125                                 | 0            |
| UWP Regular Premium Pension (525 / 545)  | Premium Paying | N/a                 | 42.79               | 0.125                                 | 0            | N/a                 | 43.13               | 0.125                                 | 0            |
|  | Otherwise      | N/a                 | 34.23               | 0.125                                 | 0            | N/a                 | 34.50               | 0.125                                 | 0            |
| UWP Single Premium Pension (525 / 545)   | All            | N/a                 | 32.72               | 0.125                                 | 0            | N/a                 | 32.97               | 0.125                                 | 0            |
| UWP Group Regular Premium Pension (535)  | Premium Paying | N/a                 | 66.93               | 0.125                                 | 0            | N/a                 | 67.45               | 0.125                                 | 0            |
|  | Otherwise      | N/a                 | 52.92               | 0.125                                 | 0            | N/a                 | 53.33               | 0.125                                 | 0            |
| UWP Group Single Premium Pension (535)   | All            | N/a                 | 47.72               | 0.125                                 | 0            | N/a                 | 48.09               | 0.125                                 | 0            |
| UL Bond (700)                            | All            | N/a                 | 26.62               | 0.132                                 | 0            | N/a                 | 25.10               | 0.132                                 | 0            |
| UL Savings Endowment (715)               | Premium Paying | N/a                 | 36.90               | 0.132                                 | 0            | N/a                 | 34.79               | 0.132                                 | 0            |
|  | Otherwise      | N/a                 | 26.62               | 0.132                                 | 0            | N/a                 | 25.10               | 0.132                                 | 0            |
| UL Target Cash Endowment (720)           | Premium Paying | N/a                 | 36.90               | 0.132                                 | 0            | N/a                 | 34.79               | 0.132                                 | 0            |
|  | Otherwise      | N/a                 | 26.62               | 0.132                                 | 0            | N/a                 | 25.10               | 0.132                                 | 0            |
| UL Regular Premium Pension (725)         | Premium Paying | N/a                 | 42.00               | 0.132                                 | 0            | N/a                 | 39.61               | 0.132                                 | 0            |
|  | Otherwise      | N/a                 | 33.49               | 0.132                                 | 0            | N/a                 | 31.58               | 0.132                                 | 0            |
| UL Single Premium Pension (725)          | All            | N/a                 | 31.34               | 0.132                                 | 0            | N/a                 | 29.55               | 0.132                                 | 0            |
| UL Group Regular Premium Pension (735)   | Premium Paying | N/a                 | 22.47               | 0.132                                 | 0            | N/a                 | 21.19               | 0.132                                 | 0            |
|  | Otherwise      | N/a                 | 16.80               | 0.132                                 | 0            | N/a                 | 15.84               | 0.132                                 | 0            |
| UL Group Single Premium Pension (735)    | All            | N/a                 | 15.32               | 0.132                                 | 0            | N/a                 | 14.45               | 0.132                                 | 0            |

## Non Profit Fund

| Non-Profit Fund                               |                | 31.12.2011          |                        |  |                 | 31.12.2010          |                        |  |                 |
|---|----------------|---------------------|------------------------|--|-----------------|---------------------|------------------------|--|-----------------|
| Class   |                | Zilmer Adj.<br>% SA | Annual<br>Expense<br>£ | Investment<br>Expense<br>% of Fund<br>pa | % of<br>Premium | Zilmer Adj.<br>% SA | Annual<br>Expense<br>£ | Investment<br>Expense<br>% of Fund<br>pa | % of<br>Premium |
| Term Assurance<br>(325 / 330)                 | Premium Paying | N/a                 | 18.15                  | 0.108                                    | 0               | N/a                 | 20.90                  | N/a                                      | 0               |
|   | Otherwise      | N/a                 | 15.66                  | 0.125                                    | 0               | N/a                 | 15.78                  | 0.125                                    | 0               |
| Critical Illness<br>(340 / 345 / 350 / 355)   | Premium Paying | N/a                 | 18.15                  | 0.108                                    | 0               | N/a                 | 20.90                  | N/a                                      | 0               |
|   | Otherwise      | N/a                 | 15.66                  | 0.125                                    | 0               | N/a                 | 15.78                  | 0.125                                    | 0               |
| Income Protection<br>(360 / 365)              | All            | N/a                 | 18.15                  | 0.108                                    | 2.5             | N/a                 | 20.90                  | N/a                                      | 0               |
| Income Protection Claims<br>in Payment (385)  | All            | N/a                 | N/a                    | N/a                                      | 8% of<br>claims | N/a                 | N/a                    | N/a                                      | 8% of<br>claims |
| Long Term Care                                | All            | N/a                 | 18.15                  | 0.108                                    | 0               | N/a                 | 22.90                  | N/a                                      | 0               |
| Annuity (400)                                 | All            | N/a                 | 11.54                  | 0.060                                    | 0               | N/a                 | 18.45                  | 0.060                                    | 0               |
| UWP Bond (500)                                | All            | N/a                 | 29.23                  | 0.125                                    | 0               | N/a                 | 29.80                  | 0.125                                    | 0               |
| UWP Savings<br>Endowment (510)                | Premium Paying | N/a                 | 34.01                  | 0.125                                    | 0               | N/a                 | 34.28                  | 0.125                                    | 0               |
|   | Otherwise      | N/a                 | 29.23                  | 0.125                                    | 0               | N/a                 | 29.80                  | 0.125                                    | 0               |
| UWP Target Cash<br>Endowment (515)            | Premium Paying | N/a                 | 34.01                  | 0.125                                    | 0               | N/a                 | 34.28                  | 0.125                                    | 0               |
|   | Otherwise      | N/a                 | 29.23                  | 0.125                                    | 0               | N/a                 | 29.80                  | 0.125                                    | 0               |
| UWP Regular<br>Premium Pension<br>(525 / 545) | Premium Paying | N/a                 | 42.79                  | 0.125                                    | 0               | N/a                 | 43.13                  | 0.125                                    | 0               |
|   | Otherwise      | N/a                 | 34.23                  | 0.125                                    | 0               | N/a                 | 34.50                  | 0.125                                    | 0               |
| UWP Single Premium<br>Pension (525 / 545)     | All            | N/a                 | 32.72                  | 0.125                                    | 0               | N/a                 | 32.97                  | 0.125                                    | 0               |
| UWP Group Regular<br>Premium Pension (535)    | Premium Paying | N/a                 | 34.58                  | 0.125                                    | 0               | N/a                 | 30.44                  | 0.125                                    | 0               |
|   | Otherwise      | N/a                 | 21.31                  | 0.125                                    | 0               | N/a                 | 20.82                  | 0.125                                    | 0               |
| UWP Group Single<br>Premium Pension (535)     | All            | N/a                 | 17.64                  | 0.125                                    | 0               | N/a                 | 17.15                  | 0.125                                    | 0               |
| UL Bond (700)                                 | All            | N/a                 | 13.29                  | 0.121                                    | 0               | N/a                 | 13.55                  | 0.121                                    | 0               |
| UL Savings Endowment<br>(715)                 | Premium Paying | N/a                 | 16.42                  | 0.132                                    | 0               | N/a                 | 16.54                  | 0.132                                    | 0               |
|   | Otherwise      | N/a                 | 13.29                  | 0.132                                    | 0               | N/a                 | 13.55                  | 0.132                                    | 0               |
| UL Target Cash<br>Endowment (720)             | Premium Paying | N/a                 | 16.42                  | 0.132                                    | 0               | N/a                 | 16.54                  | 0.132                                    | 0               |
|   | Otherwise      | N/a                 | 13.29                  | 0.132                                    | 0               | N/a                 | 13.55                  | 0.132                                    | 0               |
| UL Regular Premium<br>Pension (725)           | Premium Paying | N/a                 | 17.02                  | 0.100                                    | 0               | N/a                 | 14.64                  | 0.100                                    | 0               |
|   | Otherwise      | N/a                 | 10.08                  | 0.100                                    | 0               | N/a                 | 10.29                  | 0.100                                    | 0               |
| UL Single Premium<br>Pension (725)            | All            | N/a                 | 8.88                   | 0.100                                    | 0               | N/a                 | 8.25                   | 0.100                                    | 0               |
| UL Group Regular<br>Premium Pension (735)     | Premium Paying | N/a                 | 17.02                  | 0.100                                    | 0               | N/a                 | 14.64                  | 0.100                                    | 0               |
|   | Otherwise      | N/a                 | 10.08                  | 0.100                                    | 0               | N/a                 | 10.29                  | 0.100                                    | 0               |
| UL Group Single<br>Premium Pension (735)      | All            | N/a                 | 8.88                   | 0.100                                    | 0               | N/a                 | 8.25                   | 0.100                                    | 0               |

- (7) The unit growth rates for gross and net linked business (before management charges) and the inflation rates assumed for future expenses and future increases in policy charges are shown below:

|  | 31.12.2011            |     |                                | 31.12.2010            |     |                                |
|--|-----------------------|-----|--------------------------------|-----------------------|-----|--------------------------------|
|  | Unit Growth<br>% p.a. |     | Expense<br>Inflation<br>% p.a. | Unit Growth<br>% p.a. |     | Expense<br>Inflation<br>% p.a. |
|  | Gross                 | Net |                                | Gross                 | Net |                                |
| Conventional<br>Non Profit Ex-<br>FPLMA  | N/a                   | N/a | 3.6                            | n/a                   | n/a | 3.8                            |
| Conventional<br>Non Profit<br>Other      | N/a                   | N/a | 4.2                            | n/a                   | n/a | 4.4                            |
| Conventional<br>With Profit Ex-<br>FPLMA | N/a                   | N/a | 3.6                            | n/a                   | n/a | 3.8                            |
| Conventional<br>With Profit<br>Other     | N/a                   | N/a | 4.2                            | n/a                   | n/a | 4.4                            |
| Unitised                                 | 2.9                   | 2.3 | 4.2                            | 3.5                   | 2.8 | 4.4                            |

For policies with explicit policy charges, these charges increase in line with the RPI or National Average Earnings Index. It has been assumed that future RPI is 2.7% p.a., and that future NAEI is 1.5% higher at 4.2% p.a..

- (8) The future bonus rates used in valuing with-profits business are the minimum guaranteed bonus rates. These are zero except as follows:

#### Unitised With Profits Policies

| Life        |               | Pensions |                |                             |                               |                   |        |
|-------------|---------------|----------|----------------|-----------------------------|-------------------------------|-------------------|--------|
| Series 1,21 | Ex FPLMA Life | Series 1 | Series 7,11,27 | New Generation<br>Pre-demut | New Generation<br>Post -demut | Ex FPLMA Pensions | Ex UKP |
| % p.a.      | % p.a.        | % p.a.   | % p.a.         | % p.a.                      | % p.a.                        | % p.a.            | % p.a. |
| 3.00        | 1.00          | 4.00     | 0.95           | 0.92                        | 0.97                          | 1.00              | 5.00   |

(9) A summary of the lapse assumptions is shown below:

(a) Ex-FPLP, ex-FPLAL and ex-BHA business:

| Product  |                   | Average lapse / surrender / paid-up rate for policy years |        |        |        |
|--|-------------------|---|--------|--------|--------|
|  |                   | 1-5   | 6-10   | 11-15  | 16-20  |
|  |                   | % p.a.  | % p.a. | % p.a. | % p.a. |
| Level term (incl. critical illness) – low rate       | Lapse             | 7.9   | 4.4    | 3.1    | 3.1    |
| Level term (incl. critical illness) – high rate      | Lapse             | 16.5  | 9.4    | 6.7    | 6.7    |
| Decreasing Term (incl. critical illness) – low rate  | Lapse             | 8.3   | 6.6    | 4.6    | 4.6    |
| Decreasing Term (incl. critical illness) – high rate | Lapse             | 15.3  | 12.2   | 8.5    | 8.5    |
| Income protection – low rate                         | Lapse             | 7.3   | 5.3    | 4.2    | 4.2    |
| Income protection – high rate                        | Lapse             | 15.3  | 11.1   | 8.7    | 8.7    |
| Accelerated Critical Illness – low rate              | Lapse             | 7.9   | 4.6    | 3.8    | 3.8    |
| Accelerated Critical Illness – high rate             | Lapse             | 18.4  | 10.7   | 8.8    | 8.8    |
| UWP bond   | Surrender         | N/a   | N/a    | N/a    | N/a    |
| UWP bond   | Partial Surrender | 2.6   | 2.6    | 2.6    | 2.6    |
| UWP Individual Pension                               | PUP               | 16.1  | 7.3    | 5.2    | 5.2    |
| UL bond  | Surrender         | N/a   | N/a    | N/a    | N/a    |
| UL bond  | Partial Surrender | 2.6   | 2.6    | 2.6    | 2.6    |
| UL Individual Pension                                | PUP               | 16.1  | 7.3    | 5.2    | 5.2    |
| UL Group Pension                                     | PUP               | 21.3  | 15.6   | 15.6   | 15.6   |

For products where negative reserves are permitted we use the combination of lapse rates shown above and interest rates in 4 (2) that produce the most prudent result. Where negative reserves are not permitted the lapse rates are assumed to be zero.

The lapse / surrender rates for all other products are assumed to be zero.

(10) The reserves for group risk business not mentioned elsewhere are set out below.

