

Friends Life Limited

Annual FSA Insurance Returns for the year ended

31 December 2012

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

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

Global business

Financial year ended **31 December 2012**

Adjusted solo solvency calculation

	Company registration number	GL/ UK/ CM	day	month	year	Units
R2	4096141	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	4949376	1735216
Capital resources allocated towards long-term insurance business arising outside the long-term insurance fund	12	2080784	4804193
Capital resources available to cover long-term insurance business capital resources requirement (11+12)	13	7030160	6539409

Guarantee fund

Guarantee fund requirement	21	776273	1309192
Excess (deficiency) of available capital resources to cover guarantee fund requirement	22	6253887	5230217

Minimum capital requirement (MCR)

Long-term insurance capital requirement	31	1434820	618483
Resilience capital requirement	32		
Base capital resources requirement	33	2984	3056
Individual minimum capital requirement	34	1434820	618483
Capital requirements of regulated related undertakings	35	298048	1103031
Minimum capital requirement (34+35)	36	1732868	1721514
Excess (deficiency) of available capital resources to cover 50% of MCR	37	6163726	5678652
Excess (deficiency) of available capital resources to cover 75% of MCR	38	5730510	5248274

Enhanced capital requirement

With-profits insurance capital component	39	3408843	2944818
Enhanced capital requirement	40	5141711	4666332

Capital resources requirement (CRR)

Capital resources requirement (greater of 36 and 40)	41	5141711	4666332
Excess (deficiency) of available capital resources to cover long-term insurance business CRR (13-41)	42	1888449	1873077

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 Limited**

Global business

Financial year ended **31 December 2012**

J.S. Moss
Director

L.C. J'afari-Pak
Director

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

Date **25th March 2013**

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

Global business

Financial year ended **31 December 2012**

	Company registration number	GL/ UK/ CM	day	month	year	Units
R3	4096141	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		402000	402000	3218642
Profit and loss account and other reserves	12		3181194	3181194	912278
Share premium account	13				
Positive valuation differences	14		4267567	4267567	1365506
Fund for future appropriations	15		647250	647250	254500
Core tier one capital in related undertakings	16		(1570882)	(1570882)	1274495
Core tier one capital (sum of 11 to 16)	19		6927129	6927129	7025421

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		51000	51000	51000
Perpetual non-cumulative preference shares in related undertakings	26				
Innovative tier one capital as restricted	27		598042	598042	598042
Innovative tier one capital in related undertakings	28				

Total tier one capital before deductions (19+24+25+26+27+28)	31		7576171	7576171	7674463
Investments in own shares	32				
Intangible assets	33		49770	49770	354488
Amounts deducted from technical provisions for discounting	34				
Other negative valuation differences	35				
Deductions in related undertakings	36		9103	9103	12850
Deductions from tier one (32 to 36)	37		58873	58873	367338
Total tier one capital after deductions (31-37)	39		7517298	7517298	7307125

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

Global business

Financial year ended **31 December 2012**

	Company registration number	GL/ UK/ CM	day	month	year	Units
R3	4096141	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		353740	353740	
Upper tier two capital in related undertakings	47				
Upper tier two capital (44 to 47)	49		353740	353740	

Fixed term preference shares	51				
Other tier two instruments	52		661713	661713	861713
Lower tier two capital in related undertakings	53		973	973	
Lower tier two capital (51+52+53)	59		662686	662686	861713

Total tier two capital before restrictions (49+59)	61		1016426	1016426	861713
Excess tier two capital	62				
Further excess lower tier two capital	63				
Total tier two capital after restrictions, before deductions (61-62-63)	69		1016426	1016426	861713

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

Global business

Financial year ended **31 December 2012**

	Company registration number	GL/ UK/ CM	day	month	year	Units
R3	4096141	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		8533724	8533724	8168838
Inadmissible assets other than intangibles and own shares	73		1481801	1481801	1629429
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		21763	21763	
Total capital resources after deductions (72-73-74-75-76-77)	79		7030160	7030160	6539409

Available capital resources for GENPRU/INSRU tests

Available capital resources for guarantee fund requirement	81		7030160	7030160	6539409
Available capital resources for 50% MCR requirement	82		6919256	6919256	6539409
Available capital resources for 75% MCR requirement	83		7030160	7030160	6539409

Financial engineering adjustments

Implicit items	91				
Financial reinsurance - ceded	92		36541	36541	39342
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		36541	36541	39342

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

Global business

Financial year ended **31 December 2012**

Long term insurance business

		Company registration number	GL/ UK/ CM	day	month	year	Units	
		R11	4096141	GL	31	12	2012	£000
				This financial year 1			Previous year 2	
Gross premiums written			11	269918			249955	
Premiums taxes and levies (included in line 11)			12					
Premiums written net of taxes and levies (11-12)			13	269918			249955	
Premiums for classes 11, 12 or 13 (included in line 13)			14					
Premiums for "actuarial health insurance" (included in line 13)			15	9252			64831	
Sub-total A (13 + 1/2 14 - 2/3 15)			16	263750			206734	
Gross premiums earned			21	275161			242606	
Premium taxes and levies (included in line 21)			22					
Premiums earned net of taxes and levies (21-22)			23	275161			242606	
Premiums for classes 11, 12 or 13 (included in line 23)			24					
Premiums for "actuarial health insurance" (included in line 23)			25	12815			65166	
Sub-total H (23 + 1/2 24 - 2/3 25)			26	266618			199162	
Sub-total I (higher of sub-total A and sub-total H)			30	266618			206734	
Adjusted sub-total I if financial year is not a 12 month period to produce an annual figure			31					
Division of gross adjusted premiums amount sub-total I (or adjusted sub-total I if appropriate)	x 0.18	32	47991			37212		
	Excess (if any) over 61.3M EURO x 0.02	33	4344			3131		
Sub-total J (32-33)			34	43648			34082	
Claims paid in period of 3 financial years			41	485246			477110	
Claims outstanding carried forward at the end of the 3 year period	For insurance business accounted for on an underwriting year basis	42						
	For insurance business accounted for on an accident year basis	43	345326			354968		
Claims outstanding brought forward at the beginning of the 3 year period	For insurance business accounted for on an underwriting year basis	44						
	For insurance business accounted for on an accident year basis	45	362859			359291		
Sub-total C (41+42+43-44-45)			46	467713			472787	
Amounts recoverable from reinsurers in respect of claims included in Sub-total C			47	233048			222432	
Sub-total D (46-47)			48	234665			250356	
Reinsurance Ratio (Sub-total D /sub-total C or, if more, 0.50 or, if less, 1.00)			49	0.50			0.53	
Premiums amount (Sub-total J x reinsurance ratio)			50	21899			18047	
Provision for claims outstanding (before discounting and net of reinsurance)			51	262260			296410	
Provision for claims outstanding (before discounting and gross of reinsurance) if both 51.1 and 51.2 are zero, otherwise zero			52					
Brought forward amount (See instruction 4)			53	20737			23437	
Greater of lines 50 and 53			54	21899			23437	

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

Global business

Financial year ended **31 December 2012**

Long term insurance business

		Company registration number	GL/ UK/ CM	day month year			Units	
		R12	4096141	GL	31	12	2012	£000
					This financial year 1			Previous year 2
Reference period (No. of months) See INSPRU 1.1.63R			11	36			36	
Claims paid in reference period			21	485246			489672	
Claims outstanding carried forward at the end of the reference period	For insurance business accounted for on an underwriting year basis		22					
	For insurance business accounted for on an accident year basis		23	345326			354968	
Claims outstanding brought forward at the beginning of the reference period	For insurance business accounted for on an underwriting year basis		24					
	For insurance business accounted for on an accident year basis		25	362859			359291	
Claims incurred in reference period (21+22+23-24-25)			26	467713			485349	
Claims incurred for classes 11, 12 or 13 (included in 26)			27					
Claims incurred for "actuarial health insurance" (included in 26)			28	51880			144647	
Sub-total E (26 +1/2 27 - 2/3 28)			29	433126			388918	
Sub-total F - Conversion of sub-total E to annual figure (multiply by 12 and divide by number of months in the reference period)			31	144375			129639	
Division of sub-total F (gross adjusted claims amount)	x 0.26		32	37538			33706	
	Excess (if any) over 42.9M EURO x 0.03		33	3293			2834	
Sub-total G (32-33)			39	34244			30873	
Claims amount Sub-total G x reinsurance ratio (11.49)			41	17181			16348	
Higher of premiums amount and brought forward amount (11.54)			42	21899			23437	
General insurance capital requirement (higher of lines 41 and 42)			43	21899			23437	

Analysis of admissible assetsName of insurer **Friends Life 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	4096141	GL	31	12	2012	£000	1
					As at end of this financial year		As at end of the previous year
					1		2
Land and buildings			11				

Investments in group undertakings and participating interests

UK insurance dependants	Shares	21	686505	992807
	Debts and loans	22		
Other insurance dependants	Shares	23		23029
	Debts and loans	24		10000
Non-insurance dependants	Shares	25	224	
	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	867638	319204
Rights under derivative contracts		44		
Fixed interest securities	Approved	45	7405	139222
	Other	46	94342	41803
Variable interest securities	Approved	47		3279
	Other	48	10918	40288
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		156261
	More than one month withdrawal	55		
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 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	4096141	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	27663	4989
	due in more than 12 months	79		44511

Other assets

Tangible assets	80		
Deposits not subject to time restriction on withdrawal with approved institutions	81	39641	6686
Cash in hand	82		
Other assets (particulars to be specified by way of supplementary note)	83		
Accrued interest and rent	84	1802	1479
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	1736138	1783558
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Analysis of admissible assetsName of insurer **Friends Life 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	4096141	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	1736138	1783558
Admissible assets in excess of market and counterparty limits	92		
Inadmissible assets directly held	93	730	20437
Capital resources requirement deduction of regulated related undertakings	94	361516	3145509
Ineligible surplus capital and restricted assets in regulated related insurance undertakings	95	21763	111941
Inadmissible assets of regulated related undertakings	96	278891	1662898
Book value of related ancillary services undertakings	97		
Other differences in the valuation of assets (other than for assets not valued above)	98	1600096	(1373587)
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	31207	(48526)
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	4030341	5302230
Amounts included in line 89 attributable to debts due from related insurers, other than those under contracts of insurance or reinsurance	103	87700	

Analysis of admissible assetsName of insurer **Friends Life 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	4096141	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		1293097		352538

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	740277	708479
	Debts and loans	26	234465	234722
Other group undertakings	Shares	27	71428	
	Debts and loans	28	8958	
Participating interests	Shares	29		
	Debts and loans	30		

Other financial investments

Equity shares		41	5079863	1974297
Other shares and other variable yield participations		42	645716	
Holdings in collective investment schemes		43	2020383	609182
Rights under derivative contracts		44	623639	62508
Fixed interest securities	Approved	45	8168039	4882768
	Other	46	7758364	2904520
Variable interest securities	Approved	47	1267727	158916
	Other	48	2007458	1821781
Participation in investment pools		49		
Loans secured by mortgages		50	23	
Loans to public or local authorities and nationalised industries or undertakings		51	727	
Loans secured by policies of insurance issued by the company		52	11296	2683
Other loans		53		27
Bank and approved credit & financial institution deposits	One month or less withdrawal	54	185240	799462
	More than one month withdrawal	55		200000
Other financial investments		56		
Deposits with ceding undertakings		57		
Assets held to match linked liabilities	Index linked	58	859288	64750
	Property linked	59	29298229	4314644

Analysis of admissible assetsName of insurer **Friends Life 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	4096141	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	93609	9415
	Intermediaries	72	44987	4507
Salvage and subrogation recoveries		73		
Reinsurance	Accepted	74	29329	
	Ceded	75	60357	
Dependants	due in 12 months or less	76		
	due in more than 12 months	77		
Other	due in 12 months or less	78	304987	12605
	due in more than 12 months	79		

Other assets

Tangible assets	80		
Deposits not subject to time restriction on withdrawal with approved institutions	81	261183	39032
Cash in hand	82		
Other assets (particulars to be specified by way of supplementary note)	83		
Accrued interest and rent	84	239552	108425
Deferred acquisition costs (general business only)	85		
Other prepayments and accrued income	86	3975	64

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	61312195	19265325
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Analysis of admissible assetsName of insurer **Friends Life 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	4096141	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	61312195	19265325
Admissible assets in excess of market and counterparty limits	92		
Inadmissible assets directly held	93	346228	136516
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	3960	4682
Book value of related ancillary services undertakings	97	1	
Other differences in the valuation of assets (other than for assets not valued above)	98	8770	63
Deferred acquisition costs excluded from line 89	99	1019632	179821
Reinsurers' share of technical provisions excluded from line 89	100	11374319	6580382
Other asset adjustments (may be negative)	101	(749744)	(29370)
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	73315360	26137419
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 Limited**

Global business

Financial year ended **31 December 2012**Category of assets **Total Long Term Business - FP With Profits Fund**

Company registration number		GL/ UK/ CM	day month year			Units	Category of assets
R13	4096141	GL	31	12	2012	£000	11
					As at end of this financial year		As at end of the previous year
					1		2
Land and buildings			11		365684		352448

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	161784	159882
	Debts and loans	26	234465	234722
Other group undertakings	Shares	27		
	Debts and loans	28		
Participating interests	Shares	29		
	Debts and loans	30		

Other financial investments

Equity shares		41	1929156	1895960
Other shares and other variable yield participations		42		
Holdings in collective investment schemes		43	613987	543030
Rights under derivative contracts		44	259508	62382
Fixed interest securities	Approved	45	4456654	4635384
	Other	46	3052967	2702369
Variable interest securities	Approved	47	63180	139277
	Other	48	22778	17062
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	2584	2683
Other loans		53		
Bank and approved credit & financial institution deposits	One month or less withdrawal	54	144989	675544
	More than one month withdrawal	55		180000
Other financial investments		56		
Deposits with ceding undertakings		57		
Assets held to match linked liabilities	Index linked	58	46989	42345
	Property linked	59		

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

Global business

Financial year ended **31 December 2012**Category of assets **Total Long Term Business - FP With Profits Fund**

Company registration number		GL/UK/CM	day month year			Units	Category of assets
R13	4096141	GL	31	12	2012	£000	11
					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	5487	2350
	Intermediaries	72	555	1398
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		20786
	due in more than 12 months	79		

Other assets

Tangible assets	80		
Deposits not subject to time restriction on withdrawal with approved institutions	81	19015	9383
Cash in hand	82		
Other assets (particulars to be specified by way of supplementary note)	83		
Accrued interest and rent	84	101690	99025
Deferred acquisition costs (general business only)	85		
Other prepayments and accrued income	86		27

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	11481472	11776057
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Analysis of admissible assetsName of insurer **Friends Life Limited**

Global business

Financial year ended **31 December 2012**Category of assets **Total Long Term Business - FP With Profits Fund**

Company registration number		GL/UK/CM	day month year			Units	Category of assets
R13	4096141	GL	31	12	2012	£000	11
					As at end of this financial year		As at end of the previous year
					1		2

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

Total admissible assets after deduction of admissible assets in excess of market risk and counterparty limits (as per line 89 above)	91	11481472	11776057
Admissible assets in excess of market and counterparty limits	92		
Inadmissible assets directly held	93	11604	14786
Capital resources requirement deduction of regulated related undertakings	94		
Ineligible surplus capital and restricted assets in regulated related insurance undertakings	95		
Inadmissible assets of regulated related undertakings	96		
Book value of related ancillary services undertakings	97		
Other differences in the valuation of assets (other than for assets not valued above)	98		
Deferred acquisition costs excluded from line 89	99		
Reinsurers' share of technical provisions excluded from line 89	100	151552	146892
Other asset adjustments (may be negative)	101		(28586)
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	11644628	11909149
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 Limited**

Global business

Financial year ended **31 December 2012**Category of assets **Total Long Term Business - Non Profit Fund**

	Company registration number	GL/ UK/ CM	day	month	year	Units	Category of assets	
	R13	4096141	GL	31	12	2012	£000	12
					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	553433	548597
	Debts and loans	26		
Other group undertakings	Shares	27	2233	
	Debts and loans	28		
Participating interests	Shares	29		
	Debts and loans	30		

Other financial investments

Equity shares		41	972	338
Other shares and other variable yield participations		42		
Holdings in collective investment schemes		43	238777	45305
Rights under derivative contracts		44	573	
Fixed interest securities	Approved	45	312758	110195
	Other	46	325380	199602
Variable interest securities	Approved	47	230565	12203
	Other	48	1911435	1804719
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		27
Bank and approved credit & financial institution deposits	One month or less withdrawal	54	14395	110851
	More than one month withdrawal	55		
Other financial investments		56		
Deposits with ceding undertakings		57		
Assets held to match linked liabilities	Index linked	58	213138	22405
	Property linked	59	29276593	4314644

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

Global business

Financial year ended **31 December 2012**Category of assets **Total Long Term Business - Non Profit Fund**

Company registration number		GL/UK/CM	day month year			Units	Category of assets
R13	4096141	GL	31	12	2012	£000	12
					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	79238	7065
	Intermediaries	72	44356	3109
Salvage and subrogation recoveries	73			
Reinsurance	Accepted	74	22446	
	Ceded	75	1176	
Dependants	due in 12 months or less	76		
	due in more than 12 months	77		
Other	due in 12 months or less	78	220046	1531
	due in more than 12 months	79		9761

Other assets

Tangible assets	80		
Deposits not subject to time restriction on withdrawal with approved institutions	81	204520	29411
Cash in hand	82		
Other assets (particulars to be specified by way of supplementary note)	83		
Accrued interest and rent	84	13707	7758
Deferred acquisition costs (general business only)	85		
Other prepayments and accrued income	86	2883	37

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	33668624	7227558
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Analysis of admissible assetsName of insurer **Friends Life Limited**

Global business

Financial year ended **31 December 2012**Category of assets **Total Long Term Business - Non Profit Fund**

Company registration number		GL/UK/CM	day month year			Units	Category of assets
R13	4096141	GL	31	12	2012	£000	12
					As at end of this financial year		As at end of the previous year
					1		2

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

Total admissible assets after deduction of admissible assets in excess of market risk and counterparty limits (as per line 89 above)	91	33668624	7227558
Admissible assets in excess of market and counterparty limits	92		
Inadmissible assets directly held	93	331832	121662
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	3960	4682
Book value of related ancillary services undertakings	97		
Other differences in the valuation of assets (other than for assets not valued above)	98	8770	63
Deferred acquisition costs excluded from line 89	99	1019632	179821
Reinsurers' share of technical provisions excluded from line 89	100	11111524	6432448
Other asset adjustments (may be negative)	101	(658722)	(671)
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	45485620	13965563
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 Limited**

Global business

Financial year ended **31 December 2012**Category of assets **Total Long Term Business - FPLAL With Profits Fund**

Company registration number		GL/ UK/ CM	day month year			Units	Category of assets
R13	4096141	GL	31	12	2012	£000	13
					As at end of this financial year		As at end of the previous year
					1		2
Land and buildings			11		80		90

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		
Participating interests	Shares	29		
	Debts and loans	30		

Other financial investments

Equity shares		41	67470	77999
Other shares and other variable yield participations		42		
Holdings in collective investment schemes		43	15372	20847
Rights under derivative contracts		44	432	126
Fixed interest securities	Approved	45	156584	137189
	Other	46	1093	2549
Variable interest securities	Approved	47	1885	7436
	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	25856	13067
	More than one month withdrawal	55		20000
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 Limited**

Global business

Financial year ended **31 December 2012**Category of assets **Total Long Term Business - FPLAL With Profits Fund**

Company registration number		GL/UK/CM	day month year			Units	Category of assets
R13	4096141	GL	31	12	2012	£000	13
					As at end of this financial year		As at end of the previous year
					1		2

Reinsurers' share of technical provisions

Provision for unearned premiums	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		288
	due in more than 12 months	79		

Other assets

Tangible assets	80		
Deposits not subject to time restriction on withdrawal with approved institutions	81	138	238
Cash in hand	82		
Other assets (particulars to be specified by way of supplementary note)	83		
Accrued interest and rent	84	1408	1642
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	270318	281471
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Analysis of admissible assetsName of insurer **Friends Life Limited**

Global business

Financial year ended **31 December 2012**Category of assets **Total Long Term Business - FPLAL With Profits Fund**

Company registration number		GL/ UK/ CM	day month year			Units	Category of assets
R13	4096141	GL	31	12	2012	£000	13
					As at end of this financial year		As at end of the previous year
					1		2

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

Total admissible assets after deduction of admissible assets in excess of market risk and counterparty limits (as per line 89 above)	91	270318	281471
Admissible assets in excess of market and counterparty limits	92		
Inadmissible assets directly held	93	1382	68
Capital resources requirement deduction of regulated related undertakings	94		
Ineligible surplus capital and restricted assets in regulated related insurance undertakings	95		
Inadmissible assets of regulated related undertakings	96		
Book value of related ancillary services undertakings	97		
Other differences in the valuation of assets (other than for assets not valued above)	98		
Deferred acquisition costs excluded from line 89	99		
Reinsurers' share of technical provisions excluded from line 89	100	2448	1042
Other asset adjustments (may be negative)	101	(1521)	(113)
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	272627	282468
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 Limited**

Global business

Financial year ended **31 December 2012**Category of assets **Total Long Term Business - FLC New With Profits Fund**

Company registration number		GL/ UK/ CM	day month year			Units	Category of assets
R13	4096141	GL	31	12	2012	£000	14
					As at end of this financial year		As at end of the previous year
					1		2
Land and buildings			11		539459		

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	64400	
	Debts and loans	28	4606	
Participating interests	Shares	29		
	Debts and loans	30		

Other financial investments

Equity shares		41	1639126	
Other shares and other variable yield participations		42	388627	
Holdings in collective investment schemes		43	419158	
Rights under derivative contracts		44	190523	
Fixed interest securities	Approved	45	985999	
	Other	46	1756325	
Variable interest securities	Approved	47	44306	
	Other	48	46479	
Participation in investment pools		49		
Loans secured by mortgages		50	20	
Loans to public or local authorities and nationalised industries or undertakings		51		
Loans secured by policies of insurance issued by the company		52	6443	
Other loans		53		
Bank and approved credit & financial institution deposits	One month or less withdrawal	54		
	More than one month withdrawal	55		
Other financial investments		56		
Deposits with ceding undertakings		57		
Assets held to match linked liabilities	Index linked	58	22122	
	Property linked	59		

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

Global business

Financial year ended **31 December 2012**Category of assets **Total Long Term Business - FLC New With Profits Fund**

Company registration number		GL/ UK/ CM	day month year			Units	Category of assets
R13	4096141	GL	31	12	2012	£000	14
					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	2639	
	Intermediaries	72	72	
Salvage and subrogation recoveries		73		
Reinsurance	Accepted	74	1072	
	Ceded	75	2	
Dependants	due in 12 months or less	76		
	due in more than 12 months	77		
Other	due in 12 months or less	78	45203	
	due in more than 12 months	79		

Other assets

Tangible assets	80		
Deposits not subject to time restriction on withdrawal with approved institutions	81	31227	
Cash in hand	82		
Other assets (particulars to be specified by way of supplementary note)	83		
Accrued interest and rent	84	47886	
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	6235693	
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Analysis of admissible assetsName of insurer **Friends Life Limited**

Global business

Financial year ended **31 December 2012**Category of assets **Total Long Term Business - FLC New With Profits Fund**

Company registration number		GL/ UK/ CM	day month year			Units	Category of assets
R13	4096141	GL	31	12	2012	£000	14
					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	6235693	
Admissible assets in excess of market and counterparty limits	92		
Inadmissible assets directly held	93	63	
Capital resources requirement deduction of regulated related undertakings	94		
Ineligible surplus capital and restricted assets in regulated related insurance undertakings	95		
Inadmissible assets of regulated related undertakings	96		
Book value of related ancillary services undertakings	97		
Other differences in the valuation of assets (other than for assets not valued above)	98		
Deferred acquisition costs excluded from line 89	99		
Reinsurers' share of technical provisions excluded from line 89	100		
Other asset adjustments (may be negative)	101	(107607)	
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	6128149	
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 Limited**

Global business

Financial year ended **31 December 2012**Category of assets **Total Long Term Business - FLC Old With Profits Fund**

Company registration number		GL/ UK/ CM	day month year			Units	Category of assets
R13	4096141	GL	31	12	2012	£000	15
					As at end of this financial year		As at end of the previous year
					1		2
Land and buildings			11		139975		

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	4794	
	Debts and loans	28	1152	
Participating interests	Shares	29		
	Debts and loans	30		

Other financial investments

Equity shares		41	454722	
Other shares and other variable yield participations		42	96081	
Holdings in collective investment schemes		43	89569	
Rights under derivative contracts		44	27935	
Fixed interest securities	Approved	45	222447	
	Other	46	396413	
Variable interest securities	Approved	47	9996	
	Other	48	10486	
Participation in investment pools		49		
Loans secured by mortgages		50	3	
Loans to public or local authorities and nationalised industries or undertakings		51		
Loans secured by policies of insurance issued by the company		52	1592	
Other loans		53		
Bank and approved credit & financial institution deposits	One month or less withdrawal	54		
	More than one month withdrawal	55		
Other financial investments		56		
Deposits with ceding undertakings		57		
Assets held to match linked liabilities	Index linked	58	3825	
	Property linked	59		

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

Global business

Financial year ended **31 December 2012**Category of assets **Total Long Term Business - FLC Old With Profits Fund**

Company registration number		GL/UK/CM	day month year			Units	Category of assets
R13	4096141	GL	31	12	2012	£000	15
					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	565	
	Intermediaries	72	4	
Salvage and subrogation recoveries		73		
Reinsurance	Accepted	74	5811	
	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	76093	
	due in more than 12 months	79		

Other assets

Tangible assets	80		
Deposits not subject to time restriction on withdrawal with approved institutions	81	6284	
Cash in hand	82		
Other assets (particulars to be specified by way of supplementary note)	83		
Accrued interest and rent	84	10195	
Deferred acquisition costs (general business only)	85		
Other prepayments and accrued income	86	772	

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	1558712	
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Analysis of admissible assetsName of insurer **Friends Life Limited**

Global business

Financial year ended **31 December 2012**Category of assets **Total Long Term Business - FLC Old With Profits Fund**

Company registration number		GL/ UK/ CM	day month year			Units	Category of assets
R13	4096141	GL	31	12	2012	£000	15
					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	1558712	
Admissible assets in excess of market and counterparty limits	92		
Inadmissible assets directly held	93	41	
Capital resources requirement deduction of regulated related undertakings	94		
Ineligible surplus capital and restricted assets in regulated related insurance undertakings	95		
Inadmissible assets of regulated related undertakings	96		
Book value of related ancillary services undertakings	97		
Other differences in the valuation of assets (other than for assets not valued above)	98		
Deferred acquisition costs excluded from line 89	99		
Reinsurers' share of technical provisions excluded from line 89	100		
Other asset adjustments (may be negative)	101	27086	
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	1585838	
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 Limited**

Global business

Financial year ended **31 December 2012**Category of assets **Total Long Term Business - FLAS With Profits Fund**

Company registration number		GL/ UK/ CM	day month year			Units	Category of assets
R13	4096141	GL	31	12	2012	£000	16
					As at end of this financial year		As at end of the previous year
					1		2
Land and buildings			11	247900			

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	25060	
	Debts and loans	26		
Other group undertakings	Shares	27		
	Debts and loans	28	3200	
Participating interests	Shares	29		
	Debts and loans	30		

Other financial investments

Equity shares		41	988417	
Other shares and other variable yield participations		42	161008	
Holdings in collective investment schemes		43	643519	
Rights under derivative contracts		44	144668	
Fixed interest securities	Approved	45	2033597	
	Other	46	2226185	
Variable interest securities	Approved	47	917795	
	Other	48	16281	
Participation in investment pools		49		
Loans secured by mortgages		50		
Loans to public or local authorities and nationalised industries or undertakings		51	727	
Loans secured by policies of insurance issued by the company		52	677	
Other loans		53		
Bank and approved credit & financial institution deposits	One month or less withdrawal	54		
	More than one month withdrawal	55		
Other financial investments		56		
Deposits with ceding undertakings		57		
Assets held to match linked liabilities	Index linked	58	573214	
	Property linked	59	21636	

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

Global business

Financial year ended **31 December 2012**Category of assets **Total Long Term Business - FLAS With Profits Fund**

Company registration number		GL/UK/CM	day month year			Units	Category of assets
R13	4096141	GL	31	12	2012	£000	16
					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	5680	
	Intermediaries	72		
Salvage and subrogation recoveries		73		
Reinsurance	Accepted	74		
	Ceded	75	59179	
Dependants	due in 12 months or less	76		
	due in more than 12 months	77		
Other	due in 12 months or less	78	38682	
	due in more than 12 months	79		

Other assets

Tangible assets	80		
Deposits not subject to time restriction on withdrawal with approved institutions	81		
Cash in hand	82		
Other assets (particulars to be specified by way of supplementary note)	83		
Accrued interest and rent	84	64665	
Deferred acquisition costs (general business only)	85		
Other prepayments and accrued income	86	321	

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	8172413	
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Analysis of admissible assetsName of insurer **Friends Life Limited**

Global business

Financial year ended **31 December 2012**Category of assets **Total Long Term Business - FLAS With Profits Fund**

Company registration number		GL/UK/CM	day month year			Units	Category of assets
R13	4096141	GL	31	12	2012	£000	16
					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	8172413	
Admissible assets in excess of market and counterparty limits	92		
Inadmissible assets directly held	93	1306	
Capital resources requirement deduction of regulated related undertakings	94		
Ineligible surplus capital and restricted assets in regulated related insurance undertakings	95		
Inadmissible assets of regulated related undertakings	96		
Book value of related ancillary services undertakings	97	1	
Other differences in the valuation of assets (other than for assets not valued above)	98	26415	
Deferred acquisition costs excluded from line 89	99		
Reinsurers' share of technical provisions excluded from line 89	100	9427082	
Other asset adjustments (may be negative)	101	(8980)	
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	17618236	
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 marginsName of insurer **Friends Life Limited**

Global business

Financial year ended **31 December 2012**Total business/Sub fund **Summary**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	52271347	14655844
Cash bonuses which had not been paid to policyholders prior to end of the financial year		12		
Balance of surplus/(valuation deficit)		13	99053	(10356)
Long term insurance business fund carried forward (11 to 13)		14	52370400	14645488
Claims outstanding	Gross	15	349742	49895
	Reinsurers' share	16	30323	37249
	Net (15-16)	17	319419	12646
Provisions	Taxation	21	103657	19673
	Other risks and charges	22	122015	15564
Deposits received from reinsurers		23		
Creditors	Direct insurance business	31	34527	41156
	Reinsurance accepted	32	6550	
	Reinsurance ceded	33	1871812	1817353
Debenture loans	Secured	34	128454	
	Unsecured	35		
Amounts owed to credit institutions		36		
Creditors	Taxation	37	231712	52217
	Other	38	1234790	913092
Accruals and deferred income		39	38537	2564
Provision for "reasonably foreseeable adverse variations"		41		
Total other insurance and non-insurance liabilities (17 to 41)		49	4091473	2874265
Excess of the value of net admissible assets		51	4850323	1745571
Total liabilities and margins		59	61312196	19265324

Amounts included in line 59 attributable to liabilities to related companies, other than those under contracts of insurance or reinsurance	61	492576	772692
Amounts included in line 59 attributable to liabilities in respect of property linked benefits	62	29226174	4314644

Total liabilities (11+12+49)	71	56362820	17530109
Increase to liabilities - DAC related	72	118918	
Reinsurers' share of technical provisions	73	11374318	6580382
Other adjustments to liabilities (may be negative)	74	3544234	1356637
Capital and reserves and fund for future appropriations	75	1915071	670291
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	73315362	26137419

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

Global business

Financial year ended **31 December 2012**Total business/Sub fund **FP With Profits Fund**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	9197748	9775340
Cash bonuses which had not been paid to policyholders prior to end of the financial year		12		
Balance of surplus/(valuation deficit)		13	(219052)	(219757)
Long term insurance business fund carried forward (11 to 13)		14	8978696	9555583
Claims outstanding	Gross	15	10213	18548
	Reinsurers' share	16	1520	1707
	Net (15-16)	17	8693	16841
Provisions	Taxation	21	43091	19002
	Other risks and charges	22	4150	2793
Deposits received from reinsurers		23		
Creditors	Direct insurance business	31	11742	20398
	Reinsurance accepted	32		
	Reinsurance ceded	33	465	509
Debenture loans	Secured	34	128454	
	Unsecured	35		
Amounts owed to credit institutions		36		
Creditors	Taxation	37	28402	59205
	Other	38	343613	355513
Accruals and deferred income		39	1892	2337
Provision for "reasonably foreseeable adverse variations"		41		
Total other insurance and non-insurance liabilities (17 to 41)		49	570502	476598
Excess of the value of net admissible assets		51	1932275	1743876
Total liabilities and margins		59	11481473	11776057

Amounts included in line 59 attributable to liabilities to related companies, other than those under contracts of insurance or reinsurance	61		249965
Amounts included in line 59 attributable to liabilities in respect of property linked benefits	62		

Total liabilities (11+12+49)	71	9768250	10251938
Increase to liabilities - DAC related	72		
Reinsurers' share of technical provisions	73	151552	146892
Other adjustments to liabilities (may be negative)	74	1481735	1259019
Capital and reserves and fund for future appropriations	75	243092	251300
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	11644629	11909149

Long term insurance business liabilities and margins

Name of insurer **Friends Life Limited**
Global business
Financial year ended **31 December 2012**
Total business/Sub fund **FPLAL With Profits Fund**
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	225515	249214
Cash bonuses which had not been paid to policyholders prior to end of the financial year		12		
Balance of surplus/(valuation deficit)		13	24999	25000
Long term insurance business fund carried forward (11 to 13)		14	250514	274214
Claims outstanding	Gross	15	447	742
	Reinsurers' share	16		19
	Net (15-16)	17	447	723
Provisions	Taxation	21	52	
	Other risks and charges	22		
Deposits received from reinsurers		23		
Creditors	Direct insurance business	31	2	4
	Reinsurance accepted	32		
	Reinsurance ceded	33		
Debenture loans	Secured	34		
	Unsecured	35		
Amounts owed to credit institutions		36		
Creditors	Taxation	37	1909	2773
	Other	38	10131	2061
Accruals and deferred income		39		
Provision for "reasonably foreseeable adverse variations"		41		
Total other insurance and non-insurance liabilities (17 to 41)		49	12541	5561
Excess of the value of net admissible assets		51	7263	1695
Total liabilities and margins		59	270318	281470

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

Total liabilities (11+12+49)	71	238056	254775
Increase to liabilities - DAC related	72		
Reinsurers' share of technical provisions	73	2448	1042
Other adjustments to liabilities (may be negative)	74	28646	23451
Capital and reserves and fund for future appropriations	75	3477	3200
Total liabilities under insurance accounts rules or international accounting standards as applicable to the firm for the purpose of its external financial reporting (71 to 75)	76	272627	282468

Long term insurance business liabilities and margins

Name of insurer **Friends Life Limited**
Global business
Financial year ended **31 December 2012**
Total business/Sub fund **FLC New With Profits Fund**
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	4562289	
Cash bonuses which had not been paid to policyholders prior to end of the financial year		12		
Balance of surplus/(valuation deficit)		13	83611	
Long term insurance business fund carried forward (11 to 13)		14	4645900	
Claims outstanding	Gross	15	22165	
	Reinsurers' share	16		
	Net (15-16)	17	22165	
Provisions	Taxation	21	34314	
	Other risks and charges	22	2657	
Deposits received from reinsurers		23		
Creditors	Direct insurance business	31	318	
	Reinsurance accepted	32	5490	
	Reinsurance ceded	33		
Debenture loans	Secured	34		
	Unsecured	35		
Amounts owed to credit institutions		36		
Creditors	Taxation	37	115013	
	Other	38	87363	
Accruals and deferred income		39	16587	
Provision for "reasonably foreseeable adverse variations"		41		
Total other insurance and non-insurance liabilities (17 to 41)		49	283907	
Excess of the value of net admissible assets		51	1305886	
Total liabilities and margins		59	6235693	

Amounts included in line 59 attributable to liabilities to related companies, other than those under contracts of insurance or reinsurance	61	(4089)	
Amounts included in line 59 attributable to liabilities in respect of property linked benefits	62		

Total liabilities (11+12+49)	71	4846196	
Increase to liabilities - DAC related	72		
Reinsurers' share of technical provisions	73		
Other adjustments to liabilities (may be negative)	74	1108905	
Capital and reserves and fund for future appropriations	75	173048	
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	6128149	

Long term insurance business liabilities and margins

Name of insurer **Friends Life Limited**
Global business
Financial year ended **31 December 2012**
Total business/Sub fund **FLC Old With Profits Fund**
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	1086446	
Cash bonuses which had not been paid to policyholders prior to end of the financial year		12		
Balance of surplus/(valuation deficit)		13		
Long term insurance business fund carried forward (11 to 13)		14	1086446	
Claims outstanding	Gross	15	2654	
	Reinsurers' share	16		
	Net (15-16)	17	2654	
Provisions	Taxation	21	7998	
	Other risks and charges	22	1262	
Deposits received from reinsurers		23		
Creditors	Direct insurance business	31	23	
	Reinsurance accepted	32		
	Reinsurance ceded	33		
Debenture loans	Secured	34		
	Unsecured	35		
Amounts owed to credit institutions		36		
Creditors	Taxation	37	1168	
	Other	38	15947	
Accruals and deferred income		39	1949	
Provision for "reasonably foreseeable adverse variations"		41		
Total other insurance and non-insurance liabilities (17 to 41)		49	31001	
Excess of the value of net admissible assets		51	441265	
Total liabilities and margins		59	1558712	

Amounts included in line 59 attributable to liabilities to related companies, other than those under contracts of insurance or reinsurance	61	(572)	
Amounts included in line 59 attributable to liabilities in respect of property linked benefits	62		

