



Annual Group Capital Adequacy Report

Return Reference Number: 196142

Reference date of the report: 31 December 2011

This return is date critical

To be Completed by Firm

Firm's Name	Friends Life Limited (Formerly Friends Provident Life and Pensions Limited)
Firm's Reference Number	196142

To be completed by FSA

Date and Time of Receipt

Entry Receipt Number

Name & Initials of Person
Receiving it

Division Passed To

Report pursuant to rule 9.40(1) and 9.40(1A) of the Interim Prudential Sourcebook for Insurers ("IPRU(INS)")

Friends Life Limited

Financial year ended 31 December 2011

1. This report is made pursuant to rules 9.40(1) and 9.40(1A) of IPRU(INS).
2. The firm's ultimate insurance parent undertaking is Resolution Limited, with its head office at Trafalgar Court, Les Banques, St Peter Port, Guernsey, GY1 3QL and carrying on the activity of an insurance holding company.
3.
 - a) The Group Capital Resources of Resolution Limited is £6,542 million.
 - b) The Group Capital Resources Requirement of Resolution Limited is £4,749 million.
 - c) The excess of Group Capital Resources over Group Capital Resources Requirement of Resolution Limited is £1,793 million.
4. The firm's ultimate EEA insurance parent undertaking is Friends Life Group plc, with its head office at Pixham End, Dorking, Surrey, England, RH4 1QA and carrying on the activity of an insurance holding company.
5.
 - a) The Group Capital Resources of Friends Life Group plc is £6,888 million.
 - b) The Group Capital Resources Requirement of Friends Life Group plc is £4,749 million.
 - c) The excess of Group Capital Resources over Group Capital Resources Requirement of Friends Life Group plc is £2,139 million.
6. This report is submitted by Friends Life Limited on behalf of Friends Life and Pensions Limited (110414), Friends Life FPLMA Limited (202225), Friends Life Company Limited (185063), Friends Life Assurance Society Limited (110482) and Winterthur Life UK Limited (182007); and has been copied and made available to their boards of directors.
7. The FSA, on the application of the firm, made a direction on 22 December 2011 under section 148 of the Act. The effect of the direction is to modify INSPRU 6.1.37R so that the firms may report the 6.875% Step up Tier 1 Insurance Capital Securities issued by Friends Life FPL Limited (then known as Friends Provident plc) on 21 November 2003, in respect of which the rights and obligations of Friends Life FPL were novated to Friends Life FPG (then known as Friends Provident Group plc) on 6 July 2009 and subsequently further novated to Friends Life Group plc (then known as Friends Provident Holdings (UK) plc) on 15 December 2010, as part of the group capital resources.
8. No credit has been taken for the solvency position of AmLife Insurance Berhad and AmLife Takaful Berhad in the calculation of the Group surplus. Capital resources have been included to the extent that they cover the capital resources requirement.
9. In accordance with rule 9.41, solvency deficits in regulated related undertakings are reported on page 6.
10. Information presented under rule 9.40(1A), is reported on pages 8 and 9.
11. Signing of Group Capital Adequacy Report in accordance with IPRU(INS) 9.33(1) is on page 3.
12. The Independent auditor's statement to the directors pursuant to rule 9.40(3)(c) of the IPRU(INS) is on pages 10 and 11.

Report pursuant to rule 9.40(1) and 9.40(1A) of the Interim Prudential Sourcebook for Insurers ("IPRU(INS)")

Friends Life Limited

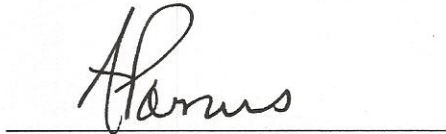
Financial year ended 31 December 2011

Signing of Group Capital Adequacy Report in accordance with IPRU(INS) 9.33(1)

E.B. Bourke, Director

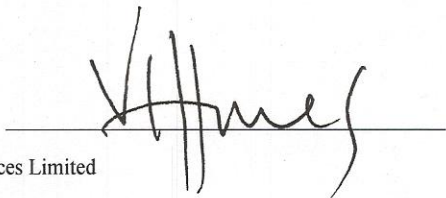
A handwritten signature in cursive script, appearing to read 'E.B. Bourke', written over a horizontal line.

A.M. Parsons, Director

A handwritten signature in cursive script, appearing to read 'A.M. Parsons', written over a horizontal line.