The unearned premium reserve is based on days remaining until next premium due date for payment frequency other than monthly. For monthly cases, the premium is assumed to be paid half way through the month on average and a reserve of one half of a month's premium is held.

A reserve is held for incurred but not reported claims. The table below describes the methodology by product group.

| Product | IP  | CI  | Life                                  |
|---------|---|---|---------------------------------------|
| Reserve | 40% of the average premiums in force over the last 6 months | 15% of the average premiums in force over the last 2 months | 10% of the average premiums in force. |

- (11) Derivatives are shown at market value using quoted prices where exchange-traded and prices from counterparties otherwise. Combined yields are calculated for assets with covering derivatives, whether in-the-money or out-of-the-money, in accordance with INSPRU 3.1.30R. The interest rates used in the valuation of liabilities are consistent with the yields on backing assets, reflecting covering derivatives if appropriate.

An inflation rate swap formalises an expense agreement made with the with-profits policyholders at the time of demutualisation. This agreement is already reflected in the valuation assumptions so the swap has no impact on the determination of the liabilities.

- (12) Changes in valuation methodology arising from the application of PS06/14 were made in 2006 and 2007. The following table states the effect on mathematical reserves of the changes made during each calendar year as at the end of the year. These values are the reduced amounts recognised each year, and are not cumulative.

|  | 31/12/06 | 31/12/07 | 31/12/08 |
|--|----------|----------|----------|
| Allowance for lapses on valuation of protection business             | £37.1m   | £99.4m   | -        |
| Allowance for negative reserves on valuation of protection business  | £87.2m   | £196.7m  | £1.0m    |
| Allowance for lapses on valuation of unit-linked business            | -        | -        | -        |
| Allowance for negative reserves on valuation of unit-linked business | £2.5m    | -        | -        |

## 5. Options and guarantees

### (1) Guaranteed Annuity Rate Options

- (a) Deferred annuities are valued as the greater of the present value of the annuity or, if appropriate, the alternative cash fund available at vesting for the purchase of an annuity. It has been assumed that all cashable deferred annuities have such a guarantee. For ex-FPLP business, GAO take-up rates increase, as required by INSPRU 1.2.66G to 95% over 20 years, with the following starting rates:

|   |     |
|---|-----|
| With Profits:                           |     |
| Individual ex-FP and UK Provident (UKP) | 75% |
| UKP Executive Pensions                  | 73% |
| Other Deferred Annuities                | 75% |
| Accumulating With Profits:              |     |
| Group Final Salary                      | 94% |
| Group Money Purchase                    | 70% |
| Executive Pensions                      | 82% |

For ex-FPLAL business, it has been assumed that the GAO take-up rate is 95% throughout.

The take-up rate has been assumed to be 100% throughout for FPLMA business.

- (b) The table below shows details of the options:

| Product Name<br>(i)  | Basic Reserve<br>(ii) £m | Outstanding Durations<br>(iii) | Guarantee Reserve<br>(iv) £m | Guaranteed Rate<br>(v)                | Increments allowed<br>(vi) | Annuity Form<br>(vii)                               | Retirement Ages<br>(viii)   |
|--|--------------------------|--------------------------------|------------------------------|---------------------------------------|----------------------------|---|---|
| Self Employed Deferred Annuities                             | 546                      | Up to 19 years                 | 453                          | FP: 11.6%<br>UKP: 12.2%               | No                         | Single life, annual in arrears, no guarantee        | FP: 60-70<br>UKP: 60 – 75   |
| Group Deferred Annuities (other than EBP and PTP below)      | 249                      |                                | 131                          | 10.0%                                 | No                         | Single life, monthly in advance, guaranteed 5 years | 50-75   |
| Executive Benefit Plan (EBP) and Pension Transfer Plan (PTP) | 147                      |                                | 80                           | 10.0%                                 | No                         | Single life, monthly in advance, guaranteed 5 years | Only applies at specified NRD                                     |
| UKP Executive Pensions                                       | 75                       |                                | 51                           | 11.1%                                 | No                         | Single life, monthly in advance, guaranteed 5 years | Applies at specified NRD or on similar terms for early retirement |
| FPLMA Retirement Annuity Contracts                           | 19                       |                                | 11                           | 10.8%                                 | No                         | Single life, annual in arrears, no guarantee        | 60-75   |
| Conventional Deferred Annuities                              | 44                       | Up to 14 years                 | 45                           | 10%                                   | No                         | Single Life; monthly in advance, guaranteed 5 years | 60-70   |
| Personal Pension (pre Series D)                              | 19                       |                                | 6                            | Varies depending on the consols yield | No                         | Single life, monthly in advance, guaranteed 5 years | 60-75   |

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

- (a) For contracts with guaranteed surrender values, the calculated reserve is increased to the guaranteed surrender value if greater. There are no significant unit-linked maturity guarantees.

A number of unit-linked pension savings contracts contain a guaranteed return of premium at the policyholder's normal retirement date. The reserve for this guarantee is calculated with the Black-Scholes option pricing formula, using market consistent assumptions. A benefit from future lapses is allowed for, reducing this reserve for Friends Planbasic and Friends Planprivate. The guarantee offered is optional for Friends Planbasic and Friends Planprivate. For these products the actual take up rate at the end of 2011 was 59% which has been allowed for. For Friends Planbusiness, the guarantee applies to all policies.

(b) A table showing details is given below:

| Product Name<br>(i)                            | Basic Reserve<br>(ii) £m | Outstanding Durations<br>(iii) | Guarantee Reserve<br>(iv) £m | Guaranteed Amount<br>(v)  | MVA Free Conditions<br>(vi) | In-force Premiums<br>(vii) £m | Increments<br>(viii)  |
|--|--------------------------|--------------------------------|------------------------------|---|-----------------------------|-------------------------------|---|
| Friends Flexible Savings Plan                  | 102                      | Up to 19 years                 | 3                            | Scheduled proportion of the maturity benefit (including declared bonuses).                    | n/a                         | 2                             | No  |
| Multidowment and 10/25 Savings Plan            |                          | Up to 25 years                 |                              | Scheduled proportion of the maturity benefit (including declared bonuses).                    | n/a                         |                               | No  |
| Planned Investment and Planned Investment Plus |                          | Up to 1 year                   |                              | Scheduled proportion of the maturity benefit (including declared bonuses).                    | n/a                         |                               | No  |
| Friends Planbasic                              | 112                      | Up to 85 years                 | 39                           | Return of the total premiums paid on the policy at the policyholder's normal retirement date. | n/a                         | 81                            | Yes, providing they occur more than 12 years before the policyholder's normal retirement date |
| Friends Planbusiness                           |                          |                                |                              |   |                             |                               |   |
| Friends Planprivate                            |                          |                                |                              |   |                             |                               |   |

### (3) Guaranteed Insurability Options

- (a) For ex-FPLP and ex-FPLAL business, Guaranteed Insurability Options arise mainly in respect of older contracts. As a result, any additional mortality arising is embedded in the company's mortality experience and is already reflected within the mortality assumptions set out in 4(4) above. Consequently, no additional reserve is held in respect of Guaranteed Insurability Options. The total sum assured on contracts with these options is less than £1bn.

For ex-BHA business, Guaranteed Insurability options are offered on a range of policies as follows:

#### Life and Critical Illness

Policyholders have the right to increase the sum assured under their contract upon marriage, the birth of a legitimate child, mortgage increases or promotion. The sum assured may be increased by 25% on each event subject to a maximum of 100% or £100,000 in aggregate.

Children under the age of 18 are covered free and on their 18th birthday have the right to take out a contract in their own name.

Renewable term contracts have renewability guaranteed until age 70.

#### Income Protection

Post March 2008.

Product enhanced to include GIOs from age 55 plus facility to increase benefit on adoption and mortgage increase.

2006 onwards:

On marriage, birth of a legitimate child, mortgage increase, promotion or change of employment, policyholders may increase their benefit level by up to 50% of the pay rise subject to an annual limit of £9,000 and on overall limit of 50% of the original annual benefit.



Pre 2006:

On promotion or change of employment, policyholders may increase their benefit level by up to 50% of the pay rise subject to an annual limit of £7,500 and a lifetime limit of 50% of the original annual benefit.

Renewable term contracts either have renewability guaranteed until age 70 or have renewability guaranteed until a selected retirement age.

Guaranteed Insurability options are not valued explicitly but are allowed for within the mortality and morbidity assumptions.

(4) Other Guarantees and Options

- (a) Small additional reserves are held in respect of other options and guarantees.

## 6. Expense reserves

- (1) The aggregate amount, grossed up for tax where appropriate, arising during the twelve months after the valuation date from explicit reserves made in the valuation to meet expenses in fulfilling contracts in-force at the valuation date is £98.2m. The amounts arising from each of the implicit allowances, explicit allowances for investment expenses and explicit allowances for other maintenance expenses are shown in the table below.

| Homogeneous Risk Group             | Implicit Allowances<br>£m | Explicit Allowance (investment)<br>£m | Explicit Allowances (other)<br>£m | Non-Attributable Expenses<br>£m | Total<br>£m |
|------------------------------------|---------------------------|---------------------------------------|-----------------------------------|---------------------------------|-------------|
| Unitised Life (Post July 2001)     | 0.0                       | 1.9                                   | 0.7                               | 0.7                             | 3.3         |
| Unitised Overseas (Post July 2001) | 0.0                       | 1.2                                   | 1.9                               | 2.0                             | 5.1         |
| Unitised Life (Pre July 2001)      | 0.0                       | 1.6                                   | 3.1                               | 0.0                             | 4.7         |
| Unitised Pensions (Pre July 2001)  | 0.0                       | 3.2                                   | 6.5                               | 0.0                             | 9.7         |
| All Expenses Attributable          | 2.8                       | 17.6                                  | 55.0                              | 0.0                             | 75.4        |
| <b>Total</b>                       | <b>2.8</b>                | <b>25.5</b>                           | <b>67.2</b>                       | <b>2.7</b>                      | <b>98.2</b> |

- (2) The implicit expense allowance relates to Group Income Protection business where a proportion of premium is held for the first three years and claims reserves thereafter. The allowances are covered from margins in the reserving basis.

- (3) The maintenance expenses in line 14 of Form 43 are £75.1m.

An additional £10m reserve is held for expenses. No credit has been taken for this reserve in allowances set out in 6(1) above.

In addition, as a result of an outsourcing agreement with Diligenta due to commence in 2012 an additional expense reserve of £10m has been set up at the end of 2011, £8.6m of which is to cover additional expenses expected to be incurred in 2012. As the arrangement does not impact expenses in 2011 it has not been included in either the allowances set out in 6(1) or the maintenance expenses shown in Form 43.

- (4) The value of profits in respect of expected new business exceeds the expenses incurred. Therefore no additional reserve is required.
- (5) Actual expenses and commission have been estimated for 2012 if the Company ceased to transact new business on 1st January 2012. Estimated expenses in 2012, on this basis, are less than the loadings expected from in-force business in 2012 and therefore no additional reserve is required.

- (6) Non-attributable expenses have only been calculated for unit-linked and UWP products. For each homogeneous risk group where the non-attributable expenses have been excluded from the sterling reserves calculation (or bonus reserve valuation for UWP), the resulting sterling reserve has been compared with a sterling reserve calculation combining the cashflows of all the policies in the homogeneous risk group and including the non-attributable expenses. As the sterling reserve based on the grouped cashflows is less than the sterling reserve calculated at policy level without non-attributable costs, no additional reserve is held for the non-attributable expenses.

## 7. Mismatching reserves

- (1) The value of mathematical reserves (other than liabilities for property-linked benefits), together with the value of assets matching those liabilities, are analysed below by reference to currency.

| Currency          | Value of liabilities (£m) | Value of assets (£m) |
|-------------------|---------------------------|----------------------|
| Sterling          | 10,293                    | 14,596               |
| Euro              |                           | 133                  |
| US Dollar         |                           | 74                   |
| Australian Dollar |                           | 55                   |
| Other             | 36                        | 167                  |
| <b>Total</b>      | <b>10,329</b>             | <b>15,026</b>        |

- (2) In 7(1) above the liabilities are 100% matched by assets of the same currency.
- (3) There are sufficient sterling assets to cover the sterling liabilities. Consequently, no reserve for currency mismatching is considered necessary.
- (4) Not a regulatory reporting company and therefore not applicable.
- (5) Not a regulatory reporting company and therefore not applicable.
- (6) Not a regulatory reporting company and therefore not applicable.
- (7) The nature and term of the assets matching liabilities is regularly reviewed to ensure continued appropriateness and no additional provision was required at the valuation date to ensure that the company could meet its obligations as they arise.

## 8. Other special reserves

Other special reserves in excess of £10m have been held as follows:

- (1) A provision of £18m to allow for the potential unwinding of a tax credit. The provision is the current value of the tax credit.
- (2) A reserve of £27m in respect of potential premium rate guarantees on certain unit-linked whole of life policies.
- (3) A reserve of £10m to cover investment expenses, amounting to c£1m p.a., that have not been attributed to policies.
- (4) A reserve of £13m to cover expenses associated with Solvency II.
- (5) A reserve of £11m in respect of the difference between modelled and expected future expenses for OLAB units.
- (6) During 2011, Friends Life Services Limited entered into an outsourcing arrangement with an external partner, Diligenta. The impact on FLL will be some additional short term costs which will be offset by long term contractual expense savings resulting from the Diligenta deal. For reserving purposes, the net additional expenses provision at 31 December 2011 was £48m.