Total liabilities (11+12+49)	71	1117447	
Increase to liabilities - DAC related	72		
Reinsurers' share of technical provisions	73		
Other adjustments to liabilities (may be negative)	74	427022	
Capital and reserves and fund for future appropriations	75	41370	
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	1585839	

Long term insurance business liabilities and margins

Name of insurer **Friends Life Limited**
Global business
Financial year ended **31 December 2012**
Total business/Sub fund **FLAS With Profits Fund**
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	6780806	
Cash bonuses which had not been paid to policyholders prior to end of the financial year		12		
Balance of surplus/(valuation deficit)		13		
Long term insurance business fund carried forward (11 to 13)		14	6780806	
Claims outstanding	Gross	15	80543	
	Reinsurers' share	16		
	Net (15-16)	17	80543	
Provisions	Taxation	21	18202	
	Other risks and charges	22	51032	
Deposits received from reinsurers		23		
Creditors	Direct insurance business	31	224	
	Reinsurance accepted	32	1060	
	Reinsurance ceded	33	827	
Debenture loans	Secured	34		
	Unsecured	35		
Amounts owed to credit institutions		36		
Creditors	Taxation	37		
	Other	38	74945	
Accruals and deferred income		39	6587	
Provision for "reasonably foreseeable adverse variations"		41		
Total other insurance and non-insurance liabilities (17 to 41)		49	233420	
Excess of the value of net admissible assets		51	1158187	
Total liabilities and margins		59	8172413	

Amounts included in line 59 attributable to liabilities to related companies, other than those under contracts of insurance or reinsurance	61	21488	
Amounts included in line 59 attributable to liabilities in respect of property linked benefits	62	21636	

Total liabilities (11+12+49)	71	7014226	
Increase to liabilities - DAC related	72		
Reinsurers' share of technical provisions	73	9427082	
Other adjustments to liabilities (may be negative)	74	990664	
Capital and reserves and fund for future appropriations	75	186264	
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	17618236	

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

Global business

Financial year ended **31 December 2012**Total business/Sub fund **Non Profit Fund**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	30418544	4631290
Cash bonuses which had not been paid to policyholders prior to end of the financial year		12		
Balance of surplus/(valuation deficit)		13	209495	184401
Long term insurance business fund carried forward (11 to 13)		14	30628039	4815691
Claims outstanding	Gross	15	233719	30605
	Reinsurers' share	16	28803	35523
	Net (15-16)	17	204916	(4918)
Provisions	Taxation	21		671
	Other risks and charges	22	62914	12771
Deposits received from reinsurers		23		
Creditors	Direct insurance business	31	22217	20754
	Reinsurance accepted	32		
	Reinsurance ceded	33	1870520	1816844
Debenture loans	Secured	34		
	Unsecured	35		
Amounts owed to credit institutions		36		
Creditors	Taxation	37	85220	
	Other	38	777828	565518
Accruals and deferred income		39	11522	227
Provision for "reasonably foreseeable adverse variations"		41		
Total other insurance and non-insurance liabilities (17 to 41)		49	3035138	2411867
Excess of the value of net admissible assets		51	5447	
Total liabilities and margins		59	33668624	7227558

Amounts included in line 59 attributable to liabilities to related companies, other than those under contracts of insurance or reinsurance	61	475748	522469
Amounts included in line 59 attributable to liabilities in respect of property linked benefits	62	29204538	4314644

Total liabilities (11+12+49)	71	33453682	7043157
Increase to liabilities - DAC related	72	118918	
Reinsurers' share of technical provisions	73	11111524	6432448
Other adjustments to liabilities (may be negative)	74	(466323)	74167
Capital and reserves and fund for future appropriations	75	1267820	415791
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	45485621	13965563

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

Global business

Financial year ended **31 December 2012**

	Company registration number	GL/ UK/ CM	day	month	year	Units
R15	4096141	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	133	
Deposits received from reinsurers		31		
Creditors	Direct insurance business	41		
	Reinsurance accepted	42		
	Reinsurance ceded	43		
Debtenture loans	Secured	44		
	Unsecured	45		
Amounts owed to credit institutions		46		
Creditors	Taxation	47	10129	
	Foreseeable dividend	48		
	Other	49	6607	124872
Accruals and deferred income		51		
Total (19 to 51)		59	16869	124872
Provision for "reasonably foreseeable adverse variations"		61		
Cumulative preference share capital		62	300000	
Subordinated loan capital		63	856136	
Total (59 to 63)		69	1173005	124872

Amounts included in line 69 attributable to liabilities to related insurers, other than those under contracts of insurance or reinsurance	71		92733
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Amounts deducted from technical provisions for discounting	82		
Other adjustments (may be negative)	83	31207	(48526)
Capital and reserves	84	2826129	5225884
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	4030341	5302230

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

Global business

Financial year ended **31 December 2012**

		Company registration number	GL/ UK/ CM	day	month	year	Units	
		R16	4096141	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	13917			88168	
Investment income	Income		14	238392			1144322	
	Value re-adjustments on investments		15					
	Gains on the realisation of investments		16	1319			2592	
Investment charges	Investment management charges, including interest		17	78026			50785	
	Value re-adjustments on investments		18	2626155			1024952	
	Loss on the realisation of investments		19	14084				
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	1057213			263049	
Profit or loss on ordinary activities before tax (11+12+13+14+15+16-17-18-19-20+21)			29	(1407424)			422394	
Tax on profit or loss on ordinary activities			31	(19017)			(33636)	
Profit or loss on ordinary activities after tax (29-31)			39	(1388407)			456030	
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	(1388407)			456030	
Dividends (paid or foreseeable)			51	450000			775000	
Profit or loss retained for the financial year (49-51)			59	(1838407)			(318970)	

Analysis of derivative contractsName of insurer **Friends Life 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	4096141	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	30	347		653		161493	
	Interest rates	12	374635	98101		1395605		905796	
	Inflation	13	1912	36576		667329		164611	
	Credit index / basket	14							
	Credit single name	15	11809	2161				416492	
	Equity index	16	6832	3061		343959		580887	
	Equity stock	17							
	Land	18							
	Currencies	19	21486	33580		248512		1020544	
	Mortality	20							
	Other	21							
In the money options	Swaptions	31	71432			287600			
	Equity index calls	32							
	Equity stock calls	33							
	Equity index puts	34	44180			151358			
	Equity stock puts	35							
	Other	36							
Out of the money options	Swaptions	41	3774					783748	
	Equity index calls	42							
	Equity stock calls	43							
	Equity index puts	44	88483			536674		937231	
	Equity stock puts	45							
	Other	46							
Total (11 to 46)		51	624573	173826		3631690		4970802	
Adjustment for variation margin		52	(934)	(175)					
Total (51 + 52)		53	623638	173651					

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

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

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

Global business

Financial year ended **31 December 2012**Category of assets **Total Long Term Business - FP With Profits Fund**

		Company registration number	GL/ UK/ CM	day month year			Units	Category of assets	
		R17	4096141	GL	31	12	2012	£000	11
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	163411	83190		510180		770400	
	Inflation	13	792	1386				164611	
	Credit index / basket	14							
	Credit single name	15							
	Equity index	16	5734	2042		281202		92238	
	Equity stock	17							
	Land	18							
	Currencies	19	2410			248512			
	Mortality	20							
	Other	21							
In the money options	Swaptions	31							
	Equity index calls	32							
	Equity stock calls	33							
	Equity index puts	34	44180			151358			
	Equity stock puts	35							
	Other	36							
Out of the money options	Swaptions	41	3774					783748	
	Equity index calls	42							
	Equity stock calls	43							
	Equity index puts	44	41529			536674			
	Equity stock puts	45							
	Other	46							
Total (11 to 46)		51	261830	86618		1727926		1810997	
Adjustment for variation margin		52	(2323)	1396					
Total (51 + 52)		53	259508	88015					

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

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

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

Global business

Financial year ended **31 December 2012**Category of assets **Total Long Term Business - Non Profit Fund**

		Company registration number	GL/ UK/ CM	day month year			Units	Category of assets	
		R17	4096141	GL	31	12	2012	£000	12
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							
	Equity stock	17							
	Land	18							
	Currencies	19	573	97			90730		
	Mortality	20							
	Other	21							
In the money options	Swaptions	31							
	Equity index calls	32							
	Equity stock calls	33							
	Equity index puts	34							
	Equity stock puts	35							
	Other	36							
Out of the money options	Swaptions	41							
	Equity index calls	42							
	Equity stock calls	43							
	Equity index puts	44							
	Equity stock puts	45							
	Other	46							
Total (11 to 46)		51	573	97			90730		
Adjustment for variation margin		52							
Total (51 + 52)		53	573	97					

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

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

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

Global business

Financial year ended **31 December 2012**Category of assets **Total Long Term Business - FPLAL With Profits Fund**

			Company registration number	GL/ UK/ CM	day	month	year	Units	Category of assets	
			R17	4096141	GL	31	12	2012	£000	13
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	42	813		25000	17000		
	Inflation		13							
	Credit index / basket		14							
	Credit single name		15							
	Equity index		16	203	29		5965	5321		
	Equity stock		17							
	Land		18							
	Currencies		19							
	Mortality		20							
	Other		21							
In the money options	Swaptions		31							
	Equity index calls		32							
	Equity stock calls		33							
	Equity index puts		34							
	Equity stock puts		35							
	Other		36							
Out of the money options	Swaptions		41							
	Equity index calls		42							
	Equity stock calls		43							
	Equity index puts		44							
	Equity stock puts		45							
	Other		46							
Total (11 to 46)			51	244	842		30965	22321		
Adjustment for variation margin			52	188	257					
Total (51 + 52)			53	432	1099					

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

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

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

Global business

Financial year ended **31 December 2012**Category of assets **Total Long Term Business - FLC New With Profits Fund**

		Company registration number	GL/ UK/ CM	day	month	year	Units	Category of assets	
		R17	4096141	GL	31	12	2012	£000	14
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	24	250		570		117403	
	Interest rates	12	96387	2497		447771		14463	
	Inflation	13							
	Credit index / basket	14							
	Credit single name	15	5332	177				143430	
	Equity index	16	448	861		48101		255665	
	Equity stock	17							
	Land	18							
	Currencies	19	6020	28749				595305	
	Mortality	20							
	Other	21							
In the money options	Swaptions	31	51395			211142			
	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	30714					674494	
	Equity stock puts	45							
	Other	46							
Total (11 to 46)		51	190320	32533		707584		1800760	
Adjustment for variation margin		52	203	(1498)					
Total (51 + 52)		53	190523	31036					

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

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

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

Global business

Financial year ended **31 December 2012**Category of assets **Total Long Term Business - FLC Old With Profits Fund**

		Company registration number	GL/ UK/ CM	day	month	year	Units	Category of assets	
		R17	4096141	GL	31	12	2012	£000	15
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	3	37		84		17214	
	Interest rates	12	14133	366		65654		2121	
	Inflation	13							
	Credit index / basket	14							
	Credit single name	15	782	26				21030	
	Equity index	16	66	126		7053		37486	
	Equity stock	17							
	Land	18							
	Currencies	19	883	4215				87286	
	Mortality	20							
	Other	21							
In the money options	Swaptions	31	7536			30958			
	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	4503					98896	
	Equity stock puts	45							
	Other	46							
Total (11 to 46)		51	27905	4770		103748		264033	
Adjustment for variation margin		52	30	(220)					
Total (51 + 52)		53	27935	4551					

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

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

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

Global business

Financial year ended **31 December 2012**Category of assets **Total Long Term Business - FLAS With Profits Fund**

		Company registration number	GL/ UK/ CM	day month year			Units	Category of assets	
		R17	4096141	GL	31	12	2012	£000	16
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	3	61			26876		
	Interest rates	12	100662	11235		347000	101812		
	Inflation	13	1120	35190		667329			
	Credit index / basket	14							
	Credit single name	15	5696	1958			252032		
	Equity index	16	382	3		1637	190177		
	Equity stock	17							
	Land	18							
	Currencies	19	11600	519			247223		
	Mortality	20							
	Other	21							
In the money options	Swaptions	31	12501			45500			
	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	11736				163841		
	Equity stock puts	45							
	Other	46							
Total (11 to 46)		51	143700	48966		1061466	981961		
Adjustment for variation margin		52	967	(111)					
Total (51 + 52)		53	144668	48854					

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

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

With-profits insurance capital component for the fund

Name of insurer **Friends Life Limited**

With-profits fund **FP With Profits Fund**

Financial year ended **31 December 2012**

Units **£000**

As at end of this financial year 1	As at end of the previous year 2
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Regulatory excess capital

Regulatory value of assets	Long-term admissible assets of the fund	11	11481472	11776057
	Implicit items allocated to the fund	12		
	Mathematical reserves in respect of the fund's non-profit insurance contracts	13	2533904	2474003
	Long-term admissible assets of the fund covering the LTICR of the fund's non-profit insurance contracts	14	111081	43961
	Long-term admissible assets of the fund covering the RCR of the fund's non-profit insurance contracts	15		
	Total (11+12-(13+14+15))	19	8836487	9258093
Regulatory value of liabilities	Mathematical reserves (after distribution of surplus) in respect of the fund's with-profits insurance contracts	21	6663845	7301337
	Regulatory current liabilities of the fund	22	570502	476598
	Total (21+22)	29	7234347	7777935
Long-term insurance capital requirement in respect of the fund's with-profits insurance contracts		31	278757	305743
Resilience capital requirement in respect of the fund's with-profits insurance contracts		32		
Sum of regulatory value of liabilities, LTICR and RCR (29+31+32)		39	7513104	8083678
Regulatory excess capital (19-39)		49	1323384	1174415

Realistic excess capital

Realistic excess capital	51		
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Excess assets allocated to with-profits insurance business

Excess (deficiency) of assets allocated to with-profits insurance business in fund (49-51)	61	1323384	1174415
Face amount of capital instruments attributed to the fund and included in capital resources (unstressed)	62		
Realistic amount of capital instruments attributed to the fund and included in capital resources (stressed)	63		
Present value of future shareholder transfers arising from distribution of surplus	64	181448	266094
Present value of other future internal transfers not already taken into account	65	25267	22563
With-profits insurance capital component for fund (if 62 exceeds 63, greater of 61+62-63-64-65 and zero, else greater of 61-64-65 and zero)	66	1116669	885758

With-profits insurance capital component for the fundName of insurer **Friends Life Limited**With-profits fund **FPLAL With Profits Fund**Financial year ended **31 December 2012**Units **£000**

As at end of this financial year 1	As at end of the previous year 2
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Regulatory excess capital

Regulatory value of assets	Long-term admissible assets of the fund	11	270318	281471
	Implicit items allocated to the fund	12		
	Mathematical reserves in respect of the fund's non-profit insurance contracts	13	68195	62932
	Long-term admissible assets of the fund covering the LTICR of the fund's non-profit insurance contracts	14	2753	2560
	Long-term admissible assets of the fund covering the RCR of the fund's non-profit insurance contracts	15		
	Total (11+12-(13+14+15))	19	199369	215979
Regulatory value of liabilities	Mathematical reserves (after distribution of surplus) in respect of the fund's with-profits insurance contracts	21	157320	186282
	Regulatory current liabilities of the fund	22	12541	5561
	Total (21+22)	29	169861	191843
Long-term insurance capital requirement in respect of the fund's with-profits insurance contracts		31	6405	7555
Resilience capital requirement in respect of the fund's with-profits insurance contracts		32		
Sum of regulatory value of liabilities, LTICR and RCR (29+31+32)		39	176265	199399
Regulatory excess capital (19-39)		49	23104	16581

Realistic excess capital

Realistic excess capital	51		(1)
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Excess assets allocated to with-profits insurance business

Excess (deficiency) of assets allocated to with-profits insurance business in fund (49-51)	61	23104	16582
Face amount of capital instruments attributed to the fund and included in capital resources (unstressed)	62		
Realistic amount of capital instruments attributed to the fund and included in capital resources (stressed)	63		
Present value of future shareholder transfers arising from distribution of surplus	64		
Present value of other future internal transfers not already taken into account	65		
With-profits insurance capital component for fund (if 62 exceeds 63, greater of 61+62-63-64-65 and zero, else greater of 61-64-65 and zero)	66	23104	16582

With-profits insurance capital component for the fund

Name of insurer **Friends Life Limited**

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

Financial year ended **31 December 2012**

Units **£000**

As at end of this financial year 1	As at end of the previous year 2
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Regulatory excess capital

Regulatory value of assets	Long-term admissible assets of the fund	11	6235693	
	Implicit items allocated to the fund	12		
	Mathematical reserves in respect of the fund's non-profit insurance contracts	13	962731	
	Long-term admissible assets of the fund covering the LTICR of the fund's non-profit insurance contracts	14	39903	
	Long-term admissible assets of the fund covering the RCR of the fund's non-profit insurance contracts	15		
	Total (11+12-(13+14+15))	19	5233059	
Regulatory value of liabilities	Mathematical reserves (after distribution of surplus) in respect of the fund's with-profits insurance contracts	21	3599559	
	Regulatory current liabilities of the fund	22	283918	
	Total (21+22)	29	3883477	
Long-term insurance capital requirement in respect of the fund's with-profits insurance contracts		31	150529	
Resilience capital requirement in respect of the fund's with-profits insurance contracts		32		
Sum of regulatory value of liabilities, LTICR and RCR (29+31+32)		39	4034006	
Regulatory excess capital (19-39)		49	1199053	

Realistic excess capital

Realistic excess capital	51		
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Excess assets allocated to with-profits insurance business

Excess (deficiency) of assets allocated to with-profits insurance business in fund (49-51)	61	1199053	
Face amount of capital instruments attributed to the fund and included in capital resources (unstressed)	62		
Realistic amount of capital instruments attributed to the fund and included in capital resources (stressed)	63		
Present value of future shareholder transfers arising from distribution of surplus	64	100537	
Present value of other future internal transfers not already taken into account	65	(19830)	
With-profits insurance capital component for fund (if 62 exceeds 63, greater of 61+62-63-64-65 and zero, else greater of 61-64-65 and zero)	66	1118346	

With-profits insurance capital component for the fund

Name of insurer **Friends Life Limited**

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

Financial year ended **31 December 2012**

Units **£000**

As at end of this financial year 1	As at end of the previous year 2
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Regulatory excess capital

Regulatory value of assets	Long-term admissible assets of the fund	11	1558712	
	Implicit items allocated to the fund	12		
	Mathematical reserves in respect of the fund's non-profit insurance contracts	13	141950	
	Long-term admissible assets of the fund covering the LTICR of the fund's non-profit insurance contracts	14	5794	
	Long-term admissible assets of the fund covering the RCR of the fund's non-profit insurance contracts	15		
	Total (11+12-(13+14+15))	19	1410968	
Regulatory value of liabilities	Mathematical reserves (after distribution of surplus) in respect of the fund's with-profits insurance contracts	21	944496	
	Regulatory current liabilities of the fund	22	31001	
	Total (21+22)	29	975497	
Long-term insurance capital requirement in respect of the fund's with-profits insurance contracts		31	39197	
Resilience capital requirement in respect of the fund's with-profits insurance contracts		32		
Sum of regulatory value of liabilities, LTICR and RCR (29+31+32)		39	1014694	
Regulatory excess capital (19-39)		49	396274	

Realistic excess capital

Realistic excess capital	51		
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Excess assets allocated to with-profits insurance business

Excess (deficiency) of assets allocated to with-profits insurance business in fund (49-51)	61	396274	
Face amount of capital instruments attributed to the fund and included in capital resources (unstressed)	62		
Realistic amount of capital instruments attributed to the fund and included in capital resources (stressed)	63		
Present value of future shareholder transfers arising from distribution of surplus	64	30149	
Present value of other future internal transfers not already taken into account	65		
With-profits insurance capital component for fund (if 62 exceeds 63, greater of 61+62-63-64-65 and zero, else greater of 61-64-65 and zero)	66	366125	

With-profits insurance capital component for the fundName of insurer **Friends Life Limited**With-profits fund **FLAS With Profits Fund**Financial year ended **31 December 2012**Units **£000**

As at end of this financial year 1	As at end of the previous year 2
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Regulatory excess capital

Regulatory value of assets	Long-term admissible assets of the fund	11	8172413	
	Implicit items allocated to the fund	12		
	Mathematical reserves in respect of the fund's non-profit insurance contracts	13	4144770	
	Long-term admissible assets of the fund covering the LTICR of the fund's non-profit insurance contracts	14	204717	
	Long-term admissible assets of the fund covering the RCR of the fund's non-profit insurance contracts	15		
	Total (11+12-(13+14+15))	19	3822926	
Regulatory value of liabilities	Mathematical reserves (after distribution of surplus) in respect of the fund's with-profits insurance contracts	21	2636036	
	Regulatory current liabilities of the fund	22	233420	
	Total (21+22)	29	2869456	
Long-term insurance capital requirement in respect of the fund's with-profits insurance contracts		31	107435	
Resilience capital requirement in respect of the fund's with-profits insurance contracts		32		
Sum of regulatory value of liabilities, LTICR and RCR (29+31+32)		39	2976891	
Regulatory excess capital (19-39)		49	846035	

Realistic excess capital

Realistic excess capital	51		
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Excess assets allocated to with-profits insurance business

Excess (deficiency) of assets allocated to with-profits insurance business in fund (49-51)	61	846035	
Face amount of capital instruments attributed to the fund and included in capital resources (unstressed)	62		
Realistic amount of capital instruments attributed to the fund and included in capital resources (stressed)	63		
Present value of future shareholder transfers arising from distribution of surplus	64	124934	
Present value of other future internal transfers not already taken into account	65		
With-profits insurance capital component for fund (if 62 exceeds 63, greater of 61+62-63-64-65 and zero, else greater of 61-64-65 and zero)	66	721101	

Realistic balance sheet

Name of insurer **Friends Life Limited**
 With-profits fund **FP With Profits Fund**
 Financial year ended **31 December 2012**
 Units **£000**

As at end of this financial year 1	As at end of the previous year 2
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Realistic value of assets available to the fund

Regulatory value of assets	11	8836487	9258093
Implicit items allocated to the fund	12		
Value of shares in subsidiaries held in fund (regulatory)	13		
Excess admissible assets	21		
Present value of future profits (or losses) on non-profit insurance contracts written in the fund	22	238722	180892
Value of derivatives and quasi-derivatives not already reflected in lines 11 to 22	23		
Value of shares in subsidiaries held in fund (realistic)	24		
Prepayments made from the fund	25		
Realistic value of assets of fund (11+21+22+23+24+25-(12+13))	26	9075210	9438985
Support arrangement assets	27	6840	18651
Assets available to the fund (26+27)	29	9082050	9457636

Realistic value of liabilities of fund

With-profits benefit reserve	31	6905685	7305549
Future policy related liabilities	Past miscellaneous surplus attributed to with-profits benefits reserve	32	
	Past miscellaneous deficit attributed to with-profits benefits reserve	33	
	Planned enhancements to with-profits benefits reserve	34	118455
	Planned deductions for the costs of guarantees, options and smoothing from with-profits benefits reserve	35	553
	Planned deductions for other costs deemed chargeable to with-profits benefits reserve	36	60014
	Future costs of contractual guarantees (other than financial options)	41	354785
	Future costs of non-contractual commitments	42	
	Future costs of financial options	43	563023
	Future costs of smoothing (possibly negative)	44	83970
	Financing costs	45	54885
	Any other liabilities related to regulatory duty to treat customers fairly	46	
	Other long-term insurance liabilities	47	242774
	Total (32+34+41+42+43+44+45+46+47-(33+35+36))	49	1357325
Realistic current liabilities of the fund	51	628357	517106
Realistic value of liabilities of fund (31+49+51)	59	8891367	9253510

Realistic balance sheet

Name of insurer **Friends Life Limited**
 With-profits fund **FP With Profits Fund**
 Financial year ended **31 December 2012**
 Units **£000**

As at end of this financial year 1	As at end of the previous year 2
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Realistic excess capital and additional capital available

Value of relevant assets before applying the most adverse scenario other than the present value of future profits arising from business outside with-profits funds	62	9075210	9438985
Amount of present value of future profits (or losses) on long-term insurance contracts written outside the fund included in the value of relevant assets before applying most adverse scenario	63		
Value of relevant assets before applying the most adverse scenario (62+63)	64	9075210	9438985
Risk capital margin for fund (62-59)	65	183843	185475
Realistic excess capital for fund (26-(59+65))	66		
Realistic excess available capital for fund (29-(59+65))	67	6840	18651
Working capital for fund (29-59)	68	190683	204126
Working capital ratio for fund (68/29)	69	2.10	2.16

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

Additional amount potentially available for inclusion in line 62	81	1440200	1624646
Additional amount potentially available for inclusion in line 63	82	888215	234500

Realistic balance sheet

Name of insurer **Friends Life Limited**
 With-profits fund **FPLAL With Profits Fund**
 Financial year ended **31 December 2012**
 Units **£000**

As at end of this financial year 1	As at end of the previous year 2
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Realistic value of assets available to the fund

Regulatory value of assets	11	199369	215979
Implicit items allocated to the fund	12		
Value of shares in subsidiaries held in fund (regulatory)	13		
Excess admissible assets	21		
Present value of future profits (or losses) on non-profit insurance contracts written in the fund	22	8589	9493
Value of derivatives and quasi-derivatives not already reflected in lines 11 to 22	23		
Value of shares in subsidiaries held in fund (realistic)	24		
Prepayments made from the fund	25		
Realistic value of assets of fund (11+21+22+23+24+25-(12+13))	26	207958	225472
Support arrangement assets	27		
Assets available to the fund (26+27)	29	207958	225472

Realistic value of liabilities of fund

With-profits benefit reserve	31	93212	103135
Future policy related liabilities	Past miscellaneous surplus attributed to with-profits benefits reserve	32	
	Past miscellaneous deficit attributed to with-profits benefits reserve	33	
	Planned enhancements to with-profits benefits reserve	34	69682
	Planned deductions for the costs of guarantees, options and smoothing from with-profits benefits reserve	35	
	Planned deductions for other costs deemed chargeable to with-profits benefits reserve	36	(173)
	Future costs of contractual guarantees (other than financial options)	41	7424
	Future costs of non-contractual commitments	42	
	Future costs of financial options	43	20053
	Future costs of smoothing (possibly negative)	44	
	Financing costs	45	
	Any other liabilities related to regulatory duty to treat customers fairly	46	
	Other long-term insurance liabilities	47	1396
	Total (32+34+41+42+43+44+45+46+47-(33+35+36))	49	98729
Realistic current liabilities of the fund	51	12542	5561
Realistic value of liabilities of fund (31+49+51)	59	204483	222282

Realistic balance sheet

Name of insurer **Friends Life Limited**
 With-profits fund **FPLAL With Profits Fund**
 Financial year ended **31 December 2012**
 Units **£000**

As at end of this financial year 1	As at end of the previous year 2
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Realistic excess capital and additional capital available

Value of relevant assets before applying the most adverse scenario other than the present value of future profits arising from business outside with-profits funds	62	207958	225472
Amount of present value of future profits (or losses) on long-term insurance contracts written outside the fund included in the value of relevant assets before applying most adverse scenario	63		
Value of relevant assets before applying the most adverse scenario (62+63)	64	207958	225472
Risk capital margin for fund (62-59)	65	3476	3190
Realistic excess capital for fund (26-(59+65))	66		(1)
Realistic excess available capital for fund (29-(59+65))	67		(1)
Working capital for fund (29-59)	68	3476	3190
Working capital ratio for fund (68/29)	69	1.67	1.41

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

Additional amount potentially available for inclusion in line 62	81	1440200	1624646
Additional amount potentially available for inclusion in line 63	82	888215	234500

Realistic balance sheet

Name of insurer **Friends Life Limited**
 With-profits fund **FLC New With Profits Fund**
 Financial year ended **31 December 2012**
 Units **£000**

As at end of this financial year 1	As at end of the previous year 2
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Realistic value of assets available to the fund

Regulatory value of assets	11	5233059	
Implicit items allocated to the fund	12		
Value of shares in subsidiaries held in fund (regulatory)	13		
Excess admissible assets	21		
Present value of future profits (or losses) on non-profit insurance contracts written in the fund	22	218802	
Value of derivatives and quasi-derivatives not already reflected in lines 11 to 22	23		
Value of shares in subsidiaries held in fund (realistic)	24		
Prepayments made from the fund	25		
Realistic value of assets of fund (11+21+22+23+24+25-(12+13))	26	5451861	
Support arrangement assets	27		
Assets available to the fund (26+27)	29	5451861	

Realistic value of liabilities of fund

With-profits benefit reserve	31	3351021	
Future policy related liabilities	Past miscellaneous surplus attributed to with-profits benefits reserve	32	
	Past miscellaneous deficit attributed to with-profits benefits reserve	33	
	Planned enhancements to with-profits benefits reserve	34	1177325
	Planned deductions for the costs of guarantees, options and smoothing from with-profits benefits reserve	35	
	Planned deductions for other costs deemed chargeable to with-profits benefits reserve	36	
	Future costs of contractual guarantees (other than financial options)	41	331695
	Future costs of non-contractual commitments	42	
	Future costs of financial options	43	209760
	Future costs of smoothing (possibly negative)	44	(61693)
	Financing costs	45	
	Any other liabilities related to regulatory duty to treat customers fairly	46	
	Other long-term insurance liabilities	47	159845
Total (32+34+41+42+43+44+45+46+47-(33+35+36))		49	1816932
Realistic current liabilities of the fund	51	283908	
Realistic value of liabilities of fund (31+49+51)	59	5451861	

Realistic balance sheet

Name of insurer **Friends Life Limited**
 With-profits fund **FLC New With Profits Fund**
 Financial year ended **31 December 2012**
 Units **£000**

As at end of this financial year 1	As at end of the previous year 2
--	--

Realistic excess capital and additional capital available

Value of relevant assets before applying the most adverse scenario other than the present value of future profits arising from business outside with-profits funds	62	5451861	
Amount of present value of future profits (or losses) on long-term insurance contracts written outside the fund included in the value of relevant assets before applying most adverse scenario	63		
Value of relevant assets before applying the most adverse scenario (62+63)	64	5451861	
Risk capital margin for fund (62-59)	65		
Realistic excess capital for fund (26-(59+65))	66		
Realistic excess available capital for fund (29-(59+65))	67		
Working capital for fund (29-59)	68		
Working capital ratio for fund (68/29)	69		

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

Additional amount potentially available for inclusion in line 62	81	1440200	
Additional amount potentially available for inclusion in line 63	82	888215	

Realistic balance sheet

Name of insurer **Friends Life Limited**
 With-profits fund **FLC Old With Profits Fund**
 Financial year ended **31 December 2012**
 Units **£000**

As at end of this financial year 1	As at end of the previous year 2
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Realistic value of assets available to the fund

Regulatory value of assets	11	1410968	
Implicit items allocated to the fund	12		
Value of shares in subsidiaries held in fund (regulatory)	13		
Excess admissible assets	21		
Present value of future profits (or losses) on non-profit insurance contracts written in the fund	22	29404	
Value of derivatives and quasi-derivatives not already reflected in lines 11 to 22	23		
Value of shares in subsidiaries held in fund (realistic)	24		
Prepayments made from the fund	25		
Realistic value of assets of fund (11+21+22+23+24+25-(12+13))	26	1440372	
Support arrangement assets	27		
Assets available to the fund (26+27)	29	1440372	

Realistic value of liabilities of fund

With-profits benefit reserve	31	877991	
Future policy related liabilities	Past miscellaneous surplus attributed to with-profits benefits reserve	32	
	Past miscellaneous deficit attributed to with-profits benefits reserve	33	
	Planned enhancements to with-profits benefits reserve	34	350439
	Planned deductions for the costs of guarantees, options and smoothing from with-profits benefits reserve	35	
	Planned deductions for other costs deemed chargeable to with-profits benefits reserve	36	
	Future costs of contractual guarantees (other than financial options)	41	84246
	Future costs of non-contractual commitments	42	
	Future costs of financial options	43	70870
	Future costs of smoothing (possibly negative)	44	(9847)
	Financing costs	45	
	Any other liabilities related to regulatory duty to treat customers fairly	46	
	Other long-term insurance liabilities	47	30619
	Total (32+34+41+42+43+44+45+46+47-(33+35+36))	49	526327
Realistic current liabilities of the fund	51	36054	
Realistic value of liabilities of fund (31+49+51)	59	1440372	

Realistic balance sheet

Name of insurer **Friends Life Limited**
 With-profits fund **FLC Old With Profits Fund**
 Financial year ended **31 December 2012**
 Units **£000**

As at end of this financial year 1	As at end of the previous year 2
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Realistic excess capital and additional capital available

Value of relevant assets before applying the most adverse scenario other than the present value of future profits arising from business outside with-profits funds	62	1440372	
Amount of present value of future profits (or losses) on long-term insurance contracts written outside the fund included in the value of relevant assets before applying most adverse scenario	63		
Value of relevant assets before applying the most adverse scenario (62+63)	64	1440372	
Risk capital margin for fund (62-59)	65		
Realistic excess capital for fund (26-(59+65))	66		
Realistic excess available capital for fund (29-(59+65))	67		
Working capital for fund (29-59)	68		
Working capital ratio for fund (68/29)	69		

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

Additional amount potentially available for inclusion in line 62	81	1440200	
Additional amount potentially available for inclusion in line 63	82	888215	

Realistic balance sheet

Name of insurer **Friends Life Limited**
 With-profits fund **FLAS With Profits Fund**
 Financial year ended **31 December 2012**
 Units **£000**

As at end of this financial year 1	As at end of the previous year 2
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Realistic value of assets available to the fund

Regulatory value of assets	11	3822926	
Implicit items allocated to the fund	12		
Value of shares in subsidiaries held in fund (regulatory)	13		
Excess admissible assets	21		
Present value of future profits (or losses) on non-profit insurance contracts written in the fund	22	469315	
Value of derivatives and quasi-derivatives not already reflected in lines 11 to 22	23		
Value of shares in subsidiaries held in fund (realistic)	24		
Prepayments made from the fund	25		
Realistic value of assets of fund (11+21+22+23+24+25-(12+13))	26	4292241	
Support arrangement assets	27		
Assets available to the fund (26+27)	29	4292241	

Realistic value of liabilities of fund

With-profits benefit reserve	31	2812757	
Future policy related liabilities	Past miscellaneous surplus attributed to with-profits benefits reserve	32	
	Past miscellaneous deficit attributed to with-profits benefits reserve	33	
	Planned enhancements to with-profits benefits reserve	34	804246
	Planned deductions for the costs of guarantees, options and smoothing from with-profits benefits reserve	35	
	Planned deductions for other costs deemed chargeable to with-profits benefits reserve	36	
	Future costs of contractual guarantees (other than financial options)	41	263720
	Future costs of non-contractual commitments	42	
	Future costs of financial options	43	116075
	Future costs of smoothing (possibly negative)	44	(12923)
	Financing costs	45	(26415)
	Any other liabilities related to regulatory duty to treat customers fairly	46	
	Other long-term insurance liabilities	47	71892
	Total (32+34+41+42+43+44+45+46+47-(33+35+36))	49	1216595
Realistic current liabilities of the fund	51	262889	
Realistic value of liabilities of fund (31+49+51)	59	4292241	

Realistic balance sheet

Name of insurer **Friends Life Limited**
 With-profits fund **FLAS With Profits Fund**
 Financial year ended **31 December 2012**
 Units **£000**

As at end of this financial year 1	As at end of the previous year 2
--	--

Realistic excess capital and additional capital available

Value of relevant assets before applying the most adverse scenario other than the present value of future profits arising from business outside with-profits funds	62	4292241	
Amount of present value of future profits (or losses) on long-term insurance contracts written outside the fund included in the value of relevant assets before applying most adverse scenario	63		
Value of relevant assets before applying the most adverse scenario (62+63)	64	4292241	
Risk capital margin for fund (62-59)	65		
Realistic excess capital for fund (26-(59+65))	66		
Realistic excess available capital for fund (29-(59+65))	67		
Working capital for fund (29-59)	68		
Working capital ratio for fund (68/29)	69		

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

Additional amount potentially available for inclusion in line 62	81	1440200	
Additional amount potentially available for inclusion in line 63	82	888215	

Long-term insurance business : Revenue account

Name of insurer **Friends Life Limited**
 Total business / subfund **Summary**
 Financial year ended **31 December 2012**
 Units **£000**

Financial year	Previous year
1	2

Income

Earned premiums	11	816670	2117257
Investment income receivable before deduction of tax	12	675283	553356
Increase (decrease) in the value of non-linked assets brought into account	13	314496	668404
Increase (decrease) in the value of linked assets	14	125851	(191619)
Other income	15	62787	36037
Total income	19	1995087	3183435

Expenditure

Claims incurred	21	2102001	1862998
Expenses payable	22	441266	223560
Interest payable before the deduction of tax	23	17412	25726
Taxation	24	36319	11773
Other expenditure	25	38170	62255
Transfer to (from) non technical account	26	13917	88168
Total expenditure	29	2649085	2274480

Business transfers - in	31	38378910	1793806
Business transfers - out	32		
Increase (decrease) in fund in financial year (19-29+31-32)	39	37724912	2702761
Fund brought forward	49	14645488	11942727
Fund carried forward (39+49)	59	52370400	14645488

Long-term insurance business : Revenue account

Name of insurer **Friends Life Limited**
 Total business / subfund **FP With Profits Fund**
 Financial year ended **31 December 2012**
 Units **£000**

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

Income

Earned premiums	11	204246	203499
Investment income receivable before deduction of tax	12	431056	427971
Increase (decrease) in the value of non-linked assets brought into account	13	253237	615592
Increase (decrease) in the value of linked assets	14		
Other income	15	34414	46026
Total income	19	922953	1293088

Expenditure

Claims incurred	21	1356643	1378035
Expenses payable	22	64653	65560
Interest payable before the deduction of tax	23	5313	10473
Taxation	24	59312	57883
Other expenditure	25		
Transfer to (from) non technical account	26	13917	13168
Total expenditure	29	1499838	1525119

Business transfers - in	31		
Business transfers - out	32		
Increase (decrease) in fund in financial year (19-29+31-32)	39	(576885)	(232031)
Fund brought forward	49	9555583	9787614
Fund carried forward (39+49)	59	8978698	9555583

