

Friends Life and Pensions Limited

Annual FSA Insurance Returns for the year ended

31 December 2012

IPRU(INS) Appendices 9.1, 9.3, 9.4, 9.6

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Statement of solvency - long-term insurance businessName of insurer **Friends Life and Pensions Limited**

Global business

Financial year ended **31 December 2012**

Adjusted solo solvency calculation

Company registration number	GL/UK/CM	day	month	year	Units	
R2	475201	GL	31	12	2012	£000
				As at end of this financial year		As at end of the previous year
				1		2

Capital resources

Capital resources arising within the long-term insurance fund	11	109900	93539
Capital resources allocated towards long-term insurance business arising outside the long-term insurance fund	12	288334	157624
Capital resources available to cover long-term insurance business capital resources requirement (11+12)	13	398234	251163

Guarantee fund

Guarantee fund requirement	21	116817	41812
Excess (deficiency) of available capital resources to cover guarantee fund requirement	22	281417	209351

Minimum capital requirement (MCR)

Long-term insurance capital requirement	31	144113	125435
Resilience capital requirement	32		
Base capital resources requirement	33	2984	3056
Individual minimum capital requirement	34	144113	125435
Capital requirements of regulated related undertakings	35	68779	
Minimum capital requirement (34+35)	36	212892	125435
Excess (deficiency) of available capital resources to cover 50% of MCR	37	291788	188446
Excess (deficiency) of available capital resources to cover 75% of MCR	38	238565	157087

Enhanced capital requirement

With-profits insurance capital component	39		
Enhanced capital requirement	40	212892	125435

Capital resources requirement (CRR)

Capital resources requirement (greater of 36 and 40)	41	212892	125435
Excess (deficiency) of available capital resources to cover long-term insurance business CRR (13-41)	42	185342	125728

Contingent liabilities

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

Name of insurer **Friends Life and Pensions Limited**

Global business

Financial year ended **31 December 2012**

L. C. J'Afari-Pak
Director

J. S. Moss
Director

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

Date: 19th March 2013

Components of capital resourcesName of insurer **Friends Life and Pensions Limited**

Global business

Financial year ended **31 December 2012**

	Company registration number	GL/ UK/ CM	day month year			Units	
	R3	475201	GL	31	12	2012	£000
		General insurance business	Long-term insurance business	Total as at the end of this financial year	Total as at the end of the previous year		
		1	2	3	4		

Core tier one capital

Permanent share capital	11		868000	868000	50000
Profit and loss account and other reserves	12		734650	734650	453660
Share premium account	13				
Positive valuation differences	14				
Fund for future appropriations	15				
Core tier one capital in related undertakings	16		(929001)	(929001)	
Core tier one capital (sum of 11 to 16)	19		673649	673649	503660

Tier one waivers

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

Other tier one capital

Perpetual non-cumulative preference shares as restricted	25				
Perpetual non-cumulative preference shares in related undertakings	26				
Innovative tier one capital as restricted	27				
Innovative tier one capital in related undertakings	28				

Total tier one capital before deductions (19+24+25+26+27+28)	31		673649	673649	503660
Investments in own shares	32				
Intangible assets	33		9434	9434	
Amounts deducted from technical provisions for discounting	34				
Other negative valuation differences	35		9103	9103	12850
Deductions in related undertakings	36				
Deductions from tier one (32 to 36)	37		18537	18537	12850
Total tier one capital after deductions (31-37)	39		655112	655112	490810

Components of capital resourcesName of insurer **Friends Life and Pensions Limited**

Global business

Financial year ended **31 December 2012**

	Company registration number	GL/ UK/ CM	day	month	year	Units	
	R3	475201	GL	31	12	2012	£000
		General insurance business	Long-term insurance business	Total as at the end of this financial year	Total as at the end of the previous year		
		1	2	3	4		

Tier two capital

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

Fixed term preference shares	51				
Other tier two instruments	52				
Lower tier two capital in related undertakings	53		974	974	
Lower tier two capital (51+52+53)	59		974	974	

Total tier two capital before restrictions (49+59)	61		974	974	
Excess tier two capital	62				
Further excess lower tier two capital	63				
Total tier two capital after restrictions, before deductions (61-62-63)	69		974	974	

Components of capital resourcesName of insurer **Friends Life and Pensions Limited**

Global business

Financial year ended **31 December 2012**

	Company registration number	GL/ UK/ CM	day	month	year	Units	
	R3	475201	GL	31	12	2012	£000
		General insurance business	Long-term insurance business	Total as at the end of this financial year		Total as at the end of the previous year	
		1	2	3		4	

Total capital resources

Positive adjustments for regulated non-insurance related undertakings	71					
Total capital resources before deductions (39+69+71)	72		656086	656086	490810	
Inadmissible assets other than intangibles and own shares	73		236860	236860	239647	
Assets in excess of market risk and counterparty limits	74					
Deductions for related ancillary services undertakings	75					
Deductions for regulated non-insurance related undertakings	76					
Deductions of ineligible surplus capital	77		20992	20992		
Total capital resources after deductions (72-73-74-75-76-77)	79		398234	398234	251163	

Available capital resources for GENPRU/INSRU tests

Available capital resources for guarantee fund requirement	81		398234	398234	251163	
Available capital resources for 50% MCR requirement	82		398234	398234	251163	
Available capital resources for 75% MCR requirement	83		398234	398234	251163	

Financial engineering adjustments

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

Analysis of admissible assetsName of insurer **Friends Life and Pensions Limited**

Global business

Financial year ended **31 December 2012**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	475201	GL	31	12	2012	£000
						As at end of this financial year	As at end of the previous year
						1	2
Land and buildings			11				

Investments in group undertakings and participating interests

UK insurance dependants	Shares	21		
	Debts and loans	22		
Other insurance dependants	Shares	23	59263	
	Debts and loans	24		
Non-insurance dependants	Shares	25	274	274
	Debts and loans	26		
Other group undertakings	Shares	27		
	Debts and loans	28		
Participating interests	Shares	29		
	Debts and loans	30		

Other financial investments

Equity shares	41		
Other shares and other variable yield participations	42		
Holdings in collective investment schemes	43		33163
Rights under derivative contracts	44		
Fixed interest securities	Approved	45	12885
	Other	46	10975
Variable interest securities	Approved	47	
	Other	48	
Participation in investment pools	49		
Loans secured by mortgages	50		
Loans to public or local authorities and nationalised industries or undertakings	51		
Loans secured by policies of insurance issued by the company	52		
Other loans	53		
Bank and approved credit & financial institution deposits	One month or less withdrawal	54	149387
	More than one month withdrawal	55	88051
Other financial investments	56		
Deposits with ceding undertakings	57		
Assets held to match linked liabilities	Index linked	58	
	Property linked	59	

Analysis of admissible assetsName of insurer **Friends Life and Pensions Limited**

Global business

Financial year ended **31 December 2012**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	475201	GL	31	12	2012	£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	60		
Claims outstanding	61		
Provision for unexpired risks	62		
Other	63		

Debtors and salvage

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

Other assets

Tangible assets	80		
Deposits not subject to time restriction on withdrawal with approved institutions	81	233	225
Cash in hand	82		
Other assets (particulars to be specified by way of supplementary note)	83		
Accrued interest and rent	84	323	1034
Deferred acquisition costs (general business only)	85		
Other prepayments and accrued income	86		

Deductions from the aggregate value of assets	87		
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Grand total of admissible assets after deduction of admissible assets in excess of market risk and counterparty limits (11 to 86 less 87)	89	220455	164718
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Analysis of admissible assetsName of insurer **Friends Life and Pensions Limited**

Global business

Financial year ended **31 December 2012**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	475201	GL	31	12	2012	£000	1
					As at end of this financial year	As at end of the previous year	
					1	2	

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

Total admissible assets after deduction of admissible assets in excess of market risk and counterparty limits (as per line 89 above)	91	220455	164718
Admissible assets in excess of market and counterparty limits	92		
Inadmissible assets directly held	93		
Capital resources requirement deduction of regulated related undertakings	94	68779	
Ineligible surplus capital and restricted assets in regulated related insurance undertakings	95	20992	
Inadmissible assets of regulated related undertakings	96	11218	
Book value of related ancillary services undertakings	97		
Other differences in the valuation of assets (other than for assets not valued above)	98	929001	
Deferred acquisition costs excluded from line 89	99		
Reinsurers' share of technical provisions excluded from line 89	100		
Other asset adjustments (may be negative)	101	(866)	(1245)
Total assets determined in accordance with the insurance accounts rules or international accounting standards as applicable to the firm for the purpose of its external financial reporting (91 to 101)	102	1249579	163473
Amounts included in line 89 attributable to debts due from related insurers, other than those under contracts of insurance or reinsurance	103		

Analysis of admissible assetsName of insurer **Friends Life and Pensions Limited**

Global business

Financial year ended **31 December 2012**Category of assets **Total long term insurance business assets**

Company registration number	GL/UK/CM	day	month	year	Units	Category of assets	
R13	475201	GL	31	12	2012	£000	10
					As at end of this financial year	As at end of the previous year	
					1	2	
Land and buildings			11				

Investments in group undertakings and participating interests

UK insurance dependants	Shares	21		
	Debts and loans	22		
Other insurance dependants	Shares	23		
	Debts and loans	24		
Non-insurance dependants	Shares	25		
	Debts and loans	26		
Other group undertakings	Shares	27		
	Debts and loans	28		128454
Participating interests	Shares	29		
	Debts and loans	30		

Other financial investments

Equity shares	41		115474	101052
Other shares and other variable yield participations	42			
Holdings in collective investment schemes	43		7165	4792
Rights under derivative contracts	44		7650	7952
Fixed interest securities	Approved	45	511768	762123
	Other	46	1797857	1274373
Variable interest securities	Approved	47	18380	56923
	Other	48	35799	22695
Participation in investment pools	49			
Loans secured by mortgages	50			
Loans to public or local authorities and nationalised industries or undertakings	51			
Loans secured by policies of insurance issued by the company	52			
Other loans	53		817	
Bank and approved credit & financial institution deposits	One month or less withdrawal	54	553	670
	More than one month withdrawal	55		
Other financial investments	56			
Deposits with ceding undertakings	57			
Assets held to match linked liabilities	Index linked	58	36423	29428
	Property linked	59	11438868	10506832