The Diligenta outsourcing has also resulted in an increase to the proportion of expenses on unit-linked business which are deemed to be attributable; this is allowed for in the figures in section 4.(6).

## 9. Reinsurance

- (1) No premiums for reinsurance ceded on a facultative basis were paid during 2011 to reinsurers who are not authorised to carry on insurance business in the United Kingdom.

- (2) (a), (b) & (c) The reinsurance treaties meeting the stated conditions are described in the table below, except as detailed here.

- (d) The name of the reinsurer is quoted in the table.
- (e) The nature and extent of cover is quoted in the table.
- (f) The premiums paid in 2011 are quoted in the table.
- (g) There were no deposit back arrangements.
- (h) Availability to new business is quoted in the table.
- (i) The undischarged obligations are listed below:

| Reinsurer                        | Amount (£m)   |
|----------------------------------|---------------|
| Windsor Life                     | 1,800.0       |
| Munich Reinsurance Co            | 0.1           |
| Swiss Re Life & Health Ltd       | 6.0           |
| SCOR Reinsurance UK Limited      | 0.5           |
| SCOR Reinsurance Ireland Limited | 0.5           |
| RGA Global Reinsurance Limited   | 1.1           |
| <b>Total</b>                     | <b>1808.2</b> |

- (j) The mathematical reserves ceded under the treaty are quoted in the table. Apart from any reserves ceded internally, these have been reduced to allow for credit risk.
- (k) Retentions on new business are quoted in the table.
- (l) All reinsurers quoted in the table are authorised to carry on insurance business in the UK.
- (m) Connections of any reinsurer to the Company are quoted in the table.
- (n) Apart from any reserves ceded internally, the mathematical reserves shown in the table have been reduced by £24.0m to allow for credit risk.
- (o) No provision has been made for the Company's liability to refund reinsurance commission in the event of lapse or surrender of the contracts reinsured. This is because the premiums recoverable will exceed any commission refundable.
- (p) Munich Re Financing Treaty
- (i) The company has two financing arrangements with Munich Re. Munich Re advanced a loan of 32.8m EUR in respect of German Pension Plans (Friends Plan Basic, Friends Plan Private and Friends Plan Business) sold in 2010 and 28.5m EUR in respect of 2011 plans. Repayment of the loan is equal to specified premium margins and commission clawback in respect of those policies. Premium margins represent that portion of each premium paid not allocated to policyholder units less cost of renewal commission. The amount outstanding on these loans at 31 December 2011 is 21.0m EUR and 26.1m EUR respectively.

- (ii) The sterling reserve calculation takes into account the cashflows due to the Reinsurer as well as the liability to the policyholder. There is no overall affect on the sterling reserves as the sterling reserve is limited by the surrender penalty on the contract, both before and after taking the reinsurance premiums into account. The net impact is the regulatory excess capital at 31 December 2011 is increased by 47.1m EUR, the outstanding value of the loan from Munich Re at 31 December 2011. The repayment of the loan is not treated as a liability in Form 14 because it is taken into account within the mathematical liabilities

| 9. Reassurance Treaty Information (Sections a,b,c,g,i,l,n,o and p covered above) |  |                            |                     |                                 |  |                          |
|--|--|----------------------------|---------------------|---------------------------------|--|--------------------------|
| (d)<br>Reinsurer   | (e)<br>Nature and extent of cover under the treaty   | (f)<br>Premiums payable £m | (h)<br>New business | (j)<br>Mathematical reserves £m | (k)<br>Retention for new policies                              | (m)<br>Connected Company |
| Swiss Re Life & Health Ltd   | 2 <sup>nd</sup> surplus reinsurance for £1.5m for conventional life and pensions business and for all unitised business on risk premium or original terms.   | 1                          | Closed              | 2                               | N/A  | Not connected            |
|  | 1 <sup>st</sup> surplus reinsurance for Individual PHI for £33,000 p.a.  |                            | Closed              |                                 |  |                          |
|  | 1 <sup>st</sup> surplus reinsurance for Individual PHI for £300p.w. up to a maximum sum assured of £40,000 p.a.  |                            | Closed              |                                 | N/A  |                          |
|  | Quota share reinsurance for non-linked life business for 65% up to a maximum retention of £50,000 life (£125,000 critical illness) and 100% thereafter up to a maximum sum assured of £2.5m life (£500,000 critical illness). With effect July 2005 percentage reassured changed from 65% to 75%.                      |                            | Closed              |                                 | The greater of £60,000 p.a. and the policy's free cover limit. |                          |
|  | 1 <sup>st</sup> surplus reinsurance for Group Income Protection in excess of the greater of £60,000 p.a. and the policy's free cover limit up to a limit of £300,000 p.a.  | 17                         | Closed              | 32                              | N/A  | Not connected            |
|  | 1 <sup>st</sup> surplus reinsurance for Individual PHI for £2,000 p.w. initial benefit and over in some cases (except nil for D4 business for occupational classes greater than 3). Max retention £125,000 p.a. D4 included and benefit increased to £2,700 p.w. with effect 26/1/2007.                                |                            | Closed              |                                 | N/A  |                          |
|  | 1 <sup>st</sup> surplus reinsurance for Executive PHI for £2,000 p.w. initial benefit and over in some cases (except nil for D4 business). Max retention £125,000 p.a. plus £50,000 for NI and pension contributions.  |                            | Closed              |                                 | N/A  |                          |
|  | Quota share reinsurance for Term Assurance Life and Critical Illness and Stand Alone Critical Illness for 80% up to £625,000, 100% above £625,000 to a maximum of £1m. (With effect from 9 <sup>th</sup> December 2002, 75% up to £500,000, 100% above £500,000 to a maximum of £1m.) Original terms and risk premium. |                            |                     |                                 |  |                          |

| 9. Reassurance Treaty Information (Sections a,b,c,g,i,l,n,o and p covered above) |  |                            |                     |                                 |                                   |                          |
|--|--|----------------------------|---------------------|---------------------------------|-----------------------------------|--------------------------|
| (d)<br>Reinsurer   | (e)<br>Nature and extent of cover under the treaty   | (f)<br>Premiums payable £m | (h)<br>New business | (j)<br>Mathematical reserves £m | (k)<br>Retention for new policies | (m)<br>Connected Company |
| Swiss Re Life & Health Ltd   | 1 <sup>st</sup> surplus reinsurance for Group Life in excess of £1m up to £3m.   | 38                         | Open                | 46                              | £1m                               | Not Connected            |
|  | 1 <sup>st</sup> surplus reinsurance for Individual IP for excess over £15,600 p.a. initial benefit up to £156,000 p.a.   |                            |                     |                                 | £15,600 p.a. for IP               |                          |
|  | Quota share reinsurance for non-linked life for 65% up to a maximum retention of £500,000 life (£125,000 critical illness) and 100% thereafter up to a maximum sum assured of £2.5m life (£500,000 critical illness). With effect July 2005 percentage changed from 65% to 75%. With effect August 2006 percentage for decreasing term assurance (life cover only) decreased from 75% to 50%. With effect August 2007 level and decreasing life cover no longer reinsured. |                            |                     |                                 | 25%                               |                          |
|  | 1 <sup>st</sup> surplus reinsurance for Individual Income Protection.  |                            |                     |                                 | £300pw                            |                          |
|  | Quota Share Group Life, Group Critical Illness and Group Income Protection treaty.   |                            |                     |                                 | £25,000 maximum                   |                          |
|  |  |                            |                     |                                 |                                   |                          |

| 9. Reassurance Treaty Information (Sections a,b,c,g,i,l,n,o and p covered above) |  |                            |                     |                                 |                                   |                          |
|--|--|----------------------------|---------------------|---------------------------------|-----------------------------------|--------------------------|
| (d)<br>Reinsurer   | (e)<br>Nature and extent of cover under the treaty   | (f)<br>Premiums payable £m | (h)<br>New business | (j)<br>Mathematical reserves £m | (k)<br>Retention for new policies | (m)<br>Connected Company |
| Swiss Re Life & Health Ltd   | 1 <sup>st</sup> surplus reinsurance for Individual PHI for £2,000 p.w. initial benefit and over in some cases (except nil for D4 business for occupational classes greater than 3). With effect from January 2007 benefit increased to £2,700 p.w. plus NI and pension fund contributions. | 35                         | Open                | 100                             | £300pw                            | Not Connected            |
|  | 1 <sup>st</sup> surplus reinsurance for Executive PHI for £2,000 p.w. initial benefit and over in some cases (except nil for D4 business). With effect from January 2007 benefit increased to £2,700 p.w. plus NI and pension fund contributions.  |                            |                     |                                 | £300pw                            |                          |
|  | Quota share reinsurance for guaranteed premiumTerm Assurance Life and Critical Illness and Stand-alone Critical Illness for 75% up to £500,000, 100% above £500,000 to a maximum of £1m - Risk premium.  |                            |                     |                                 | 25%                               |                          |
|  | Quota share reinsurance for reviewable premium decreasing cover Term Assurance Life and Critical Illness and Stand-alone Critical Illness for 75% up to £500,000, 100% above £500,000 to a maximum of £1m - Risk premium.  |                            |                     |                                 | 25%                               |                          |
|  | Quota Share reinsurance for whole of life for 50% (maximum policy sum insured £25,000) – net level premium.  |                            |                     |                                 | 50%                               |                          |

| 9. Reassurance Treaty Information (Sections a,b,c,g,i,l,n,o and p covered above) |   |                            |                     |                                 |                                   |                          |
|--|---|----------------------------|---------------------|---------------------------------|-----------------------------------|--------------------------|
| (d)<br>Reinsurer   | (e)<br>Nature and extent of cover under the treaty  | (f)<br>Premiums payable £m | (h)<br>New business | (j)<br>Mathematical reserves £m | (k)<br>Retention for new policies | (m)<br>Connected Company |
| Munich Reinsurance Co  | 1 <sup>st</sup> surplus reinsurance for £2m for Individual Life (excluding commodity term assurance and Milestones Term Assurance) and Group Life.  | 15                         | Closed              | 51                              | N/A                               | Not Connected            |
|  | 1 <sup>st</sup> surplus reinsurance for £375,000 for critical illness and permanent disability benefits.  |                            |                     |                                 | N/A                               |                          |
|  | Quota share reinsurance for Term Assurance (excluding critical illness) for 85% up to £2m, 100% above £2m to a maximum sum reinsured of £2m.  |                            |                     |                                 | N/A                               |                          |
|  | Quota share reinsurance for Milestones Term Assurance for 75% up to a maximum of £187,500.  |                            | Closed              |                                 | N/A                               |                          |
|  | 1 <sup>st</sup> surplus reinsurance for Group Income Protection for £200,000 per annum.   |                            | Closed              |                                 | N/A                               |                          |
|  | Quota share reinsurance for Term Assurance (excluding critical illness) for 85% up to £500,000 per life, and 100% thereafter to a maximum sum assured of £10m per life.   | 39                         | Open                | 108                             | 15%                               | Not Connected            |
|  | Quota share reinsurance for Milestones Term Assurance for 75% up to a maximum of £187,500.  |                            | Closed              |                                 | N/A                               |                          |
|  | 1 <sup>st</sup> surplus reinsurance for Group Income Protection for £200,000 per annum Closed to new business with effect from November 2007.   |                            | Closed              |                                 | N/A                               |                          |
|  | The treaty covers Group Life, Group Critical Illness and Group Income Protection and provides cover on a quota share basis and for benefits in excess of the Company's retention limit.   | 2                          | Closed              | 21                              | £7,500 maximum                    | Not Connected            |
|  | The treaty covers Critical Illness, Lifestyle and Income Protection, FutureCare, CompleteCare, ImmediateCare and Recovery Cash and provides cover on a quota share basis and for benefits in excess of the Company's retention limit. |                            | Closed              |                                 | £25,000 maximum                   | Not Connected            |



| 9. Reassurance Treaty Information (Sections a,b,c,g,i,l,n,o and p covered above) |  |                            |                     |                                 |                                   |                          |
|--|--|----------------------------|---------------------|---------------------------------|-----------------------------------|--------------------------|
| (d)<br>Reinsurer   | (e)<br>Nature and extent of cover under the treaty   | (f)<br>Premiums payable £m | (h)<br>New business | (j)<br>Mathematical reserves £m | (k)<br>Retention for new policies | (m)<br>Connected Company |
| Scor Reinsurance UK Limited  | Quota Share Life and Critical Illness reviewable premium treaty.   | 6                          |                     | 2                               | £50,000 maximum                   | Not Connected            |
| Scor Reinsurance Ireland Limited   | Quota Share Life and Critical Illness reviewable premium treaty.   | 12                         | Closed              | 4                               | £50,000 maximum                   | Not Connected            |
| RGA Global Reinsurance Limited   | Life cover treaty with retention of 50%.   | 12                         | Open                | 2                               | £150,000 maximum                  | Not Connected            |
| Windsor Life Assurance Company Limited   | The majority of in-payment annuities written or ceded prior to 31 December 2006  | 120                        | Closed              | 1,733                           | N/A                               | Not Connected            |
| Friends Life Pensions Ltd  | All investment benefits under unit linked pension contracts, originally written by FPLO or UK Provident.   | 181                        | Closed              | 3,602                           | N/A                               | Wholly Owned Subsidiary  |
|  | All investment benefits under specific ex-London & Manchester pensions plans; Peace and Quiet, Secure Growth Personal Retirement Plan, Blueprint and Individual Retirement Plans for the Self Made Man and Executive Director. |                            |                     |                                 |                                   |                          |
|  | All pension business written in the Non-Profit Fund prior to 31 December 2001.   | 46                         | Closed              | 708                             | N/A                               |                          |
|  | Deferred and in-payment annuities under Investment Trust Retirement Annuity plans on original terms.   | 0                          | Closed              | 21                              | N/A                               |                          |
|  | 100% quota share of all immediate pension annuities written in the formerly FPLAL Other Business Fund together with some annuities written in the FPLP Non-Profit Fund since 1/12/2011.  | 0                          | Open                | 91                              | N/A                               |                          |