Long-term insurance business : Revenue account

Name of insurer **Friends Life Limited**
 Total business / subfund **FPLAL With Profits Fund**
 Financial year ended **31 December 2012**
 Units **£000**

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

Income

Earned premiums	11	3451	416
Investment income receivable before deduction of tax	12	9863	549
Increase (decrease) in the value of non-linked assets brought into account	13	1845	33661
Increase (decrease) in the value of linked assets	14		
Other income	15	133	11
Total income	19	15292	34637

Expenditure

Claims incurred	21	37705	2880
Expenses payable	22	644	(150)
Interest payable before the deduction of tax	23	103	4
Taxation	24	540	373
Other expenditure	25		
Transfer to (from) non technical account	26		
Total expenditure	29	38992	3107

Business transfers - in	31		242684
Business transfers - out	32		
Increase (decrease) in fund in financial year (19-29+31-32)	39	(23700)	274214
Fund brought forward	49	274214	
Fund carried forward (39+49)	59	250514	274214

Long-term insurance business : Revenue account

Name of insurer **Friends Life Limited**
 Total business / subfund **FLC New With Profits Fund**
 Financial year ended **31 December 2012**
 Units **£000**

Financial year	Previous year
1	2

Income

Earned premiums	11	1679	
Investment income receivable before deduction of tax	12	1604	
Increase (decrease) in the value of non-linked assets brought into account	13	(666)	
Increase (decrease) in the value of linked assets	14		
Other income	15		
Total income	19	2617	

Expenditure

Claims incurred	21	4383	
Expenses payable	22	233	
Interest payable before the deduction of tax	23	7	
Taxation	24	13843	
Other expenditure	25		
Transfer to (from) non technical account	26		
Total expenditure	29	18466	

Business transfers - in	31	4661748	
Business transfers - out	32		
Increase (decrease) in fund in financial year (19-29+31-32)	39	4645899	
Fund brought forward	49		
Fund carried forward (39+49)	59	4645899	

Long-term insurance business : Revenue account

Name of insurer **Friends Life Limited**
 Total business / subfund **FLC Old With Profits Fund**
 Financial year ended **31 December 2012**
 Units **£000**

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

Income

Earned premiums	11	246	
Investment income receivable before deduction of tax	12	348	
Increase (decrease) in the value of non-linked assets brought into account	13	(1691)	
Increase (decrease) in the value of linked assets	14		
Other income	15		
Total income	19	(1097)	

Expenditure

Claims incurred	21	709	
Expenses payable	22	49	
Interest payable before the deduction of tax	23	3	
Taxation	24	2509	
Other expenditure	25		
Transfer to (from) non technical account	26		
Total expenditure	29	3270	

Business transfers - in	31	1090811	
Business transfers - out	32		
Increase (decrease) in fund in financial year (19-29+31-32)	39	1086445	
Fund brought forward	49		
Fund carried forward (39+49)	59	1086445	

Long-term insurance business : Revenue account

Name of insurer **Friends Life Limited**
 Total business / subfund **FLAS With Profits Fund**
 Financial year ended **31 December 2012**
 Units **£000**

Financial year	Previous year
1	2

Income

Earned premiums	11	119	
Investment income receivable before deduction of tax	12	2308	
Increase (decrease) in the value of non-linked assets brought into account	13	(14856)	
Increase (decrease) in the value of linked assets	14		
Other income	15		
Total income	19	(12429)	

Expenditure

Claims incurred	21	4791	
Expenses payable	22	189	
Interest payable before the deduction of tax	23	1	
Taxation	24	13602	
Other expenditure	25		
Transfer to (from) non technical account	26		
Total expenditure	29	18583	

Business transfers - in	31	6811818	
Business transfers - out	32		
Increase (decrease) in fund in financial year (19-29+31-32)	39	6780806	
Fund brought forward	49		
Fund carried forward (39+49)	59	6780806	

Long-term insurance business : Revenue account

Name of insurer **Friends Life Limited**
 Total business / subfund **Non Profit Fund**
 Financial year ended **31 December 2012**
 Units **£000**

Financial year	Previous year
1	2

Income

Earned premiums	11	606928	1913342
Investment income receivable before deduction of tax	12	230104	124836
Increase (decrease) in the value of non-linked assets brought into account	13	76627	19151
Increase (decrease) in the value of linked assets	14	125851	(191619)
Other income	15	28240	
Total income	19	1067750	1865710

Expenditure

Claims incurred	21	697770	482083
Expenses payable	22	375498	158150
Interest payable before the deduction of tax	23	11985	15249
Taxation	24	(53487)	(46483)
Other expenditure	25	38170	72255
Transfer to (from) non technical account	26		75000
Total expenditure	29	1069937	756254

Business transfers - in	31	25814533	1551122
Business transfers - out	32		
Increase (decrease) in fund in financial year (19-29+31-32)	39	25812347	2660578
Fund brought forward	49	4815691	2155113
Fund carried forward (39+49)	59	30628038	4815691

Long-term insurance business : Analysis of premiums

Name of insurer **Friends Life Limited**
Total business / subfund **Summary**
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	615921	233524	106314	955760	641518
Single premiums	12	16544	256396	15477	288417	148612

Reinsurance - external

Regular premiums	13	153516	85749	816	240081	39869
Single premiums	14	82	(48)		34	6

Reinsurance - intra-group

Regular premiums	15	21992	66353	3141	91486	117358
Single premiums	16	2177	93643	86	95906	(1484360)

Net of reinsurance

Regular premiums	17	440414	81422	102357	624193	484291
Single premiums	18	14285	162802	15391	192477	1632966

Total

Gross	19	632465	489921	121791	1244177	790130
Reinsurance	20	177767	245697	4043	427507	(1327127)
Net	21	454698	244224	117748	816670	2117257

Long-term insurance business : Analysis of premiums

Name of insurer **Friends Life Limited**
Total business / subfund **FP With Profits Fund**
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	135087	146744	4667	286498	308846
Single premiums	12	95	77038	38	77171	83116

Reinsurance - external

Regular premiums	13	6055	85	11	6151	7255
Single premiums	14					

Reinsurance - intra-group

Regular premiums	15	21067	43462	2131	66660	76095
Single premiums	16	2094	84467	51	86612	105113

Net of reinsurance

Regular premiums	17	107965	103197	2525	213687	225496
Single premiums	18	(1999)	(7429)	(13)	(9441)	(21997)

Total

Gross	19	135182	223782	4705	363669	391962
Reinsurance	20	29216	128014	2193	159423	188463
Net	21	105966	95768	2512	204246	203499

Long-term insurance business : Analysis of premiums

Name of insurer **Friends Life Limited**
 Total business / subfund **FPLAL With Profits Fund**
 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	1101	174		1275	111
Single premiums	12		2180		2180	305

Reinsurance - external

Regular premiums	13	4			4	
Single premiums	14					

Reinsurance - intra-group

Regular premiums	15					
Single premiums	16					

Net of reinsurance

Regular premiums	17	1097	174		1271	111
Single premiums	18		2180		2180	305

Total

Gross	19	1101	2354		3455	416
Reinsurance	20	4			4	
Net	21	1097	2354		3451	416

Long-term insurance business : Analysis of premiums

Name of insurer **Friends Life Limited**
 Total business / subfund **FLC New With Profits Fund**
 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	1072	181	10	1263	
Single premiums	12	3	413		416	

Reinsurance - external

Regular premiums	13					
Single premiums	14					

Reinsurance - intra-group

Regular premiums	15					
Single premiums	16					

Net of reinsurance

Regular premiums	17	1072	181	10	1263	
Single premiums	18	3	413		416	

Total

Gross	19	1075	595	10	1679	
Reinsurance	20					
Net	21	1075	595	10	1679	

Long-term insurance business : Analysis of premiums

Name of insurer **Friends Life Limited**
 Total business / subfund **FLC Old With Profits Fund**
 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	126	17		143	
Single premiums	12		104		104	

Reinsurance - external

Regular premiums	13					
Single premiums	14					

Reinsurance - intra-group

Regular premiums	15					
Single premiums	16					

Net of reinsurance

Regular premiums	17	126	17		143	
Single premiums	18		104		104	

Total

Gross	19	126	120		246	
Reinsurance	20					
Net	21	126	120		246	

Long-term insurance business : Analysis of premiums

Name of insurer **Friends Life Limited**
 Total business / subfund **FLAS With Profits Fund**
 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	544	724		1268	
Single premiums	12	74	995		1069	

Reinsurance - external

Regular premiums	13	14	1061		1075	
Single premiums	14					

Reinsurance - intra-group

Regular premiums	15	86	502		588	
Single premiums	16	31	524		555	

Net of reinsurance

Regular premiums	17	444	(839)		(395)	
Single premiums	18	43	471		514	

Total

Gross	19	618	1719		2337	
Reinsurance	20	131	2087		2218	
Net	21	487	(368)		119	

Long-term insurance business : Analysis of premiums

Name of insurer **Friends Life Limited**
 Total business / subfund **Non Profit Fund**
 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	478078	86186	101637	665901	332561
Single premiums	12	16403	176190	15439	208032	65191

Reinsurance - external

Regular premiums	13	147443	84603	805	232851	32614
Single premiums	14	82	(48)		34	6

Reinsurance - intra-group

Regular premiums	15	925	22891	1010	24826	41263
Single premiums	16	83	9176	35	9294	(1589473)

Net of reinsurance

Regular premiums	17	329710	(21308)	99822	408224	258684
Single premiums	18	16238	167062	15404	198704	1654658

Total

Gross	19	494480	262377	117076	873933	397752
Reinsurance	20	148533	116622	1850	267005	(1515590)
Net	21	345948	145755	115226	606928	1913342

Long-term insurance business : Analysis of claims

Name of insurer **Friends Life Limited**
Total business / subfund **Summary**
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	243856	65488	6893	316237	179526
Disability periodic payments	12	43773	66	37	43875	25304
Surrender or partial surrender	13	709592	1040639	75085	1825316	1506761
Annuity payments	14	2328	344754	4689	351771	206448
Lump sums on maturity	15	549348	84529	11769	645646	641091
Total	16	1548896	1535476	98472	3182845	2559130

Reinsurance - external

Death or disability lump sums	21	96201	27963	150	124314	27654
Disability periodic payments	22	8926			8926	2064
Surrender or partial surrender	23	2			2	(575)
Annuity payments	24	20	118360		118380	9783
Lump sums on maturity	25	141			141	4
Total	26	105290	146323	150	251763	38930

Reinsurance - intra-group

Death or disability lump sums	31	15017	7827	734	23578	32218
Disability periodic payments	32					6
Surrender or partial surrender	33	114362	579563	19598	713523	556251
Annuity payments	34		53318		53318	22659
Lump sums on maturity	35	31718	3375	3568	38661	46068
Total	36	161097	644083	23900	829080	657202

Net of reinsurance

Death or disability lump sums	41	132638	29698	6009	168345	119654
Disability periodic payments	42	34846	66	37	34949	23234
Surrender or partial surrender	43	595228	461076	55487	1111791	951085
Annuity payments	44	2308	173075	4689	180072	174006
Lump sums on maturity	45	517489	81154	8201	606844	595019
Total	46	1282509	745069	74422	2102001	1862998

Long-term insurance business : Analysis of claims

Name of insurer **Friends Life Limited**
 Total business / subfund **FP With Profits Fund**
 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	61762	18849	2015	82626	88000
Disability periodic payments	12					
Surrender or partial surrender	13	289000	906995	30200	1226195	972437
Annuity payments	14	1203	170147	9	171359	175141
Lump sums on maturity	15	481457	79912	3942	565311	602429
Total	16	833422	1175903	36166	2045491	1838007

Reinsurance - external

Death or disability lump sums	21	4214	265		4479	4769
Disability periodic payments	22					
Surrender or partial surrender	23					(575)
Annuity payments	24	20			20	20
Lump sums on maturity	25	103			103	4
Total	26	4337	265		4602	4218

Reinsurance - intra-group

Death or disability lump sums	31	12736	6577	365	19678	19535
Disability periodic payments	32					
Surrender or partial surrender	33	97881	519737	10131	627749	401697
Annuity payments	34		2066		2066	2535
Lump sums on maturity	35	29718	3062	1973	34753	31987
Total	36	140335	531442	12469	684246	455754

Net of reinsurance

Death or disability lump sums	41	44812	12007	1650	58469	63696
Disability periodic payments	42					
Surrender or partial surrender	43	191119	387258	20069	598446	571315
Annuity payments	44	1183	168081	9	169273	172586
Lump sums on maturity	45	451636	76850	1969	530455	570438
Total	46	688750	644196	23697	1356643	1378035

Long-term insurance business : Analysis of claims

Name of insurer **Friends Life Limited**
 Total business / subfund **FPLAL With Profits Fund**
 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	2067	296		2363	13
Disability periodic payments	12					
Surrender or partial surrender	13	2571	4079		6650	766
Annuity payments	14	37	3726		3763	302
Lump sums on maturity	15	24035	932		24967	1799
Total	16	28710	9033		37743	2880

Reinsurance - external

Death or disability lump sums	21					
Disability periodic payments	22					
Surrender or partial surrender	23					
Annuity payments	24					
Lump sums on maturity	25	38			38	
Total	26	38			38	

Reinsurance - intra-group

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

Net of reinsurance

Death or disability lump sums	41	2067	296		2363	13
Disability periodic payments	42					
Surrender or partial surrender	43	2571	4079		6650	766
Annuity payments	44	37	3726		3763	302
Lump sums on maturity	45	23997	932		24929	1799
Total	46	28672	9033		37705	2880

Long-term insurance business : Analysis of claims

Name of insurer **Friends Life Limited**
Total business / subfund **FLC New With Profits Fund**
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			582	582	
Disability periodic payments	12					
Surrender or partial surrender	13			1562	1562	
Annuity payments	14			271	271	
Lump sums on maturity	15			1968	1968	
Total	16			4383	4383	

Reinsurance - external

Death or disability lump sums	21					
Disability periodic payments	22					
Surrender or partial surrender	23					
Annuity payments	24					
Lump sums on maturity	25					
Total	26					

Reinsurance - intra-group

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

Net of reinsurance

Death or disability lump sums	41			582	582	
Disability periodic payments	42					
Surrender or partial surrender	43			1562	1562	
Annuity payments	44			271	271	
Lump sums on maturity	45			1968	1968	
Total	46			4383	4383	

Long-term insurance business : Analysis of claims

Name of insurer **Friends Life Limited**
 Total business / subfund **FLC Old With Profits Fund**
 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	64			64	
Disability periodic payments	12					
Surrender or partial surrender	13	130		130	260	
Annuity payments	14			31	31	
Lump sums on maturity	15		2	352	354	
Total	16	194	2	513	709	

Reinsurance - external

Death or disability lump sums	21					
Disability periodic payments	22					
Surrender or partial surrender	23					
Annuity payments	24					
Lump sums on maturity	25					
Total	26					

Reinsurance - intra-group

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

Net of reinsurance

Death or disability lump sums	41	64			64	
Disability periodic payments	42					
Surrender or partial surrender	43	130		130	260	
Annuity payments	44			31	31	
Lump sums on maturity	45		2	352	354	
Total	46	194	2	513	709	

Long-term insurance business : Analysis of claims

Name of insurer **Friends Life Limited**
 Total business / subfund **FLAS With Profits Fund**
 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	1106	119		1225	
Disability periodic payments	12	7			7	
Surrender or partial surrender	13	2299	4708		7007	
Annuity payments	14	57	2660		2717	
Lump sums on maturity	15	1190	830		2020	
Total	16	4659	8317		12976	

Reinsurance - external

Death or disability lump sums	21					
Disability periodic payments	22					
Surrender or partial surrender	23					
Annuity payments	24		1069		1069	
Lump sums on maturity	25					
Total	26		1069		1069	

Reinsurance - intra-group

Death or disability lump sums	31	587	77		664	
Disability periodic payments	32					
Surrender or partial surrender	33	1801	2910		4711	
Annuity payments	34	58	1136		1194	
Lump sums on maturity	35		547		547	
Total	36	2446	4670		7116	

Net of reinsurance

Death or disability lump sums	41	519	42		561	
Disability periodic payments	42	7			7	
Surrender or partial surrender	43	498	1798		2296	
Annuity payments	44	(1)	455		454	
Lump sums on maturity	45	1190	283		1473	
Total	46	2213	2578		4791	

Long-term insurance business : Analysis of claims

Name of insurer **Friends Life Limited**
 Total business / subfund **Non Profit Fund**
 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	179444	46301	4296	230040	91513
Disability periodic payments	12	43766	66	37	43868	25304
Surrender or partial surrender	13	417393	127767	43192	588353	533558
Annuity payments	14	1089	169357	4378	174824	31005
Lump sums on maturity	15	42666	3400	5507	51573	36863
Total	16	684357	346891	57410	1088659	718243

Reinsurance - external

Death or disability lump sums	21	91987	27698	150	119835	22885
Disability periodic payments	22	8926			8926	2064
Surrender or partial surrender	23	2			2	
Annuity payments	24		117291		117291	9763
Lump sums on maturity	25					
Total	26	100915	144989	150	246054	34712

Reinsurance - intra-group

Death or disability lump sums	31	2281	1250	369	3900	12683
Disability periodic payments	32					6
Surrender or partial surrender	33	16481	59826	9467	85774	154554
Annuity payments	34		51252		51252	20124
Lump sums on maturity	35	2000	313	1595	3908	14081
Total	36	20762	112641	11431	144834	201448

Net of reinsurance

Death or disability lump sums	41	85176	17353	3777	106306	55945
Disability periodic payments	42	34839	66	37	34942	23234
Surrender or partial surrender	43	400910	67941	33725	502577	379004
Annuity payments	44	1089	813	4378	6281	1118
Lump sums on maturity	45	40666	3087	3912	47665	22782
Total	46	562680	89261	45829	697770	482083

Long-term insurance business : Analysis of expenses

Name of insurer **Friends Life Limited**
Total business / subfund **Summary**
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	111745	3445	31854	147043	17324
Commission - other	12	9402	1214	2439	13055	9283
Management - acquisition	13	66812	342	10189	77342	15367
Management - maintenance	14	85163	21665	9713	116541	75071
Management - other	15	70624	13035	2048	85707	46957
Total	16	343745	39701	56243	439689	164002

Reinsurance - external

Commission - acquisition	21	6	2		8	
Commission - other	22	129		11	140	110
Management - acquisition	23					
Management - maintenance	24					
Management - other	25					
Total	26	135	2	11	148	110

Reinsurance - intra-group

Commission - acquisition	31	5	(1747)	3	(1739)	(22985)
Commission - other	32		0		0	
Management - acquisition	33					(26805)
Management - maintenance	34	48	(33)		15	(9878)
Management - other	35					
Total	36	53	(1780)	3	(1724)	(59668)

Net of reinsurance

Commission - acquisition	41	111734	5190	31851	148774	40309
Commission - other	42	9273	1214	2428	12915	9173
Management - acquisition	43	66812	342	10189	77342	42172
Management - maintenance	44	85115	21698	9713	116526	84949
Management - other	45	70624	13035	2048	85707	46957
Total	46	343557	41478	56229	441265	223560

Long-term insurance business : Analysis of expenses

Name of insurer **Friends Life Limited**
 Total business / subfund **FP With Profits Fund**
 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	2	1359	3	1364	1490
Commission - other	12	921	1039	238	2198	3456
Management - acquisition	13					
Management - maintenance	14	9013	12615	401	22029	22671
Management - other	15	1222	(1117)	(13)	92	657
Total	16	11158	13896	629	25683	28274

Reinsurance - external

Commission - acquisition	21	6	2		8	
Commission - other	22					10
Management - acquisition	23					
Management - maintenance	24					
Management - other	25					
Total	26	6	2		8	10

Reinsurance - intra-group

Commission - acquisition	31	5	(1835)	3	(1827)	2343
Commission - other	32					
Management - acquisition	33					
Management - maintenance	34	(13353)	(23501)	(297)	(37151)	(39639)
Management - other	35					
Total	36	(13348)	(25336)	(294)	(38978)	(37296)

Net of reinsurance

Commission - acquisition	41	(9)	3192		3183	(853)
Commission - other	42	921	1039	238	2198	3446
Management - acquisition	43					
Management - maintenance	44	22366	36116	698	59180	62310
Management - other	45	1222	(1117)	(13)	92	657
Total	46	24500	39230	923	64653	65560

Long-term insurance business : Analysis of expenses

Name of insurer **Friends Life Limited**
 Total business / subfund **FPLAL With Profits Fund**
 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		11		11	
Commission - other	12	3			3	
Management - acquisition	13					
Management - maintenance	14	339	304		643	(163)
Management - other	15	(13)			(13)	13
Total	16	329	315		644	(150)

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					
Commission - other	32					
Management - acquisition	33					
Management - maintenance	34					
Management - other	35					
Total	36					

Net of reinsurance

Commission - acquisition	41		11		11	
Commission - other	42	3			3	
Management - acquisition	43					
Management - maintenance	44	339	304		643	(163)
Management - other	45	(13)			(13)	13
Total	46	329	315		644	(150)

Long-term insurance business : Analysis of expenses

Name of insurer **Friends Life Limited**
 Total business / subfund **FLC New With Profits Fund**
 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			17	17	
Commission - other	12			11	11	
Management - acquisition	13	6			6	
Management - maintenance	14	100	98		199	
Management - other	15					
Total	16	106	98	28	233	

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					
Commission - other	32					
Management - acquisition	33					
Management - maintenance	34					
Management - other	35					
Total	36					

Net of reinsurance

Commission - acquisition	41			17	17	
Commission - other	42			11	11	
Management - acquisition	43	6			6	
Management - maintenance	44	100	98		199	
Management - other	45					
Total	46	106	98	28	233	

Long-term insurance business : Analysis of expenses

Name of insurer **Friends Life Limited**
 Total business / subfund **FLC Old With Profits Fund**
 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	1			1	
Commission - other	12			1	1	
Management - acquisition	13	1			1	
Management - maintenance	14	13	33		46	
Management - other	15					
Total	16	15	33	1	49	

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					
Commission - other	32					
Management - acquisition	33					
Management - maintenance	34					
Management - other	35					
Total	36					

Net of reinsurance

Commission - acquisition	41	1			1	
Commission - other	42			1	1	
Management - acquisition	43	1			1	
Management - maintenance	44	13	33		46	
Management - other	45					
Total	46	14	33	1	49	

Long-term insurance business : Analysis of expenses

Name of insurer **Friends Life Limited**
 Total business / subfund **FLAS With Profits Fund**
 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	3	(4)		(1)	
Commission - other	12	1			1	
Management - acquisition	13	9	25		35	
Management - maintenance	14	175	272	5	452	
Management - other	15					
Total	16	188	294	5	487	

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	0	(3)		(3)	
Commission - other	32	1			1	
Management - acquisition	33					
Management - maintenance	34	117	179	4	300	
Management - other	35					
Total	36	119	176	4	299	

Net of reinsurance

Commission - acquisition	41	3	(0)		2	
Commission - other	42	0			0	
Management - acquisition	43	9	25		35	
Management - maintenance	44	58	93	1	152	
Management - other	45					
Total	46	70	118	1	189	

Long-term insurance business : Analysis of expenses

Name of insurer **Friends Life Limited**
 Total business / subfund **Non Profit Fund**
 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	111739	2076	31833	145648	15834
Commission - other	12	8478	175	2189	10842	5827
Management - acquisition	13	66796	316	10189	77302	15367
Management - maintenance	14	75640	8522	9311	93473	52563
Management - other	15	69415	14152	2061	85628	46287
Total	16	332068	25240	55584	412892	135878

Reinsurance - external

Commission - acquisition	21					
Commission - other	22	129		11	140	100
Management - acquisition	23					
Management - maintenance	24					
Management - other	25					
Total	26	129		11	140	100

Reinsurance - intra-group

Commission - acquisition	31		88		88	(25328)
Commission - other	32					
Management - acquisition	33					(26805)
Management - maintenance	34	13401	23468	297	37166	29761
Management - other	35					
Total	36	13401	23556	297	37254	(22372)

Net of reinsurance

Commission - acquisition	41	111739	1988	31833	145560	41162
Commission - other	42	8349	175	2178	10702	5727
Management - acquisition	43	66796	316	10189	77302	42172
Management - maintenance	44	62239	(14946)	9014	56307	22802
Management - other	45	69415	14152	2061	85628	46287
Total	46	318538	1684	55276	375498	158150

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

Total business

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

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

Internal linked funds (excluding cross investment)

Directly held assets (excluding collective investment schemes)	11	22427677	1479458
Directly held assets in collective investment schemes of connected companies	12		
Directly held assets in other collective investment schemes	13	6794009	2865176
Total assets (excluding cross investment) (11+12+ 13)	14	29221686	4344634
Provision for tax on unrealised capital gains	15		1139
Secured and unsecured loans	16	1746	
Other liabilities	17	96479	28851
Total net assets (14-15-16-17)	18	29123461	4314644

Directly held linked assets

Value of directly held linked assets	21	104773	
--------------------------------------	----	--------	--

Total

Value of directly held linked assets and units held (18+21)	31	29228235	4314644
Surplus units	32	17657	
Deficit units	33	15596	
Net unit liability (31-32+33)	34	29226174	4314644

Long-term insurance business : Revenue account for internal linked fundsName of insurer **Friends Life 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	250707	264857
Investment income attributable to the funds before deduction of tax	12	154665	97678
Increase (decrease) in the value of investments in the financial year	13	127114	(191606)
Other income	14	25067072	3124625
Total income	19	25599558	3295554

Expenditure

Value of total cancellation of units	21	742208	608101
Charges for management	22	37808	29684
Charges in respect of tax on investment income	23	12431	4830
Taxation on realised capital gains	24	(4712)	(8989)
Increase (decrease) in amount set aside for tax on capital gains not yet realised	25		(4696)
Other expenditure	26	3006	40024
Total expenditure	29	790741	668954

Increase (decrease) in funds in financial year (19-29)	39	24808817	2626600
Internal linked fund brought forward	49	4314644	1688044
Internal linked funds carried forward (39+49)	59	29123461	4314644

Long-term insurance business : Summary of new businessName of insurer **Friends Life 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	29762	165	12430	42357	17698
Single premium business	12	140	47	157	344	272
Total	13	29902	212	12587	42701	17970

**Amount of new regular
premiums**

Direct insurance business	21	85470		21345	106815	16998
External reinsurance	22					
Intra-group reinsurance	23					157
Total	24	85470		21345	106815	17155

**Amount of new single
premiums**

Direct insurance business	25	16502	67357	16695	100554	85297
External reinsurance	26					
Intra-group reinsurance	27	30	171562		171592	448
Total	28	16532	238919	16695	272146	85745

Long-term insurance business : Analysis of new business

Name of insurer

Friends Life Limited

Total business

Financial year ended

31 December 2012

Units

£000

UK Life / Direct Insurance Business

Product code number	Product description	Regular premium business		Single premium business	
		Number of policyholders / scheme members	Amount of premiums	Number of policyholders / scheme members	Amount of premiums
1	2	3	4	5	6
300	Regular premium non-profit WL/EA OB	780	136		
325	Level term assurance	8097	1806		
330	Decreasing term assurance	11334	2778		
340	Accelerated critical illness (guaranteed premiums)	4947	1877		
345	Accelerated critical illness (reviewable premiums)	458	160		
350	Stand-alone critical illness (guaranteed premiums)	1931	539		
355	Stand-alone critical illness (reviewable premiums)	12	3		
395	Annuity non-profit (PLA)			7	3977
420	Group income protection		78172		
500	Life UWP single premium				826
700	Life property linked single premium			133	11699
710	Life property linked whole life regular premium	17			
715	Life property linked endowment regular premium - savings	2186			

Friends Life Limited

31 December 2012

£000

Units

UK Life / Reinsurance accepted intra-group

[illegible]

Long-term insurance business : Analysis of new business

Name of insurer

Friends Life Limited

Total business

Financial year ended

31 December 2012

Units

£000

UK Pension / Direct Insurance Business

Product code number	Product description	Regular premium business		Single premium business	
		Number of policyholders / scheme members	Amount of premiums	Number of policyholders / scheme members	Amount of premiums
1	2	3	4	5	6
400	Annuity non-profit (CPA)				1104
525	Individual pensions UWP	1		2	29671
530	Individual pensions UWP - increments				229
535	Group money purchase pensions UWP	1		2	1
540	Group money purchase pensions UWP - increments				110
565	DWP National Insurance rebates UWP				86
725	Individual pensions property linked	8		2	27739
730	Individual pensions property linked - increments				1523
735	Group money purchase pensions property linked	155		41	6184
740	Group money purchase pensions property linked - increments				198
745	DWP National Insurance rebates property linked				511

Friends Life Limited

31 December 2012

£000

UK Pension / Reinsurance accepted intra-group

[illegible]

Long-term insurance business : Analysis of new business

Name of insurer

Friends Life Limited

Total business

Financial year ended

31 December 2012

Units

£000

Overseas / Direct Insurance Business

Product code number	Product description	Regular premium business		Single premium business	
		Number of policyholders / scheme members	Amount of premiums	Number of policyholders / scheme members	Amount of premiums
1	2	3	4	5	6
505	Life UWP whole life regular premium		3		
510	Life UWP endowment regular premium - savings		1		
525	Individual pensions UWP				4
700	Life property linked single premium			99	9929
715	Life property linked endowment regular premium - savings	12430	21330	58	6737
725	Individual pensions property linked		11		25

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

Name of insurer **Friends Life Limited**
 Category of assets **10 Total long term insurance business assets**
 Financial year ended **31 December 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	2083242	2750571	90769	1.68	
Other fixed interest securities	13	4733894	4734631	265464	4.66	
Variable interest securities	14	3021584	2354256	74139	2.36	
UK listed equity shares	15	69932	69975	2078	2.24	
Non-UK listed equity shares	16	7172	7352	158	0.27	
Unlisted equity shares	17	617922	64489	1546		
Other assets	18	1193163	1745635	3100	0.18	
Total	19	11726909	11726909	437255	2.79	

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

Land and buildings	21	1293098	1524052	91652	6.01	4.10
Approved fixed interest securities	22	6115675	5934549	199485	1.51	0.71
Other fixed interest securities	23	3116445	3147783	152796	3.53	19.90
Variable interest securities	24	259732	388626	45752	1.01	3.58
UK listed equity shares	25	3181272	3175352	108196	5.38	14.09
Non-UK listed equity shares	26	1432284	1556674	65263	10.77	17.06
Unlisted equity shares	27	582984	1064816			8.27
Other assets	28	3521313	2710953	44362	1.80	0.88
Total	29	19502804	19502804	707506	3.51	8.05

Overall return on with-profits assets

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

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

Name of insurer **Friends Life Limited**
Category of assets **Total Long Term Business - FP With Profits Fund**
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	607377	607377	20953	2.39	
Other fixed interest securities	13	1728377	1728377	96628	4.60	
Variable interest securities	14	55735	55735	224	3.41	
UK listed equity shares	15	68442	68442	1995	2.10	
Non-UK listed equity shares	16	6963	6963	149		
Unlisted equity shares	17	61547	61547	1546		
Other assets	18	69555	69555	39	0.12	
Total	19	2597996	2597996	121533	3.75	

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

Land and buildings	21	365684	563178	39708	7.05	6.75
Approved fixed interest securities	22	3849277	3668151	125344	1.68	(0.78)
Other fixed interest securities	23	1324590	1337675	70152	4.28	18.96
Variable interest securities	24	30223	159117	32590	2.30	5.02
UK listed equity shares	25	854580	1169181	32757	5.48	12.50
Non-UK listed equity shares	26	611480	710217	45165	19.37	15.94
Unlisted equity shares	27	487927	321739			8.37
Other assets	28	1312725	907229	33939	4.24	0.28
Total	29	8836487	8836487	379655	4.56	8.66

Overall return on with-profits assets

Post investment costs but pre-tax	31					8.56
Return allocated to non taxable 'asset shares'	32					8.53
Return allocated to taxable 'asset shares'	33					7.20

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

Name of insurer **Friends Life Limited**
 Category of assets **Total Long Term Business - Non Profit Fund**
 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	315473	315473	12943	1.94	
Other fixed interest securities	13	328161	328161	16873	4.18	
Variable interest securities	14	2143255	2143255	62368	2.55	
UK listed equity shares	15	263	263	30	11.43	
Non-UK listed equity shares	16					
Unlisted equity shares	17	556375	2942			
Other assets	18	835364	1388797	3014	0.22	
Total	19	4178891	4178891	95228	1.86	

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 : Assets not held to match linked liabilities

Name of insurer **Friends Life Limited**
Category of assets **Total Long Term Business - FPLAL With Profits Fund**
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	68454	68454	2465	2.19	
Other fixed interest securities	13	243	243	15	3.42	
Variable interest securities	14	589	589	5	2.71	
UK listed equity shares	15	1227	1270	53	7.74	
Non-UK listed equity shares	16	209	388	9	5.03	
Unlisted equity shares	17					
Other assets	18	227	4	0	2.36	
Total	19	70949	70949	2547	2.32	

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

Land and buildings	21	80	2653	138	5.19	7.78
Approved fixed interest securities	22	88130	88130	3159	1.64	4.43
Other fixed interest securities	23	850	850	51	4.48	25.02
Variable interest securities	24	1296	1296	10	2.71	5.52
UK listed equity shares	25	57727	59752	2513	7.74	13.37
Non-UK listed equity shares	26	8307	13798	312	6.24	15.23
Unlisted equity shares	27					
Other assets	28	42979	32889	214	0.61	0.13
Total	29	199369	199369	6398	3.68	8.70

Overall return on with-profits assets

Post investment costs but pre-tax	31					8.56
Return allocated to non taxable 'asset shares'	32					8.53
Return allocated to taxable 'asset shares'	33					7.38

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

Name of insurer **Friends Life Limited**
 Category of assets **Total Long Term Business - FLC New With Profits Fund**
 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	205946	205946	8708	1.63	
Other fixed interest securities	13	735975	735975	41870	4.28	
Variable interest securities	14	1328	1328	11	0.89	
UK listed equity shares	15					
Non-UK listed equity shares	16					
Unlisted equity shares	17					
Other assets	18	37263	37263	38	0.08	
Total	19	980512	980512	50627	3.56	

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

Land and buildings	21	539459	557664	25462	4.57	2.31
Approved fixed interest securities	22	780137	780137	28116	1.77	4.17
Other fixed interest securities	23	1067894	1075517	50252	3.17	17.53
Variable interest securities	24	89457	89457	1168	0.13	2.26
UK listed equity shares	25	1125059	1021648	41691	5.47	15.01
Non-UK listed equity shares	26	514066	529643	12609	3.49	18.30
Unlisted equity shares	27	64401	452405			9.05
Other assets	28	1052586	726588	665	0.08	1.71
Total	29	5233059	5233059	159962	2.84	10.31

Overall return on with-profits assets

Post investment costs but pre-tax	31					12.11
Return allocated to non taxable 'asset shares'	32					12.11
Return allocated to taxable 'asset shares'	33					10.15

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

Name of insurer **Friends Life Limited**
 Category of assets **Total Long Term Business - FLC Old With Profits Fund**
 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	29140	29140	1225	1.63	
Other fixed interest securities	13	104412	104412	5884	4.30	
Variable interest securities	14	186	186	2	0.89	
UK listed equity shares	15					
Non-UK listed equity shares	16					
Unlisted equity shares	17					
Other assets	18	10181	10181	9	0.08	
Total	19	143919	143919	7120	3.46	

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

Land and buildings	21	139975	144642	4783	3.31	2.31
Approved fixed interest securities	22	200602	200602	7497	1.83	4.17
Other fixed interest securities	23	292002	293549	13418	3.01	17.53
Variable interest securities	24	23129	23129	311	0.14	2.26
UK listed equity shares	25	312111	281515	11135	5.51	15.01
Non-UK listed equity shares	26	142611	144916	3362	3.54	18.30
Unlisted equity shares	27	4794	100873			9.05
Other assets	28	295744	221742	158	0.06	1.71
Total	29	1410968	1410968	40664	2.70	10.30

Overall return on with-profits assets

Post investment costs but pre-tax	31					12.11
Return allocated to non taxable 'asset shares'	32					12.11
Return allocated to taxable 'asset shares'	33					10.15

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

Name of insurer **Friends Life Limited**
 Category of assets **Total Long Term Business - FLAS With Profits Fund**
 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	856852	1524181	44475	1.33	
Other fixed interest securities	13	1836726	1837463	104195	4.98	
Variable interest securities	14	820491	153163	11529	(0.70)	
UK listed equity shares	15					
Non-UK listed equity shares	16					
Unlisted equity shares	17					
Other assets	18	240573	239835			
Total	19	3754642	3754642	160199	2.95	

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

Land and buildings	21	247900	255914	21561	8.43	3.14
Approved fixed interest securities	22	1197529	1197529	35368	0.76	2.17
Other fixed interest securities	23	431109	440192	18923	2.50	30.09
Variable interest securities	24	115627	115627	11673	0.08	2.86
UK listed equity shares	25	831796	643256	20100	4.76	15.17
Non-UK listed equity shares	26	155820	158099	3814	3.55	16.96
Unlisted equity shares	27	25862	189799			5.84
Other assets	28	817278	822505	9386	1.13	0.61
Total	29	3822921	3822921	120826	2.28	8.12

Overall return on with-profits assets

Post investment costs but pre-tax	31					10.74
Return allocated to non taxable 'asset shares'	32					10.74
Return allocated to taxable 'asset shares'	33					8.97

Long-term insurance business : Fixed and variable interest assets

Name of insurer **Friends Life Limited**
 Category of assets **10 Total long term insurance business assets**
 Financial year ended **31 December 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	6829057	8.00	1.39	1.33

Other approved fixed interest securities	21	1856063	12.45	2.21	1.96
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Other fixed interest securities