Analysis of admissible assetsName of insurer **Friends Life and Pensions Limited**

Global business

Financial year ended **31 December 2012**Category of assets **Total long term insurance business assets**

Company registration number	GL/UK/CM	day	month	year	Units	Category of assets	
R13	475201	GL	31	12	2012	£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	60		
Claims outstanding	61		
Provision for unexpired risks	62		
Other	63		

Debtors and salvage

Direct insurance business	Policyholders	71	164	514
	Intermediaries	72	12	50
Salvage and subrogation recoveries		73		
Reinsurance	Accepted	74		
	Ceded	75	928	
Dependants	due in 12 months or less	76		
	due in more than 12 months	77		
Other	due in 12 months or less	78	3765	47352
	due in more than 12 months	79	25909	24513

Other assets

Tangible assets	80		
Deposits not subject to time restriction on withdrawal with approved institutions	81	11623	25266
Cash in hand	82		
Other assets (particulars to be specified by way of supplementary note)		83	
Accrued interest and rent	84	37719	33236
Deferred acquisition costs (general business only)	85		
Other prepayments and accrued income	86		50

Deductions from the aggregate value of assets	87		
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Grand total of admissible assets after deduction of admissible assets in excess of market risk and counterparty limits (11 to 86 less 87)	89	14179328	12897821
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Analysis of admissible assetsName of insurer **Friends Life and Pensions Limited**

Global business

Financial year ended **31 December 2012**Category of assets **Total long term insurance business assets**

Company registration number	GL/UK/CM	day	month	year	Units	Category of assets	
R13	475201	GL	31	12	2012	£000	10
					As at end of this financial year	As at end of the previous year	
					1	2	

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

Total admissible assets after deduction of admissible assets in excess of market risk and counterparty limits (as per line 89 above)	91	14179328	12897821
Admissible assets in excess of market and counterparty limits	92		
Inadmissible assets directly held	93		
Capital resources requirement deduction of regulated related undertakings	94		
Ineligible surplus capital and restricted assets in regulated related insurance undertakings	95		
Inadmissible assets of regulated related undertakings	96		
Book value of related ancillary services undertakings	97		
Other differences in the valuation of assets (other than for assets not valued above)	98		
Deferred acquisition costs excluded from line 89	99	234103	239647
Reinsurers' share of technical provisions excluded from line 89	100	5689266	4798047
Other asset adjustments (may be negative)	101		
Total assets determined in accordance with the insurance accounts rules or international accounting standards as applicable to the firm for the purpose of its external financial reporting (91 to 101)	102	20102697	17935515
Amounts included in line 89 attributable to debts due from related insurers, other than those under contracts of insurance or reinsurance	103		

Long term insurance business liabilities and margins

Name of insurer **Friends Life and Pensions Limited**
Global business
Financial year ended **31 December 2012**
Total business/Sub fund **Total Long Term Insurance Business**
Units **£000**

As at end of this financial year 1	As at end of the previous year 2
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Mathematical reserves, after distribution of surplus	11	14052574	12780584
Cash bonuses which had not been paid to policyholders prior to end of the financial year	12		
Balance of surplus/(valuation deficit)	13	109900	93540
Long term insurance business fund carried forward (11 to 13)	14	14162474	12874124
Claims outstanding	Gross	15	20
	Reinsurers' share	16	118
	Net (15-16)	17	(98)
Provisions	Taxation	21	
	Other risks and charges	22	300
Deposits received from reinsurers	23		
Creditors	Direct insurance business	31	3094
	Reinsurance accepted	32	
	Reinsurance ceded	33	360
Debenture loans	Secured	34	
	Unsecured	35	
Amounts owed to credit institutions	36		
Creditors	Taxation	37	
	Other	38	13498
Accruals and deferred income	39		
Provision for "reasonably foreseeable adverse variations"	41		
Total other insurance and non-insurance liabilities (17 to 41)	49	16854	23697
Excess of the value of net admissible assets	51		
Total liabilities and margins	59	14179328	12897821

Amounts included in line 59 attributable to liabilities to related companies, other than those under contracts of insurance or reinsurance	61		
Amounts included in line 59 attributable to liabilities in respect of property linked benefits	62	11438868	10506832

Total liabilities (11+12+49)	71	14069428	12804281
Increase to liabilities - DAC related	72		
Reinsurers' share of technical provisions	73	5689266	4798047
Other adjustments to liabilities (may be negative)	74	(9103)	(12850)
Capital and reserves and fund for future appropriations	75	353106	346036
Total liabilities under insurance accounts rules or international accounting standards as applicable to the firm for the purpose of its external financial reporting (71 to 75)	76	20102697	17935514

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

Global business

Financial year ended **31 December 2012**

	Company registration number	GL/ UK/ CM	day	month	year	Units	
	R15	475201	GL	31	12	2012	£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		11				
Claims outstanding		12				
Provision for unexpired risks		13				
Equalisation provisions	Credit business	14				
	Other than credit business	15				
Other technical provisions		16				
Total gross technical provisions (11 to 16)		19				

Provisions and creditors

Provisions	Taxation	21				
	Other risks and charges	22				
Deposits received from reinsurers		31				
Creditors	Direct insurance business	41				
	Reinsurance accepted	42				
	Reinsurance ceded	43				
Debenture loans	Secured	44				
	Unsecured	45				
Amounts owed to credit institutions		46				
Creditors	Taxation	47			866	1245
	Foreseeable dividend	48				
	Other	49			34	5849
Accruals and deferred income		51				
Total (19 to 51)		59			900	7094
Provision for "reasonably foreseeable adverse variations"		61				
Cumulative preference share capital		62				
Subordinated loan capital		63				
Total (59 to 63)		69			900	7094

Amounts included in line 69 attributable to liabilities to related insurers, other than those under contracts of insurance or reinsurance		71				
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Amounts deducted from technical provisions for discounting		82				
Other adjustments (may be negative)		83			(866)	(1245)
Capital and reserves		84			1249545	157624
Total liabilities under insurance accounts rules or international accounting standards as applicable to the firm for the purpose of its external financial reporting (69-82+83+84)		85			1249579	163473

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

Global business

Financial year ended **31 December 2012**

		Company registration number	GL/ UK/ CM	day	month	year	Units	
		R16	475201	GL	31	12	2012	£000
				This financial year		Previous year		
				1		2		
Transfer (to)/from the general insurance business technical account	From Form 20		11					
	Equalisation provisions		12					
Transfer from the long term insurance business revenue account			13					
Investment income	Income		14		2095		4605	
	Value re-adjustments on investments		15		2415			
	Gains on the realisation of investments		16				255	
Investment charges	Investment management charges, including interest		17		354		404	
	Value re-adjustments on investments		18				158	
	Loss on the realisation of investments		19		621			
Allocated investment return transferred to the general insurance business technical account			20					
Other income and charges (particulars to be specified by way of supplementary note)			21					
Profit or loss on ordinary activities before tax (11+12+13+14+15+16-17-18-19-20+21)			29		3535		4298	
Tax on profit or loss on ordinary activities			31		866		1245	
Profit or loss on ordinary activities after tax (29-31)			39		2669		3053	
Extraordinary profit or loss (particulars to be specified by way of supplementary note)			41					
Tax on extraordinary profit or loss			42					
Other taxes not shown under the preceding items			43					
Profit or loss for the financial year (39+41-(42+43))			49		2669		3053	
Dividends (paid or foreseeable)			51					
Profit or loss retained for the financial year (49-51)			59		2669		3053	

Analysis of derivative contractsName of insurer **Friends Life and Pensions Limited**

Global business

Financial year ended **31 December 2012**Category of assets **Total long term insurance business assets**

		Company registration number	GL/ UK/ CM	day month year			Units	Category of assets	
		R17	475201	GL	31	12	2012	£000	10
Derivative contracts		Value as at the end of this financial year			Notional amount as at the end of this financial year				
		Assets 1	Liabilities 2	Bought / Long 3	Sold / Short 4				
Futures and contracts for differences	Fixed-interest securities	11							
	Interest rates	12							
	Inflation	13							
	Credit index / basket	14							
	Credit single name	15							
	Equity index	16			9	828			
	Equity stock	17							
	Land	18							
	Currencies	19							
	Mortality	20							
Other	21								
In the money options	Swaptions	31	7650			23000			
	Equity index calls	32							
	Equity stock calls	33							
	Equity index puts	34							
	Equity stock puts	35							
Other	36								
Out of the money options	Swaptions	41							
	Equity index calls	42							
	Equity stock calls	43							
	Equity index puts	44							
	Equity stock puts	45							
Other	46								
Total (11 to 46)		51	7650		9	23828			
Adjustment for variation margin		52			(3)				
Total (51 + 52)		53	7650		6				

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.

Long-term insurance business : Revenue account

Name of insurer **Friends Life and Pensions Limited**
 Total business / subfund **Total Long Term Insurance Business**
 Financial year ended **31 December 2012**
 Units **£000**

Financial year	Previous year
1	2

Income

Earned premiums	11	2672533	2067122
Investment income receivable before deduction of tax	12	432873	455808
Increase (decrease) in the value of non-linked assets brought into account	13	158600	119167
Increase (decrease) in the value of linked assets	14	839285	(714741)
Other income	15		
Total income	19	4103291	1927356

Expenditure

Claims incurred	21	2597367	1351056
Expenses payable	22	184906	156709
Interest payable before the deduction of tax	23	25	54712
Taxation	24	6417	(10039)
Other expenditure	25	26226	26680
Transfer to (from) non technical account	26		
Total expenditure	29	2814941	1579118

Business transfers - in	31		
Business transfers - out	32		32564
Increase (decrease) in fund in financial year (19-29+31-32)	39	1288350	315674
Fund brought forward	49	12874124	12558450
Fund carried forward (39+49)	59	14162474	12874124

Long-term insurance business : Analysis of premiums

Name of insurer **Friends Life and Pensions Limited**
 Total business / subfund **Total Long Term Insurance Business**
 Financial year ended **31 December 2012**
 Units **£000**

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

Gross

Regular premiums	11		1359080		1359080	1359899
Single premiums	12		1742355		1742355	1921656

Reinsurance - external

Regular premiums	13					923
Single premiums	14		396494		396494	744947

Reinsurance - intra-group

Regular premiums	15		(790)		(790)	(1612)
Single premiums	16		33198		33198	470175

Net of reinsurance

Regular premiums	17		1359870		1359870	1360588
Single premiums	18		1312663		1312663	706534