## 10. Reversionary bonus

- (1) The bonus series meeting the stated conditions are shown in the table below.
- (2) For all unitised with-profits funds, the bonus is applied as an increase in the value of units attached to the policy.
- (3) Reversionary bonuses have been shown in the table as “rate applying to basic benefit” / “rate applying to bonus already declared”.
- (4) Reversionary bonus rates do not vary between policies within a class.

| Name of Bonus Series                                  | Amount of Mathematical Reserves<br>£m | Reversionary Bonus Rate for the |                  | Guaranteed Bonus Rate for the Year % |
|---|---------------------------------------|---------------------------------|------------------|--------------------------------------|
|   |                                       | Current Year %                  | Preceding Year % |                                      |
| <b><u>Main Series – Life policies</u></b>             |                                       |                                 |                  |                                      |
| Conventional Life Fund Policies (All except Series 9) | 1,492                                 | Nil / 0.25                      | Nil / 0.25       | 0.00 / 0.00                          |
| Series 9  |                                       | 0.25 / 0.25                     | 0.25 / 0.25      | 0.00 / 0.00                          |
| <b><u>Unitised With Profits Funds</u></b>             |                                       |                                 |                  |                                      |
| Series 1,21   | 386                                   | 3.00                            | 3.00             | 3.00                                 |
| Series 2,3,4,6 and Inward Reinsurance                 | 554                                   | 0.50                            | 0.50             | 0.00                                 |
| Series 9,10,11,12,22,23,24,26 and Inward Reinsurance  | 17                                    | 0.75                            | 0.75             | 0.00                                 |
| Series 5  | 5                                     | 0.25                            | 0.25             | 0.00                                 |
| Series 8, 25  | 5                                     | 0.25                            | 0.25             | 0.00                                 |
| Series 14   | 43                                    | 1.00                            | 1.00             | 0.00                                 |
| <b><u>Main series – Pension Fund</u></b>              |                                       |                                 |                  |                                      |
| <b><u>Conventional Policies</u></b>                   |                                       |                                 |                  |                                      |
| Individual Plans                                      | 534                                   | Nil/Nil                         | Nil/Nil          | 0.00                                 |
| Group Cashable Annuities                              | 400                                   | 3.50 / 3.50                     | 3.50 / 3.50      | 0.00                                 |
| Executive Benefit Scheme                              | 227                                   | Nil / Nil                       | Nil / Nil        | 0.00                                 |
| Cashable Annuities                                    |                                       |                                 |                  |                                      |
| <b><u>Unitised With Profits Funds</u></b>             |                                       |                                 |                  |                                      |
| Series 1  | 1,412                                 | 4.00                            | 4.00             | 4.00                                 |

| Name of Bonus Series  | Amount of Mathematical Reserves<br>£m | Reversionary Bonus Rate for the |                  | Guaranteed Bonus Rate for the Year % |
|---|---------------------------------------|---------------------------------|------------------|--------------------------------------|
|   |                                       | Current Year %                  | Preceding Year % |                                      |
| Series 2,4  | 379                                   | 1.00                            | 1.00             | 0.00                                 |
| Series 9,10,22,24   | 48                                    | 1.25                            | 1.00             | 0.00                                 |
| Series 21   | 229                                   | 1.25                            | 1.00             | 0.00                                 |
| Series C  | 12                                    | 0.00                            | 0.00             | 0.00                                 |
| Demutualisation Terminal Bonus  | 40                                    | 2.00                            | 1.75             | 0.00                                 |
| Pre-Demutualisation New Generation  | 262                                   | 2.00                            | 1.75             | Not less than AMC                    |
| Post-Demutualisation New Generation                                       |                                       | 2.00                            | 1.75             | Not less than AMC                    |
| <b><u>Main Series - OLAB Policies</u></b>                                 |                                       |                                 |                  |                                      |
| <b><u>Unitised With Profits Funds</u></b>                                 |                                       |                                 |                  |                                      |
| Series 1,2  | 153                                   | 1.00                            | 1.00             | 0.00                                 |
| Series 3,4,21,22  | 1                                     | 1.25                            | 1.00             | 0.00                                 |
| Series 5  | 5                                     | 1.75                            | 1.75             | 0.00                                 |
| <b><u>UKP Series – Life and General Annuity Policies</u></b>              |                                       |                                 |                  |                                      |
| All Conventional Policies   | 114                                   | 0.10 / 0.10                     | 0.10 / 0.10      | 0.00                                 |
| <b><u>UKP Series – Individual and Group Deferred Annuities</u></b>        |                                       |                                 |                  |                                      |
| Conventional With Profits Policies  | 595                                   | Nil / Nil                       | Nil / Nil        | 0.00                                 |
| <b><u>Ex-FPLMA Policies – Life Assurance Policies</u></b>                 |                                       |                                 |                  |                                      |
| All Conventional Policies   | 17                                    | 0.50 / 0.50                     | 0.50 / 0.50      | 0.00                                 |
| Unitised With Profits Funds   | 58                                    | 1.25                            | 1.25             | 0.00                                 |
| <b><u>Ex-FPLMA Policies – Individual and Group Deferred Annuities</u></b> |                                       |                                 |                  |                                      |
| Unitised With Profits Funds   | 236                                   | 1.75                            | 1.75             | 0.00                                 |
| <b><u>Closed Fund (ex-National Mutual Policies)</u></b>                   |                                       |                                 |                  |                                      |
| Conventional Life Fund policies   | 97                                    | 1.00 / 1.00                     | 1.00 / 1.00      | 0.00                                 |
| Conventional Pension Fund policies  | 86                                    | 0.25 / 0.25                     | 0.25 / 0.25      | 0.00                                 |

## **ABSTRACT OF VALUATION REPORT FOR THE REALISTIC VALUATION OF THE WITH PROFITS FUND ACCORDING TO APPENDIX 9.4A OF THE INTERIM PRUDENTIAL SOURCEBOOK FOR INSURERS.**

### **Introduction**

1. The With Profits Fund comprises business written in the Main Series and the UKP Series of Friends Provident Life Office (FPLO) together with business written in Friends Provident London and Manchester Assurance (FPLMA) prior to its transfer in 2000. It also includes asset shares in respect of all the reassured with-profits business of Friends Life and Pensions Limited (FLP) and the post demutualisation business written in the Non Profit Fund, as well as the reassured UWP business from the Non Profit Fund transferred in from Friends Provident Life Assurance Limited (FPLAL). Following the transfer of the Closed Fund to FLL (see below) the With Profits Fund is now known as the FP With Profits Fund.

The Friends Provident Life Assurance Limited Closed Fund was transferred into FLL with effect from 1 December 2011 by means of a Part VII Transfer and became known as the FPLAL Closed Fund (FPLAL CF). The fund became a separately maintained fund within the long-term fund of FLL and comprises the Conventional with-profits business written by NM and its predecessor companies. The fund was originally closed in 1988 and has been known as the Closed Fund since that time. Additional business was transferred into the fund in 1995 when the NM business was taken over by Friends Provident. Following transfer to FLL, which is a realistic basis life company, the Closed Fund Realistic Balance Sheet is now published for the first time.

Throughout this document the acronyms “FP WPF” and “FPLAL CF” are used for Friends Life Limited FP With Profits Fund and Friends Life Limited FPLAL Closed Fund.

- (1) The investigation relates to 31 December 2011.
- (2) This is the first realistic valuation for FPLAL CF. Therefore any values relating to prior reporting periods are left blank. The date of the previous investigation for FP WPF related to 31 December 2010.
- (3) For FP WPF, an interim valuation was carried out at 30 June 2011 in accordance with IPRU (INS) rule 9.3A.

### **Assets**

2. (1) The economic assumptions used to determine the value of future profits on the non-profit insurance contracts written in FPLAL CF and FP WPF are:

|  | 31 December 2011 (% pa) | 31 December 2010 (% pa) |
|--|-------------------------|-------------------------|
| Risk Discount Rate                         | 2.5                     | 4.0                     |
| Investment returns before tax (all assets) | 2.5                     | 4.0                     |
| Future expense inflation                   | 3.7                     | 4.4                     |
| Corporation tax rate                       | 26                      | 27                      |

- (2) Not applicable.
- (3) Not applicable because future profits from insurance contracts written outside the FP WPF and the FPLAL CF are not included for the purpose of INSPRU 1.3.43R.
- (4) The same set of economic assumptions is used for all future profit calculations.
- (5) Not applicable.

### With-Profits Benefits Reserve Liabilities

3. (1) a. Policies are valued using a retrospective method except:
- Conventional whole life policies, where a retrospective method is inappropriate
  - Conventional policies where the premium history is unavailable because the policy has been paid up or altered.
- b. The with-profits benefits reserve and future policy related liability for each significant product group is listed in the table below:

|  | With-Profits Benefits Reserve |               | Future Policy Related Liabilities |
|--|-------------------------------|---------------|-----------------------------------|
|  | Prospective                   | Retrospective |                                   |
| <b>FPLAL CF</b>                                | £m                            | £m            | £m                                |
| Conventional Whole of Life                     | 39                            | 0             | 0                                 |
| Conventional Savings                           | 13                            | 27            | 0                                 |
| Conventional Pension                           | 14                            | 10            | 33                                |
| <b>Total</b>                                   | 66                            | 37            | 33                                |
| <b>FP WPF</b>                                  |                               |               |                                   |
| Conventional Whole of Life Pre-demutualisation | 180                           | 0             | 8                                 |
| Conventional Savings Pre-demutualisation       | 88                            | 1822          | 70                                |
| Conventional Pension Pre-demutualisation       | 218                           | 801           | 792                               |
| UWP Savings Pre-demutualisation                | 0                             | 740           | 40                                |
| UWP Bonds Pre-demutualisation                  | 0                             | 616           | 20                                |
| UWP Pensions Pre-demutualisation               | 0                             | 2,460         | 217                               |
| UWP Bonds Post-demutualisation                 | 0                             | 131           | 0                                 |
| UWP Savings Post-demutualisation               | 0                             | 39            | 3                                 |
| UWP Pensions Post-demutualisation              | 0                             | 210           | 3                                 |
| <b>Total</b>                                   | 487                           | 6,819         | 1,153                             |

c. All products that are included in the realistic value of the liabilities of the FP WPF and FPLAL CF have been included in the table above.

- (2) The total of the amounts of the with-profits benefits reserve in 3 (1) (b) corresponds to line 31 of Form 19.

| Description  | FPLAL CF (£m) | FP WPF (£m) |
|--|---------------|-------------|
| Total Prospective With Profits Benefits Reserves from 3 (1) (b)      | 66            | 487         |
| Total Retrospective With Profits Benefits Reserves from 3 (1) (b)    | 37            | 6,819       |
| Total With Profits Benefits Reserves                                 | 103           | 7,306       |
| L31 of Form 19: With-profits benefits reserve excluding GAR reserves | 103           | 7,306       |

Reconciliation of the total future policy related liabilities in 3 (1) (b) back to Form 19 is shown below. The adjustments relate to liabilities that are not specific to individual policies.

| Description   | FPLAL CF (£m) | FP WPF (£m) |
|---|---------------|-------------|
| Total Future Policy Related Liabilities from 3 (1) (b)      | 33            | 1,153       |
| Enhancement to WPBR not yet allocated to specific policies  | 81            | 103         |
| Future costs of smoothing                                   | 0             | 69          |
| Financing cost of contingent loan                           | 0             | 51          |
| Operational risk provision                                  | 0             | 13          |
| Additional tax provision                                    | 0             | 5           |
| Other   | 0             | 36          |
| <b>Total Future Policy Related Liabilities</b>              | 114           | 1,431       |
| Line 49 of Form 19: Total Future Policy Related Liabilities | 114           | 1,431       |

#### With-Profits Benefits Reserve – Retrospective Method

4. (1) (a) & (b)

| Retrospective Reserves | Proportion of With-Profits Benefits Reserve |        |
|------------------------|---|--------|
|                        | FPLAL CF                                    | FP WPF |
| Individual Basis       | 35.6%                                       | 87.2%  |
| Grouped Basis          | 0%  | 6.1%   |

(c) Not applicable for FPLAL CF since all contracts were valued on an individual basis.