V. Hames, Secretary

Signed on behalf of Friends Life Secretarial Services Limited

A handwritten signature in cursive script, appearing to read 'V. Hames', written over a horizontal line.

Date: 26 March 2012

Report pursuant to rule 9.40(1) and 9.40(1A) of the Interim Prudential Sourcebook for Insurers

Friends Life Limited

Financial year ended 31 December 2011

Insurance Group Capital Adequacy

Name of ultimate worldwide insurance parent undertaking

Resolution Limited

Name of ultimate EEA insurance parent undertaking

Friends Life Group plc

Calculation of Consolidated Position:

TIER 1

Group Core Tier 1

Group Non-Cumulative Preference Shares

Group Innovative Tier 1

Deductions from tier one

Total Group Tier 1

TIER 2

Group Upper Tier 2

Group Lower Tier 2

Total Group Tier 2

Total Capital Resources (before deductions)

Total group capital resources deductions

Total Group Capital Resources:

Total Group Capital Resources Requirement

Group surplus/ (deficit)

**EEA
Parent
£m**

**Worldwide
Parent
£m**

7,700
-
488
396
7,792

7,553
-
488
396
7,645

-
864
864

-
664
664

8,656

8,309

1,768

1,767

6,888

6,542

4,749

4,749

2,139

1,793

Report pursuant to rule 9.40(1) and 9.40(1A) of the Interim Prudential Sourcebook for Insurers

Friends Life Limited

Financial year ended 31 December 2011

Name of ultimate worldwide insurance parent undertaking
Name of ultimate EEA insurance parent undertaking

Resolution Limited
Friends Life Group plc

Name of related undertaking	Worldwide parent % interest	EEA parent % interest	Type of firm	Group Core Tier 1 £m	Group Non-Cumulative Preference Shares £m	Group Innovative Tier 1 £m	Deductions from Tier 1 £m	Group Lower Tier 2 £m	Total group capital resources deductions £m	Total Group Capital Resources Requirement £m	GCA Surplus £m
Friends Life Group plc	99.99 (S)	100	Insurance holding company	527	(51)	(110)		(0)	61		305
Friends Life FPG Limited	99.99 (S)	100 (S)	Insurance holding company	20							20
Friends Life FPL Limited	99.99 (S)	100 (S)	Insurance holding company	269					124		145
Friends Life Limited	99.99 (S)	100 (S)	Regulated Insurance	918	51	598	40	862	296	1,509	584
Friends Life Company Limited	99.99 (S)	100 (S)	Regulated Insurance	3,218			136		995	1,825	261
Friends Annuities Limited	99.99 (S)	100 (S)	ISPv	235							235
Friends Life Assurance Society Limited	99.99 (S)	100 (S)	Regulated Insurance	1,535			173		2	1,038	323
Winterthur Life UK Limited	99.99 (S)	100 (S)	Regulated Insurance	241			20		30	141	50
Friends Life and Pensions Limited	99.99 (S)	100 (S)	Regulated Insurance	504			13		240	125	126
Friends Provident International Limited (IOM)	99.99 (S)	100 (S)	Regulated Insurance	38			0		0	15	23
London and Manchester Group Limited	99.99 (S)	100 (S)	Insurance holding company	0							0
Friends Life FPLMA Limited	99.99 (S)	100 (S)	Regulated Insurance	6			0		0	3	3
Insurance Development Holdings A.G.	99.99 (S)	100 (S)	Insurance holding company	2							2
Lombard International Protected Cell Company Limited	99.99 (S)	100 (S)	Regulated Insurance	5			0		(0)	0	5
Lombard International Assurance S.A.	99.99 (S)	100 (S)	Regulated Insurance	92			10	2	0	47	37
Friends Provident Distribution Holdings Limited	99.99 (S)	100 (S)	Financial holding company	(11)							(11)
Friends Life Distribution Limited (see Page 7)	99.99 (S)	100 (S)	Financial holding company	26			3		13	15	(5)
Friends Life Services Limited	99.99 (S)	100 (S)	Regulated Investment	49					7	5	37
AmLife Insurance Berhad	30	30	Regulated Insurance	24						24	0
AmLife Takafal Berhad (began trading on 9 Jan 2012)	30	30	Regulated Insurance								0
TOTAL - Ultimate EEA Insurance Parent Undertaking				7,700	0	488	396	864	1,768	4,749	2,139
Resolution Limited		n/a	Insurance holding company	69						0	69
Resolution Holdco No 1 LP	99.99 (S)	n/a	Insurance holding company	5						0	5
Resolution Holdings (Guernsey) Limited	99.99 (S)	n/a	Insurance holding company	(220)				(200)		0	(420)
Less minority interest in EEA parent and its regulated related undertakings not in deficit				(0.777)	0.000	(0.049)	(0.040)		(0.177)	(0.475)	(0)
TOTAL - Ultimate Worldwide Insurance Parent Undertaking				7,553	0	488	396	664	1,767	4,749	1,793