AAA/Aaa	31	708905	9.63	3.08	2.77
AA/Aa	32	1237836	10.22	3.42	2.98
A/A	33	3110949	9.11	3.61	2.77
BBB/Baa	34	2335599	8.10	4.76	2.94
BB/Ba	35	355573	10.44	8.20	4.51
B/B	36	76865	8.12	15.36	9.04
CCC/Caa	37				
Other (including unrated)	38	56688	14.32	3.72	2.22
Total other fixed interest securities	39	7882414	9.12	4.20	2.99

Approved variable interest securities	41	606278	11.34	0.03	(0.58)
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Other variable interest securities	51	2136604	20.35	2.87	2.41
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Total (11+21+39+41+51)	61	19310415	10.36	2.74	2.13
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Long-term insurance business : Fixed and variable interest assets

Name of insurer **Friends Life Limited**
 Category of assets **Total Long Term Business - FP With Profits Fund**
 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	3589945	8.16	1.53	1.53

Other approved fixed interest securities	21	685583	15.55	3.12	3.05
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Other fixed interest securities

AAA/Aaa	31	380541	9.51	3.38	2.95
AA/Aa	32	470055	9.28	3.25	2.81
A/A	33	1311913	9.65	3.89	3.00
BBB/Baa	34	704473	7.12	5.71	3.55
BB/Ba	35	141047	7.65	8.87	4.32
B/B	36	37077	7.76	9.20	3.98
CCC/Caa	37				
Other (including unrated)	38	20946	3.90	6.45	2.47
Total other fixed interest securities	39	3066052	8.84	4.46	3.16

Approved variable interest securities	41	63372	16.42	2.75	2.75
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Other variable interest securities	51	151479	20.83	2.52	2.19
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Total (11+21+39+41+51)	61	7556431	9.43	2.89	2.35
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Long-term insurance business : Fixed and variable interest assets

Name of insurer **Friends Life Limited**
 Category of assets **Total Long Term Business - Non Profit Fund**
 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	223501	9.19	1.76	1.76

Other approved fixed interest securities	21	91972	7.93	2.37	2.14
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Other fixed interest securities

AAA/Aaa	31	25603	11.50	3.49	3.34
AA/Aa	32	38700	11.79	3.80	3.36
A/A	33	189794	9.53	3.68	2.90
BBB/Baa	34	62149	9.94	5.69	3.68
BB/Ba	35	7822	8.12	7.21	3.79
B/B	36	4092	12.25	6.32	5.03
CCC/Caa	37				
Other (including unrated)	38				
Total other fixed interest securities	39	328161	10.03	4.18	3.19

Approved variable interest securities	41	231581	11.87	(0.56)	(0.58)
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Other variable interest securities	51	1911674	20.63	2.93	2.49
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Total (11+21+39+41+51)	61	2786889	17.32	2.68	2.25
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Long-term insurance business : Fixed and variable interest assets

Name of insurer **Friends Life Limited**
 Category of assets **Total Long Term Business - FPLAL With Profits Fund**
 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	156584	9.95	1.88	1.88

Other approved fixed interest securities	21				
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Other fixed interest securities

AAA/Aaa	31				
AA/Aa	32				
A/A	33	748	5.06	3.28	2.53
BBB/Baa	34	345	6.92	6.33	4.24
BB/Ba	35				
B/B	36				
CCC/Caa	37				
Other (including unrated)	38				
Total other fixed interest securities	39	1093	5.65	4.25	3.07

Approved variable interest securities	41	1885	13.75	2.71	2.71
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Other variable interest securities	51				
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Total (11+21+39+41+51)	61	159562	9.97	1.91	1.90
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Long-term insurance business : Fixed and variable interest assets

Name of insurer **Friends Life Limited**
 Category of assets **Total Long Term Business - FLC New With Profits Fund**
 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	683489	8.45	1.55	1.55

Other approved fixed interest securities	21	302594	7.05	2.19	1.85
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Other fixed interest securities

AAA/Aaa	31	164687	8.09	2.82	2.66
AA/Aa	32	265105	9.68	3.28	2.84
A/A	33	658376	7.68	3.09	2.25
BBB/Baa	34	624833	7.68	3.86	2.19
BB/Ba	35	82881	12.53	7.83	4.51
B/B	36				
CCC/Caa	37				
Other (including unrated)	38	15610	19.53	2.25	2.20
Total other fixed interest securities	39	1811492	8.33	3.57	2.45

Approved variable interest securities	41	45631	6.98	(0.99)	(1.01)
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Other variable interest securities	51	45154	11.29	1.29	0.71
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Total (11+21+39+41+51)	61	2888360	8.25	2.84	2.09
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Long-term insurance business : Fixed and variable interest assets

Name of insurer **Friends Life Limited**
 Category of assets **Total Long Term Business - FLC Old With Profits Fund**
 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	166594	8.56	1.57	1.57

Other approved fixed interest securities	21	63148	7.88	2.44	2.06
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Other fixed interest securities

AAA/Aaa	31	37422	7.87	2.76	2.60
AA/Aa	32	57813	9.20	3.14	2.70
A/A	33	147893	7.31	2.99	2.14
BBB/Baa	34	135886	9.61	3.49	1.95
BB/Ba	35	15421	12.89	7.56	4.25
B/B	36				
CCC/Caa	37				
Other (including unrated)	38	3526	17.55	2.02	1.98
Total other fixed interest securities	39	397961	8.73	3.33	2.28

Approved variable interest securities	41	11446	7.42	(1.05)	(1.07)
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Other variable interest securities	51	11869	11.00	1.29	0.71
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Total (11+21+39+41+51)	61	651018	8.62	2.68	1.99
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Long-term insurance business : Fixed and variable interest assets

Name of insurer **Friends Life Limited**
 Category of assets **Total Long Term Business - FLAS With Profits Fund**
 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	2008944	7.23	1.01	0.81

Other approved fixed interest securities	21	712766	12.74	1.29	0.93
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Other fixed interest securities

AAA/Aaa	31	100651	12.82	2.36	2.23
AA/Aa	32	406163	11.65	3.70	3.28
A/A	33	802224	9.66	3.70	2.91
BBB/Baa	34	807913	8.90	4.77	3.11
BB/Ba	35	108402	12.28	7.78	4.85
B/B	36	35696	8.01	22.79	14.76
CCC/Caa	37				
Other (including unrated)	38	16606	21.88	2.04	1.99
Total other fixed interest securities	39	2277655	10.07	4.50	3.29

Approved variable interest securities	41	252362	10.53	0.09	(1.34)
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Other variable interest securities	51	16428	14.48	4.79	1.72
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Total (11+21+39+41+51)	61	5268155	9.38	2.52	1.79
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Long-term insurance business : Summary of mathematical reserves

Name of insurer **Friends Life Limited**
 Total business / subfund **Summary**
 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	2308682	2383848	1073	4693603	3633048
Form 51 - non-profit	12	1671406	12010764	8503	13690673	4820762
Form 52	13	2903975	6131906	269122	9305002	4041080
Form 53 - linked	14	15006398	18071999	444746	33523144	9682518
Form 53 - non-linked	15	87003	307317	184519	578838	250353
Form 54 - linked	16	321963	1188740	2023	1512726	119183
Form 54 - non-linked	17	58157	21955	9	80121	52604
Total	18	22357583	40116528	909996	63384107	22599548

Reinsurance - external

Form 51 - with-profits	21	3734	3		3737	3782
Form 51 - non-profit	22	653940	1707525	2467	2363932	1996613
Form 52	23					
Form 53 - linked	24		65217		65217	
Form 53 - non-linked	25	932			932	
Form 54 - linked	26	107916	87889	328	196133	75239
Form 54 - non-linked	27	16740		1	16741	26834
Total	28	783262	1860633	2796	2646692	2102468

Reinsurance - intra-group

Form 51 - with-profits	31					
Form 51 - non-profit	32		3666945		3666945	184288
Form 52	33		1536		1536	194547
Form 53 - linked	34		4231753		4231753	5367874
Form 53 - non-linked	35		109528		109528	101591
Form 54 - linked	36	1095	456210		457304	4960
Form 54 - non-linked	37		7280		7280	
Total	38	1095	8473252		8474347	5853260

Net of reinsurance

Form 51 - with-profits	41	2304948	2383845	1073	4689867	3629266
Form 51 - non-profit	42	1017465	6636294	6036	7659796	2639860
Form 52	43	2903975	6130369	269122	9303466	3846533
Form 53 - linked	44	15006398	13775029	444746	29226174	4314644
Form 53 - non-linked	45	86070	197789	184519	468378	148761
Form 54 - linked	46	212952	644642	1694	859288	38984
Form 54 - non-linked	47	41418	14675	8	56101	25770
Total	48	21573227	29782643	907199	52263069	14643819

Long-term insurance business : Summary of mathematical reserves

Name of insurer **Friends Life Limited**
 Total business / subfund **FP With Profits Fund**
 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	1343272	1624806		2968078	3446842
Form 51 - non-profit	12	109589	2379013	630	2489232	2429078
Form 52	13	984804	2561934	144529	3691267	3846330
Form 53 - linked	14	1069008	3495362	101226	4665596	4673134
Form 53 - non-linked	15	6454	139593	427	146475	143807
Form 54 - linked	16		46989		46989	42345
Form 54 - non-linked	17					
Total	18	3513127	10247697	246813	14007637	14581535

Reinsurance - external

Form 51 - with-profits	21	2757	3		2760	2815
Form 51 - non-profit	22	15652	233		15886	18116
Form 52	23					
Form 53 - linked	24					
Form 53 - non-linked	25					
Form 54 - linked	26					
Form 54 - non-linked	27					
Total	28	18409	236		18645	20931

Reinsurance - intra-group

Form 51 - with-profits	31					
Form 51 - non-profit	32		29522		29522	30061
Form 52	33					
Form 53 - linked	34	1069008	3495362	101226	4665596	4673134
Form 53 - non-linked	35	9	103376		103385	93049
Form 54 - linked	36					
Form 54 - non-linked	37					
Total	38	1069017	3628260	101226	4798502	4796245

Net of reinsurance

Form 51 - with-profits	41	1340515	1624803		2965318	3444027
Form 51 - non-profit	42	93937	2349258	630	2443825	2380900
Form 52	43	984804	2561934	144529	3691267	3846329
Form 53 - linked	44					
Form 53 - non-linked	45	6445	36217	427	43090	50758
Form 54 - linked	46		46989		46989	42345
Form 54 - non-linked	47					
Total	48	2425701	6619201	145587	9190489	9764359

Long-term insurance business : Summary of mathematical reserves

Name of insurer **Friends Life Limited**
 Total business / subfund **FPLAL With Profits Fund**
 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	80089	77134		157223	186206
Form 51 - non-profit	12	1899	66301		68200	62936
Form 52	13					
Form 53 - linked	14					
Form 53 - non-linked	15					
Form 54 - linked	16					
Form 54 - non-linked	17					
Total	18	81989	143435		225423	249143

Reinsurance - external

Form 51 - with-profits	21	923			923	967
Form 51 - non-profit	22	4	0		5	4
Form 52	23					
Form 53 - linked	24					
Form 53 - non-linked	25					
Form 54 - linked	26					
Form 54 - non-linked	27					
Total	28	927	0		927	972

Reinsurance - intra-group

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

Net of reinsurance

Form 51 - with-profits	41	79167	77134		156300	185239
Form 51 - non-profit	42	1895	66300		68195	62932
Form 52	43					
Form 53 - linked	44					
Form 53 - non-linked	45					
Form 54 - linked	46					
Form 54 - non-linked	47					
Total	48	81061	143434		224496	248171

Long-term insurance business : Summary of mathematical reserves

Name of insurer **Friends Life Limited**
Total business / subfund **FLC New With Profits Fund**
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	556520	191421	643	748584	
Form 51 - non-profit	12	188291	761934	180	950405	
Form 52	13	1267822	1570386	92850	2931058	
Form 53 - linked	14					
Form 53 - non-linked	15					
Form 54 - linked	16		22122		22122	
Form 54 - non-linked	17		1004		1004	
Total	18	2012633	2546867	93673	4653173	

Reinsurance - external

Form 51 - with-profits	21					
Form 51 - non-profit	22					
Form 52	23					
Form 53 - linked	24					
Form 53 - non-linked	25					
Form 54 - linked	26					
Form 54 - non-linked	27					
Total	28					

Reinsurance - intra-group

Form 51 - with-profits	31	31462			31462	
Form 51 - non-profit	32	10800			10800	
Form 52	33	31843	16779		48622	
Form 53 - linked	34					
Form 53 - non-linked	35					
Form 54 - linked	36					
Form 54 - non-linked	37					
Total	38	74105	16779		90884	

Net of reinsurance

Form 51 - with-profits	41	525058	191421	643	717122	
Form 51 - non-profit	42	177491	761934	180	939605	
Form 52	43	1235978	1553608	92850	2882436	
Form 53 - linked	44					
Form 53 - non-linked	45					
Form 54 - linked	46		22122		22122	
Form 54 - non-linked	47		1004		1004	
Total	48	1938527	2530089	93673	4562289	

Long-term insurance business : Summary of mathematical reserves

Name of insurer **Friends Life Limited**
 Total business / subfund **FLC Old With Profits Fund**
 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	183461	55257	430	239148	
Form 51 - non-profit	12	17685	120034	211	137930	
Form 52	13	251473	442556	11318	705348	
Form 53 - linked	14					
Form 53 - non-linked	15					
Form 54 - linked	16		3825		3825	
Form 54 - non-linked	17		195		195	
Total	18	452620	621867	11959	1086446	

Reinsurance - external

Form 51 - with-profits	21					
Form 51 - non-profit	22					
Form 52	23					
Form 53 - linked	24					
Form 53 - non-linked	25					
Form 54 - linked	26					
Form 54 - non-linked	27					
Total	28					

Reinsurance - intra-group

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

Net of reinsurance

Form 51 - with-profits	41	183461	55257	430	239148	
Form 51 - non-profit	42	17685	120034	211	137930	
Form 52	43	251473	442556	11318	705348	
Form 53 - linked	44					
Form 53 - non-linked	45					
Form 54 - linked	46		3825		3825	
Form 54 - non-linked	47		195		195	
Total	48	452620	621867	11959	1086446	

Long-term insurance business : Summary of mathematical reserves

Name of insurer **Friends Life Limited**
 Total business / subfund **FLAS With Profits Fund**
 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	176801	435231		612032	
Form 51 - non-profit	12	285360	5035802	708	5321869	
Form 52	13	431529	1572228	20302	2024059	
Form 53 - linked	14	3246963	3899510	21636	7168109	
Form 53 - non-linked	15	6045	(265)	10818	16598	
Form 54 - linked	16	141407	910056		1051463	
Form 54 - non-linked	17	280	13476		13756	
Total	18	4288385	11866038	53464	16207887	

Reinsurance - external

Form 51 - with-profits	21	54			54	
Form 51 - non-profit	22	1571	37744		39314	
Form 52	23					
Form 53 - linked	24					
Form 53 - non-linked	25					
Form 54 - linked	26	58408	11017		69425	
Form 54 - non-linked	27					
Total	28	60033	48761		108794	

Reinsurance - intra-group

Form 51 - with-profits	31					
Form 51 - non-profit	32	49263	1717030		1766293	
Form 52	33					
Form 53 - linked	34	3246963	3899510		7146473	
Form 53 - non-linked	35	(2591)	(984)		(3575)	
Form 54 - linked	36	80089	328735		408824	
Form 54 - non-linked	37	272	0		273	
Total	38	3373997	5944291		9318288	

Net of reinsurance

Form 51 - with-profits	41	176747	435231		611978	
Form 51 - non-profit	42	234526	3281027	708	3516261	
Form 52	43	431529	1572228	20302	2024059	
Form 53 - linked	44			21636	21636	
Form 53 - non-linked	45	8636	719	10818	20174	
Form 54 - linked	46	2910	570304		573214	
Form 54 - non-linked	47	8	13476		13484	
Total	48	854356	5872986	53464	6780805	

Long-term insurance business : Summary of mathematical reserves

Name of insurer **Friends Life Limited**
Total business / subfund **Non Profit Fund**
Financial year ended **31 December 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	1128720	5426652	6773	6562146	2328747
Form 52	13	56634	56478	64394	177507	194751
Form 53 - linked	14	15006398	14576636	423110	30006145	5009384
Form 53 - non-linked	15	71921	167004	173273	412199	106546
Form 54 - linked	16	260645	539654	2023	802322	76838
Form 54 - non-linked	17	58150	7280	9	65439	52604
Total	18	16582468	20773706	669584	38025757	7768870

Reinsurance - external

Form 51 - with-profits	21					
Form 51 - non-profit	22	636713	1669548	2467	2308727	1978492
Form 52	23					
Form 53 - linked	24		65217		65217	
Form 53 - non-linked	25	932			932	
Form 54 - linked	26	49508	76871	328	126708	75239
Form 54 - non-linked	27	16740		1	16741	26834
Total	28	703893	1811636	2796	2518325	2080566

Reinsurance - intra-group

Form 51 - with-profits	31					
Form 51 - non-profit	32	75	3699364		3699440	154227
Form 52	33	56444	56436	64271	177151	194547
Form 53 - linked	34		736390		736390	694740
Form 53 - non-linked	35		6152		6152	8542
Form 54 - linked	36	1095	461380		462475	4960
Form 54 - non-linked	37		7280		7280	
Total	38	57614	4967003	64271	5088888	1057016

Net of reinsurance

Form 51 - with-profits	41					
Form 51 - non-profit	42	491932	57741	4306	553979	196028
Form 52	43	190	43	123	356	204
Form 53 - linked	44	15006398	13775029	423110	29204538	4314644
Form 53 - non-linked	45	70989	160852	173273	405114	98004
Form 54 - linked	46	210042	1402	1694	213139	(3361)
Form 54 - non-linked	47	41410		8	41418	25770
Total	48	15820961	13995067	602516	30418544	4631288

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

Name of insurer **Friends Life Limited**
 Total business / subfund **FP With Profits Fund**
 Financial year ended **31 December 2012**
 Units **£000**
 UK Life / Gross

Product code number	Product description	Number of policyholders / scheme members	Amount of benefit	Amount of annual office premiums	Nominal value of units	Discounted value of units	Other liabilities	Amount of mathematical reserves
1	2	3	4	5	6	7	8	9
100	Conventional whole life with-profits OB	19259	203057	1914				146194
120	Conventional endowment with-profits OB savings	17171	134344	2923				109898
125	Conventional endowment with-profits OB target cash	82004	1221273	37467				1081071
165	Conventional deferred annuity with-profits	17	4					95
175	Group conventional deferred annuity with-profits	7	33					487
210	Additional reserves with-profits OB							5527
300	Regular premium non-profit WL/EA OB	28604	76934	1802				55859
325	Level term assurance	29334	2052667	6694				13086
330	Decreasing term assurance	93150	1424018	5460				9939
340	Accelerated critical illness (guaranteed premiums)	6618	336669	2112				7746
350	Stand-alone critical illness (guaranteed premiums)	1693	83695	454				822
390	Deferred annuity non-profit	21	4					97
395	Annuity non-profit (PLA)	2262	2095					17819
435	Miscellaneous non-profit	171	4265	9				4222

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

Name of insurer **Friends Life Limited**
 Total business / subfund **FP With Profits Fund**
 Financial year ended **31 December 2012**
 Units **£000**
 UK Life / Reinsurance ceded external

Product code number	Product description	Number of policyholders / scheme members	Amount of benefit	Amount of annual office premiums	Nominal value of units	Discounted value of units	Other liabilities	Amount of mathematical reserves
1	2	3	4	5	6	7	8	9
100	Conventional whole life with-profits OB		9111	20				2754
125	Conventional endowment with-profits OB target cash		6					3
300	Regular premium non-profit WL/EA OB		83	1				65
325	Level term assurance		784457	2756				9772
330	Decreasing term assurance		81641	603				(243)
340	Accelerated critical illness (guaranteed premiums)		268884	1594				5992
350	Stand-alone critical illness (guaranteed premiums)		5753	28				63
395	Annuity non-profit (PLA)		0					2

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

Name of insurer **Friends Life Limited**
Total business / subfund **FP With Profits Fund**
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
100	Conventional whole life with-profits OB	5	9					9
155	Conventional pensions endowment with-profits	3	69					67
165	Conventional deferred annuity with-profits	20051	33544	2693				885784
175	Group conventional deferred annuity with-profits	10490	146577	68				735940
185	Group conventional pensions endowment with-profits	67	356	0				1695
205	Miscellaneous conventional with-profits	508	8923	11				1310
300	Regular premium non-profit WL/EA OB	436	154192	315				470
315	Individual deposit administration non-profit	349	5989	0				5989
320	Group deposit administration non-profit	297	9794	15				25735
325	Level term assurance	11232	481043	1437				3681
390	Deferred annuity non-profit	4607	12522	0				209031
400	Annuity non-profit (CPA)	81684	163948					2134108

Name of insurer	Friends Life Limited
Total business / subfund	FP With Profits Fund
Financial year ended	31 December 2012
Units	£000
Overseas / Gross	

[illegible]

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

Name of insurer **Friends Life Limited**
 Total business / subfund **FPLAL With Profits Fund**
 Financial year ended **31 December 2012**
 Units **£000**
 UK Life / Gross

Product code number	Product description	Number of policyholders / scheme members	Amount of benefit	Amount of annual office premiums	Nominal value of units	Discounted value of units	Other liabilities	Amount of mathematical reserves
1	2	3	4	5	6	7	8	9
100	Conventional whole life with-profits OB	5512	82824	529				48476
120	Conventional endowment with-profits OB savings	3809	35494	380				31613
300	Regular premium non-profit WL/EA OB	637	2794	31				1583
325	Level term assurance	913	4975	20				60
330	Decreasing term assurance	5	19	0				0
390	Deferred annuity non-profit	6	0					6
395	Annuity non-profit (PLA)	75	42					250

Friends Life Limited

FPLAL With Profits Fund

31 December 2012

£000

[illegible]

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

Name of insurer **Friends Life Limited**
 Total business / subfund **FPLAL With Profits Fund**
 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
155	Conventional pensions endowment with-profits	12	189					185
165	Conventional deferred annuity with-profits	2900	183	152				68418
175	Group conventional deferred annuity with-profits	401	10	8				8516
205	Miscellaneous conventional with-profits	62	507	1				15
325	Level term assurance	181	2472	8				40
390	Deferred annuity non-profit	82	94					1462
400	Annuity non-profit (CPA)	2453	3871					64799

Name of insurer	Friends Life Limited
Total business / subfund	FPLAL With Profits Fund
Financial year ended	31 December 2012
Units	£000
UK Pension / Reinsurance ceded external	

[illegible]

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

Name of insurer **Friends Life Limited**
 Total business / subfund **FLC New With Profits Fund**
 Financial year ended **31 December 2012**
 Units **£000**
 UK Life / Gross

Product code number	Product description	Number of policyholders / scheme members	Amount of benefit	Amount of annual office premiums	Nominal value of units	Discounted value of units	Other liabilities	Amount of mathematical reserves
1	2	3	4	5	6	7	8	9
100	Conventional whole life with-profits OB	4312	52779	314				36225
120	Conventional endowment with-profits OB savings	144685	631868	56788				472261
125	Conventional endowment with-profits OB target cash	207	2499	34				16359
165	Conventional deferred annuity with-profits	3	1	0				26
205	Miscellaneous conventional with-profits	41096	37531	5145				31649
300	Regular premium non-profit WL/EA OB	327798	650106	42071				186647
390	Deferred annuity non-profit	3	36					881
395	Annuity non-profit (PLA)	4	8					118
435	Miscellaneous non-profit	136	645					645

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

Name of insurer **Friends Life Limited**
 Total business / subfund **FLC New With Profits Fund**
 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
155	Conventional pensions endowment with-profits	3464	76068	210				147770
165	Conventional deferred annuity with-profits	19	24	1				230
175	Group conventional deferred annuity with-profits	45	319	226				6440
205	Miscellaneous conventional with-profits	38	888	0				31
390	Deferred annuity non-profit	93	509					18568
400	Annuity non-profit (CPA)	15081	34936					693693
405	Annuity non-profit (CPA impaired life)	1	0					2
435	Miscellaneous non-profit	655	22558					49671

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

Name of insurer **Friends Life Limited**
 Total business / subfund **FLC New With Profits Fund**
 Financial year ended **31 December 2012**
 Units **£000**
 Overseas / Gross

Product code number	Product description	Number of policyholders / scheme members	Amount of benefit	Amount of annual office premiums	Nominal value of units	Discounted value of units	Other liabilities	Amount of mathematical reserves
1	2	3	4	5	6	7	8	9
100	Conventional whole life with-profits OB	10	627	6				434
120	Conventional endowment with-profits OB savings	15	165	2				153
165	Conventional deferred annuity with-profits	2	4	0				56
205	Miscellaneous conventional with-profits	2	43	0				0
395	Annuity non-profit (PLA)	8	14					180

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

Name of insurer **Friends Life Limited**
 Total business / subfund **FLC Old With Profits Fund**
 Financial year ended **31 December 2012**
 Units **£000**
 UK Life / Gross

Product code number	Product description	Number of policyholders / scheme members	Amount of benefit	Amount of annual office premiums	Nominal value of units	Discounted value of units	Other liabilities	Amount of mathematical reserves
1	2	3	4	5	6	7	8	9
100	Conventional whole life with-profits OB	677	11711	47				7720
120	Conventional endowment with-profits OB savings	23578	195648	14580				163749
125	Conventional endowment with-profits OB target cash	30	502	6				2501
165	Conventional deferred annuity with-profits	45	11					267
205	Miscellaneous conventional with-profits	8500	11532	1345				9223
300	Regular premium non-profit WL/EA OB	2428	54544	3370				15973
390	Deferred annuity non-profit	6	58					1285
395	Annuity non-profit (PLA)	2	2					16
435	Miscellaneous non-profit	91	411					411

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

Name of insurer **Friends Life Limited**
 Total business / subfund **FLC Old With Profits Fund**
 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
155	Conventional pensions endowment with-profits	2051	25289	26				49619
165	Conventional deferred annuity with-profits	19	15					254
205	Miscellaneous conventional with-profits	18	105					2
390	Deferred annuity non-profit	8	13					309
400	Annuity non-profit (CPA)	2269	4016					80899
435	Miscellaneous non-profit	1117	16263					38826

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

Name of insurer **Friends Life Limited**
 Total business / subfund **FLC Old With Profits Fund**
 Financial year ended **31 December 2012**
 Units **£000**
 Overseas / Gross

Product code number	Product description	Number of policyholders / scheme members	Amount of benefit	Amount of annual office premiums	Nominal value of units	Discounted value of units	Other liabilities	Amount of mathematical reserves
1	2	3	4	5	6	7	8	9
100	Conventional whole life with-profits OB	10	412	3				322
120	Conventional endowment with-profits OB savings	5	98	1				89
165	Conventional deferred annuity with-profits	3	1					20
205	Miscellaneous conventional with-profits	2	6					0
395	Annuity non-profit (PLA)	1	8					93
435	Miscellaneous non-profit	2	118					118

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

Name of insurer **Friends Life Limited**
Total business / subfund **FLAS With Profits Fund**
Financial year ended **31 December 2012**
Units **£000**
UK Life / Gross

Product code number	Product description	Number of policyholders / scheme members	Amount of benefit	Amount of annual office premiums	Nominal value of units	Discounted value of units	Other liabilities	Amount of mathematical reserves
1	2	3	4	5	6	7	8	9
100	Conventional whole life with-profits OB	15090	87771	1910				61496
120	Conventional endowment with-profits OB savings	19172	95492	1217				85886
125	Conventional endowment with-profits OB target cash	1002	19853	386				18693
155	Conventional pensions endowment with-profits	26	2206	22				4915
165	Conventional deferred annuity with-profits	6	1					19
205	Miscellaneous conventional with-profits	5572	5453	115				5504
210	Additional reserves with-profits OB							287
300	Regular premium non-profit WL/EA OB	205620	370142	19196				183882
325	Level term assurance	3673	99513	423				1414
330	Decreasing term assurance	1171	14393	153				68
355	Stand-alone critical illness (reviewable premiums)	72	7919	30				146
360	Income protection non-profit (guaranteed premiums)	2482	19395	389				5007
385	Income protection claims in payment							17
390	Deferred annuity non-profit	1319	1169					11451
395	Annuity non-profit (PLA)	2396	4441					50248

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

Name of insurer **Friends Life Limited**
 Total business / subfund **FLAS With Profits Fund**
 Financial year ended **31 December 2012**
 Units **£000**
 UK Life / Gross

Product code number	Product description	Number of policyholders / scheme members	Amount of benefit	Amount of annual office premiums	Nominal value of units	Discounted value of units	Other liabilities	Amount of mathematical reserves
1	2	3	4	5	6	7	8	9
410	Group Life	4	793537	4525				15809
411	Group death in service dependant's annuities	2	25					5
420	Group income protection	47	1036					67
425	Group income protection claims in payment							2616
435	Miscellaneous non-profit	4485	36381	5				14630

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

Name of insurer **Friends Life Limited**
 Total business / subfund **FLAS With Profits Fund**
 Financial year ended **31 December 2012**
 Units **£000**
 UK Life / Reinsurance ceded external

Product code number	Product description	Number of policyholders / scheme members	Amount of benefit	Amount of annual office premiums	Nominal value of units	Discounted value of units	Other liabilities	Amount of mathematical reserves
1	2	3	4	5	6	7	8	9
100	Conventional whole life with-profits OB		67					54
300	Regular premium non-profit WL/EA OB		3	0				0
325	Level term assurance		5228	20				136
330	Decreasing term assurance		14	1				
336	Mortality risk premium reinsurance			77				211
360	Income protection non-profit (guaranteed premiums)		673	13				85
385	Income protection claims in payment							12
395	Annuity non-profit (PLA)		14					985
420	Group income protection		374					17
425	Group income protection claims in payment							73
435	Miscellaneous non-profit		1	0				50

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

Name of insurer **Friends Life Limited**
Total business / subfund **FLAS With Profits Fund**
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
115	Conventional whole life with-profits (tax exempt)	2	854	7				390
155	Conventional pensions endowment with-profits	6557	193351	676				344768
165	Conventional deferred annuity with-profits	60	94	1				1512
185	Group conventional pensions endowment with-profits	159	1275	7				2599
200	Annuity with-profits (CPA)	625	5290					72424
210	Additional reserves with-profits OB							13538
300	Regular premium non-profit WL/EA OB	4	104	1				77
325	Level term assurance	800	39832	114				2000
330	Decreasing term assurance	2	6	0				0
390	Deferred annuity non-profit	26562	37896					725282
400	Annuity non-profit (CPA)	107244	280949					4170566
405	Annuity non-profit (CPA impaired life)	1869	8151					105995
410	Group life	1271	372718	18				880
411	Group death in service dependants' annuities	865	15005					1016
435	Miscellaneous non-profit	4013	26483					29985

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

Name of insurer **Friends Life Limited**
 Total business / subfund **FLAS With Profits Fund**
 Financial year ended **31 December 2012**
 Units **£000**
 UK Pension / Reinsurance ceded external

Product code number	Product description	Number of policyholders / scheme members	Amount of benefit	Amount of annual office premiums	Nominal value of units	Discounted value of units	Other liabilities	Amount of mathematical reserves
1	2	3	4	5	6	7	8	9
325	Level term assurance		849	1				21
336	Mortality risk premium reinsurance							12
400	Annuity non-profit (CPA)		116898					37751
405	Annuity non-profit (CPA impaired life)		247					2617
410	Group life		4676					7
440	Additional reserves non-profit OB							(2664)

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

Name of insurer **Friends Life Limited**
Total business / subfund **Non Profit Fund**
Financial year ended **31 December 2012**
Units **£000**
UK Life / Gross

Product code number	Product description	Number of policyholders / scheme members	Amount of benefit	Amount of annual office premiums	Nominal value of units	Discounted value of units	Other liabilities	Amount of mathematical reserves
1	2	3	4	5	6	7	8	9
300	Regular premium non-profit WL/EA OB	41736	151171	2375				110675
325	Level term assurance	300917	45514943	97001				311761
330	Decreasing term assurance	235042	25288208	61746				(24252)
335	Decreasing term assurance (rider benefits)		15	4				9
340	Accelerated critical illness (guaranteed premiums)	384523	35845125	185030				(668)
345	Accelerated critical illness (reviewable premiums)	62966	6767036	33059				31996
350	Stand-alone critical illness (guaranteed premiums)	32139	2484802	15042				(6083)
355	Stand-alone critical illness (reviewable premiums)	8384	644046	3852				3787
360	Income protection non-profit (guaranteed premiums)	150980	1995748	66918				(23905)
365	Income protection non-profit (reviewable premiums)	10360	41485	3532				5311
370	Long-term care policy Future Care	4819	65082	3065				168004
380	Miscellaneous protection rider		20412	774				(2384)
385	Income protection claims in payment	1394	17946	15				162224
390	Deferred annuity non-profit	408	850					4686
395	Annuity non-profit (PLA)	1917	25954					135509

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

Name of insurer **Friends Life Limited**
Total business / subfund **Non Profit Fund**
Financial year ended **31 December 2012**
Units **£000**
UK Life / Gross

Product code number	Product description	Number of policyholders / scheme members	Amount of benefit	Amount of annual office premiums	Nominal value of units	Discounted value of units	Other liabilities	Amount of mathematical reserves
1	2	3	4	5	6	7	8	9
410	Group Life	49170	5339076	6616				2268
411	Group death in service dependant's annuities	14	217					16
415	Collective Life		475234					65
420	Group income protection	137421	4556596	50450				84039
425	Group income protection claims in payment	98	8743					130972
430	Group critical illness	121600	8535576	21491				5407
435	Miscellaneous non-profit	134	269	6				1507
440	Additional reserves non-profit OB							27777
595	Income protection rider							

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

Name of insurer **Friends Life Limited**
Total business / subfund **Non Profit Fund**
Financial year ended **31 December 2012**
Units **£000**
UK Life / Reinsurance ceded external

Product code number	Product description	Number of policyholders / scheme members	Amount of benefit	Amount of annual office premiums	Nominal value of units	Discounted value of units	Other liabilities	Amount of mathematical reserves
1	2	3	4	5	6	7	8	9
300	Regular premium non-profit WL/EA OB		4959	280				1334
325	Level term assurance		37570069	47880				302166
330	Decreasing term assurance		16932208	26670				31662
340	Accelerated critical illness (guaranteed premiums)		24026582	41302				76789
345	Accelerated critical illness (reviewable premiums)		4175384	1877				30262
350	Stand-alone critical illness (guaranteed premiums)		1591061	5500				8697
355	Stand-alone critical illness (reviewable premiums)		455379	359				3460
360	Income protection non-profit (guaranteed premiums)		592620	2580				34439
365	Income protection non-profit (reviewable premiums)		29550	743				7899
370	Long-term care policy Future Care		122091	1994				76574
380	Miscellaneous protection rider			44				(92)
385	Income protection claims in payment		3013	10				32602
410	Group Life		3136687	2601				1033
420	Group income protection		1053040	8309				10838
425	Group income protection claims in payment		926					30946

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

Name of insurer	Friends Life Limited
Total business / subfund	Non Profit Fund
Financial year ended	31 December 2012
Units	£000
UK Life / Reinsurance ceded external	

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

Name of insurer **Friends Life Limited**
 Total business / subfund **Non Profit Fund**
 Financial year ended **31 December 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
300	Individual deposit administration non-profit	20	16					16
315	Level term assurance	595	5349					5349
325	Level term assurance	7153	956364	1955				5651
330	Decreasing term assurance	1657	188609	416				(260)
390	Deferred annuity non-profit	49440	6235	6				151596
400	Annuity non-profit (CPA)	173332	346997					5238691
405	Annuity non-profit (CPA impaired life)	7	49					769
410	Group Life	459199	45474055	45393				12965
411	Group death in service dependant's annuities	10278	1918881	3715				1542
435	Miscellaneous non-profit	306	5830	6				8133
440	Additional reserves non-profit OB							2200

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

Name of insurer **Friends Life Limited**
 Total business / subfund **Non Profit Fund**
 Financial year ended **31 December 2012**
 Units **£000**
 UK Pension / Reinsurance ceded external

Product code number	Product description	Number of policyholders / scheme members	Amount of benefit	Amount of annual office premiums	Nominal value of units	Discounted value of units	Other liabilities	Amount of mathematical reserves
1	2	3	4	5	6	7	8	9
325	Level term assurance		474047	727				3211
330	Decreasing term assurance		95575	134				131
400	Annuity non-profit (CPA)		113229					1659037
410	Group life		28363790	19556				6609
411	Group death in service dependants' annuities		1095393	1449				485
435	Miscellaneous non-profit		2211	5				75

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

Name of insurer **Friends Life Limited**
 Total business / subfund **Non Profit Fund**
 Financial year ended **31 December 2012**
 Units **£000**
 UK Pension / Reinsurance ceded intra-group

Product code number	Product description	Number of policyholders / scheme members	Amount of benefit	Amount of annual office premiums	Nominal value of units	Discounted value of units	Other liabilities	Amount of mathematical reserves
1	2	3	4	5	6	7	8	9
390	Deferred annuity non-profit		5833	6				143810
400	Annuity non-profit (CPA)		233742					3552051
405	Annuity non-profit (CPA impaired life)		49					769
411	Group death in service dependants' annuities		222					533
440	Additional reserves non-profit OB							2200

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

Name of insurer **Friends Life Limited**
 Total business / subfund **Non Profit Fund**
 Financial year ended **31 December 2012**
 Units **£000**
 Overseas / Gross

Product code number	Product description	Number of policyholders / scheme members	Amount of benefit	Amount of annual office premiums	Nominal value of units	Discounted value of units	Other liabilities	Amount of mathematical reserves
1	2	3	4	5	6	7	8	9
300	Regular premium non-profit WL/EA OB	47	383	6				285
325	Level term assurance	15918	2091133	9324				(7633)
330	Decreasing term assurance	666	50644	348				434
340	Accelerated critical illness (guaranteed premiums)	22	2162	15				61
350	Stand-alone critical illness (guaranteed premiums)	10785	401538	3219				1610
390	Deferred annuity non-profit	124	111	770				7213
395	Annuity non-profit (PLA)	121	367					4759
410	Group life							12
435	Miscellaneous non-profit		20909	161				33