Total

Gross	19		3101435		3101435	3281555
Reinsurance	20		428902		428902	1214433
Net	21		2672533		2672533	2067122

Long-term insurance business : Analysis of claims

Name of insurer **Friends Life and Pensions Limited**
 Total business / subfund **Total Long Term Insurance Business**
 Financial year ended **31 December 2012**
 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		25710		25710	22974
Disability periodic payments	12		135		135	479
Surrender or partial surrender	13		2473291		2473291	1253670
Annuity payments	14		94814		94814	199480
Lump sums on maturity	15		19003		19003	16093
Total	16		2612953		2612953	1492696

Reinsurance - external

Death or disability lump sums	21					243
Disability periodic payments	22		278		278	309
Surrender or partial surrender	23					
Annuity payments	24		(3)		(3)	108917
Lump sums on maturity	25					
Total	26		275		275	109469

Reinsurance - intra-group

Death or disability lump sums	31		254		254	266
Disability periodic payments	32					
Surrender or partial surrender	33		14953		14953	14659
Annuity payments	34					17039
Lump sums on maturity	35		104		104	207
Total	36		15311		15311	32171

Net of reinsurance

Death or disability lump sums	41		25456		25456	22465
Disability periodic payments	42		(143)		(143)	170
Surrender or partial surrender	43		2458338		2458338	1239011
Annuity payments	44		94817		94817	73524
Lump sums on maturity	45		18899		18899	15886
Total	46		2597367		2597367	1351056

Long-term insurance business : Analysis of expenses

Name of insurer **Friends Life and Pensions Limited**
 Total business / subfund **Total Long Term Insurance Business**
 Financial year ended **31 December 2012**
 Units **£000**

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

Gross

Commission - acquisition	11	1700	15143		16843	17671
Commission - other	12		10430		10430	9623
Management - acquisition	13		72576		72576	62902
Management - maintenance	14		56409		56409	38937
Management - other	15		30382		30382	25155
Total	16	1700	184940		186640	154288

Reinsurance - external

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

Reinsurance - intra-group

Commission - acquisition	31		1749		1749	(2437)
Commission - other	32					
Management - acquisition	33					
Management - maintenance	34		(15)		(15)	16
Management - other	35					
Total	36		1734		1734	(2421)

Net of reinsurance

Commission - acquisition	41	1700	13394		15094	20108
Commission - other	42		10430		10430	9623
Management - acquisition	43		72576		72576	62902
Management - maintenance	44		56424		56424	38921
Management - other	45		30382		30382	25155
Total	46	1700	183206		184906	156709

Long-term insurance business : Linked funds balance sheet

Name of insurer **Friends Life and Pensions Limited**
 Total business
 Financial year ended **31 December 2012**
 Units **£000**

Financial year	Previous year
1	2

Internal linked funds (excluding cross investment)

Directly held assets (excluding collective investment schemes)	11	7318378	7009822
Directly held assets in collective investment schemes of connected companies	12		
Directly held assets in other collective investment schemes	13	4093331	3490664
Total assets (excluding cross investment) (11+12+13)	14	11411709	10500486
Provision for tax on unrealised capital gains	15		
Secured and unsecured loans	16		
Other liabilities	17	5887	23497
Total net assets (14-15-16-17)	18	11405822	10476989

Directly held linked assets

Value of directly held linked assets	21	33046	29843
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Total

Value of directly held linked assets and units held (18+21)	31	11438868	10506832
Surplus units	32		
Deficit units	33		
Net unit liability (31-32+33)	34	11438868	10506832

Long-term insurance business : Revenue account for internal linked funds

Name of insurer **Friends Life and Pensions Limited**
 Total business
 Financial year ended **31 December 2012**
 Units **£000**

Financial year	Previous year
1	2

Income

Value of total creation of units	11	2569828	2060963
Investment income attributable to the funds before deduction of tax	12	327539	303874
Increase (decrease) in the value of investments in the financial year	13	837790	(709986)
Other income	14		
Total income	19	3735157	1654851

Expenditure

Value of total cancellation of units	21	2668268	2064078
Charges for management	22	118311	109482
Charges in respect of tax on investment income	23	6386	6532
Taxation on realised capital gains	24		
Increase (decrease) in amount set aside for tax on capital gains not yet realised	25		
Other expenditure	26	13358	8838
Total expenditure	29	2806323	2188930

Increase (decrease) in funds in financial year (19-29)	39	928834	(534079)
Internal linked fund brought forward	49	10476988	11011067
Internal linked funds carried forward (39+49)	59	11405822	10476988

Long-term insurance business : Summary of new businessName of insurer **Friends Life and Pensions Limited**

Total business

Financial year ended **31 December 2012**Units **£000**

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

**Number of new policyholders/
scheme members for direct
insurance business**

Regular premium business	11		76135		76135	76493
Single premium business	12		68093		68093	43367
Total	13		144228		144228	119860

**Amount of new regular
premiums**

Direct insurance business	21		359363		359363	335645
External reinsurance	22					
Intra-group reinsurance	23					
Total	24		359363		359363	335645

**Amount of new single
premiums**

Direct insurance business	25		1069587		1069587	741724
External reinsurance	26					
Intra-group reinsurance	27					6461
Total	28		1069587		1069587	748185

Long-term insurance business : Analysis of new business

Name of insurer

Friends Life and Pensions Limited

Total business

Financial year ended

31 December 2012

Units

£000

UK Pension / Direct Insurance Business

Product code number 1	Product description 2	Regular premium business		Single premium business	
		Number of policyholders / scheme members 3	Amount of premiums 4	Number of policyholders / scheme members 5	Amount of premiums 6
400	Annuity non-profit (CPA)			12354	284799
525	Individual pensions UWP	1	9	2	100
535	Group money purchase pensions UWP	45	507	11	369
725	Individual pensions property linked	3467	5266	2843	83460
735	Group money purchase pensions property linked	72622	353581	52883	700859

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

Name of insurer **Friends Life and Pensions Limited**
 Category of assets **10 Total long term insurance business assets**
 Financial year ended **31 December 2012**
 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	516712	516712	19423	2.57	
Other fixed interest securities	13	1830360	1830360	87100	4.12	
Variable interest securities	14	54451	54451	690	4.16	
UK listed equity shares	15	106805	111183	3434	7.10	
Non-UK listed equity shares	16	8669	9194	171	3.88	
Unlisted equity shares	17					
Other assets	18	187040	182137	473	0.26	
Total	19	2704037	2704037	111291	3.68	

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					
Total	29					

Overall return on with-profits assets

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

Long-term insurance business : Fixed and variable interest assets

Name of insurer **Friends Life and Pensions Limited**
 Category of assets **10 Total long term insurance business assets**
 Financial year ended **31 December 2012**
 Units **£000**

		Value of assets 1	Mean term 2	Yield before adjustment 3	Yield after adjustment 4
UK Government approved fixed interest securities	11	411611	13.81	2.45	2.45
Other approved fixed interest securities	21	105101	11.12	3.04	2.88
Other fixed interest securities					
AAA/Aaa	31	416878	12.88	3.64	3.44
AA/Aa	32	267223	11.53	3.67	3.20
A/A	33	896090	10.98	3.95	3.22
BBB/Baa	34	207836	8.01	5.83	3.42
BB/Ba	35	17291	7.29	7.84	3.70
B/B	36	8637	10.08	7.38	4.09
CCC/Caa	37				
Other (including unrated)	38	16405	7.18	5.38	3.34
Total other fixed interest securities	39	1830360	11.08	4.12	3.30
Approved variable interest securities	41	18544	19.99	2.73	2.73
Other variable interest securities	51	35907	16.46	4.90	3.43
Total (11+21+39+41+51)	61	2401523	11.70	3.79	3.14

Long-term insurance business : Summary of mathematical reserves

Name of insurer **Friends Life and Pensions Limited**
 Total business / subfund **Total Long Term Insurance Business**
 Financial year ended **31 December 2012**
 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		2345554	2345554	2005357
Form 52	13		121504	121504	125062
Form 53 - linked	14		16995348	16995348	15167725
Form 53 - non-linked	15		226329	226329	237106
Form 54 - linked	16		36423	36423	29428
Form 54 - non-linked	17				
Total	18		19725158	19725158	17564679

Reinsurance - external

Form 51 - with-profits	21				
Form 51 - non-profit	22				
Form 52	23				
Form 53 - linked	24		5084653	5084653	4197904
Form 53 - non-linked	25		(16564)	(16564)	(13853)
Form 54 - linked	26				
Form 54 - non-linked	27				
Total	28		5068089	5068089	4184051

Reinsurance - intra-group

Form 51 - with-profits	31				
Form 51 - non-profit	32		12183	12183	13009
Form 52	33		120485	120485	124045
Form 53 - linked	34		471827	471827	462990
Form 53 - non-linked	35				
Form 54 - linked	36				
Form 54 - non-linked	37				
Total	38		604495	604495	600044

Net of reinsurance

Form 51 - with-profits	41				
Form 51 - non-profit	42		2333372	2333372	1992348
Form 52	43		1018	1018	1017
Form 53 - linked	44		11438868	11438868	10506832
Form 53 - non-linked	45		242893	242893	250959
Form 54 - linked	46		36423	36423	29428
Form 54 - non-linked	47				
Total	48		14052574	14052574	12780584

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

Name of insurer **Friends Life and Pensions Limited**
 Total business / subfund **Total Long Term Insurance Business**
 Financial year ended **31 December 2012**
 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
315	Individual deposit administration non-profit	37697	266542	3643				278967
320	Group deposit administration non-profit	1514	114594	1316				159933
390	Deferred annuity non-profit	4146	1833					43492
400	Annuity non-profit (CPA)	92261	103603					1863163

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

Name of insurer **Friends Life and Pensions Limited**
 Total business / subfund **Total Long Term Insurance Business**
 Financial year ended **31 December 2012**
 Units **£000**
 UK Pension / Gross

Product code number	Product description	Number of policyholders / scheme members	Amount of benefit	Amount of annual office premiums	Nominal value of units	Discounted value of units	Other liabilities	Amount of mathematical reserves
1	2	3	4	5	6	7	8	9
525	Individual pensions UWP	1880	27636	483	27424	27424	423	27847
535	Group money purchase pensions UWP	6433	93395	5013	93349	93349	308	93657