Report pursuant to rule 9.40(1) and 9.40(1A) of the Interim Prudential Sourcebook for Insurers

Friends Life Limited

Financial year ended 31 December 2011

Details of regulated related undertakings where individual capital resources requirement exceeds its solo capital resources pursuant to rule 9.41 of the Interim Prudential Sourcebook for Insurers

Name of ultimate worldwide insurance parent undertaking

Name of ultimate EEA insurance parent undertaking

Resolution Limited
Friends Life Group plc

As set out in INSPRU 6.1.28R in accordance with INSPRU 6.1.30R and INSPRU 6.1.31R:

Name of related undertaking	Worldwide parent % interest	EEA parent % interest	Type of firm	Group Core Tier 1 £m	Group Non-Cumulative Preference Shares £m	Group Innovative Tier 1 £m	Deductions from Tier 1 £m	Group Lower Tier 2 £m	Total group capital resources £m	Total Group Capital Resources Requirement £m	GCA Surplus £m
Friends Provident Distribution Holdings Limited	99.99 (S)	100 (S)	Finance holding company	15	0	0	3	0	13	15	(16)
Friends Life Distribution Limited	99.99 (S)	100 (S)	Finance holding company	26	0	0	3	0	13	15	(5)
Sesame Bankhall Group Limited	99.99 (S)	100 (S)	Finance holding company	(64)	0	0	3	0	13	7	(86)

The companies above are not regulated.

The Friends Provident Distribution Holdings Limited deficit is largely due to the inclusion of its investment in the Sesame Bankhall on a regulatory basis, and differs to the disclosures on page 5 and 7 where investments in capital resources of relevant regulated undertakings have been deducted. The Sesame Bankhall Group Limited deficit is largely due to intra-group financing and capital resources requirements of its non-regulated related undertakings. No regulated entities are in deficit.

Report pursuant to rule 9.40(1) and 9.40(1A) of the Interim Prudential Sourcebook for Insurers

Friends Life Limited

Financial year ended 31 December 2011

Analysis of Friends Life Distribution Limited by legal entity

Name of ultimate worldwide insurance parent undertaking	Resolution Limited
Name of ultimate EEA insurance parent undertaking	Friends Life Group plc

As set out in INSPRU 6.1.28R in accordance with INSPRU 6.1.30R and INSPRU 6.1.31R:

Name of related undertaking	Worldwide parent % interest	EEA parent % interest	Type of firm	Group Core Tier 1 £m	Group Non-Cumulative Preference Shares £m	Group Innovative Tier 1 £m	Deductions from Tier 1 £m	Group Lower Tier 2 £m	Total group capital resources £m	Total Group Capital Resources Requirement £m	GCA Surplus £m
Friends Life Distribution Limited	99.99 (%)	100 (%)	Finance holding company	1							1
Sesame Services Limited	99.99 (%)	100 (%)	Finance holding company	84						8	76
Financial Options Services Limited	99.99 (%)	100 (%)	Investment	4						0	4
Sesame Bankhall Group Limited	99.99 (%)	100 (%)	Finance holding company	(166)					3	0	(169)
Sesame Limited	99.99 (%)	100 (%)	Regulated Investment	93					10	6	77
Bankhall Investment Management Limited	99.99 (%)	100 (%)	Finance holding company	(2)						0	(2)
Bankhall PMS Limited	99.99 (%)	100 (%)	Regulated Investment	11				3		0	8
Friends Life Distribution Limited	99.99 (%)	100 (%)	Finance holding company	26	0	0	0	3	0	13	(5)

The individual capital resources above are calculated after the deduction of investment in the capital resources of relevant regulated related undertakings

Report pursuant to rule 9.40(1) and 9.40(1A) of the Interim Prudential Sourcebook for Insurers

Friends Life Limited

Financial year ended 31 December 2011

Reconciliation between the group capital resources of the ultimate EEA insurance parent undertaking and the shareholders' funds, subordinated liabilities and other relevant amounts included in the publish annual consolidated accounts of the ultimate EEA insurance parent undertaking pursuant to rule 9.40(1A)(a) of the Interim Prudential Sourcebook for Insurers