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

Name of insurer **Friends Life Limited**
 Total business / subfund **FP With Profits Fund**
 Financial year ended **31 December 2012**
 Units **£000**
 UK Life / Gross

Product code number	Product description	Number of policyholders / scheme members	Amount of benefit	Amount of annual office premiums	Nominal value of units	Discounted value of units	Other liabilities	Amount of mathematical reserves
1	2	3	4	5	6	7	8	9
500	Life UWP single premium	23526	329364		326161	326161	939	327100
505	Life UWP whole life regular premium	4556	530657	6876	119527	118965	6597	125563
510	Life UWP endowment regular premium - savings	4527	120916	3456	59230	59200	1568	60768
515	Life UWP endowment regular premium - target cash	24416	1083312	24963	404385	403857	11073	414929
574	UWP investment only reinsurance		56586	13	56586	56585	(141)	56444

Name of insurer	Friends Life Limited
Total business / subfund	FP With Profits Fund
Financial year ended	31 December 2012
Units	£000
UK Pension / Gross	

[illegible]

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

Name of insurer **Friends Life Limited**
 Total business / subfund **FLC New With Profits Fund**
 Financial year ended **31 December 2012**
 Units **£000**
 UK Life / Gross

Product code number	Product description	Number of policyholders / scheme members	Amount of benefit	Amount of annual office premiums	Nominal value of units	Discounted value of units	Other liabilities	Amount of mathematical reserves
1	2	3	4	5	6	7	8	9
500	Life UWP single premium	26964	808301		792752	790899	28296	819194
505	Life UWP whole life regular premium	8884	800971	5928	12439	12439	498	12937
506	Life UWP whole life regular premium (ISA)	610	3506	52	3477	3477		3477
510	Life UWP endowment regular premium - savings	325	9094	574	8323	8323	108	8430
515	Life UWP endowment regular premium - target cash	24252	890926	18693	352473	352473	15137	367610
574	UWP investment only reinsurance		50172		50172	50172	79	50250
575	Miscellaneous UWP	3800	5970		5911	5911	12	5922

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

Name of insurer	Friends Life Limited
Total business / subfund	FLC New With Profits Fund
Financial year ended	31 December 2012
Units	£000
UK Life / Reinsurance ceded intra-group	

[illegible]

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

Name of insurer **Friends Life Limited**
 Total business / subfund **FLC New With Profits Fund**
 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	35758	952224	12866	869687	869288	254595	1123882
535	Group money purchase pensions UWP	8105	130561	4454	128540	128525	1521	130046
555	Group deposit administration with-profits	12731	254354	6325	255610	255610	36196	291806
570	Income drawdown UWP	71	12923		13040	13040	5	13045
571	Trustee investment plan UWP	92	10605	11	10653	10650	2	10652
575	Miscellaneous UWP	12	802	14	746	737	1	738
610	Additional reserves UWP						216	216

[illegible]

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

Name of insurer **Friends Life Limited**
 Total business / subfund **FLC New With Profits Fund**
 Financial year ended **31 December 2012**
 Units **£000**
 Overseas / Gross

Product code number	Product description	Number of policyholders / scheme members	Amount of benefit	Amount of annual office premiums	Nominal value of units	Discounted value of units	Other liabilities	Amount of mathematical reserves
1	2	3	4	5	6	7	8	9
500	Life UWP single premium	94	4104		4086	4086		4086
505	Life UWP whole life regular premium	187	22540	167	802	802	4	806
510	Life UWP endowment regular premium - savings	8	290	15	289	289	3	292
515	Life UWP endowment regular premium - target cash	128	9517	170	3042	3042	168	3210
555	Group deposit administration with-profits	416	16462	913	16542	16542	1420	17962
574	UWP investment only reinsurance		66494		66494	66494		66494

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

Name of insurer **Friends Life Limited**
 Total business / subfund **FLC Old With Profits Fund**
 Financial year ended **31 December 2012**
 Units **£000**
 UK Life / Gross

Product code number	Product description	Number of policyholders / scheme members	Amount of benefit	Amount of annual office premiums	Nominal value of units	Discounted value of units	Other liabilities	Amount of mathematical reserves
1	2	3	4	5	6	7	8	9
500	Life UWP single premium	2902	144578		140602	138812	19798	158611
505	Life UWP whole life regular premium	1236	152317	1010	2848	2848	61	2910
506	Life UWP whole life regular premium (ISA)	45	392	52	388	388		388
510	Life UWP endowment regular premium - savings	85	2814	156	2600	2600	31	2631
515	Life UWP endowment regular premium - target cash	5438	164892	3185	76901	76901	3283	80184
574	UWP investment only reinsurance		5766		5766	5766		5766
575	Miscellaneous UWP	269	993		984	984		984

Friends Life Limited

FLC Old With Profits Fund

31 December 2012

£000

[illegible]

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

Name of insurer **Friends Life Limited**
 Total business / subfund **FLC Old With Profits Fund**
 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	12064	289058	1868	278236	278106	90045	368151
535	Group money purchase pensions UWP	1403	43712	860	42594	42591	538	43130
555	Group deposit administration with-profits	2060	19173	78	19267	19267	3201	22468
570	Income drawdown UWP	11	4311		4319	4319	3	4322
571	Trustee investment plan UWP	25	4273	5	4283	4283	0	4283
575	Miscellaneous UWP	7	224	1	177	168	3	171
610	Additional reserves UWP						31	31

[illegible]

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

Name of insurer **Friends Life Limited**
 Total business / subfund **FLC Old With Profits Fund**
 Financial year ended **31 December 2012**
 Units **£000**
 Overseas / Gross

Product code number	Product description	Number of policyholders / scheme members	Amount of benefit	Amount of annual office premiums	Nominal value of units	Discounted value of units	Other liabilities	Amount of mathematical reserves
1	2	3	4	5	6	7	8	9
500	Life UWP single premium	9	144		143	143		143
505	Life UWP whole life regular premium	15	3643	14	72	72	1	73
510	Life UWP endowment regular premium - savings	1	177	7	174	174	1	175
515	Life UWP endowment regular premium - target cash	32	1322	24	618	618	31	650
555	Group deposit administration with-profits	15	566		568	568	24	592
574	UWP investment only reinsurance		9684		9684	9684		9684

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

Name of insurer **Friends Life Limited**
 Total business / subfund **FLAS With Profits Fund**
 Financial year ended **31 December 2012**
 Units **£000**
 UK Life / Gross

Product code number	Product description	Number of policyholders / scheme members	Amount of benefit	Amount of annual office premiums	Nominal value of units	Discounted value of units	Other liabilities	Amount of mathematical reserves
1	2	3	4	5	6	7	8	9
500	Life UWP single premium	11828	290550		288075	287736	142	287878
505	Life UWP whole life regular premium	3760	417735	4190	35185	34314	543	34857
510	Life UWP endowment regular premium - savings	1961	65031	1685	36777	36124	4914	41038
515	Life UWP endowment regular premium - target cash	2074	56238	1705	25506	24646	40	24686
555	Group deposit administration with-profits		1992	55	1992	1992		1992
574	UWP investment only reinsurance		41079		41079	41079		41079

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

Name of insurer **Friends Life Limited**
 Total business / subfund **FLAS With Profits Fund**
 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	25809	856459	6997	799809	781190	199121	980310
535	Group money purchase pensions UWP	14776	300852	6559	263695	254049	1210	255259
555	Group deposit administration with-profits		282689	12032	282238	282238	25409	307647
570	Income drawdown UWP	10	3358		3456	3456	4	3460
571	Trustee investment plan UWP	44	4913	17	5048	5010	581	5592
575	Miscellaneous UWP	177	23692	366	20644	19843	117	19960

Name of insurer	Friends Life Limited
Total business / subfund	FLAS With Profits Fund
Financial year ended	31 December 2012
Units	£000
Overseas / Gross	

[illegible]

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

Name of insurer **Friends Life Limited**
 Total business / subfund **FLAS With Profits Fund**
 Financial year ended **31 December 2012**
 Units **£000**
 UK Life / Gross

Product code number	Product description	Number of policyholders / scheme members	Amount of benefit	Amount of annual office premiums	Nominal value of units	Discounted value of units	Other liabilities	Amount of mathematical reserves
1	2	3	4	5	6	7	8	9
700	Life property linked single premium	95038	2953198		2898248	2898248	1733	2899981
710	Life property linked whole life regular premium	24374	1690757	15993	158537	158537	2856	161394
715	Life property linked endowment regular premium - savings	10640	223811	4947	140430	140430	515	140945
720	Life property linked endowment regular premium - target cash	3361	126743	2480	48964	48964	714	49678
795	Miscellaneous property linked	60	784		784	784	227	1011

Name of insurer	Friends Life Limited
Total business / subfund	FLAS With Profits Fund
Financial year ended	31 December 2012
Units	£000
UK Life / Reinsurance ceded intra-group	

[illegible]

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

Name of insurer **Friends Life Limited**
 Total business / subfund **FLAS With Profits Fund**
 Financial year ended **31 December 2012**
 Units **£000**
 UK Pension / Reinsurance ceded external

Product code number	Product description	Number of policyholders / scheme members	Amount of benefit	Amount of annual office premiums	Nominal value of units	Discounted value of units	Other liabilities	Amount of mathematical reserves
1	2	3	4	5	6	7	8	9
725	Individual pensions property linked		902	3				

[illegible]

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

Name of insurer **Friends Life Limited**
 Total business / subfund **Non Profit Fund**
 Financial year ended **31 December 2012**
 Units **£000**
 UK Life / Gross

Product code number	Product description	Number of policyholders / scheme members	Amount of benefit	Amount of annual office premiums	Nominal value of units	Discounted value of units	Other liabilities	Amount of mathematical reserves
1	2	3	4	5	6	7	8	9
700	Life property linked single premium	237497	12916104		12790322	12757044	22457	12779501
705	Life property linked single premium quasi index linked	85	3		3	3	0	3
710	Life property linked whole life regular premium	108817	7706679	73734	652658	652213	9317	661530
715	Life property linked endowment regular premium - savings	15510	346601	16974	297517	297507	1606	299113
720	Life property linked endowment regular premium - target cash	8961	346398	9250	177328	177227	3379	180605
790	Miscellaneous protection rider	379		13			17	17
794	Property linked investment only reinsurance		1097145	183	1097094	1097094	(245)	1096849
795	Miscellaneous property linked	10724	18465	7555	25310	25310	2200	27510
800	Additional reserves property linked						33191	33191

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

Name of insurer **Friends Life Limited**
 Total business / subfund **Non Profit Fund**
 Financial year ended **31 December 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	261242	8770958	155344	8635966	8561967	68349	8630316
735	Group money purchase pensions property linked	197161	3766254	245569	3758432	3745331	66918	3812248
750	Income drawdown property linked	4548	560649		560649	560649	1344	561993
755	Trustee investment plan	1841	217893	721	217893	217697	(138)	217559
760	Small self administered schemes	316	132697	2361	132246	127718	(137)	127580
765	Group managed fund	148	573125		573125	573125		573125
794	Property linked investment only reinsurance		790150		790150	790150	(10)	790140
800	Additional reserves property linked						30678	30678

Name of insurer	Friends Life Limited
Total business / subfund	Non Profit Fund
Financial year ended	31 December 2012
Units	£000
UK Pension / Reinsurance ceded external	

[illegible]

Name of insurer	Friends Life Limited
Total business / subfund	Non Profit Fund
Financial year ended	31 December 2012
Units	£000
UK Pension / Reinsurance ceded intra-group	

[illegible]

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

Name of insurer **Friends Life Limited**
 Total business / subfund **Non Profit Fund**
 Financial year ended **31 December 2012**
 Units **£000**
 Overseas / Gross

Product code number	Product description	Number of policyholders / scheme members	Amount of benefit	Amount of annual office premiums	Nominal value of units	Discounted value of units	Other liabilities	Amount of mathematical reserves
1	2	3	4	5	6	7	8	9
700	Life property linked single premium	1325	35625		34060	34060	207	34267
710	Life property linked whole life regular premium	1506	220411	1644	22698	22698	92	22790
715	Life property linked endowment regular premium - savings	74406	764302	90007	258758	251255	128116	379371
720	Life property linked endowment regular premium - target cash	36	1884	37	777	777	1	778
725	Individual pensions property linked	658	12675	530	12614	12614	56	12670
794	Property linked investment only reinsurance		101226		101226	101226		101226
795	Miscellaneous property linked	329	481	338	481	481	1	482
800	Additional reserves property linked						44800	44800

Friends Life Limited
FP With Profits Fund
31 December 2012
£000

[illegible]

[illegible]

Name of insurer	Friends Life Limited
Total business / subfund	FLC Old With Profits Fund
Financial year ended	31 December 2012
Units	£000
UK Pension / Gross	

[illegible]

Friends Life Limited

FLAS With Profits Fund

31 December 2012

£000

[illegible]

Friends Life Limited
FLAS With Profits Fund
31 December 2012
£000

[illegible]

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

Name of insurer **Friends Life Limited**
 Total business / subfund **Non Profit Fund**
 Financial year ended **31 December 2012**
 Units **£000**
 UK Life / Gross

Product code number	Product description	Number of policyholders / scheme members	Amount of benefit	Amount of annual office premiums	Nominal value of units	Discounted value of units	Other liabilities	Amount of mathematical reserves
1	2	3	4	5	6	7	8	9
901	Index linked income protection claims in payment	6	4709		30349	30349	3960	34310
902	Group index linked income protection claims in payment						27462	27462
905	Index linked annuity	295	9118		102304	102304	346	102649
910	Accelerated Critical Illness (guaranteed premiums)	90	7398	57			235	235
910	Group Income Protection	30498	666613	6956			4259	4259
910	Income Protection non-profit	8409		4962			(13355)	(13355)
910	Long Term care policy - Future Care	1187	73692	806			12197	12197
910	Long Term care policy - Future Care claims in payment	103	1375				4513	4513
910	Long Term care policy - Immediate Care	8	185				884	884
910	Individual PHI	3166	57740	1897	(3738)	(3738)		(3738)
910	Miscellaneous non profit	1	3	0			5	5
910	Miscellaneous protection rider	9565		190			(716)	(716)
910	Stand alone Critical Illness (guaranteed premiums)	245	24806	347			329	329
910	Miscellaneous index linked	4995	323225	3360	131730	131730	18031	149761

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

Name of insurer **Friends Life Limited**
 Total business / subfund **Non Profit Fund**
 Financial year ended **31 December 2012**
 Units **£000**
 UK Life / Reinsurance ceded external

Product code number	Product description	Number of policyholders / scheme members	Amount of benefit	Amount of annual office premiums	Nominal value of units	Discounted value of units	Other liabilities	Amount of mathematical reserves
1	2	3	4	5	6	7	8	9
901	Index linked income protection claims in payment		1163		7934	7934	2462	10397
902	Group index linked income protection claims in payment						12419	12419
910	Accelerated Critical Illness (guaranteed premiums)		5843				134	134
910	Group Income Protection		200172	1366			1239	1239
910	Income Protection non-profit			136			(4530)	(4530)
910	Long Term care policy - Future Care		62316	80			426	426
910	Long Term care policy - Future Care claims in payment		1237				4061	4061
910	Individual PHI		24668	21	270	270		270
910	Miscellaneous protection rider			26			(83)	(83)
910	Stand alone Critical Illness (guaranteed premiums)		20453				416	416
910	Miscellaneous index linked		198848	1450	41304	41304	195	41498

[illegible]

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

Name of insurer **Friends Life 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
Life Fixed Interest	01 - life - stock market managed fund	166422	Cross Holdings	0.00%	2.2573	2.4611	9.03
Life Monthly Distribution	01 - life - stock market managed fund	367262	Cross Holdings	0.00%	0.9878	1.0776	9.09
Life Monthly Distribution Accumulation	01 - life - stock market managed fund	127336	FP Accumulation 0.75% - F	0.75%	1.3705	1.5402	12.38
Managed	02 - life - balanced managed fund	800440	Issue 83	1.00%	14.8930	16.1460	8.41
Reserve	03 - life - defensive managed fund	355779	Issue 87	1.00%	1.2670	1.2890	1.74
Distribution	04 - life - other managed fund	4659419	Issue 87	1.00%	3.7280	3.7290	0.03
Deferred Distribution	04 - life - other managed fund	2942607	Issue 14	1.00%	4.7370	4.9280	4.03
Higher Yield Distribution	04 - life - other managed fund	538933	Issue 87	1.00%	0.8380	0.8690	3.70
Extra income	04 - life - other managed fund	260855	Issue 87	1.00%	1.1040	1.1400	3.26
Monthly Distribution	04 - life - other managed fund	211278	Issue 87	1.00%	0.9720	0.9710	(0.10)
Life- Managed	04 - life - other managed fund	101723	Accumulation SY	1.00%	0.9575	1.0554	10.22
Life Managed	04 - life - other managed fund	664761	FP Accumulation 0.75% - P	0.75%	6.5873	7.2261	9.70
Equity	05 - life - equity	125770	Issue 83	1.00%	21.2470	23.5270	10.73
Higher Income	05 - life - equity	139303	Issue 83	1.00%	29.5290	32.3190	9.45
Life Stewardship	05 - life - UK equity	211292	FP Accumulation 0.75% - P	0.75%	7.8147	9.2828	18.79
Global Distribution	06 - life - overseas equity	137257	Issue 87	1.00%	1.6300	1.7390	6.69
Property	07 - life - property	281393	Issue 87	1.00%	1.3450	1.3070	(2.83)
Life- Commercial Property	07 - life - property	181435	Accumulation SY	0.00%	4.9791	5.1108	2.64

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

Name of insurer **Friends Life 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
Life Property	07 - life - property	166018	FP Accumulation 0.75% - F	0.75%	4.3020	4.3828	1.88
Individual Global Managed	11 - individual pension - stock market managed fund	130187	Issue 33	1.00%	3.7620	4.1140	9.36
Individual Retirement 2015	11 - individual pension - stock market managed fund	144188	Issue 65	1.00%	1.3580	1.5220	12.08
Individual Retirement 2020	11 - individual pension - stock market managed fund	182155	Issue 66	1.00%	1.2300	1.3850	12.60
Individual Retirement 2025	11 - individual pension - stock market managed fund	229223	Issue 66	1.00%	1.2100	1.3660	12.89
Individual Retirement 2030	11 - individual pension - stock market managed fund	243557	Issue 66	1.00%	1.2110	1.3660	12.80
Individual Retirement 2035	11 - individual pension - stock market managed fund	212193	Issue 66	1.00%	1.2080	1.3630	12.83
Individual Retirement 2040	11 - individual pension - stock market managed fund	225420	Issue 66	1.00%	1.2040	1.3590	12.87
Individual Managed	12 - individual pension - balanced managed fund	3491851	Issue 23	1.00%	25.5910	27.7840	8.57
Individual Reserve	13 - individual pension - defensive managed fund	192651	Issue 58	1.00%	1.7470	1.8130	3.78
Individual UK Bond	14 - Individual pension - other managed fund	209260	Issue 99	1.00%	13.7070	14.6110	6.60
Individual Cash	14 - Individual pension - other managed fund	381080	Issue 66	1.00%	7.8870	7.8580	(0.37)
Individual Retirement Distribution	14 - Individual pension - other managed fund	2066525	Issue 23	1.00%	5.0180	5.3050	5.72
Hermes World Equity	14 - Individual pension - other managed fund	136702	Issue 66	1.00%	1.6010	1.8110	13.12
Pension- Managed	14 - individual pension - other managed fund	477918	Accumulation SY	1.00%	0.9314	1.0306	10.65
Pension- Mixed	14 - individual pension - other managed fund	233966	Accumulation C	1.00%	7.7908	8.5415	9.64
Individual Equity	15 - Individual pension - UK equity	1657239	Issue 99	1.00%	44.7920	49.7060	10.97
Individual Higher Income	15 - Individual pension - UK equity	235718	Issue 42	1.00%	10.3890	11.3940	9.67

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

Name of insurer **Friends Life 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
Individual Global Equity	16 - Individual pension - overseas equity	166236	Issue 66	1.00%	11.7550	12.9540	10.20
Individual Pacific	16 - Individual pension - overseas equity	125594	Issue 23	1.00%	13.4390	15.7020	16.84
Individual European	16 - Individual pension - overseas equity	153545	Issue 23	1.00%	5.1240	6.0230	17.54
Individual Global Distribution	16 - Individual pension - overseas equity	101349	Issue 66	1.00%	1.7020	1.9430	14.16
Individual Property	17 - individual pension - property	350258	Issue 66	1.00%	13.3140	13.2830	(0.23)
Pension- Commercial Property	17 - individual pension - property	672672	Accumulation SY	0.00%	6.6319	6.8661	3.53
Group Mixed	22 - group managed fund - balanced managed fund	124146	Group Managed Fund	1.00%	58.9130	64.9100	10.18
0	0			0.00%			
0	0			0.00%			
0	0			0.00%			
0	0			0.00%			
0	0			0.00%			
0	0			0.00%			
0	0			0.00%			
0	0			0.00%			
0	0			0.00%			
0	0			0.00%			
0	0			0.00%			
0	0			0.00%			
0	0			0.00%			

Long-term insurance business : Index linked businessName of insurer **Friends Life Limited**

Total business

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

Value of assets	Mean Term
1	2

Analysis of assets

Approved variable interest securities	11	661614	14.84
Other variable interest securities	12	153411	15.26
Approved fixed interest securities	13	9510	14.61
Other fixed interest securities	14	31036	8.92
Cash and deposits	15		
Equity index derivatives	16	1032	
Inflation swaps	17		
Other assets	18	2686	
Variation margin	19		
Total (11 to 19)	20	859288	

Credit rating of other fixed interest and other variable interest securities

AAA/Aaa	31	34989	22.36
AA/Aa	32	34632	13.81
A/A	33	89232	11.79
BBB/Baa	34	21561	13.23
BB/Ba	35	930	9.12
B/B	36	223	9.02
CCC/Caa	37	27	9.02
Other (including unrated)	38	2852	3.07
Total other fixed interest and other variable interest securities	39	184447	14.19

Long-term insurance business: Analysis of valuation interest rateName of insurer **Friends Life Limited**Subfund **FP With Profits Fund**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 L&GA WP	1334151	2.30%	2.76%	2.98%
UK F51 L&GA NP	89715	1.80%	2.25%	2.40%
UK F52 L&GA	983804	2.30%	2.76%	2.98%
UK F53 L&GA NL	4323	1.80%	2.25%	2.40%
UK F51 Pensions WP	1503616	2.80%	2.80%	3.53%
UK F51 Pensions NP	199626	2.20%	2.20%	2.40%
UK F51 Pensions NP	2133952	3.27%	3.27%	3.44%
UK F52 Pensions	2533827	2.80%	2.80%	3.53%
UK F53 Pensions NL	31322	2.20%	2.20%	2.40%
OS F52	144529	2.80%	2.80%	3.53%
Miscellaneous	191895	n/a	n/a	0.10%
Total	9150760			

Long-term insurance business: Analysis of valuation interest rateName of insurer **Friends Life Limited**Subfund **FPLAL With Profits Fund**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 L&GA WP	79167	2.30%	2.53%	3.17%
UK F51 L&GA NP	1895	1.80%	1.66%	3.10%
UK F51 Pensions WP	75047	3.00%	3.00%	3.62%
UK F51 Pensions NP	66300	2.20%	2.20%	2.29%
Miscellaneous	3106	n/a	n/a	1.86%
Total	225515			

Long-term insurance business: Analysis of valuation interest rate

Name of insurer **Friends Life Limited**

Subfund **FLC New With Profits Fund**

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	761934	1.44%	1.80%	2.05%
UK F51 L&GA WP	525032	2.50%	3.00%	3.89%
UK F51 Pensions WP	191421	1.44%	1.80%	2.05%
UK F52 Pensions	827221	1.80%	2.25%	2.86%
UK F52 L&GA	1227294	2.25%	2.70%	3.49%
UK F52 Pensions Guaranteed 4%	726387	3.20%	4.00%	4.45%
Miscellaneous	280878	n/a	n/a	2.59%
Total	4540167			

Long-term insurance business: Analysis of valuation interest rate

Name of insurer **Friends Life Limited**

Subfund **FLC Old With Profits Fund**

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	120034	1.44%	1.80%	2.05%
UK F51 L&GA WP	183194	2.50%	3.00%	3.89%
UK F51 Pensions WP	55257	1.44%	1.80%	2.05%
UK F52 Pensions	180606	1.80%	2.25%	2.86%
UK F52 L&GA	250101	2.25%	2.70%	3.49%
UK F52 Pensions Guaranteed 4%	261951	3.20%	4.00%	4.45%
Miscellaneous	31479	n/a	n/a	2.68%
Total	1082621			

Long-term insurance business: Analysis of valuation interest rate

Name of insurer **Friends Life Limited**

Subfund **FLAS With Profits Fund**

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	3281027	2.16%	2.70%	2.83%
UK F51 Pensions WP	435231	2.20%	2.75%	3.16%
UK F52 Pensions	1572228	1.40%	1.75%	2.13%
UK F52 L&GA	429537	1.75%	2.10%	2.61%
Miscellaneous	467932	n/a	n/a	2.94%
Total	6185955			

Long-term insurance business: Analysis of valuation interest rateName of insurer **Friends Life Limited**Subfund **Non Profit Fund**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 L&GA NP	19623	1.80%	2.25%	2.32%
UK F51 L&GA NP - Ex BHA	(72740)	1.80%	2.25%	2.32%
UK F51 L&GA NP - PHI	196397	2.20%	2.20%	2.32%
UK F51 L&GA NP - Additional Reserves	14808	0.00%	0.00%	0.08%
UK F51 L&GA NP - ex-FLC	82362	1.45%	1.74%	2.04%
UK F51 L&GA NP - GAF ex-FLC	58211	1.44%	1.80%	2.04%
UK F51 L&GA NP - PHI ex-FLC	178715	1.44%	1.80%	2.04%
UK F51 Pensions NP	37426	5.45%	5.45%	5.63%
UK Pens NP Form 51 ex-FLC	13277	1.44%	1.80%	2.04%
UK F51 Pensions NP - Additional Reserves	5046	0.00%	0.00%	0.08%
OS F51 NP	(7996)	2.20%	2.20%	2.32%
UK F53 L&GA NL	(190)	1.80%	2.25%	2.32%
UK F53 L&GA NL - ex-FLC	64817	1.45%	1.74%	2.04%
UK F53 Pensions NL	1492	2.20%	2.20%	2.79%
UK F53 Pensions NL - ex-FLC	142433	1.44%	1.80%	2.04%
OS F53 NL	128412	2.20%	2.20%	2.34%
UK F54 L&GA NL	23064	0.00%	0.00%	2.31%
UK F54 L&GA NL - PHI ex-FLC	17902	1.44%	1.80%	2.04%
Miscellaneous	97807	n/a	n/a	0.90%
Total	1000867			

Long-term insurance business : Distribution of surplus

Name of insurer **Friends Life Limited**
Total business / subfund **Summary**
Financial year ended **31 December 2012**
Units **£000**

Financial year	Previous year
1	2

Valuation result

Fund carried forward	11	52370402	14645489
Bonus payments in anticipation of a surplus	12	262855	240520
Transfer to non-technical account	13	13916	88168
Transfer to other funds / parts of funds	14		
Subtotal (11 to 14)	15	52647172	14974176
Mathematical reserves	21	52263070	14643819
Surplus including contingency and other reserves held towards the capital requirements (deficiency) (15-21)	29	384103	330357

Composition of surplus

Balance brought forward	31	(10354)	(97507)
Transfer from non-technical account	32		
Transfer from other funds / parts of fund	33	105279	
Surplus arising since the last valuation	34	289178	427864
Total	39	384103	330357

Distribution of surplus

Bonus paid in anticipation of a surplus	41	262855	240520
Cash bonuses	42		
Reversionary bonuses	43	8279	12023
Other bonuses	44		
Premium reductions	45		
Total allocated to policyholders (41 to 45)	46	271134	252543
Net transfer out of fund / part of fund	47	13916	88168
Total distributed surplus (46+47)	48	285050	340711
Surplus carried forward	49	99053	(10354)
Total (48+49)	59	384103	330357

Percentage of distributed surplus allocated to policyholders

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

Long-term insurance business : Distribution of surplus

Name of insurer **Friends Life Limited**
 Total business / subfund **FP With Profits Fund**
 Financial year ended **31 December 2012**
 Units **£000**

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

Valuation result

Fund carried forward	11	8978696	9555583
Bonus payments in anticipation of a surplus	12	250882	227433
Transfer to non-technical account	13	13916	13168
Transfer to other funds / parts of funds	14		
Subtotal (11 to 14)	15	9243494	9796184
Mathematical reserves	21	9190489	9764360
Surplus including contingency and other reserves held towards the capital requirements (deficiency) (15-21)	29	53005	31824

Composition of surplus

Balance brought forward	31	(219757)	(269757)
Transfer from non-technical account	32		
Transfer from other funds / parts of fund	33		
Surplus arising since the last valuation	34	272762	301581
Total	39	53005	31824

Distribution of surplus

Bonus paid in anticipation of a surplus	41	250882	227433
Cash bonuses	42		
Reversionary bonuses	43	7260	10980
Other bonuses	44		
Premium reductions	45		
Total allocated to policyholders (41 to 45)	46	258141	238413
Net transfer out of fund / part of fund	47	13916	13168
Total distributed surplus (46+47)	48	272058	251581
Surplus carried forward	49	(219053)	(219757)
Total (48+49)	59	53005	31824

Percentage of distributed surplus allocated to policyholders

Current year	61	94.88	94.77
Current year - 1	62	94.77	96.68
Current year - 2	63	96.68	97.06
Current year - 3	64	97.06	95.58

Long-term insurance business : Distribution of surplus

Name of insurer **Friends Life Limited**
 Total business / subfund **FPLAL With Profits Fund**
 Financial year ended **31 December 2012**
 Units **£000**

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

Valuation result

Fund carried forward	11	250514	274214
Bonus payments in anticipation of a surplus	12	11973	13087
Transfer to non-technical account	13		
Transfer to other funds / parts of funds	14		
Subtotal (11 to 14)	15	262487	287301
Mathematical reserves	21	224496	248171
Surplus including contingency and other reserves held towards the capital requirements (deficiency) (15-21)	29	37991	39130

Composition of surplus

Balance brought forward	31	25000	
Transfer from non-technical account	32		
Transfer from other funds / parts of fund	33		
Surplus arising since the last valuation	34	12991	39130
Total	39	37991	39130

Distribution of surplus

Bonus paid in anticipation of a surplus	41	11973	13087
Cash bonuses	42		
Reversionary bonuses	43	1019	1043
Other bonuses	44		
Premium reductions	45		
Total allocated to policyholders (41 to 45)	46	12992	14130
Net transfer out of fund / part of fund	47		
Total distributed surplus (46+47)	48	12992	14130
Surplus carried forward	49	24999	25000
Total (48+49)	59	37991	39130

Percentage of distributed surplus allocated to policyholders

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

Long-term insurance business : Distribution of surplus

Name of insurer **Friends Life Limited**
 Total business / subfund **FLC New With Profits Fund**
 Financial year ended **31 December 2012**
 Units **£000**

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

Valuation result

Fund carried forward	11	4645900	
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	4645900	
Mathematical reserves	21	4562289	
Surplus including contingency and other reserves held towards the capital requirements (deficiency) (15-21)	29	83611	

Composition of surplus

Balance brought forward	31		
Transfer from non-technical account	32		
Transfer from other funds / parts of fund	33	83611	
Surplus arising since the last valuation	34	0	
Total	39	83611	

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	83611	
Total (48+49)	59	83611	

Percentage of distributed surplus allocated to policyholders

Current year	61	90.00	
Current year - 1	62	90.00	
Current year - 2	63	90.00	
Current year - 3	64	90.00	

Long-term insurance business : Distribution of surplus

Name of insurer **Friends Life Limited**
 Total business / subfund **FLC Old With Profits Fund**
 Financial year ended **31 December 2012**
 Units **£000**

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

Valuation result

Fund carried forward	11	1086446	
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	1086446	
Mathematical reserves	21	1086446	
Surplus including contingency and other reserves held towards the capital requirements (deficiency) (15-21)	29		

Composition of surplus

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

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		
Total (48+49)	59		

Percentage of distributed surplus allocated to policyholders

Current year	61	90.00	
Current year - 1	62	90.00	
Current year - 2	63	90.00	
Current year - 3	64	90.00	

Long-term insurance business : Distribution of surplus

Name of insurer **Friends Life Limited**
 Total business / subfund **FLAS With Profits Fund**
 Financial year ended **31 December 2012**
 Units **£000**

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

Valuation result

Fund carried forward	11	6780806	
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	6780806	
Mathematical reserves	21	6780806	
Surplus including contingency and other reserves held towards the capital requirements (deficiency) (15-21)	29		

Composition of surplus

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

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		
Total (48+49)	59		

Percentage of distributed surplus allocated to policyholders

Current year	61	90.00	
Current year - 1	62	90.00	
Current year - 2	63	90.00	
Current year - 3	64	90.00	

Long-term insurance business : Distribution of surplus

Name of insurer **Friends Life Limited**
 Total business / subfund **Non Profit Fund**
 Financial year ended **31 December 2012**
 Units **£000**

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

Valuation result

Fund carried forward	11	30628040	4815691
Bonus payments in anticipation of a surplus	12		
Transfer to non-technical account	13		75000
Transfer to other funds / parts of funds	14		
Subtotal (11 to 14)	15	30628040	4890691
Mathematical reserves	21	30418544	4631288
Surplus including contingency and other reserves held towards the capital requirements (deficiency) (15-21)	29	209496	259403

Composition of surplus

Balance brought forward	31	184403	172250
Transfer from non-technical account	32		
Transfer from other funds / parts of fund	33	21668	
Surplus arising since the last valuation	34	3425	87153
Total	39	209496	259403

Distribution of surplus

Bonus paid in anticipation of a surplus	41		
Cash bonuses	42		
Reversionary bonuses	43		
Other bonuses	44		
Premium reductions	45		
Total allocated to policyholders (41 to 45)	46		
Net transfer out of fund / part of fund	47		75000
Total distributed surplus (46+47)	48		75000
Surplus carried forward	49	209496	184403
Total (48+49)	59	209496	259403

Percentage of distributed surplus allocated to policyholders

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

Form 59A

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

Name of insurer **Friends Life Limited**
 Original insurer **Friends Provident Life and Pensions Limited**
 Date of maturity value / open market option **01 March 2013**

Category of with-profits policy	Original term (years)	Maturity value / open market option	Terminal bonus	MVA	CWP / UWP	MVA permitted?	Death benefit
1	2	3	4	5	6	7	8
Endowment assurance	10	6912	1357		0 UWP	N	6912
Endowment assurance	15	11698	2942		0 UWP	N	11698
Endowment assurance	20	18249	2184		0 CWP	N	22477
Endowment assurance	25	28832	7377		0 CWP	N	39452
Regular premium pension	5	14487	2120		0 UWP	N	14487
Regular premium pension	10	32663	7291		0 UWP	N	32663
Regular premium pension	15	51312	12824		0 UWP	N	51312
Regular premium pension	20	79379	7156		0 UWP	N	79379
Single premium pension	5	13433	2894		0 UWP	N	13433
Single premium pension	10	17921	6651		0 UWP	N	17921
Single premium pension	15	19309	4704		0 UWP	N	19309
Single premium pension	20	31831	3109		0 UWP	N	31831

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

Name of insurer **Friends Life Limited**
 Original insurer **Friends Provident Life and Pensions Limited**
 Date of surrender value **01 March 2013**

Category of with-profits policy 1	Duration at surrender (years) 2	Surrender value 3	Terminal bonus 4	MVA 5	CWP / UWP 6	MVA permitted? 7	Death benefit 8
Endowment assurance	5	2508	310		0 UWP	Y	11560
Endowment assurance	10	6305	1203		0 UWP	Y	12453
Endowment assurance	15	10790	2401		0 UWP	Y	14075
Endowment assurance	20	16808	2649		0 CWP	N	33516
With-profits bond	2	N/A	N/A	N/A	N/A	N/A	N/A
With-profits bond	3	N/A	N/A	N/A	N/A	N/A	N/A
With-profits bond	5	12333	1881		0 UWP	Y	12438
With-profits bond	10	17058	6144		0 UWP	Y	17167
Single premium pension	2	11226	949		0 UWP	Y	11226
Single premium pension	3	12271	1913		0 UWP	Y	12271
Single premium pension	5	13433	2894		0 UWP	Y	13433
Single premium pension	10	17921	6651		0 UWP	Y	17921

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

Name of insurer **Friends Life Limited**
 Original insurer **London and Manchester**
 Date of maturity value / open market option **01 March 2013**

Category of with-profits policy	Original term (years)	Maturity value / open market option	Terminal bonus	MVA	CWP / UWP	MVA permitted?	Death benefit
1	2	3	4	5	6	7	8
Endowment assurance	10	N/A	N/A	N/A			
Endowment assurance	15	11196	2992	0	UWP	N	11196
Endowment assurance	20	18062	6103	0	UWP	N	18062
Endowment assurance	25	39384	13128	0	CWP	N	39384
Regular premium pension	5	N/A	N/A	N/A	N/A	N/A	N/A
Regular premium pension	10	N/A	N/A	N/A	N/A	N/A	N/A
Regular premium pension	15	50350	13263	0	UWP	N	50350
Regular premium pension	20	82369	27425	0	UWP	N	82369
Single premium pension	5	N/A	N/A	N/A	N/A	N/A	N/A
Single premium pension	10	N/A	N/A	N/A	N/A	N/A	N/A
Single premium pension	15	20546	7118	0	UWP	N	20546
Single premium pension	20	37865	18546	0	UWP	N	37865

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

Name of insurer **Friends Life Limited**
Original insurer **London and Manchester**
Date of surrender value **01 March 2013**