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

Name of insurer **Friends Life and Pensions Limited**
 Total business / subfund **Total Long Term Insurance Business**
 Financial year ended **31 December 2012**
 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
725	Individual pensions property linked	373055	4096587	69704	4058436	4058436	79641	4138077
735	Group money purchase pensions property linked	721886	9460583	1201556	9459831	9459204	41890	9501093
794	Property linked investment only reinsurance		3580350	40243	3477708	3477708	102798	3580507
800	Additional reserves property linked						2000	2000

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

(Sheet 1)

Name of insurer **Friends Life and Pensions Limited**
 Total business
 Financial year ended **31 December 2012**
 Units **£000**

Fund name 1	Type of fund 2	Net assets 3	Main series 4	Unit management charge 5	Price at previous valuation date 6	Price at current valuation date 7	Change in price during year 8
Balanced	12 - individual pension - balanced managed fund	5161692	Cross Holdings		1.5607	1.7254	10.55
Cash	13 - individual pension - defensive managed fund	471339	Cross Holdings		11.7455	11.8138	0.58
Equity	15 - individual pension - UK equity	2214859	Cross Holdings		1.6995	1.9089	12.32
European	16 - individual pension - overseas equity	298107	FP Accumulation 0.75% PRB	0.01	7.0289	8.1954	16.60
Fixed Interest	11 - individual pension - stock market managed fund	798276	Cross Holdings		2.7168	2.9887	10.00
International	16 - individual pension - overseas equity	2115027	Cross Holdings		1.7234	1.9223	11.54
Investment Trust	11 - individual pension - stock market managed fund	229229	L&M 0.75%	0.01	54.9750	64.2638	16.90
Managed Stewardship	14 - individual pension - other managed fund	598936	Cross Holdings		1.7395	1.9588	12.61
North American	16 - individual pension - overseas equity	101717	Cross Holdings		0.8944	0.9577	7.08
Pacific Basin	16 - individual pension - overseas equity	159694	Cross Holdings		1.6828	1.9250	14.39
Property	17 - individual pension - property	471827	Cross Holdings		2.4995	2.5878	3.53
Pre-Retirement Fixed	11 - individual pension - stock market managed fund	429672	Cross Holdings		2.0440	2.1020	2.84
Stewardship	15 - individual pension - UK equity	1226315	FP Accumulation 0.75% PRB	0.01	15.1173	17.8617	18.15
FL Balanced Index Enhanced Fund of Funds	12 - individual pension - balanced managed fund	381616			1.5220	1.6935	11.26
FL BlackRock (40:60) Global Equity Index (Aquila HP)	16 - individual pension - overseas equity	172337			1.4734	1.6448	11.64
FL Invesco Perpetual High Income	15 - individual pension - UK equity	103683			1.9643	2.1476	9.33
FL Balanced Index Fund of Funds	12 - individual pension - balanced managed fund	470176			1.8131	1.9859	9.53
FL BlackRock Consensus (Aquila HP)	12 - individual pension - balanced managed fund	353889			1.5685	1.7386	10.84

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

Name of insurer **Friends Life and Pensions Limited**
Total business
Financial year ended **31 December 2012**
Units **£000**

Fund name 1	Type of fund 2	Net assets 3	Main series 4	Unit management charge 5	Price at previous valuation date 6	Price at current valuation date 7	Change in price during year 8
FL Cautious Index Fund of Funds	11 - individual pension - stock market managed fund	158507			1.7625	1.8790	6.61
NGP Deposit	13 - individual pension - defensive managed fund	416247			1.6189	1.6283	0.58
NGP Equity	15 - individual pension - UK equity	330894			1.3412	1.5065	12.32
NGP European	16 - individual pension - overseas equity	136624			1.4167	1.6648	17.51
FL BlackRock European Equity Index (Aquila HP)	11 - individual pension - stock market managed fund	140960	Cross Holdings		1.5153	1.7962	18.54
NGP Fixed Interest	11 - individual pension - stock market managed fund	228988			2.2054	2.4261	10.00
FL BlackRock (50:50) Global Equity Index (Aquila HP)	16 - individual pension - overseas equity	1370252			2.1538	2.4339	13.01
FL BlackRock Long Term (60:40) Index (Aquila HP)	11 - individual pension - stock market managed fund	826637			2.2823	2.5812	13.10
NGP International	16 - individual pension - overseas equity	137944			1.3984	1.5599	11.55
NGP Managed	14 - individual pension - other managed fund	3389662			1.4446	1.5971	10.56
NGP Managed Stewardship	14 - individual pension - other managed fund	574179			1.4865	1.6743	12.63
FL Newton Balanced	12 - individual pension - balanced managed fund	119640			1.7542	1.8724	6.74
FL BlackRock Over 15 Year Gilt Index (Aquila HP)	11 - individual pension - stock market managed fund	150037			1.8768	1.9211	2.36
NGP Pacific Basin	16 - individual pension - overseas equity	116537			1.6665	1.9076	14.47
NGP Property	17 - individual pension - property	364745			2.2580	2.3377	3.53
NGP Pre-Retirement Fixed	11 - individual pension - stock market managed fund	404243			2.2455	2.3093	2.84
NGP Stewardship	15 - individual pension - UK equity	399070			1.4082	1.6764	19.04
FL BlackRock Over 15 Year Corporate Bond Index (Aquila HP)	11 - individual pension - stock market managed fund	140719			1.7861	2.0179	12.97

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

Name of insurer **Friends Life and Pensions Limited**
 Total business
 Financial year ended **31 December 2012**
 Units **£000**

Fund name 1	Type of fund 2	Net assets 3	Main series 4	Unit management charge 5	Price at previous valuation date 6	Price at current valuation date 7	Change in price during year 8
FL BlackRock UK Equity Index (Aquila HP)	15 - individual pension - UK equity	753731	Cross Holdings		2.2009	2.4832	12.83
FL BlackRock Over 5 Year Index-Linked Gilt Index (Aquila HP)	11 - individual pension - stock market managed fund	114343			2.0538	2.0510	(0.13)
FL BlackRock US Equity Index (Aquila HP)	11 - individual pension - stock market managed fund	165117	Cross Holdings		1.3083	1.4206	8.58
FL BlackRock World (Ex-UK) Equity Index (Aquila HP)	16 - individual pension - overseas equity	109231			1.6487	1.8293	10.96
FL BlackRock Aquila Life Overseas Bond Index	11 - individual pension - stock market managed fund	117465	Cross Holdings		1.6067	1.5635	(2.69)
FL ADCP: Balanced Investments	12 - individual pension - balanced managed fund	187161			1.0000	1.0774	7.74
FL ADCP: Diversified Investments	12 - individual pension - balanced managed fund	135501	Cross Holdings		1.0000	1.0636	6.36

Long-term insurance business: Analysis of valuation interest rateName of insurer **Friends Life and Pensions Limited**Total business **Total Long Term Insurance Business**Financial year ended **31 December 2012**Units **£000**

Product group 1	Net mathematical reserves 2	Net valuation interest rate 3	Gross valuation interest rate 4	Risk adjusted yield on matching assets 5
UK F51 Pensions NP	1862046	3.25	3.25	3.36
UK F51 Pensions NP	35956	1.90	1.90	2.44
UK F51 Pensions NP	39465	2.20	2.20	2.26
UK F51 Pensions NP (Secure Growth Fund)	394788			3.74
UK F52 Pensions	1018	2.80	2.80	2.87
UK F53 Pensions NL	31643	2.20	2.20	2.26
UK F53 Pensions NL	8728	1.90	1.90	2.76
UK F53 Pensions NL (Secure Growth Fund)	160059			3.74
Miscellaneous UK F51 Pensions NP	1117			0.33
Miscellaneous UK F53 Pensions NL	42464	n/a	n/a	0.33
Total	2577284			

Long-term insurance business : Distribution of surplus

Name of insurer **Friends Life and Pensions Limited**
 Total business / subfund **Total Long Term Insurance Business**
 Financial year ended **31 December 2012**
 Units **£000**

Financial year	Previous year
1	2

Valuation result

Fund carried forward	11	14162474	12874124
Bonus payments in anticipation of a surplus	12		
Transfer to non-technical account	13		
Transfer to other funds / parts of funds	14		
Subtotal (11 to 14)	15	14162474	12874124
Mathematical reserves	21	14052574	12780584
Surplus including contingency and other reserves held towards the capital requirements (deficiency) (15-21)	29	109900	93540

Composition of surplus

Balance brought forward	31	93540	131015
Transfer from non-technical account	32		
Transfer from other funds / parts of fund	33		
Surplus arising since the last valuation	34	16360	(37475)
Total	39	109900	93540

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		
Total distributed surplus (46+47)	48		
Surplus carried forward	49	109900	93540
Total (48+49)	59	109900	93540

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 capital requirementName of insurer **Friends Life and Pensions Limited**

Global business

Financial year ended **31 December 2012**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%					
Classes I (other), II and IX	13	0.15%					
Classes I (other), II and IX	14	0.3%					
Classes III, VII and VIII	15	0.3%	2393	2393	1.00	7	9
Total	16		2393	2393		7	9

Insurance health risk and life protection reinsurance capital component

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

Life protection and permanent health reinsurance	31	0%					
Classes I (other), II and IX	32	1%	2481667	2348999	0.95	23490	20068
Classes III, VII and VIII (investment risk)	33	1%	317329	317329	1.00	3173	3082
Classes III, VII and VIII (expenses fixed 5 yrs +)	34	1%	2778976	2778976	1.00	27790	24269
Classes III, VII and VIII (other)	35	25%				9663	8557
Class IV (other)	36	1%					
Class V	37	1%					
Class VI	38	1%					
Total	39					64116	55976

Insurance market risk capital component

Life protection and permanent health reinsurance	41	0%					
Classes I (other), II and IX	42	3%	2481667	2348999	0.95	70470	60205
Classes III, VII and VIII (investment risk)	43	3%	317329	317329	1.00	9520	9245
Classes III, VII and VIII (expenses fixed 5 yrs +)	44	0%	2778976	2778976			
Classes III, VII and VIII (other)	45	0%	14147185	8607269			
Class IV (other)	46	3%					
Class V	47	0%					
Class VI	48	3%					
Total	49		19725157	14052573		79990	69450