	£m
Equity attributable to equity holders of the parent	5,825
Equity attributable to holders of Step-up Tier one Insurance Capital Securities (STICS)	318
Subordinated liabilities	864
Unallocated surplus	652
	7,659
Valuation difference between accounts and regulatory value of STICS	170
Acquired intangibles	(4,847)
Other regulatory adjustments: Assets	(998)
Valuation differences between regulatory and realistic actuarial liabilities	4,495
Other regulatory adjustments: Liabilities	866
Group available capital resources as reported in the Capital Statement	7,345
Restricted assets that cannot be readily transferred (on a regulatory basis)	(460)
Assets in excess of market risk and counterparty limits	5
Late adjustments and roundings not reflected in Group available capital resources in the Capital Statement	(2)
Total Group Capital Resources	6,888

Report pursuant to rule 9.40(1) and 9.40(1A) of the Interim Prudential Sourcebook for Insurers

Friends Life Limited

Financial year ended 31 December 2011

Reconciliation of the group capital resources of the ultimate EEA insurance parent undertaking as calculated in the Group Capital Adequacy and the group capital resources included in the capital statement of the publish annual consolidated accounts of the ultimate EEA insurance parent undertaking pursuant to rule 9.40(1A)(b) of the Interim Prudential Sourcebook for Insurers

	£m
Group available capital resources as reported in the Capital Statement	7,345
Restricted assets that cannot be readily transferred (on a regulatory basis)	(460)
Assets in excess of market risk and counterparty limits	5
Late adjustments and roundings not reflected in Group available capital resources in the Capital Statement	(2)
Total Group Capital Resources	6,888

Independent auditor's statement to the directors pursuant to rule 9.40(3)(c) of the Interim Prudential Sourcebook for Insurers ("IPRU(INS)")

Friends Life Limited

Financial year ended 31 December 2011

We have reviewed the report prepared pursuant to rule 9.40(1) of IPRU(INS) on pages 2 to 7 ("the report") by Friends Life Limited (formerly Friends Provident Life and Pensions Limited) ("the insurer").

This statement is made solely to the insurer's directors in accordance with rule 9.40(3)(c). Our review has been undertaken so that we might state to the insurer's directors those matters we are required to state to them in an auditor's statement 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 review, for this statement, or for the opinion we have formed.

Respective responsibilities of the insurer and its auditors

The insurer is responsible for the preparation of the report under the provisions of rule 9.40(1) of IPRU(INS). The underlying requirements of INSPRU 6.1 have been modified by the direction referred to in paragraph 7 on page 2.

We are not required to examine and express an opinion on the statement made in relation to rule 9.40 (1A) in paragraph 10 on page 2 and on pages 8 and 9.

It is our responsibility to carry out the procedures set out below, in the basis of opinion section, and to state whether anything of significance has come to our attention to indicate that the report has not been properly compiled in accordance with INSPRU 6.1 as modified and rule 9.40(1) of IPRU(INS) from information provided to the insurer by other members of the insurance group and from the insurer's own records.

Our work did not constitute an audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board of the information provided to the insurer by other members of the insurance group and included no independent examination by us of any of the underlying financial information therein. It therefore provides a lower level of assurance than an audit.

Basis of opinion

Our work consisted principally of:

- comparing, on a test basis, the compilation of the report with the information provided to the insurer by other members of the insurance group and with information from the insurer's own records;
- confirming the mathematical accuracy of the compilation of the financial information contained in the report;
- comparing, on a test basis, the information provided to the insurer by other members of the insurance group and any adjustments made by the insurer thereto, with the requirements set out in INSPRU 6.1 as modified to identify any significant areas where such information may not comply therewith.

Independent auditor's statement to the directors pursuant to rule 9.40(3)(c) of the Interim Prudential Sourcebook for Insurers ("IPRU(INS)")

Friends Life Limited

Financial year ended 31 December 2011

(continued)

Opinion

On the basis of the above procedures, nothing of significance has come to our attention to indicate that the report has not been properly compiled in accordance with INSPRU 6.1 as modified and rule 9.40(1) of IPRU(INS) from information provided to the insurer by other members of the insurance group and from the insurer's own records.

Ernst & Young LLP

Ernst & Young LLP

Statutory Auditor

London

26 March 2012