Category of with-profits policy 1	Duration at surrender (years) 2	Surrender value 3	Terminal bonus 4	MVA 5	CWP / UWP 6	MVA permitted? 7	Death benefit 8
Endowment assurance	5	N/A	N/A	N/A	N/A	N/A	N/A
Endowment assurance	10	N/A	N/A	N/A	N/A	N/A	N/A
Endowment assurance	15	10597	2798	0	UWP	N	14219
Endowment assurance	20	17556	5878	0	UWP	N	17947
With-profits bond	2	N/A	N/A	N/A	N/A	N/A	N/A
With-profits bond	3	N/A	N/A	N/A	N/A	N/A	N/A
With-profits bond	5	N/A	N/A	N/A	N/A	N/A	N/A
With-profits bond	10	N/A	N/A	N/A	N/A	N/A	N/A
Single premium pension	2	N/A	N/A	N/A	N/A	N/A	N/A
Single premium pension	3	N/A	N/A	N/A	N/A	N/A	N/A
Single premium pension	5	N/A	N/A	N/A	N/A	N/A	N/A
Single premium pension	10	N/A	N/A	N/A	N/A	N/A	N/A

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

Name of insurer **Friends Life Limited**
 Original insurer **NM**
 Date of maturity value / open market option **01 March 2013**

Category of with-profits policy	Original term (years)	Maturity value / open market option	Terminal bonus	MVA	CWP / UWP	MVA permitted?	Death benefit
1	2	3	4	5	6	7	8
Endowment assurance	10	N/A	N/A	N/A	N/A	N/A	N/A
Endowment assurance	15	N/A	N/A	N/A	N/A	N/A	N/A
Endowment assurance	20	29752	13583	0	CWP	N	29752
Endowment assurance	25	50207	22621	0	CWP	N	50207
Regular premium pension	5	N/A	N/A	N/A	N/A	N/A	N/A
Regular premium pension	10	N/A	N/A	N/A	N/A	N/A	N/A
Regular premium pension	15	N/A	N/A	N/A	N/A	N/A	N/A
Regular premium pension	20	121931	43266	0	CWP	N	121931
Single premium pension	5	N/A	N/A	N/A	N/A	N/A	N/A
Single premium pension	10	N/A	N/A	N/A	N/A	N/A	N/A
Single premium pension	15	N/A	N/A	N/A	N/A	N/A	N/A
Single premium pension	20	N/A	N/A	N/A	N/A	N/A	N/A

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

Name of insurer **Friends Life Limited**
 Original insurer **NM**
 Date of surrender value **01 March 2013**

Category of with-profits policy 1	Duration at surrender (years) 2	Surrender value 3	Terminal bonus 4	MVA 5	CWP / UWP 6	MVA permitted? 7	Death benefit 8
Endowment assurance	5	N/A	N/A	N/A	N/A	N/A	N/A
Endowment assurance	10	N/A	N/A	N/A	N/A	N/A	N/A
Endowment assurance	15	N/A	N/A	N/A	N/A	N/A	N/A
Endowment assurance	20	27963	11913	0	CWP	N	38351
With-profits bond	2	N/A	N/A	N/A	N/A	N/A	N/A
With-profits bond	3	N/A	N/A	N/A	N/A	N/A	N/A
With-profits bond	5	N/A	N/A	N/A	N/A	N/A	N/A
With-profits bond	10	N/A	N/A	N/A	N/A	N/A	N/A
Single premium pension	2	N/A	N/A	N/A	N/A	N/A	N/A
Single premium pension	3	N/A	N/A	N/A	N/A	N/A	N/A
Single premium pension	5	N/A	N/A	N/A	N/A	N/A	N/A
Single premium pension	10	N/A	N/A	N/A	N/A	N/A	N/A

Form 59A

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

Name of insurer **Friends Life Limited**
Original insurer **AXA Sun Life plc**
Date of maturity value / open market option **01 March 2013**

Category of with-profits policy	Original term (years)	Maturity value / open market option	Terminal bonus	MVA	CWP / UWP	MVA permitted?	Death benefit
1	2	3	4	5	6	7	8
Endowment assurance	10	N/A	N/A	N/A	N/A	N/A	N/A
Endowment assurance	15	12879	3679	0	UWP	N	12879
Endowment assurance	20	N/A	N/A	N/A	N/A	N/A	N/A
Endowment assurance	25	N/A	N/A	N/A	N/A	N/A	N/A
Regular premium pension	5	16424	3790	0	UWP	N	16424
Regular premium pension	10	42934	16100	0	UWP	N	42934
Regular premium pension	15	60402	20809	0	UWP	N	60402
Regular premium pension	20	N/A	N/A	N/A	N/A	N/A	N/A
Single premium pension	5	14325	3306	0	UWP	N	14325
Single premium pension	10	19941	7478	0	UWP	N	19941
Single premium pension	15	23481	8089	0	UWP	N	23481
Single premium pension	20	N/A	N/A	N/A	N/A	N/A	N/A

Form 59B

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

Name of insurer **Friends Life Limited**
 Original insurer **AXA Sun Life plc**
 Date of surrender value **01 March 2013**

Category of with-profits policy 1	Duration at surrender (years) 2	Surrender value 3	Terminal bonus 4	MVA 5	CWP / UWP 6	MVA permitted? 7	Death benefit 8
Endowment assurance	5	N/A	N/A	N/A	N/A	N/A	N/A
Endowment assurance	10	N/A	N/A	N/A	N/A	N/A	N/A
Endowment assurance	15	10530	2038	0	UWP	Y	38000
Endowment assurance	20	N/A	N/A	N/A	N/A	N/A	N/A
With-profits bond	2	N/A	N/A	N/A	N/A	N/A	N/A
With-profits bond	3	N/A	N/A	N/A	N/A	N/A	N/A
With-profits bond	5	11195	0	0	UWP	Y	11195
With-profits bond	10	16939	4392	0	UWP	Y	16939
Single premium pension	2	N/A	N/A	N/A	N/A	N/A	N/A
Single premium pension	3	10863	255	0	UWP	Y	10863
Single premium pension	5	12022	891	0	UWP	Y	12022
Single premium pension	10	16451	3988	0	UWP	Y	16451

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

Name of insurer **Friends Life Limited**
 Original insurer **AXA Equity & Law**
 Date of maturity value / open market option **01 March 2013**

Category of with-profits policy	Original term (years)	Maturity value / open market option	Terminal bonus	MVA	CWP / UWP	MVA permitted?	Death benefit
1	2	3	4	5	6	7	8
Endowment assurance	10	N/A	N/A	N/A	N/A	N/A	N/A
Endowment assurance	15	N/A	N/A	N/A	N/A	N/A	N/A
Endowment assurance	20	20804	6456	0	UWP	N	20804
Endowment assurance	25	32392	11494	0	UWP	N	32392
Regular premium pension	5	N/A	N/A	N/A	N/A	N/A	N/A
Regular premium pension	10	N/A	N/A	N/A	N/A	N/A	N/A
Regular premium pension	15	N/A	N/A	N/A	N/A	N/A	N/A
Regular premium pension	20	98900	36007	0	UWP	N	98900
Single premium pension	5	N/A	N/A	N/A	N/A	N/A	N/A
Single premium pension	10	N/A	N/A	N/A	N/A	N/A	N/A
Single premium pension	15	N/A	N/A	N/A	N/A	N/A	N/A
Single premium pension	20	36437	13266	0	UWP	N	36437

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

Name of insurer **Friends Life Limited**
 Original insurer **AXA Equity & Law**
 Date of surrender value **01 March 2013**

Category of with-profits policy 1	Duration at surrender (years) 2	Surrender value 3	Terminal bonus 4	MVA 5	CWP / UWP 6	MVA permitted? 7	Death benefit 8
Endowment assurance	5	N/A	N/A	N/A	N/A	N/A	N/A
Endowment assurance	10	N/A	N/A	N/A	N/A	N/A	N/A
Endowment assurance	15	N/A	N/A	N/A	N/A	N/A	N/A
Endowment assurance	20	17938	4748	0	UWP	Y	38400
With-profits bond	2	N/A	N/A	N/A	N/A	N/A	N/A
With-profits bond	3	N/A	N/A	N/A	N/A	N/A	N/A
With-profits bond	5	N/A	N/A	N/A	N/A	N/A	N/A
With-profits bond	10	N/A	N/A	N/A	N/A	N/A	N/A
Single premium pension	2	N/A	N/A	N/A	N/A	N/A	N/A
Single premium pension	3	N/A	N/A	N/A	N/A	N/A	N/A
Single premium pension	5	N/A	N/A	N/A	N/A	N/A	N/A
Single premium pension	10	N/A	N/A	N/A	N/A	N/A	N/A

Form 59A

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

Name of insurer **Friends Life Limited**
Original insurer **Sun Life Assurance Society plc**
Date of maturity value / open market option **01 March 2013**

Category of with-profits policy	Original term (years)	Maturity value / open market option	Terminal bonus	MVA	CWP / UWP	MVA permitted?	Death benefit
1	2	3	4	5	6	7	8
Endowment assurance	10	N/A	N/A	N/A	N/A	N/A	N/A
Endowment assurance	15	14449	4330	0	UWP	N	14449
Endowment assurance	20	25707	9723	0	UWP	N	25707
Endowment assurance	25	37069	10896	0	CWP	N	37069
Regular premium pension	5	N/A	N/A	N/A	N/A	N/A	N/A
Regular premium pension	10	N/A	N/A	N/A	N/A	N/A	N/A
Regular premium pension	15	52612	8368	0	UWP	N	52612
Regular premium pension	20	95181	24555	0	UWP	N	95181
Single premium pension	5	N/A	N/A	N/A	N/A	N/A	N/A
Single premium pension	10	N/A	N/A	N/A	N/A	N/A	N/A
Single premium pension	15	25304	8229	0	UWP	N	25304
Single premium pension	20	43749	18268	0	UWP	N	43749

Form 59B

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

Name of insurer **Friends Life Limited**
Original insurer **Sun Life Assurance Society plc**
Date of surrender value **01 March 2013**

Category of with-profits policy	Duration at surrender (years)	Surrender value	Terminal bonus	MVA	CWP / UWP	MVA permitted?	Death benefit
1	2	3	4	5	6	7	8
Endowment assurance	5	N/A	N/A	N/A	N/A	N	N/A
Endowment assurance	10	N/A	N/A	N/A	N/A	N	N/A
Endowment assurance	15	11173	1934	0	UWP	N	35200
Endowment assurance	20	24394	9123	0	UWP	N	35200
With-profits bond	2	N/A	N/A	N/A	N/A	N	N/A
With-profits bond	3	N/A	N/A	N/A	N/A	N	N/A
With-profits bond	5	N/A	N/A	N/A	N/A	N	N/A
With-profits bond	10	N/A	N/A	N/A	N/A	N	N/A
Single premium pension	2	N/A	N/A	N/A	N/A	N	N/A
Single premium pension	3	N/A	N/A	N/A	N/A	N	N/A
Single premium pension	5	N/A	N/A	N/A	N/A	N	N/A
Single premium pension	10	13472	699	0	UWP	N	13472

Long-term insurance capital requirementName of insurer **Friends Life 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%	813709	813709			
Classes I (other), II and IX	12	0.1%	53088275	20495864	0.50	26544	21850
Classes I (other), II and IX	13	0.15%	2341722	235619		1756	2007
Classes I (other), II and IX	14	0.3%	123885426	42108599		185828	187749
Classes III, VII and VIII	15	0.3%	12149781	12148580	1.00	36446	39864
Total	16		192278913	75802372		250574	251470

Insurance health risk and life protection reinsurance capital component

Class IV supplementary classes 1 and 2 and life protection reinsurance	21					21899	23437
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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%	26090244	23661947	0.91	236619	242194
Classes III, VII and VIII (investment risk)	33	1%	3033428	2825568	0.93	28256	29973
Classes III, VII and VIII (expenses fixed 5 yrs +)	34	1%	1786287	1590950	0.89	15909	14929
Classes III, VII and VIII (other)	35	25%				58599	30216
Class IV (other)	36	1%	780550	509557	0.85	6635	6568
Class V	37	1%					
Class VI	38	1%	44956	44956	1.00	450	492
Total	39					346468	324372

Insurance market risk capital component

Life protection and permanent health reinsurance	41	0%	16548	16548			
Classes I (other), II and IX	42	3%	26090244	23661947	0.91	709858	726582
Classes III, VII and VIII (investment risk)	43	3%	3033428	2825568	0.93	84767	89919
Classes III, VII and VIII (expenses fixed 5 yrs +)	44	0%	1786287	1590950			
Classes III, VII and VIII (other)	45	0%	31643222	27540336			
Class IV (other)	46	3%	780550	509557	0.85	19904	19704
Class V	47	0%					
Class VI	48	3%	44956	44956	1.00	1349	1477
Total	49		63395234	56189862		815878	837681

Long term insurance capital requirement	51					1434820	1436959
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Supplementary notes to the Return

Friends Life Limited

Global business

Financial year ended 31 December 2012

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

The Financial Services Authority, on the 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. Details are provided in note 5702.

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

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

The Financial Services Authority, on the application of the firm, made a direction in December 2012, under section 148 of the Financial Services and Markets Act 2000. The effect of the direction was to allow the firm to:

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

The Financial Services Authority issued to the firm in December 2012 a direction under section 148 of the Act. The effect of this direction is explained in notes 1323, 1801 and 1901.

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

	<u>2012</u>	<u>2011</u>
	<u>£000</u>	<u>£000</u>
Total admissible assets (long-term) – Form 13 line 89	61,312,195	19,265,325
Total admissible assets (other than long-term) – Form 13 line 89	1,736,138	1,783,558
Less:		
Mathematical reserves, after distribution of surplus (long-term) – Form 14 line 11	(52,271,347)	(14,655,844)
Total other insurance and non-insurance liabilities (long-term) - Form 14 line 49	(4,091,473)	(2,874,265)
Total liabilities (other than long-term) - Form 15 line 69	(1,173,005)	(124,872)
Rounding differences	-	(2)
Net admissible assets	5,512,508	3,393,900
Add:		
Capital requirements of regulated related undertakings	1,517,652	3,145,509
Total capital resources after deductions – Form 3 line 79	7,030,160	6,539,409

Returns under the Interim Prudential Sourcebook for Insurers

Supplementary notes to the Return

Friends Life Limited

Global business

Financial year ended 31 December 2012

***0306* Financial reinsurance ceded**

The Company has entered into financial reinsurance agreements with Munich Reinsurance Company.

As at the valuation date:

- Mathematical reserves in relation to this arrangement increased by £27.4m, the increase in the sterling reserve arising from the reinsurance payments, allowing for the elimination of negative amounts. Therefore the overall impact of the treaty is to increase available capital resources by £9.1m.
- The amount of the Company's contingent liability under this arrangement at the valuation date was £36.5m.
- There is no formal provision to terminate these agreements for existing business, so there is no commutation value.

***0311* Prior year restatement**

Amounts relating to financial reinsurance agreements previously shown in line 93 of form 3 (financial reinsurance – accepted) have been moved to line 92 (financial reinsurance – ceded) reflecting the nature of the agreements as financial reinsurance ceded.

***0310* Valuation differences**

Positive valuation differences included within line 14 on form 3 are as follows:

	<u>2012</u> <u>£000</u>	<u>2011</u> <u>£000</u>
Difference between mathematical and realistic reserves	4,107,965	1,318,146
Additional prefunding liability	48,442	-
Differences arising on the valuation of provisions, deferred income and reserves arising from the implementation of FRS 26	123,224	10,715
Other actuarial reserve differences	(19,398)	(43,214)
Munich Re contingent loan	36,541	39,342
Tax valuation differences	(2,655)	-
Liability at amortised cost	-	60,954
Valuation differences on liabilities (Note 1405)	4,294,119	1,429,157
Asset valuation differences	26,552	20,437
Total equalling Form 3 Line 14	4,267,567	1,365,506

Returns under the Interim Prudential Sourcebook for Insurers

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Global business

Financial year ended 31 December 2012

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

	<u>2012</u> <u>£000</u>	<u>2011</u> <u>£000</u>
Profit and loss account reserves b/fwd	912,278	1,092,786
Profit and loss account reserves c/fwd	3,181,194	912,278
Movement	2,268,916	(180,508)
Remove FSA transfer from technical account to non technical account	13,917	88,168
Remove impact of capital reduction not included in form 16	(3,118,642)	-
Difference between statutory accounts and form 16 exceptional shareholder fund gain on Part VII transfer	(167,398)	-
Remove impact of prior year adjustment in long term funds on opening 2011 profit and loss reserves	(12,125)	-
Surplus arising on the long-term business technical account	(854,585)	(258,140)
Payment of 2005 STICS interest	31,510	31,510
Total equalling Form 16 line 59	(1,838,407)	(318,970)

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Supplementary notes to the Return

Friends Life Limited

Global business

Financial year ended 31 December 2012

***1102* Restatement of Prior Year Comparatives**

The prior year comparative has been restated to reflect the Part VII transfer of Friends Life Company Limited ("FLC") and Friends Life Assurance Society Limited ("FLAS") business into the Company. This has resulted in a restatement of the figures in Column 2 as indicated in the table below. The brought forward figure is unchanged.

			2012 Column 2 £000	2011 Column 1 £000
Gross premiums written		11	249,955	229,795
Premiums taxes and levies (included in line 11)		12		
Premiums written net of taxes and levies (11-12)		13	249,955	229,795
Premiums for classes 11, 12 or 13 (included in line 13)		14		
Premiums for "actuarial health insurance" (included in line 13)		15	64,831	54,529
Sub-total A (13 + 1/2 14 - 2/3 15)		16	206,734	193,442
Gross premiums earned		21	242,606	218,285
Premium taxes and levies (included in line 21)		22		
Premiums earned net of taxes and levies (21-22)		23	242,606	218,285
Premiums for classes 11, 12 or 13 (included in line 23)		24		
Premiums for "actuarial health insurance" (included in line 23)		25	65,166	52,781
Sub-total H (23 + 1/2 24 - 2/3 25)		26	199,162	183,098
Sub-total I (higher of sub-total A and sub-total H)		30	206,734	193,442
Adjusted sub-total I if financial year is not a 12 month period to produce an annual figure		31		
Division of gross adjusted premiums amount sub-total I (or adjusted sub-total I if appropriate)	x 0.18	32	37,212	34,820
	Excess (if any) over 57.5M EURO x 0.02	33	3,131	2,865
Sub-total J (32-33)		34	34,082	31,955
Claims paid in period of 3 financial years		41	477,110	396,518
Claims outstanding carried forward at the end of the 3 year period	For insurance business accounted for on an underwriting year basis	42		
	For insurance business accounted for on an accident year basis	43	354,968	245,306
Claims outstanding brought forward at the beginning of the 3 year period	For insurance business accounted for on an underwriting year basis	44		
	For insurance business accounted for on an accident year basis	45	359,291	249,490
Sub-total C (41+42+43-44-45)		46	472,787	392,335
Amounts recoverable from reinsurers in respect of claims included in Sub-total C		47	222,432	191,397
Sub-total D (46-47)		48	250,356	200,938
Reinsurance Ratio (Sub-total D /sub-total C or, if more, 0.50 or, if less, 1.00)		49	0.53	0.51
Premiums amount (Sub-total J x reinsurance ratio)		50	18,047	16,366
Provision for claims outstanding (before discounting and net of reinsurance)		51	296,410	233,097
Provision for claims outstanding (before discounting and gross of reinsurance) if both 51.1 and 51.2 are zero, otherwise zero		52		
Brought forward amount (See instruction 4)		53	23,437	23,437
Greater of lines 50 and 53		54	23,437	23,437

Returns under the Interim Prudential Sourcebook for Insurers

Supplementary notes to the Return

Friends Life Limited

Global business

Financial year ended 31 December 2012

***1202* Restatement of Prior Year Comparatives**

The prior year comparative has been restated to reflect the Part VII transfer of FLAS and FLC business into FLL. This has resulted in a restatement of the figures in Column 2 as indicated in the table below. The brought forward figure is unchanged.

			2012 Column 2 £000	2011 Column 1 £000
Reference period (No. of months) See INSPRU 1.1.63R		11	36	36
Claims paid in reference period		21	489,672	409,080
Claims outstanding carried forward at the end of the reference period	For insurance business accounted for on an underwriting year basis	22		
	For insurance business accounted for on an accident year basis	23	354,968	245,306
Claims outstanding brought forward at the beginning of the reference period	For insurance business accounted for on an underwriting year basis	24		
	For insurance business accounted for on an accident year basis	25	359,291	249,490
Claims incurred in reference period (21+22+23-24-25)		26	485,349	404,897
Claims incurred for classes 11, 12 or 13 (included in 26)		27		
Claims incurred for "actuarial health insurance" (included in 26)		28	144,647	75,023
Sub-total E (26 +1/2 27 - 2/3 28)		29	388,918	354,882
Sub-total F - Conversion of sub-total E to annual figure (multiply by 12 and divide by number of months in the reference period)		31	129,639	118,294
Division of sub-total F (gross adjusted claims amount)	x 0.26	32	33,706	30,756
	Excess (if any) over 40.3M EURO x 0.03	33	2,834	2,493
Sub-total G (32-33)		39	30,873	28,263
Claims amount Sub-total G x reinsurance ratio (11.49)		41	16,348	14,475
Higher of premiums amount and brought forward amount (11.54)		42	23,437	23,437
General insurance capital requirement (higher of lines 41 and 42)		43	23,437	23,437

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

Provisions held in line 51 for Ex-FLC and Ex-FLAS are discounted where they are in respect of claims in payment that are calculated using annuity factors.

***1111* Restatement of Prior Year Comparatives**

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

***1211* Restatement of Prior Year Comparatives**

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

Returns under the Interim Prudential Sourcebook for Insurers

Supplementary notes to the Return

Friends Life Limited

Global business

Financial year ended 31 December 2012

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

Within the long-term funds:

- i) The company held unlisted investments valued at £1,038.1m.
- ii) Lines 41, 42, 46 & 48 include assets to the value of £82.5m (2011: £20.5m) where, due to market conditions the latest valuation available did not reflect active trading as at the valuation date.
- iii) There were £25.1m of beneficial interests in collective schemes, which were not UCITS or authorised schemes.
- iv) There were no reversionary interests or remainders in property other than land or buildings.

The other than long-term fund held £7.5m of unlisted investments.

***1302* & *1309* Hybrid securities**

The Company held hybrid securities valued at £661.7m (2011: £307.0m) in the long-term fund and £13.9m (2011: £14.1m) in the shareholder fund.

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

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

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

This note includes information in relation to the Part VII Transfer of assets from FLC and FLAS to FLL.

Guidelines – FLL FLC and FLL FLAS

In accordance with the Friends Life Investment Guidelines, the Investment Manager is authorised to select trading counterparties (e.g. banks, brokers) to be used on the Client's account subject to the following requirements:

All counterparties will have been formally approved by the Investment Manager's principal credit forum prior to a business relationship starting. In the case of the Investment Manager this is the Global Risk Committee.

Bonds issued other than in the domestic currency (i.e. non Sterling denominated bonds) may be held but must be hedged back to Sterling currency unless the respective fund guidelines indicate that a less stringent position may apply. The hedging range will be 95 % - 105%. Any non GBP currency that is over 2% of the portfolio NAV will be alerted to the Clients.

The minimum credit rating for fixed income securities is BBB-. The rating to consider for each corporate bond is defined as the lowest available of the credit ratings communicated by S&P, Moody's and Fitch. Where a bond is not formally rated the Investment Manager's own equivalent ratings may be used.

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

Largest 250 FTSE stocks 4.5% + 1.5% = 6%

Other FTSE All Share stocks 4.5% + 1% = 5.5%

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The maximum permitted aggregate holding across relevant UK equity funds will not exceed 10% of the free float market capitalisation ("free float"). For those the combined part of the 90:10 or with profits funds managed by the Investment Manager the maximum permitted exposure is 7% of the free float. There are no downside limits with regard to minimum holdings (versus benchmark) of equities that the Investment Manager is required to hold.

The exposure limits will not apply to holdings with "Special Status". Similarly the limits on holdings in collective investment vehicles and investment trusts are excluded from the calculations for the constraints below given the inherent diversification properties of these vehicles. The maximum permitted aggregate holding across all overseas equity portfolios of any single overseas equity will not exceed 4% of total market capitalisation. (Free float is not used due to there being no systematic way of monitoring this across all stocks in the overseas universe).

Counterparty and concentration limits applicable to cash managed within the AXA IM Cash Sterling Liquidity Fund are authorised by the Friends Life Investment & ALM Team and defined within the cash expertise guidelines

Management of cash on behalf of the portfolios and the funds has been delegated to the Investment Manager via a mutual investment umbrella fund organised under the laws of Luxembourg

The limits are set along two main dimensions: (1) Country Limits; and (2) Individual Name Limits

Investments in financial institutions are permitted into issuers deemed national champions (i.e. likely to be supported by their respective governments in a crisis) as proposed by the Investment Manager (following input from AXA Investment Managers Paris (AXA IMP), investment adviser of the AXA IM Cash Sterling Liquidity

No maximum exposure limits apply to government and government-related issuers in the United Kingdom.

Investment in corporate institutions are permitted subject to a minimum credit rating of A1/P1/ AA-, a maximum exposure to individual corporate institutions of 2% and a maximum overall exposure to corporate institutions of nil. Investment in corporate institutions is not permitted in the variable NAV fund.

Guidelines - FLL

The investment restrictions within the Friends Life and Pensions Limited (FLP) Investment Guidelines have been set to comply with the latest set of FSA counterparty exposure rules. FLP shall provide to the Fund Manager, F&C Asset 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 FLP will agree a reasonable time frame for any required revision of investment restrictions in the guidelines and the Fund realignment.

Fixed income breaches in the year

- **FLL FLAS -With profit**

The breach to BB+ bonds and below in FLC FLAS With Profit results from bond downgrades. We are monitoring the situation and will take action if the breach persists.

- **FLL FP- With Profit**

The high exposure to AAA quasi-sovereign bonds is due to investment in zero-coupon EIB bonds in FPZC to match specific liabilities. No further action required.

- **FLL FP- With Profit (NP)**

The rating breaches (A+, BBB+ and BB+) for FLL WP (NP) have arisen due to downgrades of bonds in the portfolio and there are few highly rated issuers to diversify into. This fund was transferred to FLI in December and we are exploring opportunities to switch out of lower rated issues. The Investment Strategy team continues to evaluate the VIR impact of switching from lower-rated credit to higher-rated credit.

The breach in sub-investment grade corporate bonds is due to investment in subordinated Lloyds bonds. We are monitoring the situation but no further action is currently required.

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The breach for asset-backed securities results largely from new purchases of commercial mortgage-backed securities as well as an increase in market value of these securities. There is no breach within any of the individual asset-backed securities sectors. We are monitoring the situation but no further action is currently required.

The breach for sinking bonds in FLL WP (NP) is a legacy issue in FPAN. These bonds can be sold without adversely impacting on VIR. Switching opportunities are being evaluated and considered.

- **FLL – Shareholder, annuity and non profit funds**

The reason for the very high AA exposure and investment grade corporate bond exposure in is due to a single reinsurance agreement (entitled Tornado) which we have with HSBC. As part of this agreement, we record a £1.8bn asset, however, we do not have a look-through on the assets backing the re-insured liabilities in GIAD. The Investment Accounting team ensures that the collateral is in compliance with the agreement. No further action required.

The breach in private loans results from the single reinsurance agreement (entitled Tornado) which we have with HSBC.

Equity breaches in the year

- **FLL FP- With Profit**

The breach is for the largest individual property represents the freehold in Dolphin Square. This holding is likely to be sold down following the conclusion of legal proceedings at some point in the next three years.

1306 & *1312* Exposure to large counterparties

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

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

As a result of this treaty the Company transferred assets backing the annuity book in exchange for a LIBOR note from HSBC plc. The value of the LIBOR note at 31 December 2012 was £1,767m.

A creditor with Windsor Life to the value of the LIBOR note was set up and the amount due to Windsor Life at 31 December 2011 was £1,767m.

1307 & *1313* Fully secured rights

The aggregate amount of fully secured rights in the long-term funds is £480.0m (2011: £39.3m). There were no such amounts in the other than long-term fund.

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***1318* Other asset adjustments**

	<u>2012</u> <u>£000</u>	<u>2011</u> <u>£000</u>
Long-term fund		
Gross ups	(749,744)	(29,370)
Other than long-term fund		
Gross ups	31,207	(48,526)

***1322* Total long-term fund**

The inter fund transactions between the various long-term funds have been eliminated for the total long-term fund on Forms 13 and 14.

***1323* Capital support account assets**

The FSA issued to the firm in December 2012 a direction under section 148 of the Act. The effect of this direction is to allow the firm to include in its realistic balance sheet (at line 27 of Form 19 for the With Profit Fund) the Capital Support Account assets (as defined in the firm's Scheme pursuant to Part VII of, and Schedule 12 to, the Financial Services and Markets Act 2000 that became effective on 28 December 2012, by which the long term business of Friends Life Assurance Society and parts of the long term business of Friends Life Company and F&C Managed Pension Funds was transferred to Friends Life Limited.) This additional amount corresponds to the support which the Capital Support Account assets which have not been transferred to the FP With Profits Fund and FLC New With Profits Fund give to the policies transferred under the scheme. These assets are also included in line 89 of Form 13 for the Non Profit Fund.

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

The Company identified and reviewed all assets which are valued by marking to model, which are subject to restrictions or agreements relating to transactions or which could potentially be subject to less liquid positions. It was determined, following consultation with the investment managers, that none of these assets required an adjustment pursuant to GENPRU 1.3.30R to GENPRU 1.3.33R.

The Company reviewed its investments to identify whether any provisions were required pursuant to INSPRU 3.2.17R and INSPRU 3.2.18R. It was determined that in each case, sufficient cover is held and no such provisions are required.

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

a) Charges on assets

No charge has been made on the assets of the Company (other than liabilities under an insurance contract).

b) Provision for capital gains tax

A capital gains tax liability of £98.3m (2011: £35.3m) would arise if the insurer was to dispose of all its non unit linked assets. This liability has been included within Form 14 Line 21 & Form 13 Line L93.

Current tax of £209.7m (2011: £159.1m) would arise if the insurer disposed of its unit linked assets. Provision for this amount is included in mathematical reserves because it will be borne by the unit linked funds.

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A charge of £2.0m (2011: £19.0m) has been made in unit pricing for the change in the value of tax losses carried within the unit linked funds; the value of these losses is included within Form 13 Line 59.

c) Contingent liabilities

The Company has made provision for the estimated cost of settling complaints in respect of past sales. Although the provisions are regularly reviewed, the final outcome could be different from the provisions established as these costs cannot be calculated with certainty and are influenced by external factors beyond the control of management. Such uncertainties include future regulatory actions, media attention and investment performance. The majority of the uncertainty relates to endowment mortgages although a number of other products are being reviewed as an ongoing process. It is expected that the majority of endowment cases requiring compensation will be settled in the next two years.

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.

d) Guarantees, indemnities or other contractual commitments

All of the long term business of FLAS and the majority of the long term business of FLC were transferred into the Company on 28 December 2012. Under the terms of this transfer, all of the contingent liabilities of FLAS and FLC relating to the business transferred were also transferred to the Company.

FLAS and FLC provided an indemnity to a fellow subsidiary FLS, which acts as a distributor and third party administrator for their products and services. This indemnity is provided in the event of FLS becoming insolvent, to meet and deal with any civil liability which FLS has incurred to investors in the course of its relevant business, for as long as FLS remains in its role. Under the Part VII transaction the indemnity in relation to the business transferred has transferred to the Company.

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

The Company has also made the following guarantees:

- (i) 6.875% Step-up Tier one Insurance Capital Securities (STICS) issued by Friends Life Group plc (2003 STICS)

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

On 6 July 2009, as part of its reorganisation of the Group, Friends Life FPG Limited was substituted for Friends Life FPL Limited as the issuer of the 2003 STICS. On 14 December 2010, as part of its restructuring of the Group, Friends Life Group plc was substituted for Friends Life FPG Limited as the issuer of the 2003 STICS.

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

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

- (ii) 6.292% Step-up Tier one Insurance Capital Securities (STICS) issued by Friends Life Group plc (2005 STICS)

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

On 6 July 2009, as part of its reorganisation of the Group, Friends Life FPG Limited was substituted for Friends Life FPL Limited as the issuer of the 2005 STICS. On 14 December 2010, as part of its restructuring of the Group, Friends Life Group plc was substituted for Friends Life FPG Limited as the issuer of the 2005 STICS.

The guarantee is intended to provide the holder with rights against the Company in respect of the guaranteed payments which are as nearly as possible equivalent to those which they would have had if the 2005 STICS had been directly issued preference shares of the Company.

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

On 21 May 2009, Friends Life FPL Limited carried out a financial restructuring by exchanging £90m of its £300m 6.875% Step-Up Tier one Insurance Capital Securities issued on 21 November 2003 (the 2003 STICS) and £232m of its £500m 6.292% Step-Up Tier one Insurance Capital Securities issued on 30 June.

On 6 July 2009, as part of its reorganisation of the Group, Friends Life FPG Limited was substituted for Friends Life FPL Limited as the issuer of the Notes. On 14 December 2010, as part of its restructuring of the Group, Friends Life Group plc was substituted for Friends Life FPG Limited as the issuer of the Notes.

- (1) Friends Life FPL Limited changed its name from Friends Provident Limited on 1 July 2011.
- (2) Friends Life FPG Limited changed its name from Friends Provident Group Limited on 1 July 2011.
- (3) Friends Life Group plc changed its name from Friends Provident Holdings (UK) plc on 1 July 2011.

Contractual commitments consist of equity investments of £39.0m due within one year and £39.0m due 2-5 years.

e) Other uncertainties

The Company is not aware of any other fundamental uncertainties.

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***1405* Other adjustments to liabilities**

	<u>2012</u> £000	<u>2011</u> £000
Liability valuation differences (note 0310)	4,294,119	1,385,943
Gross ups	(749,744)	(29,370)
Other liability adjustments	(141)	-
	<u>3,544,234</u>	<u>1,356,573</u>

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

The value of non-linked assets in the With Profits funds changed as follows:

	<u>2012</u> Increase/(decrease) £000	<u>2011</u> Increase/(decrease) £000
FP With Profit	253,237	615,592
FPLAL With Profit	1,845	33,661
FLC New With Profit	(655)	-
FLC Old With Profit	(1,691)	-
FLAS With Profit	(14,856)	-

***1507* Other adjustments**

	<u>2012</u> £000	<u>2011</u> £000
Gross ups	31,207	(48,526)

***1601* & *4005* Foreign currency translation**

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

***1603* - Other income**

The amount included at Line 21 relates to:

	<u>2012</u> £000	<u>2011</u> £000
Exceptional item - 2012	1,057,213	-
Exceptional item - 2011	-	263,049
	<u>1,057,213</u>	<u>263,049</u>

On 28 December 2012 Other Business Fund assets of FLC and FLAS were transferred into the Company's shareholder fund in accordance with the Part VII scheme described in note 4004. This transfer resulted in exceptional income of £1,057.2m within the shareholder fund.

On 1 December 2011 the surplus assets of the Friends Provident Life Assurance Limited ("FPLAL") Other Business Fund and the long-term fund of Bupa Health Assurance Limited ("BHA") were transferred into the Company's shareholder fund in accordance with a Part VII scheme. This transfer resulted in exceptional income of £263.0m within the shareholder fund.

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

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

***1701* Variation margin**

The aggregate amount of excess variation margin needed to be repaid due to underlying market movements is £4.0m (2011: £31.8m). Variation margin of £0.9m (2011: £226.5m) has been included in Form 13 line 44.

***1702* Quasi-derivatives**

- a) The aggregate amount of assets under contracts which have the effect of derivative contracts did not exceed 2.5% of the aggregate amount shown in Form 13 line 89
- b) The aggregate amount of liabilities under contracts or in respect of assets, either of which have the effect of derivative contracts did not exceed 2.5% of the aggregate amounts shown at with lines 15 to 39 of Form 14 or lines 31 to 51 of Form 15.

***1801* Capital support account assets**

The FSA issued to the firm in December 2012 a direction under section 148 of the Act. The effect of the direction is to allow the firm to include in line 65, the value, in the most adverse scenario, of future repayments from the FL FP With Profits Fund of the Company to the Shareholder Fund or Non Profit Fund in respect of any amounts outstanding under any Temporary Transfer from the FL FP With Profits Support Account: (as defined in the Scheme pursuant to Part VII of, and Schedule 12 to, the Financial Services and Markets Act 2000 expected to become effective on 28 December 2012, by which the long term business of FLAS and parts of the long term business of FLC and F&C Managed Pension Funds are being transferred to FLL) made by the Non Profit Fund or Shareholder Fund to the FP With Profits Fund and FLC New With Profits Fund.

***1901* Capital support account assets**

The FSA issued to the firm in December 2012 a direction under section 148 of the Act. The effect of this direction is to allow the firm to include in its realistic balance sheet (at line 27) the Capital Support Account assets (as defined in the Scheme pursuant to Part VII of, and Schedule 12 to, the Financial Services and Markets Act 2000 expected to become effective on 28 December 2012, by which the long term business of FLAS and parts of the long term business of FLC and F&C Managed Pension Funds are being transferred to Friends Life Limited). This additional amount corresponds to the support which the Support Account assets which have not been transferred to the FP With Profits Fund and FLC New With Profits Fund give to the policies transferred under the scheme. These assets are also included in line 89 of Form 13 for the Non Profit Fund.

***1902* Financing costs**

For FLL FLAS WPF which was transferred into FLL with effect from 28 December 2012 by means of a Part VII Transfer, the entry at line 45 of Form 19 includes the impact of the reinsurance arrangements with FLL NPF.

***1903* Other assets potentially available**

Lines 81 and 82 represent the total resources potentially available within FLL. These have not been apportioned to the individual With Profits Funds, but the total figure has been shown in Form 19 for each With Profits Fund.