Long term insurance capital requirement	51					144113	125435
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Returns under the Interim Prudential Sourcebook for Insurers

Supplementary Notes to the Return

Friends Life and Pensions Limited

Global Business

Financial Year End 31 December 2012

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

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

***0301* Reconciliation of net admissible assets to the total capital resources**

	2012	2011
	£000	£000
Total admissible assets (other than long-term)	220,455	166,297
Total admissible assets (long-term)	14,179,328	12,918,828
	<hr/> 14,399,783	<hr/> 13,085,125
Less:		
Mathematical reserves after distribution of surplus	14,052,574	12,780,584
Other insurance & non-insurance liabilities	16,854	44,703
Liabilities other than long-term business	900	8,675
Net admissible assets	<hr/> 329,455	<hr/> 251,163
Add:		
Capital requirements of regulated related undertakings	68,779	-
Form 3 Line 79 Capital resources after deductions	<hr/> 398,234	<hr/> 251,163

***0310* Valuation Differences**

Negative valuation differences included within line 35 are:

In respect of liabilities valued lower than in the Companies Act accounts	2012	2011
	£000	£000
Deferred taxation	20,543	14,395
Deferred front end fees	7,358	7,399
Value of unfunded units	-	2,899
	<hr/> 27,901	<hr/> 24,693
In respect of liabilities valued higher than in Companies Act accounts		
Further provision for mortality (non-linked)	18,440	18,690
Additional reserves in respect of reinsurer credit risk (non-linked)	16,564	13,853
Other actuarial reserve	2,000	5,000
	<hr/> 37,004	<hr/> 37,543
Total equalling Form 3 Line 35	<hr/> 9,103	<hr/> 12,850

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

	2012	2011
	£000	£000
Profit and loss account reserves b/fwd	453,660	459,043
Profit and loss account reserves c/fwd	<hr/> 734,650	<hr/> 453,660
Movement	280,990	(5,383)
Revaluation reserve	(271,252)	-
Capital injection	-	(30,000)
Prior year adjustment in respect of deferred tax	4,219	-
Deficit on UK GAAP basis	(11,288)	38,436
Total equalling Form 16 line 59	<hr/> 2,669	<hr/> 3,053

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

- i) The Company held unlisted fixed interest securities valued at £nil.
- ii) Lines 41, 46 & 48 include assets to the value of £20.6m 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 or authorised schemes.
- iv) There were no reversionary interest or remainders in property other than land or buildings.

***1302* & *1309* Aggregate value of hybrid securities**

The Company held hybrid securities valued at £61.4m in the long-term fund and £3.9m in the shareholder fund.

***1304* & *1310* Extent to which amounts have been set off**

Certain amounts shown in Forms 13, 14 and 15 have been calculated by netting amounts due to any one person against amounts due from that person.

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

The investment restrictions within the Company's Investment Guidelines have been set to comply with the latest set of FSA counterparty exposure rules. The Company shall provide to the Fund Manager, F&C Management plc, from time to time revised investment restrictions to ensure compliance with the FSA counterparty exposure rules. In the event of such changes which materially affect management of the Fund, both the Fund Manager and the Company will agree a reasonable timeframe for any required revision of investment restrictions in the guidelines and the Fund realignment.

The relevant limits for fixed income assets are expressed below as a percentage:

BONDS	FLP – Secure Growth	Limits	FLP – SANP	Limits
CREDIT RATINGS				
AAA and Below	100.0%	100.0%	100.0%	100.0%
AA+ and Below	83.6% (1)	75.0%	51.7%	80.0%
A+ and Below	70.6% (1)	55.0%	41.2%	60.0%
BBB+ and Below	26.3% (1)	25.0%	8.4%	35.0%
BB+ and Below	2.6%	3.0%	1.5%	6.0%
B+ and Below	1.8%	2.0%	0.5%	3.0%
CCC and Below	1.4%	2.0%	0.1%	3.0%
Other	0.8%	1.0%	0.1%	1.0%
SINGLE ISSUER LIMITS				
Corporates (excl. Covered Bonds)				
Investment Grade	3.0%	5.0%	1.7%	7.0%
Sub-investment Grade	0.7%	1.0%	0.3%	1.0%
Quasi Sovereign/Non-UK Sovereign				
Investment Grade	5.5%	10.0%	2.3%	15.0%
Sub-investment Grade	0.0%	1.0%	0.0%	1.0%
Non-UK Sovereign				
Investment Grade	0.0%	10.0%	0.0%	15.0%
Sub-investment Grade	0.0%	1.0%	0.0%	1.0%
Covered Bonds				
Investment Grade	1.2%	15.0%	12.6%	15.0%

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Sub-investment Grade	0.0%	1.0%	0.0%	1.0%
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N.B. The exposures shown in the counterparty section above are the largest single counterparty exposure as a percentage of all bonds within the fund.

The fixed income breaches in the Company during the year as noted above are:

- (1) Our analysis indicates that rating downgrades have shifted the whole credit universe. The benchmark of the Secure Growth Fund (XPGN) is also breaching the current limits.

Action: There is no pressing need to change the benchmark of the Secure Growth Fund. Updating the benchmark is a medium-term priority for the Investment Strategy and ALM team. The breach will therefore be allowed to continue until the benchmark is updated.

The relevant limits for government and sovereign fixed income assets are expressed below as a percentage:

CREDIT INSTRUMENTS	FLP – Secure Growth	Limits	FLP – SANP	Limits
Sovereign Bonds	2.1%	100.0%	24.7%	100.0%
Gilts	2.0%	100.0%	24.7%	100.0%
Government bonds issued by G7 and other AAA rated countries	0.1%	90.0%	0.0%	90.0%
Other Government bonds	0.0%	20.0%	0.0%	20.0%
Quasi Sovereign	12.6%	100.0%	4.5%	100.0%
Supranationals	5.6%	100.0%	2.4%	100.0%
Subsovereigns	7.0%	80.0%	2.2%	80.0%
Senior Debt	63.4%	100.0%	65.2%	100.0%
Senior non financial debt	44.1%	100.0%	52.6%	100.0%
Senior financial non insurance debt	19.4%	60.0%	12.6%	60.0%
Covered bonds	3.4%	100.0%	15.2%	100.0%
Subordinated Financial Non Insurance Debt	1.9%	20.0%	1.2%	20.0%
Lower Tier 2	0.0%	20.0%	0.0%	20.0%
Upper Tier 2	0.0%	10.0%	0.0%	10.0%
Tier 1	1.9%	5.0%	1.2%	5.0%
Contingent convertible securities	0.0%	0.0%	0.0%	0.0%
Asset Backed Securities	17.0%	20.0%	11.7%	20.0%
RMBS	0.2%	10.0%	0.7%	10.0%
CMBS	7.0%	10.0%	4.0%	10.0%
Whole business securitisations	4.8%	8.0%	.6%	8.0%
Non-mortgage loan securitisations	2.1%	7.0%	0.4%	7.0%
PFI	0.4%	10.0%	1.7%	10.0%
Housing associations	1.6%	15.0%	0.3%	15.0%
Other	1.0%	10.0%	2.0%	10.0%
Structured Credit	0.0%	8.0%	0.0%	8.0%
Collateralised loan obligations	0.0%	8.0%	0.0%	8.0%
Other collateralised loan obligations	0.0%	3.0%	0.0%	3.0%
Securities Issued By Insurance Companies	6.4%	10.0%	3.4%	10.0%
Senior	2.0%	10.0%	2.4%	10.0%
Lower Tier 2	2.3%	10.0%	0.2%	10.0%
Upper Tier 2	0.8%	6.0%	0.5%	6.0%
Tier 1	0.7%	5.0%	0.3%	5.0%
Junior subordinated	0.0%	6.0%	0.0%	6.0%

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Private Loans	0.0%	15.0%	0.0%	15.0%
PFI	0.0%	15.0%	0.0%	15.0%
Commercial real estate	0.0%	12.0%	0.0%	12.0%
Financial	0.0%	8.0%	0.0%	8.0%
Other	0.0%	8.0%	0.0%	8.0%
Sinking Bonds	9.1%	10.0%	8.0%	10.0%
Leveraged Loans	0.0%	5.0%	0.0%	5.0%
Senior secured loans	0.0%	5.0%	0.0%	5.0%
CCC and below	0.0%	0.0%	0.0%	0.0%
Synthetic Credit	0.0%	10.0%	0.0%	10.0%

There were no breaches in government and sovereign fixed income assets during the year.

The relevant limits for equity assets are expressed below:

EQUITY/ PROPERTY	FLP – Secure Growth	Limits	FLP – SANP	Limits
Common stock, preference stock, investment trusts	5.8%	10.0%	0.0%	10.0%
Individual property	0.0%	12% or £15m	0.0%	12% or £15m
Limited partnerships	0.0%	£27m (1% of LTBA)	0.0%	£27m (1% of LTBA)
Other collective investment schemes	0.0%	£27m (1% of LTBA)	0.0%	£27m (1% of LTBA)

N.B. The figures in the table above show the largest single exposure to the relevant asset class for each fund type.

There were no equity breaches during the year.