(i) The FP WPF contracts that were valued on a group basis are a selection of conventional pension deferred annuity contracts. The method applies grouped model point adjustments to individual mathematical reserves.

There are two methods used to value these policies. Either the policies are grouped by year of entry and premiums on each model point are assumed to be 50% level premiums and 50% single premiums, or premiums are grouped by year of payment.

(ii) 491 model points were used to represent 5,460 policies for the first method and 105 model points were used to represent 1,144 schemes for the second method.

(iii) We have validated that a 50% single premium assumption is appropriate. A reconciliation of movements is made between the current and the prior period's with-profits benefits reserve to ensure no significant data is lost.

(2) (a) No changes in the valuation method during 2011.

(b) Not applicable.

(3) FPLAL CF:

Expenses allocated to the FPLAL Closed Fund consist of those expenses that are directly attributable to servicing this business, and a further allocation of overhead expenses based on the directly attributable expenses as a proportion of total expenses directly attributed to all products. The overhead charge is therefore assumed to be proportional to the level of effort\expense required to service these policies. The investigation is performed annually with the last review being implemented towards the end of 2011.

FP With Profits Fund:

The basis of charging expenses to the FP WPF and to the with-profits benefits reserves is described in the Demutualisation Scheme ('the Scheme') and the company's Principles and Practices of Financial Management. Charges to the With Profits Fund and to the with-profits benefits reserve are not based on actual expenses calculated in expense investigations.

The Scheme charges to the fund were reviewed at the end of 2009 and as a result were increased by 1.8%, reflecting increases in the cost of regulation. Charges continue to be linked to inflation as described below. At the same time the charge to with-profits benefit reserve was brought into line with the charge to the With Profits Fund, increasing the charge to with-profits benefit reserve by 5.6% in total. The Scheme charges will next be reviewed at the end of 2014.

For pre-demutualisation policies the expense charge to the FP WPF is based on the number of contracts multiplied by a charge per contract. The charge per contract is set out in the Scheme. It varies by contract type and since 2001 has been increased at the rate of 1%pa above the increase in the RPI. (Charges for ex-FPLMA business increases in line with the RPI.)

The Scheme also sets out a similar approach for calculating total charges to with-profits benefits reserve. In apportioning these costs between individual policies:

- Where policyholders have previously been given the expectation that the contractual charges are the costs that will be taken into account in calculating discretionary benefits as well as contractual benefits (e.g. New Generation Pensions where the only expense charge is an annual management charge), then it is the contractual expense charge that is deducted from the with-profits benefit reserve.
- Where differences in contractual charges imply a different allocation of expenses to policies of the same type, for example because more expenses are allocated to large policies than to small ones, then the costs deducted from the with-profits benefit reserve will, where reasonably possible, reflect this difference.

For the pre-demutualisation maintenance expenses below, the expenses are shown before netting down for tax relief where appropriate.

For UWP post-demutualisation with-profits policies, the expenses charged to the with-profits benefit reserve are based on the charges specified within the contract.

| Type of Policies     | Maintenance Expenses in 2011 (£m) |        |
|----------------------|-----------------------------------|--------|
|                      | FPLAL CF                          | FP WPF |
| Pre-demutualisation  | 0.3                               | 21.5   |
| Post-demutualisation |                                   | 4.1    |

- (4) For FPLAL CF policies, there were no charges deducted from the with-profits benefit reserve during 2011 or 2010.

For FP WPF policies, the derivation of charges deducted from the with-profits benefit reserve differ based on whether with profit contracts are post-demutualisation or pre-demutualisation.

For post-demutualisation with profits contracts, there is a charge for the cost of the guarantee that the UWP unit price will not fall. The charge varies depending on the original term and the bonus series.

For pre-demutualisation business, there was previously a deduction from the with-profits benefit reserve in order to achieve a fair distribution of the fund's assets over the remaining lifetime of policies. A deduction at a rate of 0.45%pa was applied until 1<sup>st</sup> April 2010, reducing to 0% thereafter. This charge allowed for the cost of guarantees.

| FP WPF - Type of Policies | 2011 Guarantee Charge | 2010 Guarantee Charge |
|---------------------------|-----------------------|-----------------------|
| Pre-demutualisation       | -                     | £8.71 million         |
| Post-demutualisation      | £0.04 million         | £0.04 million         |

- (5) There were no charges deducted from the funds for non-insurance risk.
- (6) The table below shows the ratio of claims paid out on with-profits insurance contracts to the with-profits benefit reserve held for those claims (including the contribution from miscellaneous surplus):

|                                   | 2011 | 2010 | 2009 |
|-----------------------------------|------|------|------|
| FPLAL CF Claims to Reserves Ratio | 103% | -    | -    |
| FP WPF Claims to Reserves Ratio   | 99%  | 96%  | 102% |

- (7) The investment return allocated to the with-profits benefit reserve for the period 1 January to 31 December 2011 before deduction of tax and expenses were as follows:

| Fund          | Investment return |
|---------------|-------------------|
| FPLAL CF      | -1.3%             |
| FP WPF Pre-D  | 5.6%              |
| FP WPF Post-D | 4.3%              |

There were adjustments to FP WPF ex-UKP policies of -0.25% pa, which reflect the terms of the transfer of this company under the scheme of transfer to FPLO.

#### With-Profits Benefits Reserve – Prospective Method

5. (1) (a)(b)&(c) A bonus reserve valuation is used for conventional whole life policies and conventional policies that have been made paid-up or have altered since inception.

The key economic assumptions used for FP WPF and FPLAL CF business are:

|                                   | FPLAL CF | FP WPF |
|-----------------------------------|----------|--------|
|                                   | % pa     | % pa   |
| Discount rate – Life Business     | 2.4      | 2.3    |
| Discount rate – Pensions Business | 2.5      | 2.5    |
| Gross Investment Return           | 2.5      | 2.5    |
| Expense Inflation                 | 3.7      | 3.7    |

The discount rates above are earned rates derived from the Gross Investment Return. Therefore the discount rates differ from the risk-free rates required by 6(4)(a)(iii).

The Gross Investment return is assumed for all asset categories.

(d) Assumed conventional annual bonuses are shown in the table below. Final bonuses were assumed to be a proportion of current final bonuses that are consistent with the rate that would be paid on a similar premium paying policy. Samples of current final bonus rates are shown in the following table:

|  | Rates applying to attaching bonuses and sum assured |                         |     |    |    |    |
|--|---|-------------------------|-----|----|----|----|
|  | Annual Bonus (% pa)                                 | Final Bonus by Term (%) |     |    |    |    |
|  |   | 15                      | 20  | 25 | 30 | 35 |
| FPLAL CF                                 |   |                         |     |    |    |    |
| Life Closed Fund                         | 1.0   | -                       | 109 | 90 | 71 | 76 |
| Former 'New' WP Business fund (Life)     | 0.8   | -                       | 109 | 90 | 71 | 76 |
| Pensions Closed Fund                     | 0.25  | -                       | 80  | 38 | 33 | 42 |
| Former 'New' WP Business fund (Pensions) | 0.2   | -                       | 80  | 38 | 33 | 42 |



| FP WPF  | Rates applying to attaching bonuses<br>(Rates applying to attaching bonuses and sum assured marked with *) |                         |       |      |      |      |
|---|--|-------------------------|-------|------|------|------|
|   | Annual Bonus<br>(% pa)   | Final Bonus by Term (%) |       |      |      |      |
|   |  | 15                      | 20    | 25   | 30   | 35   |
| UKP Life Series                                       | 0.1*   | -                       | 0     | 77.5 | 52.5 | 110  |
| UKP Pension Series                                    | 0  | 0                       | 0     | 0    | 0    | 62   |
| Main Series endowments                                | 0.25   | 300                     | 157.5 | 80   | 32.5 | 80   |
| Main Series low cost endowments - 03/12/90 - 20/02/91 | 0.25   | -                       | 125** | -    | -    | -    |
| Main Series regular premium SEDA                      | 0  | 0                       | 76    | 26   | 13   | 36   |
| Main Series low cost endowments - 21/02/91 - 31/12/91 | 0.25   | -                       | 80    | -    | -    | -    |
| Main Series single premium SEDA                       | 0  | 90                      | 87    | 27   | 90   | 100  |
| Main Series low cost endowments - 31/12/91 onwards    | 0.25   | 131                     | 85    | -    | -    | -    |
| Main Series life with guaranteed surrender basis      | 0.25   | 0                       | 240   | 115  | 115  | 115  |
| Main series low cost endowment increments             | 0.25   | -                       | -     | -    | -    | -    |
| LMA Life Series                                       | 0.5*   | 27*                     | 37*   | 48*  | 74*  | 112* |
| FP WPF Group Employer's Retirement Schemes            | 3.5*   | -                       | -     | -    | -    | -    |
| FP WPF Executive Benefit Schemes Single premium       | 0  | 55                      | 55    | 55   | 55   | 55   |
| FP WPF Executive Benefit Schemes Regular premium      | 0  | 25                      | 25    | 25   | 25   | 25   |

\*\* This rate applies to a 21 year term policy

(e) The Scheme of Demutualisation set out the expenses that should be charged to the FP WPF with-profits benefits reserve from 9 July 2001 to 31 December 2009. During 2010, charges were reviewed and subsequently increased by 1.8%, reflecting increases in the cost of regulation. The charge to with-profits benefit reserves was also brought into line with the charge to the FP WPF, increasing by 5.6% in total. The Scheme charges will next be reviewed at the end of 2014. The expenses used within the retrospective with-profits benefits reserve calculation are consistent with these expenses.

| Fund     | 2012 Expenses        | Regular Premium | Paid-Up | Single Premium |
|----------|----------------------|-----------------|---------|----------------|
| FPLAL CF | All                  | £29.74          | £29.74  | £29.74         |
| FP WPF   | Life                 | £25.70          | £17.99  | N/a            |
|          | Pension (Individual) | £30.85          | £23.13  | N/a            |

(f) No lapses are assumed within the prospective with-profits benefits reserve calculation.

(2) Not applicable.

## Cost of guarantees, options and smoothing

6. (1) Not applicable.
- (2) The cost of options and guarantees are valued using a Monte Carlo simulation approach using Barrie & Hibbert as the stochastic asset model. The outputs from this asset model are input into a dynamic financial analysis model (Prophet ALS) to calculate the value of options and guarantees.
- (a) All products are valued using the Monte Carlo method although there are some adjustments made outside the model.
- (b) (i) Not applicable.
- (b) (ii) All costs have been valued on a grouped basis.
- (b) (iii) Grouping of Data: A set of rules is used to group policies with similar characteristics while aiming to preserve the intrinsic value of the guarantees. The rules used to group policies in 2011 were unchanged from 2010. The table below shows the level of grouping split by product group.

| FPLAL CF              |         | Policies before grouping | Policies after grouping | Compression  |
|-----------------------|---------|--------------------------|-------------------------|--------------|
| Conventional Life     | WOL     | 5,709                    | 216                     | 3.78%        |
|                       | Savings | 4,999                    | 308                     | 6.16%        |
| Conventional Pensions |         | 3,610                    | 620                     | 17.17%       |
| <b>Total</b>          |         | <b>14,318</b>            | <b>1,144</b>            | <b>7.99%</b> |

| FP WPF                            |         | Policies before grouping | Policies after grouping | Compression  |
|-----------------------------------|---------|--------------------------|-------------------------|--------------|
| Conventional Life (Pre Demut)     | WOL     | 20,295                   | 308                     | 1.52%        |
|                                   | Savings | 131,275                  | 1,035                   | 0.79%        |
| Conventional Pensions (Pre Demut) |         | 59,462                   | 597                     | 1.00%        |
| Unit Linked Life (Pre Demut)      | Bonds   | 58,324                   | 185                     | 0.32%        |
|                                   | Savings | 67,764                   | 602                     | 0.89%        |
| Unit Linked Pensions (Pre Demut)  |         | 368,897                  | 2,080                   | 0.56%        |
| Unit Linked Life (Post Demut)     | Bonds   | 3,465                    | 73                      | 2.11%        |
|                                   | Savings | 8,222                    | 262                     | 3.19%        |
| Unit Linked Pensions (Post Demut) |         | 26,372                   | 579                     | 2.20%        |
| <b>Total</b>                      |         | <b>744,076</b>           | <b>5,721</b>            | <b>0.77%</b> |

### Impact of grouping on embedded maturity guarantees

FP WPF: Onerous policy groups are identified by comparing the grouped cost of maturity guarantees and the compression ratios. The effect of grouping data on embedded maturity guarantee liabilities has been examined by calculating the liabilities for these onerous policy groups at an individual policy level. This was then compared against the liability calculated using grouped data. An additional reserve of £19.5m is held to cover the difference between the two approaches.

### Impact of grouping on financial options

FP WPF: An implicit adjustment within the stochastic model, which is proportionate to the grouped liabilities for financial options is held. An additional reserve of £3.9m is held to cover lost value.

### Impact of grouping on other liabilities

FP WPF: A calibration process was performed to ensure that liability cashflows and values on a deterministic basis, emerging from the Monte Carlo model using grouped data replicated the cashflows and values obtained from the embedded value model using individual policy data. An additional reserve is not required.