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***4002* Other income and expenditure**

Other income in the With Profits Fund comprises of:

	<u>2012</u> <u>£000</u>	<u>2011</u> <u>£000</u>
FLP management charges	22,145	22,713
FLL management and other charges	12,209	23,091
Policy loan income	60	222
Total other income	<u>34,414</u>	<u>46,026</u>

Other income in the Closed With Profit Fund comprises of:

	<u>2012</u> <u>£000</u>	<u>2011</u> <u>£000</u>
Policy loan income	133	11
Total other income	<u>133</u>	<u>11</u>

Other income in the Non Profit Fund comprises of:

	<u>2012</u> <u>£000</u>	<u>2011</u> <u>£000</u>
FLL management and other charges	9,610	-
Financial reinsurance received	18,630	-
Total other income	<u>28,240</u>	<u>-</u>

Other expenditure in the Non Profit Fund relates to:

	<u>2012</u> <u>£000</u>	<u>2011</u> <u>£000</u>
FLL management and other charges	38,170	33,166
Interest on reinsurance	-	39,089
Total other expenditure	<u>38,170</u>	<u>72,255</u>

***4004* Business transfers-in**

On 28 December 2012, all of the long-term business of FLAS and the majority of the long-term business of FLC were transferred to the Company via a business transfer scheme (the "2012 Scheme") under Part VII of the Financial Services and Markets Act 2000 ("FSMA"). The total amounts transferred were:

- £25,814.5m from FLC into the FLL Non-Profit Fund, which equaled the value of the mathematical reserves and the long-term fund assets transferred;
- £1,090.8m from FLC into the FLL OWPF, which represented the complete value of the FLC OWPF;
- £4,661.7m from FLC into the FLL NWPF, which represented the complete value of the FLC NWPF;
- £6,811.8m from FLAS into the FLL ex-FLAS WPF, which represented the complete value of the FLAS WPF;
- £1,057.2m of net assets transferred to the FLL Shareholder Fund.

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

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

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

The total amount transferred to the New Closed With Profit Fund was £242.7m, which represented the complete value of the FPLAL Closed Fund. Net assets of £263m were transferred to the FLL Shareholder Fund.

***4006* Principles and methods of apportioning between long-term funds**

Investment income and expenses:

There are separate pools of assets for the With Profits and Non Profit Funds for the existing FLL and ex-FLAS business. Income earned and other expenses incurred are borne directly by each of these funds with no apportionment taking place. For the ex-FLC business, assets were notionally assigned to sub-funds and the related income and expenses apportioned and allocated to those sub-funds.

Expenses:

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

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

(iii) For the business transferred from FLC expenses were directly allocated to the relevant sub-fund according to the nature of individual contracts.

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

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

Taxation:

Taxation is computed separately for the With Profits Funds on a stand-alone basis, and for the Non Profit Fund on the basis of the balance between the tax calculated for the company and for the aggregate of the With Profit Funds.

***4008* Management services**

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

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.

Up to the date of the Part VII transfers, management services were provided to FLAS and FLC by Friends Life Services Limited, a wholly owned subsidiary of Friends Life Group plc. Investment management services were provided by AXA Investment Managers UK Limited.

***4009* Material connected party transactions**

There were no connected party transactions in excess of the disclosure limit other than the transfers described in note 4004.

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

The amount of investment income relating to linked assets in Line 12 of Form 40 for the With Profits funds is as follows:

	<u>2012</u>	<u>2011</u>
	£000	£000
FP With Profit	684	879
FPLAL With Profit	27	29
FLC New With Profit	10	-
FLC Old With Profit	2	-
FLAS With Profit	235	-

***4012* Total long-term fund**

The inter fund transactions between the various long-term funds have been eliminated for the total long-term fund on Forms 40, 41 and 42.

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

Assets within this form have been valued as follows:

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

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

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

The internal linked funds held rights of £4.5m (2011:£0.5m) and liabilities of £2.7m (2011: £2.5m) under derivative contracts.

***4403* Variation margin**

There is a liability to repay variation margin of £1.1m (2011: £nil) at the year end.

***4412* Deferred taxation on unit linked funds**

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

***4502* Other income and expenditure – Linked funds**

Other income and expenditure consists of

	<u>2012</u>	<u>2011</u>
	£000	£000
Reinsurance with FPLAL	-	1,644,360
Part VII transfer in	25,066,535	1,480,265
Rebated unit trust charges	503	-
Other	34	-
Total other income	25,067,072	3,124,625

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	<u>2012</u> <u>£000</u>	<u>2011</u> <u>£000</u>
Interest on reinsurance	-	39,089
Investment related expenditure	3,006	935
Total other expenditure	3,006	40,024

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

For certain with-profit policies in FLL FLC NWPF and FLL FLC OWPF

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

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

(b) For conventional with profits business the asset mix used as at 31 December 2012 was as follows:

UK Equities	32.3%
Overseas Equities	14.3%
Properties	11.5%
Fixed Interest	38.0%
Other	3.9%

This applies to the following bonus series:

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

For unitised with profits policies with either no maturity date or more than one third of the term remaining the asset mix used as at 31st December 2012 was as follows:

UK Equities	43.6%
Overseas Equities	18.6%
Properties	15.3%
Fixed Interest	20.4%
Other	2.1%

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This applies to the following bonus series:

Investment Bond and Flexible Bond

With Profits Income Bond

Individual Savings Account

Low-Cost Homebuyers' Plan

Homebuyers' Investment Plan

Multivestor

Multiplan

Multipension Series 2

Multipension Series 3

Flexible Pensions

Trustee Plan

Pensions 1997 Series

Pensions 1999 Series

Pensions 2000 & 2002 Series

Retirement Investment and Income Plan

Amulet

AXA Isle of Man Bond (Sterling)

For Retirement Savings Schemes, the asset mix used as at 31st December 2012 was as follows:

UK Equities	21.8%
Overseas Equities	9.3%
Properties	7.65%
Fixed Interest	54.4%
Other	6.85%

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

***4802* Interest in default**

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

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

In the case of a fixed interest security that may be redeemed at different dates at the option of the issuer, the yield is determined with reference to both the final redemption date and the first call date. The yield is taken to be the lower of the two. The total value included in Form 49 line 61 in respect of securities that may be redeemed at different dates at the option of the issuer is £1,201m.

***4804* Derivative yields**

Lines 28.1 and 25.2 for the FLL With Profits Fund contain put options with a value of £85.7m. These combine with equity having a value of £1083.5.8m with yield 7.59% to give a combined value of £1,169.2m with yield 5.48%.

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

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

The investment returns in lines 21-29 column 5 for FLL FLAS With-Profit Fund, FLL NWPF and FLL OWPF have been based upon a specific portfolio of assets identified to back asset shares and on which the return credited to asset shares is based. The asset categories used for asset share return calculations are not in all cases the same as the categories in lines 21-29 of column 2, and have been defined as follows:

Line	Assets included
21	Properties including investments in property through collective investment schemes and limited partnerships.
22-23	Non-index-linked gilts and corporate bonds. An approximate basis has been used to split the return between the two lines.
24	Index-linked gilts and bonds and floating rate bonds.
25-27	Equities, equity futures and collective investment schemes in equities. An approximate method has been used to split the return on all equities (used in asset share calculations) between these three lines.
28	All assets included in the calculation of asset shares but not included in lines 21-27, the majority of which is cash.

***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 L38.

***5010* Inter-Fund Reinsurance**

The figures given make allowance for any inter-fund reinsurance arrangements within FLL. The gross and the reinsurance internal is not the same as sum of the sub funds F50. The overall F50 is then representative of the actual company position whilst keeping the sub fund positions representative as well.

The amounts removed from the gross and reinsurance internal within FLL at the end of December 2012 was:

Form 51 – With Profit:	£
UK Life	31.5m
Form 51 – Non Profit:	£
UK Life	60.1m
UK Pension	1,779.0m
Form 52:	£
UK Life	88.3m
UK Pension	71.7m
Overseas	64.3m
Form 53 - Linked:	£
UK Life	4,316.0m
UK Pension	3,899.5m
Overseas	101.2m

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Form 53 – Non-Linked:	£
UK Life	(2.6)m
UK Pension	(1.0)m

Form 54 - Linked:	£
UK Life	80.1m
UK Pension	333.9m

***5101* - Number of group schemes with no member records**

The number of group schemes where records of benefits are not held at member level are:

415	Collective Life	5 schemes
420	Group Income protection	2 schemes

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

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

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

The following product with reserves not in excess of £10m has been classified under miscellaneous product code 435:

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

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

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

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

***5201* - Number of group schemes with no member records**

The numbers of group schemes where records of benefits are not held at member level are:

- 555 Group Deposit Administration with-profits 92 schemes

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

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

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

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

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

***5301* – Number of group scheme with no member records.**

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

765 Group Managed Fund

65 schemes

***5303* - Details of policies included in the miscellaneous product code.**

The following product with gross mathematical reserves in excess of £10m has been classified under miscellaneous product code 795:

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

***5304* - Approximations used to apportion between product codes.**

Unit-linked endowment assurances have been allocated to product code 720 (target cash) if the policy record includes features generally indicative of mortgage repayment policies and to product code type 715 (savings) otherwise.

***5403* - Products classified as miscellaneous**

The following product with reserves in excess of £10m has been classified under miscellaneous product code 910:

- Index-linked Individual Lifetime Care Plans
- Index-linked deferred annuity

***5601* Rating agencies**

The majority of ratings used in Form 56 were provided by 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 L38.

***5701* Negative reserves**

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

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

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***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	FLL With Profit		FPLAL With-Profit		FLL Non Profit	
	Yield	Risk Adjusted Yield	Yield	Risk Adjusted Yield	Yield	Risk Adjusted Yield
UK F51 L&GA WP	3.15%	2.98%	3.18%	3.17%		
UK F51 L&GA NP	2.40%	2.40%	3.11%	3.10%	2.32%	2.32%
UK F51 L&GA NP - Ex BHA					2.53%	2.32%
UK F51 L&GA NP - PHI					2.86%	2.32%
UK F51 L&GA NP - Additional Reserves					0.08%	0.08%
UK F52 L&GA	3.15%	2.98%			2.82%	2.61%
UK F53 L&GA NL	2.40%	2.40%			2.32%	2.32%
UK F51 Pensions WP	3.82%	3.53%	3.63%	3.62%		
UK F51 Pensions WP			2.32%	2.32%		
UK F51 Pensions NP - Additional Reserves					0.08%	0.08%
UK F51 Pensions NP	4.18%	3.44%			4.15%	3.33%
UK F51 Pensions NP	2.40%	2.40%	2.29%	2.29%	2.84%	2.29%
UK F52 Pensions	3.82%	3.53%			3.58%	2.88%
UK F53 Pensions NL	2.40%	2.40%			3.38%	2.79%
OS F51 NP	2.40%	2.40%			2.32%	2.32%
OS F52	3.82%	3.53%			3.58%	2.88%
OS F53 NL	2.40%	2.40%			2.64%	2.34%
UK F54 L&GA NL					2.52%	2.31%

For the business transferred in under the part VII on the 27th of December an arithmetic mean has been used which is a more prudent methodology. The only exception is the following line in F57 for the FLL FLAS with profits fund.

Product Group	Original Risk Adjusted Yield	Modified Risk Adjusted Yield
UK F51 Pensions NP FLAS	2.40%	2.70%

***5802* Transfer to and from other funds**

£84m of surplus transferred from the Friends Life Company New with-profit (FLC NWPF) fund into Friends Life Limited New with-profits fund (FLL FLC NWPF) as part of the Part VII transfer. £21m of surplus has been transferred from Friends Life Company non-profit fund 1 (FLC NPF1) into the Friends Life Limited non-profit fund (FLL NPF) as part of the Part VII transfer.

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***5803* Distribution of Surplus**

Since December 2010, for the FLL With-profit funds, 100% of the surplus arising has been distributed to policyholders in respect of unitised with profit policies and 90% of surplus has been distributed to policyholders in respect of conventional with profits policies.

For FLL FLAS WPF, FLL NWPF and FLL OWPF distribution of surplus occurred before the Part VII on the 27th December 2012. The percentage distributed to policyholder at this date was 90% in all cases.

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

The with-profits mathematical reserves relating to the business of UK Provident exceed £100m. However all of these policies are over 25 years old so the form is omitted.

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

The net reserves included in line 49 of Form 60 do not reconcile with the sum of Form 50 Line 48, Form 58 Line 43 and Form 14 Line 11. This is due to the reinsurance of annuity reserves to FAL (the intra-group ISPV). The net reserves in FAL (£3,918.5m) are recaptured in Form 60 for the purpose of calculating the reinsurance ratio in accordance with INSPRU 1.1.92A.

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***6011* Restatement of Prior Year Comparatives**

The Part VII transfer of FLC and FLAS into FLL has resulted in a significant change in the business of FLL. As such the column 6 numbers have been restated as below to allow an appropriate comparison to be made.

		Factor	2012 Column 6	2011 Column 5
Insurance death risk capital component				
Life protection reinsurance	11	0.0%		
Classes I, II and IX	12	0.1%	21,850	21,250
Classes I, II and IX	13	0.15%	2,007	
Classes I, II and IX	14	0.3%	187,749	129,460
Classes III, VII and VIII	15	0.3%	39,864	7,359
Total	16		251,470	158,068
Insurance health risk capital component				
Class IV and supplementary classes 1 and 2	21		23,437	23,437
Insurance expense risk capital component				
Life protection and permanent health reinsurance	31	0%		
Classes I, II and IX	32	1%	242,194	102,149
Classes III, VII and VIII	33	1%	29,973	2,825
Classes III, VII and VIII	34	1%	14,929	2,040
Classes III, VII and VIII	35	25%	30,216	2,730
Class IV	36	1%	6,568	3,079
Class V	37	1%		
Class VI	38	1%	492	
Total	39		324,372	112,822
Insurance market risk capital component				
Life protection and permanent health reinsurance	41	0%		
Classes I, II and IX	42	3%	726,582	306,446
Classes III, VII and VIII	43	3%	89,919	8,475
Classes III, VII and VIII	44	0%		
Classes III, VII and VIII	45	0%		
Class IV	46	3%	19,704	9,236
Class V	47	0%		
Class VI	48	3%	1,477	
Total	49		837,681	324,156
Long term insurance capital requirement				
	51		1,436,959	618,483

**Additional information on derivative and quasi-derivative contracts
(IPRU (INS) rule 9.29)
Friends Life 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. Derivatives can only be used to the extent that they are replicating a similar economic effect which would otherwise be achieved by selling existing assets or using cash in the portfolio to fund the purchase of permitted assets.

The guidelines restrict the investment in derivative contracts to specified exchange traded derivatives on a limited number of markets, forward foreign exchange contracts (with an approved institution), interest rate swaps, credit derivatives, contracts for differences, over the counter equity options and inflation rate swaps. Derivatives instruments which are not listed above may be entered into on a case by case basis with prior approval from the Company. Derivatives may only be used when the Investment Manager, in consultation with the Company, is satisfied that their usage meets all the necessary regulatory requirements. Where any doubt arises over the proposed use of a derivative, the Chief Investment Officer is contacted and clarification sought prior to executing the proposed derivative contract.

The counterparties through whom such transactions can be made are restricted, as are the counterparty exposures that may be built up using derivatives. Prudent limits have also been set to the extent to which derivatives may be used within a given portfolio. All obligations arising out of derivative contracts are required to be covered. All over the counter derivatives are collateralised to minimise counterparty default risk. Derivatives must not be used to gear the portfolio.

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 falling equity markets & interest rate sensitivity. No other contracts were entered into during the financial year that were not, at the time of entry, reasonably likely to be exercised.

d) The Company held no derivative contracts or instruments of a similar nature 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 Limited**

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

As at 31 December 2012

Controller	Shareholding/Voting Rights
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 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 Limited (FLL) (formerly Friends Provident Life and Pensions Limited)
BHA	denotes	Bupa Health Assurance Limited
FAL	denotes	Friends Annuities Limited (formerly AXA Annuity Company Limited)
F&CMPF	denotes	F & C Managed Pension Funds Limited
FLAS	denotes	Friends Life Assurance Society Limited (formerly Sun Life Assurance Society Plc)
FLC	denotes	Friends Life Company Limited (formerly AXA Sun Life Plc)
FLP	denotes	Friends Life and Pensions Limited (formerly Friends Provident Pensions Limited)
FLS	denotes	Friends Life Services Limited (formerly AXA Sun Life Services Plc)
FPLAL	denotes	Friends Provident Life Assurance Limited
FPLMA	denotes	Friends Provident London and Manchester Assurance
FPLP	denotes	Friends Provident Life and Pensions Limited
FPPL	denotes	Friends Provident Pensions Limited

Reference to ex-FPLP business includes business originally written by Friends Provident (FP), UK Provident (UKP), and FPLMA.

Reference to ex-FPLAL business includes business originally written by FP and NM Life Assurance.

Part VII transfers into the Company on 28 December 2012

All business (except policies on the Embassy platform) formerly written by or reinsured to FLC was subject to a Part VII transfer into the Company as follows:

- business formerly in the FLC Old With Profits Fund was transferred into the FL FLC Old With Profits Fund
- business formerly in the FLC New With Profits Fund was transferred into the FL FLC New With Profits Fund
- business formerly in the FLC Non Profit Fund 1 and the FLC Non Profit Fund 2 was transferred into the FL Non Profit Fund

All business formerly written by or reinsured to FLAS was subject to a Part VII transfer into the FL FLAS With Profits Fund.

All annuity pension business formerly written by F&CMPF was subject to a Part VII transfer into the FL Non Profit Fund.

FLC's shares in FAL were transferred to the FLL Shareholder Fund, making FLL the sole owner of FAL.

Internal reinsurance arrangements as at 31 December 2012

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

The reinsurance (which commenced during 2009) of 50% of most of the FLAS non-profit pensions annuities in payment to FLC has been replaced by a "Memorandum of Understanding", with the same terms, between the FL FLAS With Profits Fund and the FL Non Profit Fund. The arrangement remains in force but is closed to new business. This business is then reinsured onwards to FAL. The expense risk associated with the business is retained within the FL FLAS With Profits Fund. This arrangement is referred to as FAL 2009 reinsurance in this report.

The reinsurance (from 31 December 2008) of 100% of FLAS non-profit life annuities in payment to FLC has been replaced by a “Memorandum of Understanding”, with the same terms, between the FL FLAS With Profits Fund and the FL Non Profit Fund. The arrangement remains in force but is closed to new business.

The reinsurance (from 1 January 2007) of FLAS unit linked business to FLC has been replaced by a “Memorandum of Understanding”, with the same terms, between the FL FLAS With Profits Fund and the FL Non Profit Fund. The arrangement remains in force. The arrangement includes the unit liabilities and most policy charges, but excludes most mortality risk and all morbidity risk. Expenses in respect of reinsured policies are charged to the FL Non Profit Fund.

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

1. Valuation date

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

All business (except policies on the Embassy platform) formerly written by or reinsured to FLC was subject to a Part VII transfer into the Company on 28 December 2012.

All business formerly written by or reinsured to FLAS was subject to a Part VII transfer into the Company on 28 December 2012.

All annuity pension business formerly written by F&CMPF was subject to a Part VII transfer into the Company on 28 December 2012.

New products

1. Instant Life cover

A new type of life cover which offers a low benefit in return for minimal underwriting. This product is directly marketed at specific AA customers who are seen to be low risk, rather than being available for anybody to buy.

Changes to existing products

There have been no significant changes to existing products.

Products Withdrawn

All ex-FLC individual life products are now closed to new business, except for renewal products that are already in commencement. All ex-FLC corporate pension products were closed to new business but remain open to new joiners and increments to existing schemes.

Status of with profits funds

The FP With Profits Fund is open to new with-profits business reinsured from the Non Profit Fund of Friends Life Limited and FLP. All the other with profits funds are closed to new business, except by increment. The FL FLC New With Profits Fund and FL FLC Old With Profits Fund are closed to new business from 28 December 2012.

3. Discretionary Charges and Benefits

(1) Application of Market value Reduction

During 2012, a Market Value Reduction (MVR) was applied on discontinuance (where permitted, and subject to relevant minima) in respect of the following unitised with profits products effected in the policy years set out below.

Product Description	Period That MVR Applied		Policy Dates of Entry
	From	To	
Ex-FLC Dollar offshore bonds	01/01/2012	31/12/2012	2005-2006
Ex-FLC Euro offshore bonds	01/01/2012	31/12/2012	2001-2002 & 2005
Ex-FLAS Onshore Bonds	01/01/2012	22/01/2012	2000

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

Changes to premiums on reviewable products are set out in the table below:

	Number of policies reviewable during 2012	Minimum Premium Increase	Maximum Premium Increase	Proportion of reviewed policies unchanged
Ex-BHA Stand Alone Critical Illness	547	-26.1%	6%	99.45%
Ex-BHA Income Protection	1000	-18.5%	86.7%	92.90%
Ex-FLC Long term Care	4455	-57%	193%	51.1%
Friends Life Protection Account	4122	-23%	0%	98.6%

(3) Non-profit deposit administration benefits

For ex-FLC deposit administration benefits, the average annualised rate of interest added to non-profit deposit administration benefits during 2012 was 1.06%.

(4) Service charges on linked policies

The following table shows the changes to service charges for linked policies and the index on which the increases have been based. Index increases for the same index vary as they are not all measured between the same dates. Policy charges are applied from 1 January 2013.

Product	Increase	Index
Ex-FPLP Series 1 Pensions	2.3%	AWE
Ex-FPLP Series 2 Pensions directly sold	2.3%	AWE
Ex-FPLP Series 2 Pensions sold through IFAs	3.2%	RPI
All ex-FPLMA unit linked products	3.2%	RPI
Ex-FPLAL Optimum Life Plan	3.2%	RPI
Ex-FPLAL Income Replacement Plan	3.2%	RPI
Ex-FPLAL Universal Pension Account	3.2%	RPI
Ex-FPLAL Personal Pension Scheme	2.3%	AWE
Ex-FPLP Retirement Investment Bond	2.3%	AWE
Ex-FLC Flexible Pensions (excluding paid up pensions)	3.2%	RPI
Ex-FLC Health Care Income Plan	3.2%	RPI
Ex-FLC Multiplan	3.2%	RPI
Ex-FLC Flexible Cover Plan	2.6%	RPI
Ex-FLC Flexible Mortgage Plan	2.6%	RPI
Ex-FLC Individual Lifetime Care Bond	3.2%	RPI
Ex-FLC Homebuyers' Investment Plan	Note 1	RPI
Ex-FLC private pension funds	1.5%	AWE
Ex-FLAS Flexible Pensions (except paid up pensions)	3.2%	RPI
Ex-FLAS Flexible Cover Plan	2.6%	RPI
Ex-FLAS Flexible Mortgage Plan	2.6%	RPI

Ex-FLAS private pension funds	1.5%	AWE
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Note 1: increases in line with RPI, but actual increase depends on renewal date.

(5) Benefit charges on linked policies

During 2012, the mortality charges on Multipension policies were reviewed. The total reserves net of reinsurance for these products at the valuation date are £2,472m.

The impact of the review generally resulted in a decrease in mortality charges of 15% for males, although for some males the reduction was less, and for females there was no change at all. Thus for individual policies, charges either remained static or reduced by 15%.

(6) Fund management charges

During 2012, the net annual management charge (the fund charge after rebate) was changed for the following funds in respect of ex FLC & FLAS business:

Fund	Net Annual Management Charge		Fund size at 31/12/2012 £m
	Old	New	
Baillie Gifford	0.40%	0.25%	0.02
Fidelity	0.80%	0.40%	60
Kames	1.00%	1.25%	8
MFS Meridian	0.80%	0.85%	97

There are no notional charges to accumulating with profits policies.

(7) Unit pricing

Ex FPLP & FPLAL business

(a) Description of methods

- (i) Units are allocated to policies at offer price and cancelled at bid price.
- (ii) Normally the valuation will take into account the cost of acquisition or sale of the constituent assets and any taxes, duties, charges or other expense payable on purchase/sale.

If a fund is being priced on a 'creation' or 'steady state' basis (see (iii) below), the offer price is calculated by adjusting the unit price calculated on that basis, including any initial charge, to allow for the accrued annual management charge and any tax provision on gains and rounding. The bid price is then calculated by deducting the initial management charge, if any.

If a fund is being priced on a 'cancellation' basis, the bid price is calculated by adjusting the unit price calculated on that basis to allow for the accrued annual management charge, provision for tax on gains and rounding. The offer price is then calculated by adding the initial management charge, if any.

- (iii) The net asset value of units is determined at valuations of the appropriate funds, required to be made at least once each calendar month but normally made daily at midnight. The use of a 'creation' or 'steady state' or 'cancellation' basis depends on whether or not the Company considers that a fund is growing, steady or declining. For the 'creation' basis, asset valuations will be based on the prices at which the funds can buy assets in the market. For the 'cancellation' basis, asset valuations will be based on the prices at which funds can sell assets in the market. For the 'steady state' basis, asset valuations will be based on a mid market value.
- (iv) Regular premiums are allocated at the current day's price, based on the previous midnight pricing valuation point. Single premiums are allocated in accordance with policy conditions, which vary by product, and are generally based on previous day or current day's price. Switches are generally dealt with as follows:

- If the request is received by post, the current day's price is used.
 - If the request is received online, by fax, or by email, the next day's price is used.
- (b) There is no variation between the pricing bases used for different policies other than through the use of different initial and annual management charges.
- (c) For collective investment schemes, the processes are similar to those for internal linked funds.

Ex-FLC

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

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

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

The creation or cancellation price, as appropriate, is then calculated by dividing the net asset value by the number of units. If a creation price basis is being used, the offer price is derived by multiplying the creation price by an offer price factor, with an adjustment for fund management charges. If a cancellation price basis is being used, the offer price is derived by multiplying the cancellation price by an offer price factor, with an adjustment for fund management charges. The bid price is the resulting offer price multiplied by the reciprocal of the offer price factor.

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

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

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

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

Group Managed Funds

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

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

Ex-PPP Lifetime Care Funds

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

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

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

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

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

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

Ex-FLAS

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

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

(8) Tax deductions from unit-linked funds

Life Funds

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

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

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

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

Other Funds

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

(9) Tax provisions for unit-linked funds

See section 3(8).

(10) Discounts on purchases of units

Ex-FLC Funds

The arrangements in place with the fund managers allow for unit purchases and sales to be transacted at their creation or cancellation prices respectively. The Company receives no commission payments for unit trust purchases.

An arrangement is in place with certain fund managers whereby Friends Life receives a rebate on the annual management charge levied by the underlying unit trust. Where this is the case, part of the discount received from the fund manager may be retained by the Company. In most other instances, discounts and rebates accrue to the benefit of the policyholders. Please see the following table for further information on where rebates are allocated:

Fund manager	Discount on Initial Charge	Discount on Management Charge for benefit of policyholders	Discount on Management Charge for benefit of the Company
	%	%	%
Aberdeen Asset Management	4.00 - 4.25	0.75-0.90	
Allianz	4	0.875-0.900	
Architas Multi-Manager	4.00 - 5.00	0.5-1.3	
Artemis Fund Managers Ltd	5.00 - 5.25	0.50-0.75	0.0-0.1
Aviva Investors	4.50 - 5.00	0.5	0.07-0.125
AXA	5.25 - 5.50	0.45-1.10	
AXA Framlington	5.25 - 5.50	0.55-0.87	0.000-0.005
Baillie Gifford	1	0.0-0.05	
Barclays Investor Services	4	0.5-0.7	
BlackRock	5	0.00-0.87	0.00-0.18
Cazenove	5	0.75	
CF Danske	3.75	0.625-0.750	
CF Miton	5	0.7-0.8	
Close	3	0.5	0.08
EFA	4.20 - 5.00	0.5-0.6	
F & C	5	0.6	0.00-0.15
Fidelity	3.50 - 5.25	0.300-0.625	0.00-0.25
First State Investment Ltd	4	0.05-0.75	
Franklin Templeton Investment Ltd	5	0.75-0.80	
Hargreaves Lansdown	5	0.50-0.65	0.00-0.15
Henderson	4.25 - 5.25	0.50-0.75	0.000-0.005
HSBC	Up to 4.00	0.625-0.750	
IFSL Sinfonia	5.5	0.75	
Ignis	4.25	0.55	
Insight	4	0.75-0.85	
Invesco Perpetual Fund Managers Ltd	5	0.30-0.75	0.00-0.15
Investec	4.5	0.625-0.750	0.00-0.15
JP Morgan	Up to 5.50	0.030-0.750	0.000-0.005
Jupiter Unit Trust Managers	4.00 - 5.50	0.50-0.75	0.000-0.005
Legg Mason Investments	4.25	0.75	
M & G	4.00 - 5.00	0.150-0.775	0.000-0.005
Margetts	4	0.50-0.75	
Neptune	5	0.8	0.00-0.08
Newton	3.00 - 4.00	0.55-1.20	0.00-0.05
Old Mutual	3.50 - 4.00	0.50-0.75	0.0-0.1
Psigma	5.25	0.72-0.75	
River & Mercantile	5	0.6	
Sarasin	5	0.1-1.0	
Schroders Investments Ltd	3.25 - 5.25	0.15-0.90	
Standard Life Investments Ltd	3.00 - 4.00	0.475-0.800	
Threadneedle Asset Management Ltd	Up to 3.75	0.50-0.85	0.00-0.05
UBS	4	0.9	

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

Other Funds

Where internal linked funds invest in permitted scheme interests that are exclusively authorised OEICs managed by F&C Asset Management Limited, the internal linked fund receives a management charge rebate up to 1.1% to ensure that the overall annual management charge to the policyholders is maintained.

4. Valuation Basis (Other Than for Special Reserves)

Except as noted below, all policies have been valued using prospective methods.

(1) Valuation Methods Used

(a) General Method

- (i) For conventional with-profit and non-profit business a gross premium valuation has been adopted, in accordance with INSPRU 1.2.35G, given FLL is a realistic basis life company.

For ex-FPLAL conventional with-profit business a net premium valuation method has been used. The liabilities are calculated as the differences between the present value of the sums assured and bonuses and of the future net premiums. The net premiums are based on the rates of interest and mortality used in the valuation, and are limited to a maximum of the office premium.

- (ii) The valuation liabilities for unit-linked contracts shown in Form 53 are equal to the value of units allocated together with mortality and sterling reserves where appropriate. The method for calculating sterling reserves is that described in JIA Vol. 105 Part III (except that a prudent allowance is made for policies becoming paid-up). Sterling reserves are calculated allowing for any surrender penalties. If a negative sterling reserve is calculated then the amount is limited to the size of the surrender penalty.

- (iii) The reserve for accumulating with-profits contracts is determined by calculating:

- the face value of the contract (allowing for guaranteed bonus rates where applicable) and
- the amount that would reasonably be expected to be paid in the event of a significant level of policy discontinuances. This amount is calculated taking into account any circumstances in which an MVR is guaranteed not to apply and allowing for future reversionary bonus implicit in treating customers fairly in the event that experience were to follow the valuation basis.

The lower of these two is compared with the result of a bonus reserve valuation and the reserve is taken to be the higher.

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

(b) General Principles

- (i) All policies are individually valued and, with certain exceptions, any negative reserves arising on individual contracts as the result of the valuation method adopted have been eliminated. As a result these contracts are not treated as an asset. The exceptions where negative reserves are permitted are ex-FPLP and BHA non-profit protection products, and Friends Life Protection Account products.
- (ii) For most classes of business, a prudent allowance is made for regular withdrawals on products where this increases the liability. The main exceptions are ex-FLAS and ex-FLC conventional WP pensions with GAOs, ex-FLC products with guaranteed interest rates or an attaching guaranteed annuity rate and ex-FPLP and ex-FPLAL policies other than non profit protection. For these policies, an allowance for future lapses would reduce the liability.
- (iii) For ex-FLC and ex-FLAS business, it is assumed that discontinuance values are payable only in circumstances where the policyholder might reasonably expect a discontinuance value to be paid. The assumed amount of discontinuance value is determined using bases currently in force, excluding amounts arising from future bonus distributions.
- (iv) The reserves have a lower limit of any guaranteed surrender values, and in respect of ex-FLC and ex-FLC business, the current surrender value.
- (v) A provision has been made to cover the possibility of default by external reinsurers, and in respect of ex FLC and FLAS business, by internal reinsurers as well.

- (vi) For Multiplans, net cash flows are considered for each year up to and including that of the next expected policy review date. For qualifying policies, consideration is also given to the years beyond this date.
 - (vii) For Individual Lifetime Care Bonds, a traditional cash flow approach to calculating the non-unit reserve was not required due to the close matching of income and expenditure, and the ability to review the risk charging basis for morbidity experience and associated costs. The non-unit liability was calculated as six months risk charges, reduced for the effects of reinsurance. A separate reserve is held for claims in payment.
 - (viii) For ex-FLC and ex-FLAS business where it is prudent to do so (mainly group pensions business), the payment of future premiums is ignored in determining the non-unit reserve.
 - (ix) For Healthcare Income Plans an additional reserve is held for unexpired morbidity charges, for claims assumed to be incurred but not yet reported and for current claims in payment.
- (c) Conservative Approximations
- (i) For all deferred annuity business where there is either a return of fund or a return of premiums with interest on death, mortality is ignored in the valuation.
- (d) Non Standard Methods

Exceptions where a non standard method has been used are as follows:

- For late retirements where the benefit is equal to the cash option at retirement plus interest, the reserves have been calculated by accumulating the cash option with interest at a rate not less than the average rate earned by existing policyholders.
- FPLMA individual income protection and waiver of premium reserves are taken as a proportion of total premiums paid. Reserves for FPLMA group income protection have been taken as one year's annual premium. Other annual premium income protection business is valued using a gross premium method. In all cases claims in payment are valued in addition to the above. Hospitalisation benefit claims are assumed to be 0.006% of the annual policy benefit, although, in practice, the amount of hospitalisation benefit is not related to policy benefit.
- For Ex-FLC Individual Permanent Health Insurance contracts, the reserve is set equal to the accumulation of a proportion of the premiums received from inception to the valuation date for all active policies. Reserves are also held for claims in payment and notified claims that have not been admitted.
- For single premium income protection business, other than FPLMA, the liability in respect of benefits secured by premiums paid during the preceding three years is 90% of those premiums. Where claims are in course of payment after three years, they are valued individually as life annuities ceasing on the earlier of recovery, death or ceasing age. For FPLMA business the liability is equal to one year's premium plus the value of all claims in payment.
- Where an extra premium is payable on a life assurance policy to cover additional mortality risk, a reserve of three times the extra premium is held. Except for income protection business, where an extra premium is payable, the assumed inception rates are increased by a proportion equal to twice the extra premium divided by the total premium.
- A reserve equal to a multiple of premium is held for some minor ancillary benefits relating to ex-FPLAL products.
- For ex-FPLP and ex-FPLAL individual income protection policy reserving, claims are restricted such that the claim amount for policies currently in claim is 75% of the last recorded claim amount and 25% of the sum assured, and for future claims the modelled claim amount is the sum assured multiplied by 90%. Income protection contracts may pay less than the full sum assured when a claimant is able to work part time or where benefits exceed a specified proportion of current earnings. Hence, it is assumed that the claims are, on average, 10% less than the full sum assured where there is currently no claim in force. Where there is currently a claim in force, the sum assured is assumed to be reduced by 75% of the difference between the current amount of the claim and the full sum insured.

- For ex-BHA Group Risk contracts, the reserves are calculated as the unexpired period to the next premium due, times the annual premium plus an amount to cover claims incurred but not reported. This is calculated as a factor derived from run-off triangles and applied to the annualised in force premium. The factor varies by product.
- For reassured policies, the net reserve was calculated by modelling the premiums assuming that the current reinsurance premium rates continue.
- Provision for investment expenses is made by way of a margin between the yield on the assets and the valuation rate of interest in respect of ex FLC and FLAS conventional contracts.

(2) Valuation Interest Rates

Ex FPLP, FPLAL, BHA and F&C MPF

Interest rates assumed for policies where negative reserves are not permitted:

	31/12/2012				31/12/2011			
	L & GA		Pens %	IP %	L & GA		Pens %	IP %
	UK %	OS %			UK %	OS %		
Annuities in possession (Pre-July 2001)	1.80	3.25	3.27		1.90	3.57	4.09	
Annuities in possession (Post-July 2001)	1.80	3.25	3.25		1.90	3.57	3.57	
Other non-profit business	1.80	2.20	2.20	2.20	1.90	2.40	2.40	2.40
With-profits deferred annuities								
in deferment	2.30		2.80		2.30		2.90	
in possession	2.30		Variable *		2.30		Variable *	
With-profits deferred annuities (ex-FPLAL pre-2003)								
in deferment			2.00				2.20	
in possession			2.20				2.40	
With-profits assurances (ex-FPLAL pre-2003, With-Profit Fund)	2.30		3.00		1.70		2.20	
With-profits assurances (ex-FPLAL pre-2003, Other)	1.60		2.00		1.70		2.20	
Other conventional with-profits business	2.30		2.80		2.30		2.90	
Unitised with-profits	2.30	2.80	2.80		2.30	2.90	2.90	

* In possession assumes a reinvestment rate. This is equal to 97.5% of the rates derived from the forward gilt yield curve.

Interest rates assumed for policies where negative reserves are permitted:

	31/12/2012				31/12/2011			
	L & GA		Pens %	IP %	L & GA		Pens %	IP %
	UK %	OS %			UK %	OS %		
Low rate	1.30	1.70	1.70	1.70	1.40	1.90	1.90	1.90
High rate	3.30	3.30	3.30	3.30	3.50	3.50	3.50	3.50

The low rate is applied to product types with an overall positive liability and the high rate is applied to product types with an overall negative liability.

The valuation interest rate for each ex-BHA product type is set out in the table below. For regular premium policies appearing on Form 54, the nominal valuation rate has been reduced by 2.7% to obtain a real yield. In the following table, TP stands for Trading Profits tax basis and I – E stands for I – E tax basis.