The relevant limits for cash exposure are expressed below as a percentage:

CASH	FLP – Secure Growth	Limits	FLP – SANP	Limits
Countries				
Supranational	0.0%	25.0%	0.0%	25.0%
United States	0.5%	25.0%	6.3%	25.0%
United Kingdom	99.5% (1)	25.0%	15.0%	25.0%
France	0.0%	25.0%	17.4%	25.0%
Germany	0.0%	25.0%	13.4%	25.0%
Canada	0.0%	25.0%	2.1%	25.0%
Australia	0.0%	25.0%	0.9%	25.0%
Japan	0.0%	10.0%	7.6%	10.0%
Sweden	0.0%	10.0%	4.5%	10.0%
Netherlands	0.0%	10.0%	6.0%	10.0%
Switzerland	0.0%	10.0%	2.3%	10.0%
Norway	0.0%	5.0%	1.4%	5.0%
Singapore	0.0%	5.0%	0.0%	5.0%
Denmark	0.0%	5.0%	0.0%	5.0%
Spain	0.0%	5.0%	0.0%	5.0%
Italy	0.0%	5.0%	0.0%	5.0%
Other	0.0%	0.0%	0.0%	0.0%

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Counterparty				
Supranational	0.0%	10.0%	0.0%	10.0%
United States	0.5%	7.5%	2.8%	7.5%
United Kingdom	99.5% (1)	7.5%	8.9% (2)	7.5%
France	0.0%	7.5%	4.7%	7.5%
Germany	0.0%	7.5%	3.4%	7.5%
Canada	0.0%	7.5%	2.1%	7.5%
Australia	0.0%	7.5%	0.9%	7.5%
Japan	0.0%	5.0%	2.7%	5.0%
Sweden	0.0%	5.0%	1.8%	5.0%
Netherlands	0.0%	5.0%	3.6%	5.0%
Switzerland	0.0%	5.0%	1.5%	5.0%
Norway	0.0%	3.0%	1.4%	3.0%
Singapore	0.0%	3.0%	0.0%	3.0%
Denmark	0.0%	3.0%	0.0%	3.0%
Spain	0.0%	3.0%	0.0%	3.0%
Italy	0.0%	0.0%	0.0%	0.0%
Other	0.0%	0.0%	0.0%	0.0%
Cash instruments				
UK treasury bills	0.0%	100.0%	0.0%	100.0%
Deposits at bank	100.0%	100.0%	5.4%	100.0%
Certificates of deposit	0.0%	100.0%	0.0%	100.0%
Commercial paper	0.0%	40.0%	0.0%	40.0%
ABS commercial paper	0.0%	10.0%	0.0%	10.0%
Floating rate notes	0.0%	20.0%	0.0%	20.0%
Repos	0.0%	20.0%	0.0%	20.0%

N.B. The first set of figures in the Countries section shows the aggregate cash exposure to the country for each fund type. The second set of figures in the Counterparty section shows the largest single exposure to a counterparty within each country for each fund type. We have included all working capital counterparty exposure in the UK exposure.

The breaches in cash exposure during the year as noted above are:

- (1) The high cash exposure to the UK within the Secure Growth Fund results from cash placed with the custodian, HSBC. This cash is being held whilst awaiting re-investment opportunities and to meet outflows.

Action: None being taken but the situation will be reviewed once the cash has been re-invested.

- (2) The breach for UK cash counterparties in the SANP funds results from deposits with HSBC. Please note that investment in a UK Treasury paper in the SNAV has now been excluded from UK cash exposure.

Action: No further action required.

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***1318* Details of amounts in line 101**

	Long term insurance business 2012 £000	Other than long term insurance business 2012 £000	Long term insurance business 2011 £000	Other than long term insurance business 2011 £000
Taxation creditors netted off in accounts	-	(866)	-	(1,245)

***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 required by GENPRU 1.3.30R to GENPRU 1.3.33R.

All obligations arising out of derivative contracts were required to be covered and accordingly no provision was made for any adverse change in the value of assets, of indices of assets to which the contract relates or for any change in the value of any asset held by the Company.

***1402* & *1502* Contingent Liabilities**

- i) No charge has been made on the assets of the Company to secure the liabilities of any other person.
- ii) No provision has been made (2011: £nil) for liability to tax on capital gains which would arise if the Company disposed of its total business assets. The potential liability is £nil.
- iii) The Company has a contingent liability in respect of compensation that could become payable to certain policyholders who effected personal pension contracts and who may have been given inappropriate advice in relation thereto.

The Company has a provision of £nil (2011: £nil) in line 11 of Form 14 for the expected costs of the compensation. The final costs may be in excess of this figure and there may also be a contingent liability in respect of the Financial Services Compensation Scheme.

- iv) The Company has no guarantees, indemnities or other contractual commitments affected other than in the ordinary course of insurance business and in respect of related companies.
- v) 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.
- vi) There are no other fundamental uncertainties.

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***1405* & *1507* Other adjustments to liabilities**

	2012	2012	2011	2011
	Long term	Other than	Long term	Other than
	insurance	long term	insurance	long term
	business	insurance	business	insurance
	business	business	business	business
	£000	£000	£000	£000
Deferred tax	20,543	-	14,395	-
Deferred front-end fees	7,357	-	7,400	-
Companies Act accounts fair value adjustment to liabilities	(37,003)	-	(34,645)	-
Variation margin	-	-	-	-
Taxation creditors netted off in accounts	-	(866)	-	(1,245)
Assets included in Companies Act accounts, excluded for FSA purposes	(9,103)	(866)	(12,850)	(1,245)

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

Assets and liabilities held in foreign currencies are expressed in sterling at rates ruling at the balance sheet date.

Income and expenditure denominated in foreign currencies are translated at rates ruling on the date on which the transaction occurs.

***1700* Forms omitted from the return**

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

***1701* Variation margin**

The aggregate value of excess variation margin needed to be repaid due to underlying market movements is £5,810. Variation margin of £3,115 has been included in Form 14 line 38.

***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.

***4002* Other Income and Expenditure**

Other expenditure comprises of:

	2012	2011
	£000	£000
Fund management charge rebate to Friends Life Limited ("FLL")	26,226	26,680

***4004* Business transfers-out**

On 1 December 2011 the Company transferred part of its long-term fund to Friends Life Limited, in accordance with a Court Scheme under Part VII of the FSMA 2000. The policies transferred consisted of immediate pensions annuities, conventional life business and pensions protection business. The total amount of net assets transferred out of the long-term fund was £33m, which was equal to the net of reinsurance mathematical reserves transferred.

There were no such transfers of business during 2012.

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***4008* Arrangements for provision of management services**

Management services were provided during the year by Friends Life Management Services Limited (“FLMS”), a wholly owned subsidiary of Friends Life Group plc. Some of these services have been outsourced by FLMS to Diligenta 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, and by Friends Life Investments Limited, a wholly owned subsidiary of Friends Life Group plc.

***4009* Material connected party transactions**

During the period 1 January 2012 to 31 December 2012 the Company held several reinsurance agreements, exceeding 5% of the Company’s long-term insurance business liabilities, with its parent undertaking FLL, principally consisting of pension business written in FLL. During this period, the Company has accepted £158m of reinsurance premiums and incurred £632m of reinsurance claims.

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

Assets within this Form have been valued as follows:

- a) Listed investments have been valued at market prices consistent with the pricing basis within those funds.
- b) OEICs are carried at market value at the balance sheet date.
- c) 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 2012 rights of £11.8m and liabilities of £2.5m were held under derivative contracts.

***4403* Variation margin**

There is a liability to repay a variation margin of £2.0m at the year-end

***4502* Other expenditure**

Other expenditure consists of:

	2012	2011
	£000	£000
Transaction costs	12,811	8,218
Custodian charges	536	680
Interest payable	2	18
Miscellaneous charges	9	(78)
Total other expenditure	13,358	8,838

***4802* Interest in default**

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

***4901* Rating agencies**

The majority of ratings used in Form 49 were provided by either Standard & Poor’s, Moody’s or Fitch 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 Line 38.

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***5600* Index-linked assets**

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

***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	Total Long Term Insurance Business	
	Yield	Risk Adjusted Yield
UK F51 Pensions NP	3.82%	3.36%
UK F51 Pensions NP	2.45%	2.44%
UK F51 Pensions NP	2.61%	2.26%
UK F51 Pensions NP (Secure Growth Fund)	4.14%	3.74%
UK F52 Pensions	3.33%	2.87%
UK F53 Pensions NL	2.27%	2.26%
UK F53 Pensions NL	2.77%	2.76%
UK F53 Pensions NL (Secure Growth Fund)	4.14%	3.74%
Miscellaneous UK F51 Pensions NP	0.33%	0.33%
Miscellaneous UK F53 Pensions NL	0.33%	0.33%

**Additional information on derivative and quasi-derivative contracts
(IPRU (INS) rule 9.29)
Friends Life and Pensions Limited
Financial year ended 31 December 2012**

Derivative Contracts

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

- a) Investment Guidelines.
Investment guidelines operated by the Company during 2012 were to use derivative contracts only for the purpose of efficient portfolio management or a reduction in investment risk. The derivatives which are permitted to be used include derivatives traded on a listed exchange, forward foreign exchange contracts (with an approved institution) and other over the counter derivatives with specific counterparties. All obligations arising out of derivative contracts are required to be covered and must not be used as a means of gearing the fund.
- b) Guidelines in respect of derivatives not likely to be exercised.
The investment guidelines do not explicitly allow or exclude the use of derivatives which create rights or obligations which are not, at the time 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 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.

Name of Insurer: **Friends Life and Pensions Limited**

IPRU (INS) RULE 9.30 - STATEMENT OF CONTROLLERS OF FRIENDS LIFE AND PENSIONS LIMITED

As at 31 December 2012

Controller	Shareholding/Voting Rights
Friends Life Limited (FLL) Pixham End, Dorking, RH4 1QA Incorporated in England Registered No: 4096141	100% shareholding in Friends Life and Pensions Limited
Friends Life FPL Limited Pixham End, Dorking, RH4 1QA Incorporated in England Registered No: 4113107	100% holding of the ordinary shares in Friends Life Limited. Friends Life FPL Limited has no interest in FLL's 4.8% preference share class – which are a non voting (therefore non-controlling) class, held by Friends Life Group plc.
Friends Life FPG Limited Pixham End, Dorking, RH4 1QA Incorporated in England Registered No: 06861305	100% shareholding in Friends Life FPL Limited
Friends Life Group plc Pixham End, Dorking, RH4 1QA Incorporated in England Registered No: 06986155	100% shareholding in Friends Life FPG plc
Resolution Holdings (Guernsey) Limited Trafalgar Court, Les Banques, St. Peter Port, Guernsey, GY1 3QL Incorporated in Guernsey Registered No: 50756	100% shareholding in Friends Life Group plc
Resolution Holdco No.1 LP Trafalgar Court, Les Banques, St. Peter Port, Guernsey, GY1 3QL Incorporated in Guernsey Registered No:1118	100% shareholding in Resolution Holdings (Guernsey) Limited
Resolution Limited Trafalgar Court, Les Banques, St. Peter Port, Guernsey, GY1 3QL Incorporated in Guernsey Registered No: 49558	99.9% shareholding in Resolution Holdco No. 1 LP which exercised 100% of the voting rights at any general meeting. No shareholder owns 10% or more of the shares or votes in Resolution Limited

Name of Insurer: **Friends Life and Pensions Limited**

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

VALUATION REPORT

Throughout this report the following notation is used:

the Company	denotes	Friends Life and Pensions Limited (FLP) (formerly Friends Provident Pensions Limited)
FLL	denotes	Friends Life Limited (formerly Friends Provident Life and Pensions Limited)

1. Valuation Date

- (1) The actuarial investigation relates to a valuation date of 31 December 2012.
- (2) The valuation date of the previous investigation was 31 December 2011.
- (3) There have been no interim valuations (for the purpose of IPRU(INS) rule 9.4) since the previous valuation date.