The process segmented the liabilities by business type (CWP and UWP) and then further split by material product lines. The key output from both models, split by segment, was compared over a 40-year projection period. The analysis included comparisons of:

- Number of maturities and maturity payments;
- Number of surrenders and surrender payments;
- Number of deaths and death payments;
- With-profits benefits reserve in-force;
- Number of policies in-force; and
- Expenses, investment income and in force premium income.

On materiality grounds, no grouping adjustments are made for FPLAL CF.

(c) There are no significant approximations used in valuing products.

(3) No changes were made to the modelling of financial options and guarantees during 2011.

(4)(a) (i) The options and guarantees are fully disclosed in the abstract to the valuation report (Appendix 9.4). The tables below show the extent to which the guarantees and options, split by major product groups, are in or out the money at the valuation date.

| <b>Split of maturity guarantees</b> |              | <b>FPLAL CF<br/>(£m)</b> | <b>FP WPF<br/>(£m)</b> |
|-------------------------------------|--------------|--------------------------|------------------------|
| Conventional Pension                | Intrinsic    | 3                        | 110                    |
|                                     | Time         | 5                        | 73                     |
| Conventional Life                   | Intrinsic    | 0                        | 0                      |
|                                     | Time         | 0                        | 35                     |
| Unitised With-Profits Pension       | Intrinsic    | N/a                      | 55                     |
|                                     | Time         | N/a                      | 134                    |
| Unitised With-Profits Life          | Intrinsic    | N/a                      | 7                      |
|                                     | Time         | N/a                      | 26                     |
| <b>Total</b>                        | Intrinsic    | <b>3</b>                 | <b>172</b>             |
|                                     | Time         | <b>5</b>                 | <b>267</b>             |
|                                     | <b>Total</b> | <b>8</b>                 | <b>440</b>             |

| <b>Split of financial options</b> |                  | <b>FPLAL CF<br/>(£m)</b> | <b>FP WPF<br/>(£m)</b> |
|-----------------------------------|------------------|--------------------------|------------------------|
| Conventional Pension              | Intrinsic        | 25                       | 609                    |
|                                   | Time             | 0                        | 0                      |
| <b>Total</b>                      | <b>Intrinsic</b> | <b>25</b>                | <b>609</b>             |
|                                   | <b>Time</b>      | <b>0</b>                 | <b>0</b>               |
|                                   | <b>Total</b>     | <b>25</b>                | <b>609</b>             |
|                                   |                  |                          |                        |

(ii) The asset model used is Barrie & Hibbert. This is a macro-economic scenario generator that describes how the economy may evolve over time, using a combination of historic statistical information, current market prices, implied volatilities and fundamental economic principles.

Equity implied volatility is calibrated to replicate the implied volatility of FTSE 100 put options using a constant volatility model. This has been compared to options owned by the fund, which are described in section 12.

Corporate bonds are modelled using a modified version of the Merton Model. Various checks were carried out in order to be satisfied that the calibration is appropriate. These are:

- Checks on the volatility of corporate bonds;
- Checks on the correlation of annual corporate bond returns and gilt returns;
- Checks on default rates;
- Checks on option prices using a rolling portfolio of bonds; and
- Check on the value of a put option using a fixed portfolio of bonds.

Property is modelled as a separate asset class. The volatility of property returns is not easily observed within the market. A best estimate initial volatility of 15% pa has been assumed for property total return.

Exchange rates are assumed to have an initial volatility of 11% pa.

Correlations between 6-year bonds, equities and the RPI are calibrated to historical data. Sample average correlations over the first 15 years from the asset model output are shown below:

|  | <b>6 Year<br/>Bond<br/>Return<br/>Index</b> | <b>Equity<br/>Total<br/>Return</b> | <b>RPI</b> | <b>Property<br/>Total<br/>Return</b> | <b>15 Year<br/>Corporate<br/>Bond<br/>Return<br/>Index</b> |
|--|---|------------------------------------|------------|--------------------------------------|--|
| <b>6 Year Bond Return Index</b>            | 1.00  | 0.08                               | 0.14       | 0.13                                 | 0.29   |
| <b>Equity Total Return</b>                 | 0.08  | 1.00                               | 0.04       | 0.30                                 | 0.64   |
| <b>RPI</b>                                 | 0.14  | 0.04                               | 1.00       | 0.07                                 | -0.04  |
| <b>Property Total Return</b>               | 0.13  | 0.30                               | 0.07       | 1.00                                 | 0.47   |
| <b>15 Year Corporate Bond Return Index</b> | 0.29  | 0.64                               | -0.04      | 0.47                                 | 1.00   |

Risk-free rates are calibrated to the UK Government gilt yield curve, extrapolated to tend to a long term assumption of 3.1% pa at terms greater than 35 years.

| K<br>n | Asset type (all UK assets) | (£) | 1    | 2  | 3  | 4  | 1   | 2  | 3  | 4  | 1   | 2  | 3  | 4  |
|--------|----------------------------|-----|------|----|----|----|-----|----|----|----|-----|----|----|----|
|        |                            |     | 0.75 |    |    |    | 1.0 |    |    |    | 1.5 |    |    |    |
|        |                            |     | 5    | 15 | 25 | 35 | 5   | 15 | 25 | 35 | 5   | 15 | 25 | 35 |

| Strikes |   |  |         |           |           |           |           |           |           |           |           |           |           |           |
|---------|---|--|---------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|
| p       | 1.0   |  | 789,873 | 1,125,581 | 1,689,426 | 2,407,991 | 1,053,164 | 1,500,774 | 2,252,568 | 3,210,655 | 1,579,746 | 2,251,162 | 3,378,852 | 4,815,983 |
|         | 0.8   |  | 781,766 | 1,038,708 | 1,439,177 | 1,912,837 | 1,042,354 | 1,384,943 | 1,918,902 | 2,550,449 | 1,563,532 | 2,077,415 | 2,878,353 | 3,825,673 |
| r       | Annualised compound equivalent of the risk free rate assumed for the period                                   |  | 1.04%   | 2.74%     | 3.30%     | 3.39%     | 1.04%     | 2.74%     | 3.30%     | 3.39%     | 1.04%     | 2.74%     | 3.30%     | 3.39%     |
| 1       | Risk-free zero coupon bond  |  | 949,520 | 666,323   | 443,938   | 311,463   | *         | *         | *         | *         | *         | *         | *         | *         |
| 2       | FTSE All Share Index (p=1)  |  | 104,208 | 238,416   | 337,815   | 415,028   | 236,464   | 401,493   | 519,847   | 611,784   | 610,142   | 783,209   | 924,241   | 1,028,546 |
| 3       | FTSE All Share Index (p=0.8)  |  | 100,873 | 204,486   | 263,513   | 300,046   | 230,218   | 348,461   | 409,646   | 449,171   | 597,161   | 690,092   | 739,807   | 768,607   |
| 4       | Property (p=1)  |  | 31,263  | 99,994    | 174,837   | 241,142   | 132,695   | 232,417   | 329,172   | 408,543   | 522,108   | 603,301   | 706,554   | 799,559   |
| 5       | Property (p=0.8)  |  | 29,474  | 76,965    | 119,047   | 151,660   | 126,963   | 186,167   | 233,417   | 269,117   | 508,077   | 508,622   | 530,862   | 550,941   |
| 6       | 15 year risk-free ZCBs (p=1)  |  | 10,119  | 2,881     | 5,043     | 39,532    | 76,631    | 33,905    | 77,778    | 160,382   | 495,977   | 474,408   | 477,093   | 545,725   |
| 7       | 15 year risk-free ZCBs (p=0.8)  |  | 9,336   | 1,504     | 1,155     | 7,929     | 71,909    | 16,693    | 20,072    | 55,132    | 480,630   | 358,775   | 279,121   | 292,442   |
| 8       | 15 year corporate bonds (p=1)   |  | 15,223  | 41,693    | 87,954    | 142,047   | 101,068   | 147,197   | 214,729   | 285,404   | 510,896   | 525,488   | 579,486   | 659,498   |
| 9       | 15 year corporate bonds (p=0.8)   |  | 14,098  | 27,621    | 48,504    | 74,481    | 95,504    | 107,193   | 133,907   | 164,693   | 496,090   | 424,354   | 402,864   | 418,825   |
| 10      | Portfolio of 65% equity and 35% property (p=1)  |  | 57,754  | 157,148   | 246,269   | 316,268   | 175,299   | 304,518   | 411,711   | 496,240   | 556,050   | 678,186   | 796,683   | 896,018   |
| 11      | Portfolio of 65% equity and 35% property (p=0.8)  |  | 55,194  | 128,709   | 180,955   | 215,605   | 169,270   | 255,267   | 311,128   | 346,746   | 542,654   | 584,416   | 618,824   | 644,782   |
| 12      | Portfolio of 65% equity and 35% 15 year risk-free ZCBs (p=1)  |  | 46,343  | 126,004   | 202,950   | 268,282   | 158,723   | 264,911   | 359,314   | 440,251   | 542,369   | 634,410   | 737,468   | 831,357   |
| 13      | Portfolio of 65% equity and 35% 15 year risk-free ZCBs (p=0.8)  |  | 44,060  | 100,211   | 143,280   | 175,560   | 152,731   | 217,907   | 263,298   | 297,152   | 528,759   | 540,804   | 561,209   | 584,749   |
| 14      | Portfolio of 40% equity, 15% property, 22.5% 15 year risk-free ZCBs and 22.5% 15 year corporate bonds (p=1)   |  | 26,120  | 81,124    | 148,443   | 209,269   | 124,482   | 206,886   | 292,426   | 369,540   | 520,653   | 578,104   | 662,864   | 749,806   |
| 15      | Portfolio of 40% equity, 15% property, 22.5% 15 year risk-free ZCBs and 22.5% 15 year corporate bonds (p=0.8) |  | 24,489  | 60,617    | 96,470    | 126,666   | 118,696   | 162,363   | 202,793   | 235,524   | 506,392   | 482,114   | 488,124   | 507,724   |

| L | 15 | 20 | 25 |
|---|----|----|----|
|---|----|----|----|

|    |                    |        |        |       |        |        |        |        |
|----|--------------------|--------|--------|-------|--------|--------|--------|--------|
| 16 | Receiver swaptions | 15.55% | 11.59% | 9.99% | 17.97% | 14.79% | 20.51% | 17.66% |
|----|--------------------|--------|--------|-------|--------|--------|--------|--------|

(4)(a) (iii) Within line 16 of the previous table swaption data is limited to  $L+n \leq 40$ , as there is limited liability arising from financial options above these terms.

(iv) The average initial equity and property rental yields are:

Initial UK equity yield = 3.59% pa  
Initial property rental yield = 4.30% pa  
Initial EUR equity yield = 4.31% pa

(v)

Asset type (EUR assets)

K  
n

| 1 | 2  | 3  | 4  |
|---|----|----|----|
| 1 |    |    |    |
| 5 | 15 | 25 | 35 |

Strikes

|   |   |  |           |           |           |           |
|---|---|--|-----------|-----------|-----------|-----------|
| p | 1.0   |  | 1,286,519 | 1,892,601 | 2,676,262 | 3,795,768 |
|   | 0.8   |  | 1,224,530 | 1,669,483 | 2,204,749 | 2,918,720 |
|   |   |  |           |           |           |           |
| r | Annualised compound equivalent of the risk free rate assumed for the period |  | 5.17%     | 4.34%     | 4.02%     | 3.88%     |
|   |   |  |           |           |           |           |
| 1 | Risk-free zero coupon bond  |  | *         | *         | *         | *         |
| 2 | FTSE EUR Index (p=1)  |  | 313,470   | 464,323   | 574,901   | 671,828   |
| 3 | FTSE EUR Index (p=0.8)  |  | 279,786   | 376,865   | 436,873   | 481,578   |

(vi) There are no market instruments available that can be directly compared against the policyholder embedded maturity guarantees and financial option liabilities. The economic scenario generator is calibrated against actual market instruments held by the fund to hedge these liabilities.