2. Product Range

New products

The Friends Life Corporate Self Invested Personal Pension Plan known as the Flexible Retirement Account, was launched in 2012.

Changes to existing products

Some annuity products were enhanced during 2012 so that they are now underwritten on a lifestyle or medical basis.

Products Withdrawn

No products were withdrawn.

3. Discretionary Charges and Benefits

- (1) No market value reduction (MVR) factors were applied during 2012 on unitised with-profits contracts.
- (2) Not applicable.
- (3) The interest rate added during the year for non-profit deposit administration benefits was as follows:

Plan Type	Annual Rate of Interest Addition
	Applied from 1/1/2012 to 31/12/2012
Transplan	3.5%
Compass (88) Pension Plan, Passbook Pension Plan, Passbook (92) Pension Plan, Transplan (88), Bespoke, Total Pension Plan, Executive Total Pension Plan, Transplan Plus, Group Personal Pension Plan, Group Money Purchase Plan, Group Money Purchase Plan Executive Option, Trustees' Investment Plan, Multibenefit Pension Solutions, Transplan GMP, Transplan Protected Rights Bulk Buyout, Personal Pension Plan – New Generation, Money Purchase plan – New Generation, Premier Retirement Plan, Group Secure Growth Plan, Voluntary Benefits Plan, Secure Growth Investment Only Plan, Compass Pension Plan, Combine Pension Plan, Combine (86) Pension Plan, Combine (90) Pension Plan, Combine GMP, Combine Final Salary and Combine Multibenefit	5.5% before charges

(4) Policy fees for certain products are linked to the change in the RPI calculated each October. The change from October 2011 to October 2012 was 3.2%. The relevant business is:

- Passbook Pension Plan
- Passbook (88)
- Passbook (92)
- Compass Pension Plan
- Combine Pension Plan
- Combine (86)
- Combine (90)
- Combine Final Salary
- Combine Group Money Purchase
- Combine Money Purchase
- Combine Multibenefit
- Total Pension Plan
- Executive Total Pension Plan
- Bespoke
- Group Personal Pension Plan
- Multibenefit Pension Solutions
- Transplan Group Money Purchase Plan
- Personal Pension Plan Series 2 sold through IFAs
- Money Purchase Plan
- Group Money Purchase Plan
- Group Money Purchase Plan Executive

Policy fees for certain products are linked to the change in the index of Average Weekly Earnings (AWE) calculated each August. The change from August 2011 to August 2012 was 2.3%. The relevant business is:

- Retirement Investment Bond
- Personal Pension Plan Series 1
- Personal Pension Plan Series 2 sold directly

(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 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 '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 'cancellation' basis depends on whether or not the Company considers that a fund is growing 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.

(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 the previous 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) Not applicable.

(9) Not applicable.

(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.

In respect of the Investment Trust Retirement Annuity (ITRA) contract the Company holds JP Morgan Fleming Investment Trust units to match the liabilities. The Company receives a rebate of 0.875% per annum from the annual charge, which it retains.

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 non-profit business, a gross premium valuation has been adopted.
- (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 valued individually and any negative reserves that arise from the valuation methodology are eliminated.
- (ii) All linked valuation liabilities ceded to external reinsurers have been reduced by 0.33% to allow for credit risk.

(c) Non Standard Methods

Exception where a non standard method has been used is as follows:

- in respect of deposit administration benefits, policyholders have expectations of annual interest additions. These have arisen from policy literature describing the operation of the Secure Growth Fund. The annual interest addition will be a smoothed rate of return on the underlying types of asset deemed appropriate to meet this objective. In the valuation, the face values of policyholder accounts are restated consistent with assets at market value to ensure any earnings on assets not yet declared are reserved for the future benefit of policyholders.

(2) Valuation Interest Rates

	31/12/2012	31/12/2011
	Pension %	Pension %
Investment Trust Retirement Annuity	1.00	1.00
Annuities in Possession (Pre July 2001)	3.27	4.09
Annuities in Possession (Post July 2001)	3.25	3.57
Unit-linked business	3.40	2.90
Other Non Profits	2.20	2.40
GAO Reserve	1.90	2.10
Unitised With Profits	2.80	2.90

(3) Adjustment to Yields for Risk

- (a) 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.
- (b) 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	16 bps	15 bps	16 bps
AA	48 bps	41 bps	41 bps
A	96 bps	68 bps	63 bps
BBB	205 bps	142 bps	129 bps
BB	394 bps	291 bps	243 bps
B	575 bps	452 bps	399 bps
Below B	1352 bps	866 bps	722 bps

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

An appropriate adjustment is also made on covered bonds to reflect higher expected recovery experience.

- (c) 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% pa.

(4) The mortality tables used in the valuation are as follows (ultimate mortality except where stated):

	31/12/2012		31/12/2011	
	Male	Female	Male	Female
Unitised Business	110% AMC00	110% AFC00	110% AMC00	110% AFC00
Individual Annuities and Deferred Annuities once in payment (Pre July 2001)	83-92% PCMA00 CMI 2011[2%]	74-87% PCFA00 CMI 2011[2%]	83-92% PCMA00 CMI 2011[2%]	74-87% PCFA00 CMI 2011[2%]
Individual Annuities and Deferred Annuities once in payment (Post July 2001)	75-92% PCMA00 CMI 2011[2%]	78-87% PCFA00 CMI 2011[2%]	75-92% PCMA00 CMI 2011[2%]	78-87% PCFA00 CMI 2011[2%]
Group Annuities (Pre July 2001)	97% PCMA00 CMI 2011[2%]	92% PCFA00 CMI 2011[2%]	97% PCMA00 CMI 2011[2%]	92% PCFA00 CMI 2011[2%]
Group Annuities (Post July 2001)	73-97% PCMA00 CMI 2011[2%]	83-92% PCFA00 CMI 2011[2%]	73-97% PCMA00 CMI 2011[2%]	83-92% PCFA00 CMI 2011[2%]
Deferred Annuity in Deferment	65% AMC00	55% AFC00	65% AMC00	55% AFC00

Where a range of percentages is shown the percentage varies by age.

For annuities in payment and annuities in deferment, the complete expectation of life assumed by the above mortality tables is shown below:

Individual Annuities and Deferred Annuities once in payment (Pre July 2001)

Current Age	Expectation at Age	31/12/2012		31/12/2011	
		Male	Female	Male	Female
45	65	28.73	31.08	28.57	30.94
55	65	27.12	29.57	26.95	29.42
65	65	25.63	28.05	25.44	27.88
75	75	15.93	17.86	15.77	17.70

Individual Annuities and Deferred Annuities once in payment (Post July 2001)

Current Age	Expectation at Age	31/12/2012		31/12/2011	
		Male	Female	Male	Female
45	65	29.01	30.89	28.85	30.74
55	65	27.42	29.35	27.26	29.19
65	65	25.96	27.80	25.77	27.63
75	75	16.12	17.71	15.97	17.55

Group Annuities (Pre July 2001)

Current Age	Expectation at Age	31/12/2012		31/12/2011	
		Male	Female	Male	Female
45	65	27.78	30.14	27.61	29.98
55	65	26.13	28.56	25.95	28.40
65	65	24.62	26.97	24.42	26.80
75	75	15.11	17.00	14.95	16.84

Group Annuities (Post July 2001)

Current Age	Expectation at Age	31/12/2012		31/12/2011	
		Male	Female	Male	Female
45	65	28.56	30.39	28.40	30.24
55	65	26.98	28.84	26.81	28.68
65	65	25.53	27.29	25.35	27.12
75	75	15.64	17.20	15.48	17.04

Improvements for statutory bases are applied from 2001 based on 100% of the CMI_2011 mortality projections model with a long term rate of 2% p.a. for both males and females.

(5) No morbidity risk is accepted.

(6) Expense Bases

Renewal commission is allowed for at the actual rate payable for each business type.

The expenses shown below are in respect of all maintenance expenses for conventional business and attributable expenses for unitised business.

Class		31/12/2012				31/12/2011			
		Zillmer adj. % SA	Annual Expense £	Investment Expense % of Fund pa	% of Premium	Zillmer adj. % SA	Annual Expense £	Investment Expense % of Fund pa	% of Premium
Annuity pre demutualisation(400)	All	N/a	13.32	0.055	0	N/a	11.54	0.060	0
Annuity post demutualisation(400)	All	N/a	13.32	0.105	0	N/a	11.54	0.060	0
UWP regular premium pension (525 / 545)	Premium Paying	N/a	29.91	0.125	0	N/a	34.58	0.125	0
	Otherwise		18.71	0.125			21.31	0.125	
UWP single premium pension (525 / 545)	All	N/a	15.40	0.125	0	N/a	17.64	0.125	0
UWP group regular premium pension (535)	Premium Paying	N/a	29.91	0.125	0	N/a	34.58	0.125	0
	Otherwise		18.71	0.125			21.31	0.125	
UWP group single premium pension (535)	All	N/a	15.40	0.125	0	N/a	17.64	0.125	0
UL regular premium pension (725)	Premium Paying	N/a	14.57	0.095 / 0.080 *	0	N/a	17.02	0.100 / 0.085 *	0
	Otherwise		8.44	0.095 / 0.080 *			10.08	0.100 / 0.085 *	
UL single premium pension (725)	All	N/a	8.15	0.095 / 0.080 *	0	N/a	8.88	0.100 / 0.085 *	0
UL group regular premium pension (735)	Premium Paying	N/a	14.57	0.095 / 0.080 *	0	N/a	17.02	0.100 / 0.085 *	0

		31/12/2012				31/12/2011			
Class		Zillmer adj. % SA	Annual Expense £	Invest- ment Expense % of Fund pa	% of Premium	Zillmer adj. % SA	Annual Expense £	Invest- ment Expense % of Fund pa	% of Premium
	Otherwise		8.44	0.095 / 0.080 *			10.08	0.100 / 0.085 *	
UL group single premium pension (735)	All	N/a	8.15	0.095 / 0.080 *	0	N/a	8.88	0.100 / 0.085 *	0

* For unit-linked pension products the Investment Expenses are 0.095% p.a. for business written prior to 01/01/2011 and 0.080% p.a. for business written after that date.