The tables below show term structure and strikes of the guarantees and options split by significant product groups.

| Split of guarantees by outstanding term | Years        | 1-5 (£m)   | 6-10 (£m)  | 11-15 (£m) | 16-20 (£m) | 21-25 (£m) | 26-30 (£m) | 31-35 (£m) | 36-40 (£m) | Total (£m) |
|---|--------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|
| <b>FPLAL CF</b>                         |              |            |            |            |            |            |            |            |            |            |
| Conventional Pension                    | Intrinsic    | 1          | 1          | 1          |            |            |            |            |            | 3          |
|   | Time         |            | 1          | 2          | 1          | 1          |            |            |            | 5          |
| <b>Total</b>                            |              | <b>1</b>   | <b>2</b>   | <b>3</b>   | <b>1</b>   | <b>1</b>   |            |            |            | <b>8</b>   |
|   |              |            |            |            |            |            |            |            |            |            |
| <b>FP WPF</b>                           |              |            |            |            |            |            |            |            |            |            |
| Conventional Pension                    | Intrinsic    | 39         | 42         | 20         | 5          | 2          | 1          |            |            | 110        |
|   | Time         | 17         | 24         | 17         | 9          | 4          | 1          |            |            | 73         |
| Conventional Life                       | Intrinsic    |            |            |            |            |            |            |            |            |            |
|   | Time         | 18         | 12         | 3          | 1          |            |            |            | 1          | 35         |
| Unitised With-Profits Pension           | Intrinsic    | 3          | 18         | 20         | 12         | 3          | 1          |            |            | 55         |
|   | Time         | 21         | 33         | 34         | 31         | 11         | 3          |            |            | 134        |
| Unitised With-Profits Life              | Intrinsic    |            |            | 1          | 2          | 1          | 1          |            | 2          | 7          |
|   | Time         | 8          | 16         | 2          |            |            |            |            |            | 26         |
| <b>Total</b>                            | Intrinsic    | 42         | 60         | 41         | 19         | 6          | 2          |            | 2          | 172        |
|   | Time         | 64         | 85         | 56         | 41         | 15         | 4          |            | 1          | 267        |
|   | <b>Total</b> | <b>106</b> | <b>145</b> | <b>97</b>  | <b>60</b>  | <b>21</b>  | <b>6</b>   | <b>1</b>   | <b>3</b>   | <b>440</b> |

| Split of financial options by outstanding term | Years        | 1-5 (£m)   | 6-10 (£m)  | 11-15 (£m) | 16-20 (£m) | 21-25 (£m) | 26-30 (£m) | 31-35 (£m) | 36-40 (£m) | Total (£m) |
|--|--------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|
| <b>FPLAL CF</b>                                |              |            |            |            |            |            |            |            |            |            |
| Conventional Pension                           | Intrinsic    | 7          | 6          | 6          | 4          | 2          |            |            |            | 25         |
|  | Time         |            |            |            |            |            |            |            |            | 0          |
| <b>Total</b>                                   |              | <b>7</b>   | <b>6</b>   | <b>6</b>   | <b>4</b>   | <b>2</b>   |            |            |            | <b>25</b>  |
| <b>FP WPF</b>                                  |              |            |            |            |            |            |            |            |            |            |
| Conventional Pension                           | Intrinsic    | 309        | 176        | 82         | 31         | 9          | 2          |            |            | 609        |
|  | Time         |            |            |            |            |            |            |            |            | 0          |
|  | Intrinsic    | 309        | 176        | 82         | 31         | 9          | 2          |            |            | 609        |
|  | Time         |            |            |            |            |            |            |            |            |            |
| <b>Total</b>                                   | <b>Total</b> | <b>309</b> | <b>176</b> | <b>82</b>  | <b>31</b>  | <b>9</b>   | <b>2</b>   |            |            | <b>609</b> |

(vii) The economic scenario generator produces deflators in order to value cash flows. A check is performed to ensure all future cashflows from an asset deflate to the current market value of the asset.

(viii) The liabilities are calculated using 2000 simulations. The Barrie & Hibbert file has undergone variance reduction by pairing simulations. This ensures the statistical means correspond closely to their theoretical values and minimises the number of simulations required to achieve statistical accuracy. An analysis of statistical error shows that the standard error for liabilities converges at 2000 simulations.

(4)(b) No costs of options, guarantees or smoothing have been valued using market consistent cost of hedging.

(4)(c) No costs of options, guarantees or smoothing have been valued using a series of deterministic projections.

(5) (a) Dynamic decision rules

The decision rules that the model will follow in various economic scenarios have been subject to Board ratification. In stress scenarios the model will follow the same dynamic rule in deciding the bonus policy.

The decisions have been tested against the Principles and Practices of Financial Management (PPFM) and this gives greater flexibility than the decision rules followed by the model.

The dynamic bonus decision rule is summarised below.

#### Dynamic bonus decision rule

For each simulation, the model projects the guaranteed benefits allowing for future regular and final bonuses.

A rule has been built into the model that aims to pay a percentage of the final maturity benefit as final bonus. The final bonus as a percentage of sum assured and regular bonus at maturity is targeted to be equal to 2% \* policy term. For example, a 25 year policy targets final bonus of 50% of sum assured and regular bonus (and therefore targets final bonus as being one third of the maturity payout).

For each future time period, the model then calculates, for each bonus series, the regular (or unitised) bonus rate such that the final bonus targets can be met. This may result in no regular bonus being declared (subject to minimum bonus rates where they apply) in certain time periods and simulations.

Certain other rules also apply to the regular bonus rates for each bonus series:

- At the start of the first projection year, the initial bonus rates reflect the actual rates.
- Rates are subject to a minimum change of 0.25% pa
- Increases or decreases to rates are limited to 1.5% pa
- Regular bonus rates will not fall below the minimum contractual rates for each bonus series, as this rule overrides the others.

The actual benefit at maturity depends on a policy's with-profits benefits reserve at the time and the extent of any guaranteed benefits. The terminal bonus rule described above is only used for the purpose of determining regular bonus rates and the consequent impact on the guaranteed benefit.

(b) Future equity backing ratio assumptions

The modelled assumptions for the proportion of equity and property backing asset shares at the valuation date and in all subsequent future years are as follows:

| <b>FPLAL CF - Asset Type</b> | <b>At valuation date</b> | <b>Long Term</b> |
|------------------------------|--------------------------|------------------|
| UK Equity                    | 32.29%                   | 31.90%           |
| Overseas Equity              | 13.08%                   | 13.10%           |
| Property                     | 9.60%                    | 10.00%           |
| <b>Total</b>                 | <b>54.97%</b>            | <b>55.00%</b>    |

| <b>FP WPF - Asset Type</b> | <b>At valuation date</b> | <b>Long Term</b> |
|----------------------------|--------------------------|------------------|
| UK Equity                  | 22.88%                   | 24.85%           |
| Overseas Equity            | 15.86%                   | 17.15%           |
| Property                   | 9.22%                    | 8.00%            |
| <b>Total</b>               | <b>47.96%</b>            | <b>50.00%</b>    |

The model assumes that the equity-backing ratio will move to the long-term assumption two months after the valuation date.

For FPLAL CF, there is no accumulating with profits business, therefore no annual bonus rate information is shown.



For FP WPF, the best estimates of future compound annual bonus rates for UWP business are:

| <b>Without adjustment to yield curve</b> |                           |                           |                           |
|--|---------------------------|---------------------------|---------------------------|
| Product                                  | As at<br>31 December 2011 | As at<br>31 December 2016 | As at<br>31 December 2021 |
| Pensions Regular Premium - Series 1      | 4.00%                     | 4.00%                     | 4.04%                     |
| Pensions Regular Premium - Other         | 1.00%                     | 0.60%                     | 1.24%                     |
| Pensions Single Premium - Series 1       | 4.00%                     | 4.01%                     | 4.10%                     |
| Pensions Single Premium - Other          | 1.00%                     | 1.10%                     | 1.71%                     |
| OLAB Single Premium                      | 1.00%                     | 1.07%                     | 1.88%                     |
| Life Regular Premium - Series 1          | 3.00%                     | 3.00%                     | 3.02%                     |
| Life Regular premium - Other             | 0.75%                     | 0.40%                     | 0.96%                     |
| Life Single Premium                      | 0.75%                     | 0.63%                     | 1.40%                     |

| <b>Increase in yield curve of 17.5% of the annualised 15 year gilt yield</b> |                           |                           |                           |
|--|---------------------------|---------------------------|---------------------------|
| Product  | As at<br>31 December 2011 | As at<br>31 December 2016 | As at<br>31 December 2021 |
| Pensions Regular Premium - Series 1  | 4.00%                     | 4.00%                     | 4.06%                     |
| Pensions Regular Premium - Other   | 1.00%                     | 0.75%                     | 1.47%                     |
| Pensions Single Premium - Series 1   | 4.00%                     | 4.02%                     | 4.13%                     |
| Pensions Single Premium - Other  | 1.00%                     | 1.24%                     | 1.92%                     |
| OLAB Single Premium  | 1.00%                     | 1.30%                     | 2.13%                     |
| Life Regular Premium - Series 1  | 3.00%                     | 3.01%                     | 3.03%                     |
| Life Regular premium - Other   | 0.75%                     | 0.48%                     | 1.09%                     |
| Life Single Premium  | 0.75%                     | 0.75%                     | 1.58%                     |

| <b>Decrease in yield curve of 17.5% of the annualised 15 year gilt yield</b> |                           |                           |                           |
|--|---------------------------|---------------------------|---------------------------|
| Product  | As at<br>31 December 2011 | As at<br>31 December 2016 | As at<br>31 December 2021 |
| Pensions Regular Premium - Series 1  | 4.00%                     | 4.00%                     | 4.03%                     |
| Pensions Regular Premium - Other   | 1.00%                     | 0.47%                     | 1.03%                     |
| Pensions Single Premium - Series 1   | 4.00%                     | 4.01%                     | 4.07%                     |
| Pensions Single Premium - Other  | 1.00%                     | 0.98%                     | 1.51%                     |
| OLAB Single Premium  | 1.00%                     | 0.87%                     | 1.63%                     |
| Life Regular Premium - Series 1  | 3.00%                     | 3.00%                     | 3.01%                     |
| Life Regular premium - Other   | 0.75%                     | 0.34%                     | 0.83%                     |
| Life Single Premium  | 0.75%                     | 0.52%                     | 1.22%                     |

- (6) The assumed rates of mortality, morbidity, lapse<sup>1</sup>, surrender, conversion to paid-up, early retirement and the proportion of guaranteed annuities that are sacrificed in order to receive tax-free cash, which are reviewed annually, have been derived from analyses of the Group's recent operating experience and industry studies.

Maintenance expenses are assumed to increase in the future at a rate of 1% pa in excess of the assumed long-term rate of RPI. Allowance for commission is based on the Group's recent experience.

The value of existing business makes no allowance for the payment of future premiums on recurring single premium contracts (except for FP WPF stakeholder style pensions in which case, if a regular pattern in the receipt of premiums is established, the business is treated as regular premium business) or for non-contractual increments on existing policies.

A summary of the surrender and paid-up assumptions used to determine the costs in (4) (a), (b) and (c) is set out below:

|  |                       | Average surrender/paid-up rate for the policy years<br>(% pa) |             |              |              |
|--|-----------------------|---|-------------|--------------|--------------|
|  |                       | <u>1-5</u>  | <u>6-10</u> | <u>11-15</u> | <u>16-20</u> |
| <b>FP WPF</b>                          |                       |   |             |              |              |
| CWP savings endowment                  | surrender             | 7.1   | 5.8         | 3.0          | 3.0          |
| CWP target cash endowment              | surrender             | 8.7   | 9.0         | 5.0          | 5.0          |
| UWP savings endowment                  | surrender             | 13.7  | 9.6         | 7.5          | 7.5          |
| UWP target cash endowment              | surrender             | 12.1  | 13.2        | 10.0         | 10.0         |
| UWP bond                               | surrender             | 2.9   | 18.3        | 11.5         | 11.5         |
| UWP bond                               | automatic withdrawals | 2.6   | 2.6         | 2.6          | 2.6          |
| CWP pension regular premium            | PUP <sup>2</sup>      | 0.0   | 0.0         | 0.0          | 0.0          |
| CWP pension regular premium            | surrender             | 1.0   | 1.2         | 2.0          | 4.8          |
| CWP pension single premium             | surrender             | 1.5   | 1.5         | 1.5          | 2.8          |
| UWP individual pension regular premium | PUP                   | 0.0   | 0.0         | 0.0          | 0.0          |
| UWP individual pension regular premium | surrender             | 2.4   | 2.8         | 3.8          | 8.7          |
| UWP individual pension single premium  | surrender             | 2.6   | 5.3         | 6.5          | 8.4          |

The average surrender/paid up rates for policy years 16-20 include an allowance for early retirement rates.

<sup>1</sup> No allowance is made for partial withdrawals in the model

<sup>2</sup> PUP rates are set to zero as the model does not allow for conversions to paid-up. Instead an out of the model adjustment is made to the cost of guarantees for conversions to paid-up.

The assumed take-up rates for guaranteed annuity options are as follows:

| <u>Product</u>                              | <u>GAR take up rate</u> |
|---|-------------------------|
| UKP Executive Conventional Pensions         | 73%                     |
| FP and UKP Individual Conventional Pensions | 75%                     |
| FP Executive Conventional Pensions          | 82%                     |
| Group Conventional Money Purchase           | 78%                     |
| FPLAL CF Individual Pensions                | 75%                     |

The annuitant mortality assumptions used in the calculation of the value of financial options are reflected in the table of life expectancies below:

| Current Age | Expectation at age | 31 December 2011 |        |
|-------------|--------------------|------------------|--------|
|             |                    | Male             | Female |
| 45          | 65                 | 26.0             | 28.0   |
| 55          | 65                 | 25.1             | 27.0   |
| 65          | 65                 | 24.2             | 26.1   |
| 75          | 75                 | 15.0             | 16.5   |

- (7) An implicit allowance has been made for dynamic policyholder action in not exercising the guaranteed annuity option when the current market annuity rate is higher than the guaranteed rate.