- (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:

	31/12/2012			31/12/2011		
	Unit Growth % p.a.		Expense Inflation % p.a.	Unit Growth % p.a.		Expense Inflation % p.a.
	Gross	Net		Gross	Net	
Conventional Non Profit	N/a	N/a	4.2	N/a	N/a	4.2
Unitised	3.4	2.7	4.2	2.9	2.3	4.2

For policies with explicit policy charges, these charges increase in line with the RPI or Average Weekly Earnings (AWE) Index. We have assumed that future RPI is 2.7% p.a., and that future AWE is 1% higher at 3.7% p.a.

- (8) The future bonus rate used in valuing unitised with-profits business is 0.97% p.a.

The benefit value (including liability for bonuses) is 100% reinsured to FLL.

- (9) A summary of the lapse assumptions is shown below:

Product		Average Annual Lapse / Surrender / Paid-up Rate for Policy Years			
		1-5 %	6-10 %	11-15 %	16-20 %
UWP Individual Pension	PUP	16.1	7.3	5.2	5.2
UL Individual Pension	PUP	16.1	7.3	5.2	5.2
UL Group Pension	PUP	21.3	15.6	15.6	15.6

The lapse / surrender rates for all other products are assumed to be zero.

- (10) There are no other material assumptions
- (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. In the calculation of the resilience capital requirement the derivative values and the yields on the combined assets are recalculated to reflect the market risk scenario being tested.

- (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. Note that the impacts on protection business relate to business that is no longer in the Company following the Part VII transfer to FLL.

	31/12/2006	31/12/2007
Allowance for lapses on valuation of protection business	-	£2.8m
Allowance for negative reserves on valuation of protection business	-	£4.2m
Allowance for lapses on valuation of unit-linked business	-	-
Allowance for attributable expenses on valuation of unit-linked business	£26m	-

5. Options and Guarantees

(1) Guaranteed Annuity Rate Options

- (a) Certain 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, less the present value of premiums for the same option where appropriate. It has been assumed that all contract plan types listed below have such a guarantee. It is assumed that 100% of the fund at retirement is taken in the form of an annuity if this option is more onerous than cash.
- (b) A table showing details of the options is shown below:

Product Name	Basic Reserve	Outstanding Durations	Guarantee Reserve	Guaranteed Rate	Increments Allowed	Annuity Form	Retirement Ages
(i)	(ii) £m	(iii)	(iv) £m	(v)	(vi)	(vii)	(viii)
Former LMP unitised pension business	38.9	Up to 18 years	44.7	10%	No	Single Life; monthly in advance, guaranteed 5 years	60-75

The contracts included in the above table include Premier Retirement Plan, Group Secure Growth Plan, Compass Pension Plan, Transplan and Decision Maker Plan.

(2) Guaranteed Surrender and unit-linked maturity values

- (a) The basic reserve held for contracts with guaranteed surrender or maturity values is less than £10m.

(3) Guaranteed Insurability Options

- (a) There are no Guaranteed Insurability Options.

(4) Other Guarantees and Options

- (a) Transplan Section 32 policies must provide a benefit that is not less than the Guaranteed Minimum Pensions. A guarantee reserve of £8.2m has been set up in respect of a basic reserve of £31.7m. This has

been calculated deterministically, allowing for additional margins, as an approximation to the stochastic value of the guarantee.

- (b) A number of old series deposit administration contracts linked to the Secure Growth Fund provide for guaranteed interest rates to apply over the contractual term of the contract or an initial number of years. The interest rate guarantee is an overall average rate per annum over the term of the contract rather than applicable each year. The actual interest declarations made already are significantly in excess of the guaranteed rate and no specific provision was deemed necessary to fulfil any remaining guarantees. Additionally, some Secure Growth Fund Contracts have a guarantee that MVRs would never be applied. If either of these guarantees were to bite in future, the future interest declaration on the Secure Growth Fund would be reduced to cover the cost of the guarantee (in respect of the interest rate guarantee, the cost would effectively be borne by policies without the guarantee). Since the liability allows in full for future discretionary interest additions we have not deemed it necessary to increase the liability further to allow for guarantees.

6. Expense Reserves

- (1) The aggregate amount, grossed up for tax where appropriate, arising during the twelve months after the valuation date from reserves made in the valuation to meet expenses in fulfilling contracts in force at the valuation date is £43.8m. 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 £m	Explicit Allowance (Investment) £m	Explicit Allowances (Other) £m	Non-Attributable Expenses £m	Total £m
New Generation Pensions	0.0	12.3	10.8	11.7	34.7
All Expenses Attributable	0.0	3.5	5.6	0.0	9.1
Total	0.0	15.8	16.4	11.7	43.8

- (2) There are no implicit allowances for expenses.
- (3) The maintenance expenses in line 14 of Form 43 are £56.4m. Line 14 includes £13.1m in respect of expenses related to purchase of investments in linked funds. These expenses are charged for in the linked funds and therefore offset by equal reductions in the unit liability, so no additional reserves are held.
- (4) The value of profits in respect of expected new business exceeds the expenses incurred. Therefore no additional reserve is required.
- (5) The cost of closure to new business has been estimated, allowing in particular for redundancy costs and the cost of vacating properties. This was less than margins expected to emerge from in-force business on a prudent basis. Hence no additional reserve was 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 reserves for property-linked benefits) and deposits received from reinsurers, 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	2,614	2,871
Total	2,614	2,871

- (2) As noted above, the Company has no liabilities denominated in currencies other than sterling.
- (3) There are sufficient sterling assets to cover the sterling liabilities. Consequently no reserve for currency mismatching is considered necessary.
- (4) The most onerous of the scenarios specified by INSPRU 3.1.16R was:
- a fall in the market value of equities of 10%;
 - a fall in real estate values of 20%; and
 - a fall in yields on all fixed interest securities of 0.50% p.a.
- (5) There is no territory outside the United Kingdom in which the market value of the assets held exceeds 2.5% of the long-term insurance assets (excluding those held to cover index-linked or property-linked liabilities). Accordingly, the same scenario as in (4) above has been used.
- (6) Resilience
- (a) The amount of the resilience capital requirement is £0m.
 - (b) The long term insurance liabilities increased by £115.1m.
 - (c) The value of the assets allocated to match these liabilities increased by £115.4m from their value as shown in Form 13.
- (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

- (1) During 2011, Friends Life Services Limited entered into an outsourcing arrangement with an external partner, Diligenta. The impact on FLP 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 2012 was £15m.

9. Reinsurance

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

No premiums for reinsurance ceded on a facultative basis were paid during 2012 to reinsurers who are not authorised to carry on insurance business in the United Kingdom.

(2) **Reinsurance treaties**

(a), (b) & (c) Details of reinsurance treaties under which the Company is the cedant and either the premiums payable to the reinsurer during 2012 or the reduction in mathematical reserves in respect of the reinsurance exceed £10m are contained 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 2012 are quoted in the table.
- (g) There were no deposit back arrangements.
- (h) Availability to new business is quoted in the table.
- (i) There are no undischarged obligations of the insurer.
- (j) The mathematical reserves ceded under the treaty are quoted in the table.
- (k) All treaties reinsure 100% of the covered business.
- (l) Baillie Gifford Life Limited and JPMorgan Life Limited are not authorised to carry on insurance business in the UK. Friends Life Limited and BlackRock 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 on have been reduced by £16.6m to allow for credit risk.
- (o) None of the treaties are financing arrangements.

9. Reassurance Treaty Information (Sections a,b,c,g,i,l,n,o and p covered above)					
(d) Reinsurer	(e) Nature and Extent of Cover Under the Treaty	(f) Premiums Payable £m	(h) New Business	(j) Mathematical Reserves £m	(k) Connected Company
Baillie Gifford Life Limited	100% of Investment benefits under Baillie Gifford Unit Linked funds	9	Open	111	Not Connected
JP Morgan Life Limited	100% of Investment benefits under JP Morgan Unit Linked funds	4	Open	56	Not Connected
BlackRock	100% of Investment benefits under BlackRock Unit Linked funds	372	Open	4,754	Not Connected
Schroder	100% of Investment benefits under Schroder Unit Linked funds	5.5	Open	70	Not Connected
Friends Life Ltd	Non Linked Non Profit Deferred Annuity Business (LMP annuities Pre July 2001)	0	Closed	12	Parent Company
	All investment benefits under Unitised With Profit funds	7	Open	120	Parent Company
	All liabilities for benefits relating to the value of Property Fund units.	0	Open	472	Parent Company

10. Reversionary bonus

- (1) The investment element of with-profits business is reinsured so there are no bonuses meeting the stated conditions.

**Directors' certificate required by rule 9.34 of the Accounts and Statements Rules
Friends Life and Pensions Limited
Financial year ended 31 December 2012**

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 waiver dated 13 August 2009 issued under section 148 of the Financial Services and Markets Act 2000, details of which are contained in note 5702; 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 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.

L. C. J-Afari-Pak
Director

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

J. S. Moss
Director

19 March 2013

Independent auditor's report to the directors pursuant to rule 9.35 of the Interim Prudential Sourcebook for Insurers

Friends Life and Pensions Limited

Global business

Financial year ended 31 December 2012

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, 13 to 17, 40 to 45, 48, 58 and 60 (including the supplementary notes) ("the Forms");
- the statement required by IPRU(INS) rule 9.29 ("the statement"); and
- the valuation report required by IPRU(INS) rule 9.31(a) ("the valuation report").

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

- Forms 46, 47, 50 to 55 and 57 (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 report) 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 note 5702. Under IPRU(INS) rule 9.11 the Forms, the statement and the valuation report 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 report are required to reflect appropriately the requirements of INSPRU 1.2.

It is our responsibility to form an independent opinion as to whether the Forms, the statement and the valuation report 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 report 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 report. 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 report.

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 report 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 report 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 report appropriately reflect the requirements of INSPRU 1.2.

Ernst & Young LLP

Statutory Auditor

London

20 March 2012