## Financing Costs

### 7. FPLAL CF: Not applicable

#### FP WPF: Contingent loan

- Under the scheme of Demutualisation, capital support is provided to the With Profits Fund by the Non Profit Fund. The minimum amount of capital support that the Non Profit Fund must provide, if required (the 'Capital Support Account'), is currently £72.9m. This minimum reduces to nil by 2031<sup>3</sup>.
- Capital support is provided by means of contingent loans where repayment is contingent on the With Profits Fund having sufficient assets to meet regulatory solvency needs and the reasonable expectations of policyholders.
- The Demutualisation Scheme requires that £50m is automatically advanced each year up to 2008 (reducing to nil over a 22 year period) and repaid with interest at the end of each year. The accumulated amount with interest at the end of 2011 was £54.2m. A further contingent loan of £18.7m is available if required.
- A waiver in respect of the contingent loan was granted with effect from 31 July 2008. The waiver permits the inclusion on Form 19 Line 27 of the £18.7m of Capital Support Account assets that have not been advanced at the valuation date, but which are available if necessary.
- This arrangement provides the With Profits Fund with up to £72.9m of assets in the event that it is required to meet guarantees and discretionary benefits of policyholders, if necessary. In addition, the investment policy of the fund assumes that the advanced contingent loan forms part of the fund. However, the fund is otherwise managed with the intention that the contingent loan will be repaid.

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<sup>3</sup> The capital support reduces by 10% at the end of each year from 2009 to 2030 (£100m in 2008, £90m in 2009, £81m in 2010, £72.9m in 2011, ...) and finally to zero in 2031.

## Other Long-Term Insurance Liabilities

8. FPLAL CF: There are no liabilities shown at line 46 and line 47 of Form 19.

FP WPF: There are no liabilities shown at line 46 of Form 19. However, the breakdown of liabilities shown at line 47 of Form 19 can be found in the table below. These liabilities include the current prospective value of the various provisions that were set up on demutualisation to pay for the shareholders' interest in the With Profits Fund (created to avoid the benefit expectations of the pre-demutualisation policies being affected by demutualisation), together with provisions set up since demutualisation.

| Line 47 Any other long-term insurance liabilities | Base |
|---|------|
|   | £m   |
| CWP provision                                     | 66   |
| UWP provision                                     | 96   |
| Other   | 60   |
| Total   | 222  |

CWP provision: This shows the prospective value of the future transfers to shareholders in respect of 1/9th of the cost of future bonuses.

UWP provision: this is 100% of the value of charges less expenses for pre demutualisation UWP business. Line 22 (Present value of future profits on non-profit insurance contracts) contains 40% of this amount as an asset. The net liability is 60% of this amount, which is the entitlement of shareholders in respect of UWP policies under the Scheme of Demutualisation.

'Other' includes:

- Mortgage endowment provision (£5m); this represents an actuarial provision in respect of future claims.
- An operational risk provision (£13m).
- A provision for tax on the assets backing the cost of guarantee and working capital (£5m).
- A provision for additional statutory liabilities relating to with-profits contracts (£36m).
- Various other small provisions (£1m).

## Realistic Current Liabilities

9. The following table shows the details:

| Line 51 Realistic current liabilities | FPLAL CF | FP WPF |
|---------------------------------------|----------|--------|
|                                       | £m       | £m     |
| Current liabilities                   | 6        | 477    |
| Provisions for Shareholder Tax        | 0        | 40     |
| Total                                 | 6        | 517    |

Provisions for Shareholder Tax: this represents the tax that will be payable on future transfers to the Non Profit Fund and the Shareholder Fund.

## Risk Capital Margin

10. (a) The risk capital margin is £3m for FPLAL CF and £185m for FP WPF. The most adverse scenario for both funds is:
- (i) A decrease of 12.5% in property holdings and a decrease of 20% in equity holdings.
  - (ii) Yields fall by 17.5%, equivalent to the 15 year gilt yield falling from 2.48%pa to 2.04%pa
  - (iii) FPLAL CF: The weighted average change in spread on corporate bonds backing the with-profits business is 215 basis points which reduces the market value of these bonds by 8.54%. For non-profit business in the FPLAL CF there is no corporate stress applied.  
  
FP WPF: The weighted average change in spread on corporate bonds backing the with-profits business is 140 basis points which reduces the market value of these bonds by 8.23%. For non-profit business in the FP WPF the equivalent change in spreads was 156 basis points leading to a reduction in the market value of corporate bonds of 10.12%.  
  
A similar level of credit stress is applied to debts, reinsurance and derivative positions in both funds. There are no non-reinsurance financing arrangements.
  - (iv) Lapse and early retirement rates reduce from current levels by 32.5%, thus assuming a greater number of guarantees and options are exercised. The realistic liability has increased by 0.04% for FPLAL CF and 7.46% for FP WPF under this stress.
  - (v) Not applicable
- (b) No additional management actions have been assumed.
- (c) (i) No shareholder support, other than the FP WPF contingent loans, is required at 31 December 2011. The funds are fully covering the risk capital margin without the need for additional shareholder support. The RCM is assumed to be backed by approved fixed interest securities within the fund.
- (ii) Not applicable

## Tax

11. (i)&(ii) For FPLAL CF business, the modelling applies future tax to the with-profits benefits reserve and future policy related liabilities in accordance with the Scheme, with life and pension business taxed on a mutual basis.
- For FP WPF business, the modelling applies future tax to the with-profit benefits reserve and future policy related liabilities in accordance with the Scheme, with life business taxed on an 'I-E' basis and pensions business taxed on profits. For life business an estimate for tax on assets backing the future costs of contractual guarantees (line 41), and any additional tax on the working capital, is calculated using an approximate method.
- (iii) Realistic current liabilities allow for any current tax liability of the fund.

## Derivatives

12. For FPLAL CF, futures are held for efficient portfolio management purposes:
- Long futures of £2.4m notional. The majority of these futures are FTSE 100, S&P and Topix positions with levels of 5536, 1253, and 728 respectively.
  - Short futures of £0.2m notional at a level of 2308 in Eurostoxx

For FP WPF, the following major derivative positions can be found below:

- Long futures backing asset shares of £383m notional at a level of 5536 in FTSE 100
- Overseas futures of £64m notional. The majority of these futures are Eurostoxx, S&P and Topix positions with levels of 2308, 1253 and 728 respectively.
- A long FTSE 100 futures position of £152m notional and overseas sold positions of £23m notional to match the equity component of maturity guarantees.
- FTSE 100 put options with a market value of £113m held to match the strike and term of the equity component of maturity guarantees. The fund currently holds 166,000 equity capital return put options with strikes ranging from 3,988 to 6,647 and 29,000 equity total return put options with strikes ranging from 2,000 to 8,000.
- Swaptions held to match financial options with a market value of £5m. These swaptions have a nominal value of £1.1bn and strikes ranging from 7.8% to 11.1%.
- Interest rate swaps held to match financial options with a market value of £88m. This is split into receiver swaps (£157m) and payer swaps (-£70m). Receiver swaps have a nominal value of £435m and strikes ranging from 4.74% to 5.00%. Payer swaps have a nominal value of £230m and strikes ranging from 4.82% to 5.10%.
- Inflation rate swaps are used as a tool to hedge inflation. These swaps have a market value of £2m

### Analysis of Working Capital

13. The following shows an approximate analysis of working capital between 31 December 2010 and 31 December 2011 for FP WPF.

|  | FP WPF     |
|--|------------|
|  | £m         |
| <b>Opening position at start of year</b>                                       | <b>166</b> |
| Modelling changes and opening adjustments                                      | 12         |
| Expected Investment return on opening working capital                          | 0          |
| Mismatch profits or losses on assets backing future policy related liabilities | 61         |
| Assumption changes   |            |
| Economic   | (162)      |
| Non-economic   | 37         |
| Other variances  |            |
| Economic   | (13)       |
| Non-economic   | (54)       |
| Changes in other liabilities of lines 47 and 51 of Form 19                     | (21)       |
| Other  | 5          |
| <b>Closing position at end of year</b>   | <b>32</b>  |
| Reduction in planned enhancements to future payouts                            | 173        |
| Reduction in available contingent loan   | (1)        |
| <b>Closing position at end of year as per line 68 of Form 19</b>               | <b>204</b> |

This is the first realistic valuation for FPLAL CF. Hence, an analysis of working capital was not completed for FPLAL CF.

### Optional Disclosure

14. None.

## **RETURNS UNDER INTERIM PRUDENTIAL SOURCEBOOK FOR INSURERS**

**Information on With Profits Actuary as required by IPRU (INS) 9.36.**

**Friends Life Limited**

**Financial year ended 31 December 2011**

The Company has requested Mike Collins, the With Profits Actuary throughout 2011, to provide particulars specified in IPRU(INS) Rule 9.36 and the following details for the full year to 31 December 2011 have been furnished pursuant to that request.

- (a) At 31st December 2011, the actuary had a direct interest in 100 ordinary shares of no nominal value in Resolution plc and 3,254 shares in the Share Incentive Plan. A further 6,300 ordinary shares in Resolution plc were held by the actuary's spouse.  
  
He had no interest at any time during the year in any shares in, or debentures of, the Company or its subsidiaries.
- (b) During the year:-
  - (i) He had a sole pecuniary interest in three policies on his life administered by Friends Life and Pensions Limited (FLP), with premiums amounting to £19,578 paid and a combined final value at the end of the year of £55,994.
  - (ii) The actuary and his spouse had a pecuniary interest in one policy on their joint lives administered by Friends Life Limited (FLL). Annual premiums amounted to £316 and the sum assured at the end of the year was £32,000.
  - (iii) The actuary's spouse had a pecuniary interest in one single premium policy on her life administered by FLL. Income of £375 was received during the year and the policy value at the end of the year was £3,814.
- (c) The aggregate amount of remuneration and value of other benefits receivable by the With Profits Actuary (excluding pension contributions) was £151,287.
- (d) He is a member of the Friends Provident Pension Scheme, a UK defined benefit pension plan, which, during 2011, was a contributory scheme. During 2011 he took some of these benefits as cash and pension.

His other pecuniary benefits receivable are provided under the standard terms and conditions of the Group's permanent health insurance scheme.

**Directors' certificate required by rule 9.34 of the Accounts and Statements Rules**  
**Friends Life Limited**  
**Financial year ended 31 December 2011**  
**Global Business**

We certify:

1. (a) that the return has been properly prepared in accordance with the requirements in IPRU(INS), GENPRU and INSPRU as modified by the waivers dated 12 December 2008, 10 June 2009, 13 August 2009 and 22 December 2011 issued under section 148 of the Financial Services and Markets Act 2000, details of which are contained in notes 1323, 1324, 5702 and 0201 respectively; and  
  
(b) we are satisfied that:
  - (i) throughout the financial year in question, the insurer has complied in all material respects with the requirements of SYSC and PRIN as well as the provisions of IPRU(INS), GENPRU and INSPRU; and
  - (ii) it is reasonable to believe that the insurer has continued so to comply subsequently, and will continue to comply in future.
2. (a) that in our opinion, premiums for contracts entered into during the financial year and the resulting income earned are sufficient, under reasonable actuarial methods and assumptions, and taking into account the other financial resources of the insurer that are available for the purpose, to enable the insurer to meet its obligations in respect of those contracts and, in particular, to establish adequate mathematical reserves;  
  
(b) that the sum of the mathematical reserves and the deposits received from reinsurers as shown in Form 14 constitute proper provision at the end of the financial year in question for the long-term insurance liabilities (including all liabilities arising from deposit back arrangements, but excluding other liabilities which had fallen due before the end of the financial year) including any increase in those liabilities arising from a distribution of surplus as a result of an actuarial investigation as at that date into the financial condition of the long-term insurance business;  
  
(c) that 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  
  
(d) that we have, in preparing the return, taken and paid due regard to-
  - (i) advice in preparing the return from every actuary appointed by the insurer to perform the actuarial function in accordance with SUP 4.3.13R; and
  - (ii) advice in preparing the return from every actuary appointed by the insurer to perform the with-profits actuary function in accordance with SUP 4.3.16AR.

E.B. Bourke  
Director

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

A.M. Parsons  
Director

20 March 2012



## **Independent auditor's report to the directors pursuant to rule 9.35 of the Interim Prudential Sourcebook for Insurers**

### **Friends Life Limited**

#### **Global business**

#### **Financial year ended 31 December 2011**

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

- Forms 2, 3, 11 to 19, 40 to 45, 48, 49, 58 and 60 (including the supplementary notes) ("the Forms");
- the statement required by IPRU(INS) rule 9.29 ("the statement"); and
- 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 auditor's 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 auditor**

The insurer is responsible for the preparation of an annual return (including the Forms, the statement and the valuation reports) under the provisions of the Rules. The requirements of the Rules have been modified by the directions issued under section 148 of the Act referred to in supplementary notes 0201, 1323, 1324, 1801, 1901 and 5702. 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 by us; or
- the Forms, the statement and the valuation reports are not in agreement with the accounting records and returns; or
- we have not received all the information we require for our audit.

**Basis of opinion**

We conducted our work in accordance with Practice Note 20 'The audit of insurers in the United Kingdom (revised)' issued by the Auditing Practices Board. Our work included examination, on a test basis, of evidence relevant to the amounts and disclosures in the Forms, the statement and the valuation reports. The evidence included that previously obtained by us relating to the audit of the financial statements of the insurer for the financial year on which we reported on 20 March 2012. It also included an assessment of the significant estimates and judgments made by the insurer in the preparation of the Forms, the statement and the valuation 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