	31/12/2012		31/12/2011	
	Policy as a Liability %	Policy as an Asset %	Policy as a Liability %	Policy as an Asset %
Accelerated Critical Illness (pre 31/01/2011)	1.70	3.30	2.23	4.14
Accelerated Critical Illness (post 31/01/2011)	1.70 (TP) 1.30 (I – E)	3.30 (TP) 3.30 (I – E)	2.23 (TP) 1.73 (I – E)	4.14 (TP) 3.64 (I – E)
Stand-alone Critical Illness (pre 31/01/2011)	1.70	3.30	2.23	4.14
Stand-alone Critical Illness (post 31/01/2011)	1.70	3.30	2.23 (TP) 1.73 (I – E)	4.14 (TP) 3.64 (I – E)
Life	1.70 (TP) 1.30 (I – E)	3.30 (TP) 3.30 (I – E)	2.23 (TP) 1.73 (I – E)	4.14 (TP) 3.64 (I – E)
Income Protection	1.70	3.30	2.23	n/a
Immediate Needs (Level)	1.70	n/a	2.23	n/a
Long Term Care	1.70	n/a	2.23	n/a
Claims in Payment	2.30	n/a	2.23	n/a

Ex-FLC

	31 December 2012 %	31 December 2011 %
<i>With Profit Business</i>		
Unitised With Profits (except Multipension Series 2) and Retirement Savings Scheme	2.25	3.00
Multipension Series 2	4.00	4.00
Conventional With Profits Life	2.50	3.00
Conventional With Profits Pensions	3.25	4.00
Annuity guarantees in payment (except where valued using stochastic methods)	2.05	2.15
<i>Non Profit Business written in WP funds</i>		
Over 50 Plan	1.40	1.80
NP Life (other than Over 50 Plan)	1.40	1.85
NP Pensions	1.80	2.30
<i>Non Profit Business written in NP funds</i>		
Over 50 Plan	1.45	1.80
Additional Life reserves	1.45	1.90
Other NP Life [see note below]	1.45	1.90
PHI business [see note below]	1.80	2.40
Pension Annuities in Payment reinsured to FAL (2007 reinsurance)	2.90	3.60
Pension Annuities in Payment (RPI-linked) reinsured to FAL (2007 reinsurance)	(0.60)	(0.25)
Pension Annuities in Payment reinsured to FAL (2009 reinsurance)	2.95	3.40

Pensions Annuities in Payment (RPI-linked) reinsured to FAL (2009 reinsurance)	(0.85)	(0.40)
Life Annuity business reinsured from FLAS	1.80	2.40
Unclassified Pension reserves	1.80	2.40
Other NP Pensions	1.80	2.40
RPI-linked benefits	(0.45)	(0.30)
Unit-linked life	1.45	1.90
Unit-linked pensions	1.80	2.40

Note: At 31 December 2012, negative reserves were allowed on Friends Life Protection Account policies and additional margins were assumed to the rates shown above to reflect whether a higher or lower investment return is prudent. Hence, if the life cover is level term assurance, the rate shown above is reduced by 0.5%; and if the life cover is decreasing term assurance, the rate is increased by 0.5%.

Ex-FLAS

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

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

	31 December 2012 %	31 December 2011 %
Unitised with profits and deposit administration	1.75	2.50
Conventional with profits life	2.00	2.50
Conventional with profits pensions and with profits annuities	2.75	3.50
Non-profit life	1.95	2.35
The proportion of non-profit pensions annuities in payment reinsured to FLC	2.95	3.40
The proportion of non-profit pensions annuities in payment (RPI-linked) reinsured to FLC	(0.85)	(0.40)
The proportion of non-profit pensions annuities in payment not reinsured to FLC	2.70	3.05
The proportion of non-profit pensions annuities in payment (RPI-linked) not reinsured to FLC	(0.50)	(0.35)
Non-profit deferred pensions and other annuities (in payment and deferred)	2.70	3.05
Life Annuity business reinsured to FLC	1.80	2.40
RPI-linked benefits	(0.50)	(0.35)
Unit-linked life	1.95	2.35
Unit-linked pensions	2.45	2.95
Annuity guarantees in payment (except where valued using stochastic methods)	2.05	2.15

(3) Risk adjustments to yields

Fixed interest

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

Rating	Term to redemption (years)		
	<10 % p.a.	10-20 % p.a.	>20 % p.a.
AAA	0.16	0.15	0.16
AA	0.48	0.41	0.41
A	0.96	0.68	0.63
BBB	2.05	1.42	1.29
BB	3.94	2.91	2.43
B	5.75	4.52	3.99
CCC	13.52	8.66	7.22

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

An appropriate adjustment is made on covered bonds backing ex FPLP and FPLAL business to reflect higher expected recovery experience.

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.

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

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

The following adjustments apply to ex-FLC and FLAS business only:

- For fixed interest stocks with a lower rating than CCC, individual deductions are calculated to reduce the gross redemption yield to the yield on a gilt of equivalent term.
- For fixed interest stocks with a rating of D, the gross redemption yield is set to zero.
- For CDO assets within the non-profit fund, coupon payments are linked to the level of LIBOR at the payment dates. For these assets, a 5 year swap rate is used as an estimate of the asset yield, less a 25bp deduction for credit risk.(ex-FLC only)

Equities

Yields have been reduced by 0.1% and have been constrained not to exceed 6.32% p.a.

Property

Ex-FLC & FLAS - A deduction of 5% of the yield applies.

Ex FPLP & FPLAL - The yield is capped at the long-term gilt yield plus 4% p.a.

Currency Risk

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

(4) Mortality

Ex-FLP, FPLAL, F&CMPF & BHA business

	31/12/2012	31/12/2011
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	Male	Female	Male	Female
All lives except as noted below	120% AMC00	120% AFC00	120% AMC00	120% AFC00
Linked Business				
- Life (regular premium) [Alphasave & Ultimasave]	130% AMC00	130% AFC00	130% AMC00	130% AFC00
- Life (other)	110% AMC00	110% AFC00	110% AMC00	110% AFC00
- Pre-2003 Business (ex-FPLAL)	80% A67/70	80% A67/70	80% A67/70	80% A67/70
Regular Premium Income Protection				
- Lives not claiming	60% AM80	60% AF80	60% AM80	60% AF80
- Lives claiming	58.5% CMI12 for sick lives	58.5% CMI12 for sick lives	58.5% CMI12 for sick lives	58.5% CMI12 for sick lives
Term assurances paying death benefits only				
- Smokers	83% TMS00(5)	77% TFS00(5)	83% TMS00(5)	77% TFS00(5)
- Non-Smokers	88% TMN00(5)	72% TFN00(5)	99% TMN00(5)	72% TFN00(5)
- Non-Differentiated ⁽¹⁾	110% TMN00(5)	110% TFN00(5)	110% TMN00(5)	110% TFN00(5)
- With Profit Term Assurance (ex-FPLAL)	110% TMN00 (Select) (5)	110% TFN00 (Select) (5)	110% TMN00 (Select) (5)	110% TFN00 (Select) (5)
- With Profit Endowments (ex-FPLAL)	80% AM80	80% AF80	80% AM80	80% AF80
Deferred annuities				
- pre vesting	65% AMC00	55% AFC00	65% AMC00	55% AFC00
- non-profit pension annuity options on post vesting (individual)	75-92% PCMA00	78-87% PCFA00	75-92% PCMA00	78-87% PCFA00
- other annuity options on post vesting (group)	73-97% PCMA00	83-92% PCFA00	73-97% PCMA00	83-92% PCFA00
Annuities in payment- individual contracts				
- Life business	95% IM92 U2005	95% IF92 U2005	95% IM92 U2005	95% IF92 U2005
- Pension business (pre-July 2001)	83-92% PCMA00	74-87% PCFA00	83-92% PCMA00	74-87% PCFA00
- Pension business (post-July 2001)	75-92% PCMA00	78-87% PCFA00	75-92% PCMA00	78-87% PCFA00
Annuities in payment - group contracts				
- Pension business (pre-July 2001)	97% PCMA00	92% PCFA00	97% PCMA00	92% PCFA00
- Pension business (post-July 2001)	73-97% PCMA00	83-92% PCFA00	73-97% PCMA00	83-92% PCFA00
With Profit Business – Annuity Fund				
- Individual deferred annuity (pre vesting)	65% AMC00	55% AFC00	65% AMC00	55% AFC00
- Individual deferred annuity (post vesting)	95% IM92 C2025	95% IF92 C2025	95% IM92 C2025	95% IF92 C2025
With Profit Business – Pension Fund				

	31/12/2012		31/12/2011	
	Male	Female	Male	Female
- Individual deferred annuity (pre vesting)	65% AMC00	55% AFC00	65% AMC00	55% AFC00
- Individual deferred annuity (post vesting)	75-92% PCMA00	78-87% PCFA00	75-92% PCMA00	78-87% PCFA00
- Scheme deferred annuity (pre vesting)	65% AMC00	55% AFC00	65% AMC00	55% AFC00
- Scheme deferred annuity (post vesting)	73-97% PCMA00	83-92% PCFA00	73-97% PCMA00	83-92% PCFA00
- Term assurance	110% TMN00 (5)	110% TFN00 (5)	110% TMN00 (5)	110% TFN00 (5)

⁽¹⁾Non-differentiated produces higher rates as this refers to a separate block of business where smoker status was not disclosed. This business is assumed to have a different mortality experience to business sold where smoker status was required to be disclosed and hence uses a different percentage of the mortality table.

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

For ex-BHA business, a table showing the mortality bases used for each of the main product groups is set out below:

Product Type	Table	31/12/2012 (%)				31/12/2011 (%)			
		Male		Female		Male		Female	
		NS	S	NS	S	NS	S	NS	S
Stand-alone Critical Illness	TM92 Ult TF92 Ult	37.5	75	37.5	75	37.5	75	37.5	75
Life	TMN/S 00S TFN/S 00S	88	82.5	71.5	77	72.45	81.65	74.75	75.90
Income Protection	AM80 Sel AF80 Sel	100	100	100	100	100	100	100	100
Immediate Needs	PMA80 Ult PFA80 Ult	72.25	72.25	85	85	72.25	72.25	85	85
Long Term Care	PMA80 Ult PFA80 Ult	80	80	80	80	80	80	80	80

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

Product group	Current age	Age at which expectation is determined	31 December 2012		31 December 2011	
			Males years	Females years	Males years	Females years
Annuities in payment- Individual contracts- pension business (Pre-July 2001)	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
Group pension annuities and deferred annuities in payment – annuities commencing post July 2001	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
Annuities in payment- Individual contract- life business	45	65	22.24	24.89	22.20	24.86
	55	65	21.75	24.54	21.70	24.50
	65	65	21.11	24.08	21.04	24.03
	75	75	12.85	14.79	12.79	14.74
Annuities in payment- Group contracts- pension business (pre-July 2001)	45	65	27.78	30.14	27.61	29.98
	55	65	26.13	28.56	25.93	28.40
	65	65	24.62	26.97	24.42	26.80

	75	75	15.11	17.00	14.95	16.84
Individual pension annuities and deferred annuities in payment – annuities commencing post July 2001	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

The valuation improvements are applied from 2001 to the standard tables based on 100% of the CMI_2011 mortality projections model with a long term rate of 2%.

Ex-FLC

Product group	31 December 2012		31 December 2011	
	Males	Females	Males	Females
With profits endowment assurance (Top Flight)	140% AMC00 ult	125% AFC00 ult	140% AMC00 ult	125% AFC00 ult
With profits endowment assurance (Moneysaver)	155% AMC00 ult	130% AFC00 ult	155% AMC00 ult	130% AFC00 ult
With profits endowment assurance (Postal Staff Scheme)	90% AMC00 ult	95% AFC00 ult	90% AMC00 ult	95% AFC00 ult
Other with profits endowment assurance	90% AMC00 ult	95% AFC00 ult	90% AMC00 ult	95% AFC00 ult
With profits whole life	95% AMC00 ult	95% AFC00 ult	95% AMC00 ult	95% AFC00 ult
With profits pensions	75% AM92 ult	75% AF92 utl	75% AM92 ult	75% AF92 utl
Non-profit endowment assurance	65% AM92 ult	65% AF92 ult	65% AM92 ult	65% AF92 ult
Guaranteed Over 50 Plan	modified ELT16M	modified ELT16F	modified ELT14M	modified ELT14F
Non-Guaranteed Over 50 Plan	105% AM92 ult	135% AF92 ult	105% AM92 ult	135% AF92 ult
Term assurance (Friends Life Protection Account)	96% TMN00 sel 90% TMS00 sel	78% TFN00 sel 84% TFS00 sel	108% TMN00 sel 90% TMS00 sel	78% TFN00 sel 84% TFS00 sel
Other term assurance life	modified AM80 ult	modified AF80 ult	modified AM80 ult	modified AF80 ult
Deferred pensions annuities (pre-vesting)	75% AM92 ult	75% AF92 ult	75% AM92 ult	75% AF92 ult
Annuity guarantees (pre-vesting)	85% AM92 ult	85% AF92 ult	85% AM92 ult	85% AF92 ult
Deferred pensions annuities (post-vesting) and annuity guarantees (post-vesting)	92% PCMA00 CMI 2011[2%]	87.4% PCFA00 CMI 2011[2%]	92.0% PCMA00 CMI 2011[2%]	87.4% PCFA00 CMI 2011[2%]
Pensions annuities in payment	92% PCMA00 CMI 2011[2%]	87.4% PCFA00 CMI 2011[2%]	92.0% PCMA00 CMI 2011[2%]	87.4% PCFA00 CMI 2011[2%]
Non-pensions annuities in payment	75% IM80 C=2010	75% IF80 C=2010	75% IM80 C=2010	75% IF80 C=2010
Bonds & Individual Savings Accounts	102.5% AMC00 ult	100% AFC00 ult	105% AMC00 ult	120% AFC00 ult
Low-Cost Homebuyers' Plan & Homebuyers' Investment Plan	modified AM80 ult	modified AF80 ult	modified AM80 ult	modified AF80 ult
Multiplan & Maximum Cover Plan	modified AM80 sel	modified AF80 sel	modified AM80 sel	modified AF80 sel
Multivestor	modified AM80 ult	modified AF80 ult	modified AM80 ult	modified AF80 ult
Whole Life Investment Plan	modified A67/70 sel	modified A67/70sel	modified A67/70 sel	modified A67/70sel

Product group	31 December 2012		31 December 2011	
	Males	Females	Males	Females
Flexible Mortgage Plan & Comprehensive Savings Plan	modified AM80 sel	modified AF80 sel	modified AM80 sel	modified AM80 sel
Flexible Cover Plan & Comprehensive Life Plan	modified AM80 sel	modified AF80 sel	modified AM80 sel	modified AF80 sel
Healthcare Income Plan	AM80 ult 80% for non-smokers and unknown 96% for smokers	AF80 ult 80% for non-smokers and unknown 96% for smokers	AM80 ult 80% for non-smokers and unknown 96% for smokers	AF80 ult 80% for non-smokers and unknown 96% for smokers
Other unit-linked life	AM80 ult	AM80 ult	AM80 ult	AM80 ult
Executive Pensions	modified A67/70	modified AF80 ult	modified A67/70	modified AF80 ult
Group Pensions	90.91% AM80 ult	90.91% AF80 ult	90.91% AM80 ult	90.91% AF80 ult
Multipension (series 2)	modified A67/70 ult	modified AF80 ult	modified A67/70 ult	modified AF80 ult

Where the mortality table is described above as modified, the following are specimen mortality rates used at 31 December 2012:

Age	Males			Females		
	Non-smoker	Smoker	Aggregate	Non-smoker	Smoker	Aggregate
<u>Guaranteed Over 50 Plan</u>						
25	n/a	n/a	0.00163	n/a	n/a	0.00072
35	n/a	n/a	0.00235	n/a	n/a	0.00146
45	n/a	n/a	0.00485	n/a	n/a	0.00372
55	n/a	n/a	0.01201	n/a	n/a	0.00850
<u>Other term assurance life</u>						
25	0.00043	0.00055	n/a	0.00020	0.00027	n/a
35	0.00044	0.00073	n/a	0.00037	0.00061	n/a
45	0.00125	0.00266	n/a	0.00090	0.00175	n/a
55	0.00407	0.00917	n/a	0.00233	0.00510	n/a
<u>Low Cost Homebuyers' Plan & Homebuyers' Investment Plan – with Lifecare</u>						
25	0.00042	0.00066	0.00049	0.00021	0.00029	0.00023
35	0.00044	0.00080	0.00055	0.00038	0.00057	0.00044
45	0.00133	0.00242	0.00167	0.00096	0.00153	0.00113
55	0.00435	0.00788	0.00543	0.00272	0.00404	0.00311
<u>Low-Cost Homebuyers' Plan & Homebuyers' Investment Plan – without Lifecare</u>						
25	0.00031	0.00049	0.00037	0.00015	0.00021	0.00017
35	0.00033	0.00060	0.00042	0.00029	0.00043	0.00033
45	0.00100	0.00181	0.00125	0.00072	0.00115	0.00085
55	0.00326	0.00591	0.00407	0.00204	0.00303	0.00233
<u>Multiplan & Maximum Cover Plan – with Lifecare</u>						
25	0.00042	0.00066	0.00049	0.00021	0.00029	0.00023
35	0.00044	0.00080	0.00055	0.00038	0.00057	0.00044
45	0.00133	0.00242	0.00167	0.00096	0.00153	0.00113
55	0.00435	0.00788	0.00543	0.00272	0.00404	0.00311

Age	Males			Females		
	Non-smoker	Smoker	Aggregate	Non-smoker	Smoker	Aggregate
<u>Multiplan & Maximum Cover Plan – without Lifecare</u>						
25	0.00034	0.00054	0.00040	0.00017	0.00023	0.00019
35	0.00036	0.00065	0.00045	0.00031	0.00046	0.00035
45	0.00108	0.00196	0.00135	0.00078	0.00124	0.00092
55	0.00353	0.00640	0.00441	0.00221	0.00328	0.00253
<u>Multivestor - with Lifetime care</u>						
25	0.00050	0.00077	0.00058	0.00020	0.00028	0.00022
35	0.00051	0.00090	0.00063	0.00035	0.00052	0.00040
45	0.00149	0.00271	0.00187	0.00087	0.00138	0.00102
55	0.00484	0.00876	0.00604	0.00244	0.00368	0.00281
<u>Multivestor- without Lifetime care</u>						
25	0.00037	0.00058	0.00043	0.00015	0.00021	0.00017
35	0.00038	0.00068	0.00047	0.00026	0.00039	0.00030
45	0.00112	0.00203	0.00140	0.00065	0.00104	0.00077
55	0.00363	0.00657	0.00453	0.00183	0.00276	0.00211
<u>Whole Life Investment Plan</u>						
25	0.00059	0.00094	0.00069	0.00063	0.00087	0.00069
35	0.00068	0.00124	0.00086	0.00075	0.00111	0.00086
45	0.00211	0.00382	0.00264	0.00224	0.00356	0.00264
55	0.00675	0.01224	0.00844	0.00739	0.01097	0.00844
<u>Flexible Mortgage Plan & Comprehensive Savings Plan</u>						
25	0.00049	0.00072	n/a	0.00024	0.00034	n/a
35	0.00056	0.00082	n/a	0.00046	0.00066	n/a
45	0.00169	0.00246	n/a	0.00118	0.00171	n/a
55	0.00549	0.00802	n/a	0.00325	0.00470	n/a
<u>Flexible Cover Plan & Comprehensive Life Plan</u>						
25	0.00049	0.00072	n/a	0.00024	0.00034	n/a
35	0.00056	0.00082	n/a	0.00046	0.00066	n/a
45	0.00169	0.00246	n/a	0.00118	0.00171	n/a
55	0.00549	0.00802	n/a	0.00325	0.00470	n/a
<u>Executive Pensions</u>						
25	0.00057	0.00087	0.00066	0.00023	0.00032	0.00026
35	0.00058	0.00103	0.00072	0.00040	0.00059	0.00045
45	0.00170	0.00308	0.00212	0.00099	0.00157	0.00116
55	0.00550	0.00996	0.00687	0.00278	0.00418	0.00319
<u>Multipension (series 2)</u>						
25	0.00027	0.00042	0.00032	0.00011	0.00015	0.00012
35	0.00028	0.00050	0.00035	0.00019	0.00028	0.00022
45	0.00082	0.00149	0.00103	0.00048	0.00076	0.00056
55	0.00266	0.00482	0.00332	0.00134	0.00202	0.00154

For annuities in payment and deferred annuities, expectations of life are as follows:

Product group	Current age	Age at which expectation is determined	31 December 2012		31 December 2011	
			Males years	Females years	Males years	Females years
Pensions annuities in payment	65	65	25.2	27.6	25.1	27.4
		75	15.7	17.6	15.5	17.4
Non-pensions annuities in payment	75	65*	20.0	23.1	20.0	23.1
		75	12.9	14.9	12.9	14.9
Deferred pensions annuities and annuity guarantees valued using a stochastic model	45	65	28.4	30.7	28.2	30.6
	55	65	26.8	29.2	26.6	29.0
Annuity guarantees valued using a deterministic method	45	65	24.7	28.0	24.7	28.0
	55	65	24.7	28.0	24.7	28.0

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

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

Individual Lifetime Care Plan

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

Immediate Lifetime Care Plan

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

Individual Lifetime Care Bond

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

Ex-FLAS

Product group	31 December 2012		31 December 2011	
	Males	Females	Males	Females
With profits endowment assurance (Moneysaver)	155% AMC00 ult	130% AFC00 ult	155% AMC00 ult	130% AFC00 ult
With profits endowment assurance (Top Flight)	140% AMC00 ult	125% AFC00 ult	140% AMC00 ult	125% AFC00 ult
Other with profits endowment assurance	90% AMC00 ult	95% AFC00 ult	90% AMC00 ult	95% AFC00 ult
With profits whole life	95% AMC00 ult	95% AFC00 ult	95% AMC00 ult	95% AFC00 ult
With profits pensions	75% AM92 ult	75% AF92 utl	75% AM92 ult	75% AF92 utl

Non-profit endowment assurance	65% AM92 ult	65% AF92 ult	65% AM92 ult	65% AF92 ult
Guaranteed Over 50 Plan	modified ELT16M	modified ELT16F	modified ELT14M	modified ELT14F
Non-Guaranteed Over 50 Plan	105% AM92 ult	135% AF92 ult	105% AM92 ult	135% AF92 ult
Deferred pensions annuities (pre-vesting)	75% AM92 ult	75% AF92 ult	75% AM92 ult	75% AF92 ult
Annuity guarantees (pre-vesting)	85% AM92 ult	85% AF92 ult	85% AM92 ult	85% AF92 ult
Deferred pensions annuities (post-vesting) and annuity guarantees (post-vesting)	89.7% PCMA00 CMI 2011[2%]	92% PCFA00 CMI 2011[2%]	89.7% PCMA00 CMI 2011[2%]	92.0% PCFA00 CMI 2011[2%]
Pensions annuities in payment	89.7% PCMA00 CMI 2011[2%]	92% PCFA00 CMI 2011[2%]	89.7% PCMA00 CMI 2011[2%]	92.0% PCFA00 CMI 2011[2%]
Non-pensions annuities in payment	75% IM80 C=2010	75% IF80 C=2010	75% IM80 C=2010	75% IF80 C=2010
Bonds	102.5% AMC00 ult	100% AFC00 ult	105% AMC00 ult	120% AFC00 ult
Flexible Mortgage Plan & Comprehensive Savings Plan	modified AM80 sel	modified AF80 sel	modified AM80 sel	modified AF80 sel
Flexible Cover Plan & Comprehensive Life Plan	modified AM80 sel	modified AF80 sel	modified AM80 sel	modified AF80 sel
Executive Pensions	modified A67/70	modified AF80 ult	modified A67/70	modified AF80 ult
Group Pensions	90.91% AM80 ult	90.91% AF80 ult	90.91% AM80 ult	90.91% AF80 ult

Where the mortality table is described above as modified, the following are specimen mortality rates used at 31 December 2012:

Age	Males			Females		
	Non-smoker	Smoker	Aggregate	Non-smoker	Smoker	Aggregate
<u>Guaranteed Over 50 Plan</u>						
25	n/a	n/a	0.00163	n/a	n/a	0.00072
35	n/a	n/a	0.00235	n/a	n/a	0.00146
45	n/a	n/a	0.00485	n/a	n/a	0.00372
55	n/a	n/a	0.01201	n/a	n/a	0.00850
<u>Flexible Mortgage Plan & Comprehensive Savings Plan</u>						
25	0.00049	0.00072	n/a	0.00024	0.00034	n/a
35	0.00056	0.00082	n/a	0.00046	0.00066	n/a
45	0.00169	0.00246	n/a	0.00118	0.00171	n/a
55	0.00549	0.00802	n/a	0.00325	0.00470	n/a
<u>Flexible Cover Plan & Comprehensive Life Plan</u>						
25	0.00049	0.00072	n/a	0.00024	0.00034	n/a
35	0.00056	0.00082	n/a	0.00046	0.00066	n/a
45	0.00169	0.00246	n/a	0.00118	0.00171	n/a
55	0.00549	0.00802	n/a	0.00325	0.00470	n/a
<u>Executive Pensions</u>						
25	0.00057	0.00087	0.00066	0.00023	0.00032	0.00026
35	0.00058	0.00103	0.00072	0.00040	0.00059	0.00045
45	0.00170	0.00308	0.00212	0.00099	0.00157	0.00116
55	0.00550	0.00996	0.00687	0.00278	0.00418	0.00319

For annuities in payment and deferred annuities, expectations of life are as follows:

Product group	Current age	Age at which expectation is determined	31 December 2012		31 December 2011	
			Males years	Females years	Males years	Females years
Pensions annuities in payment		65	25.5	27.1	25.3	27.0
		75	15.9	17.2	15.7	17.0
Non-pensions annuities in payment		65*	20.0	23.1	20.0	23.1
		75	12.9	14.9	12.9	14.9
Deferred pensions annuities and annuity guarantees valued using a stochastic model	45	65	28.6	30.3	28.5	30.1
	55	65	27.0	28.7	26.8	28.6
Annuity guarantees valued using a deterministic method	45	65	25.0	27.5	25.0	27.5
	55	65	25.0	27.5	25.0	27.5

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

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

(5) Morbidity

Ex FPLP & FPLAL business

- (a) For Income Protection business, except as noted below, the inception and recovery rates used are those published in CMI Report No. 12. The inception rates for occupation class 1 have been adjusted by the following proportions, for business with a deferred period of 13 weeks, which is the most common deferred period:

	31/12/2012	31/12/2011
Males Smokers	48%	48%
Males Non-smokers	42%	42%
Males Unclassified	44%	44%
Females Smokers	87%	87%
Females Non-smokers	75%	75%
Females Unclassified	79%	79%

The recovery rates have been adjusted by the following proportions:

Policy Year	31/12/2012	31/12/2011
1	32%	32%
2	59%	59%
3-5	68%	68%
6+	41%	41%

- (b) The valuation of single premium Income Protection claims in payment, for both the 2012 and 2011 valuations, are assumed to have 40% of the ultimate recovery and mortality rates for sick lives published in the CMI Report No. 12.
- (c) The mortality and morbidity tables for critical illness used in the 2012 valuation are as follows:

	31/12/2012		31/12/2011	
	Male	Female	Male	Female
Accelerated Critical Illness Mortality				

- Smokers	89% CIBT02 (2) mort	111% CIBT02 (2) mort	89% CIBT02 (2) mort	111% CIBT02 (2) mort
- Non-Smokers	45% CIBT02 (2) mort	51% CIBT02 (2) mort	45% CIBT02 (2) mort	51% CIBT02 (2) mort
Standalone Critical Illness Morbidity				
- Smokers	87% CIBT02 (2)	89% CIBT02 (2)	87% CIBT02 (2)	89% CIBT02 (2)
- Non-Smokers	51% CIBT02 (2)	64% CIBT02 (2)	51% CIBT02 (2)	64% CIBT02 (2)

In policy year one and two, the rates shown above are reduced by 20% and 5% respectively.

Future deterioration is allowed for by applying the factors below to the basic critical illness morbidity rates:

	Per annum Deterioration Factors (no Maximum Values)	
	31/12/2012	31/12/2011
Males	1.25%	1.25%
Females	1.50%	1.50%

(d) For valuing FPLMA group Income Protection the following termination rates have been used

Term from Commencement of Disability to Retirement	31/12/2012			31/12/2011		
	Under 2	2-5	Over 5	Under 2	2-5	Over 5
Up to 10 years	7%	3%	1%	7%	3%	1%
Over 10 years	12%	5%	2%	12%	5%	2%

Ex BHA business

Tables showing the morbidity inception and termination assumptions used for each of the main ex-BHA product groups and tranche, where relevant, are set out below. These rates apply to guaranteed policies. There is a reduction of 5% in the provision for adverse deviation on reviewable CIC policies.

(a) Inceptions

Product Type	Table	Inception Rates as Percentage of table CIBT02 at 31/12/2012				Inception Rates as Percentage of table CIBT02 at 31/12/2011			
		M NS	M S	F NS	F S	M NS	M S	F NS	F S
Accelerated Critical Illness – Feb 2011	CIBT02	46.7	72.0	60.6	106.1	41.7	78.3	53.0	106.0
Accelerated Critical Illness – Apr 2007	CIBT02	46.7	72.0	60.6	106.1	41.7	78.3	53.0	106.0
Accelerated Critical Illness – Old series	See sample rates below ¹	140	140	140	140	140	140	140	140

Product Type	Table	Inception Rates as Percentage of table CIBT02 at 31/12/2012				Inception Rates as Percentage of table CIBT02 at 31/12/2011			
Sex Smoker		M NS	M S	F NS	F S	M NS	M S	F NS	F S
Stand-alone Critical Illness – Feb 2011	CIBT02	53.3	93.6	58.5	74.1	49.4	83.2	55.9	74.1
Stand-alone Critical Illness – Apr 2007	CIBT02	53.3	93.6	58.5	74.1	49.4	83.2	55.9	74.1
Stand-alone Critical Illness – Old series	See sample rates below ²	140	140	140	140	140	140	140	140
Income Protection (pre 2006)	CMIR 12 Inceptions*	120	159.6	180	239.4	120	159.6	180	239.4
Income Protection – Jan 2006	CMIR 12 Inceptions*	118.2	165.5	224.6	314.4	118.2	165.5	224.6	314.4
Income Protection – Jul 2010	CMIR 12 Inceptions*	132.4	185.4	251.5	352.1	132.4	185.4	251.5	352.1

*The following adjustments are made to income protection inception rates according to product series and occupational class.

Occupational Class	IP Loading % (pre 2006 start date)		IP Loading % (start date 2006 onwards)	
Valuation Date	31/12/2012	31/12/2011	31/12/2012	31/12/2011
1	90	90	90	90
2	120	120	95	95
3	190	190	125	125
4	290	290	180	180
5	390	390	250	250

*Further adjustments are made to income protection incidence rates according to deferred period

Deferred Period (weeks)	Factor (pre 2006 start date)		Factor (start date 2006 onwards)	
Valuation Date	31/12/2012	31/12/2011	31/12/2012	31/12/2011
4	100	100	25	25
13	100	100	40	40
26	100	100	70	70
52	100	100	195	195

(b) Termination/Recovery rates

Product Type	Table	Recovery Rates as Percentage of table at 31/12/2012				Recovery Rates as Percentage of table at 31/12/2011			
Sex Smoker		M NS	M S	F NS	F S	M NS	M S	F NS	F S
Income Protection – pre July 2010	CMIR 12 Recovery Rates	72.25 y1 76.5 y2 76.5 y3+	72.25 y1 76.5 y2 76.5 y3+	72.25 y1 76.5 y2 76.5 y3+	72.25 y1 76.5 y2 76.5 y3+	60 y1 65 y2 75 y3	60 y1 65 y2 75 y3	60 y1 65 y2 75 y3	60 y1 65 y2 75 y3

Income Protection – post July 2010	CMIR 12 Recovery Rates	68 y1 72.25 y2 76.5 y3+	68 y1 72.25 y2 76.5 y3+	68 y1 72.25 y2 76.5 y3+	68 y1 72.25 y2 76.5 y3+	60 y1 65 y2 75 y3	60 y1 65 y2 75 y3	60 y1 65 y2 75 y3	60 y1 65 y2 75 y3
Long Term Care	See sample rates below	116.4	128.4	116.4	128.4	116.4	128.4	116.4	128.4
Group Risk Claims in Payment (IP)	CMIR 12 Termination Rates	77 y1 135 y2- y3 108 y4-5 81 y5+	77 y1 135 y2- y3 108 y4-5 81 y5+	77 y1 135 y2- y3 108 y4-5 81 y5+	77 y1 135 y2- y3 108 y4-5 81 y5+	35 y1 100 y2 110 y3-5 80 y5+	35 y1 100 y2 110 y3-5 80 y5+	35 y1 100 y2 110 y3-5 80 y5+	35 y1 100 y2 110 y3-5 80 y5+

- (c) An allowance for future deterioration in morbidity experience is made on guaranteed and reviewable policies by applying factors to the morbidity rates shown in this section. Morbidity deterioration factors are calculated by compound increases to the underlying table rates according to the percentages below. The same factors applied at 2012 and 2011.

Product Type and launch date where appropriate	Annual Percentage	
	Guaranteed	Reviewable
Future Care (Security)	2	1
Accelerated Critical Illness – Apr 2007	0.5	0.25
Accelerated Critical Illness – Nov 2001	1	0.5
Accelerated Critical Illness – Old series	1	0.5
Stand-alone Critical Illness – Apr 2007	1	0.5
Stand-alone Critical Illness – Nov 2001	2	1
Stand-alone Critical Illness – Old series	2	1
Income Protection (pre 2006)	0	0
Income Protection (2006 onwards)	0	0

- (d) The table below shows the sample morbidity rates for the old series of Accelerated Critical Illness policies, (written before November 2001).

Accelerated CI Rates per £10,000 Sum Assured	31/12/2012				31/12/2011			
Sex Smoker	M NS	M S	F NS	F S	M NS	M S	F NS	F S
25	10.00	16.67	7.43	11.97	10.00	16.67	7.43	11.97
35	14.78	25.30	14.32	24.44	14.78	25.30	14.32	24.44
45	44.14	77.25	32.62	56.07	44.14	77.25	32.62	56.07
55	120.58	210.66	81.51	138.87	120.58	210.66	81.51	138.87

- (e) The table below shows the sample morbidity rates for the old series of Stand Alone Critical Illness policies, (written before November 2001).

Stand Alone CI per £10,000 Sum Assured	31/12/2012				31/12/2011			
Sex Smoker	M NS	M S	F NS	F S	M NS	M S	F NS	F S
25	4.62	6.72	5.88	8.82	4.62	6.72	5.88	8.82
35	10.22	18.76	13.72	24.92	10.22	18.76	13.72	24.92
45	31.22	65.24	29.26	62.72	31.22	65.24	29.26	62.72
55	77.28	166.04	58.38	133.42	77.28	166.04	58.38	133.42

(f) The table below shows Future Care Continuous incidence rates.

Future Care (Continuous) per £10,000 Sum Assured	31/12/2012				31/12/2011			
Sex Smoker	M NS	M S	F NS	F S	M NS	M S	F NS	F S
25	2.64	2.88	3.95	4.31	2.64	2.88	3.95	4.31
35	3.83	4.19	4.89	5.34	3.83	4.19	4.89	5.34
45	7.12	7.78	7.81	8.54	7.12	7.78	7.81	8.54
55	15.9	17.37	16.99	18.56	15.90	17.37	16.99	18.56
65	44.2	48.3	51.21	55.96	44.20	48.30	51.21	55.96
75	119.29	130.36	157.69	172.23	119.29	130.36	157.69	172.23
85	369.46	403.74	554.17	605.59	369.46	403.74	554.17	605.59

(g) The tables below show the annuity value at claim inception per £1000 p.m. benefit for moderate and continuous policies respectively. The same values applied at both 2011 and 2012.

Future Care, Moderate
(annuity at claim inception per £1000 p.m.)

Age	Male Level D3	Male Level D12	Male Indexed D3	Male Indexed D12	Female Level D3	Female Level D12	Female Indexed D3	Female Indexed D12
50	82046.32	72980.93	108465.94	99163.49	83209.72	74140.66	110953.96	101647.06
60	76552.32	67512.86	98078.90	88802.74	79417.90	70365.76	103165.76	93877.04
70	65251.95	56302.99	79939.63	70758.82	70457.37	61452.83	87736.00	78496.38
80	48880.01	40191.60	56928.97	48015.39	53980.64	45178.81	63759.83	54729.29

Future Care, Continuous
(annuity at claim inception per £1000 p.m.)

Age	Male Level D3	Male Level D12	Male Indexed D3	Male Indexed D12	Female Level D3	Female Level D12	Female Indexed D3	Female Indexed D12
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50	49556.69	41381.00	60735.44	52363.64	49969.29	41804.22	61474.09	53101.73
60	47310.46	39169.81	57097.77	48751.29	48546.30	40393.77	59042.80	50680.16
70	41839.81	33800.06	49130.23	40885.79	44571.43	36472.26	52921.89	44614.76
80	32681.42	24919.47	37025.29	29066.91	35719.16	27835.22	40888.59	32804.87

Ex-FLC

Friends Life Protection Account (IFA sales channel)

Specimen critical illness inception rates for term assurance with accelerated critical illness, which are the same for 2012 and 2011, are set out in the following table. The rates are based on reinsurers' risk premium rates. The corresponding mortality rates are set out in 4.(4).

Age	Males			Females		
	Non-smoker	Smoker	Aggregate	Non-smoker	Smoker	Aggregate
25	0.00079	0.00091	n/a	0.00054	0.00062	n/a
35	0.00122	0.00165	n/a	0.00125	0.00167	n/a
45	0.00313	0.00538	n/a	0.00302	0.00373	n/a
55	0.00940	0.01570	n/a	0.00685	0.00961	n/a

Term assurance with accelerated critical illness benefit (other than Friends Life Protection Account)

Specimen combined mortality and critical illness inception rates, which are the same for 2012 and 2011, are set out in the following table. The rates are based on reinsurers' risk premium rates.

Age	Males			Females		
	Non-smoker	Smoker	Aggregate	Non-smoker	Smoker	Aggregate
25	0.00090	0.00115	n/a	0.00064	0.00081	n/a
35	0.00131	0.00203	n/a	0.00139	0.00164	n/a
45	0.00307	0.00614	n/a	0.00257	0.00399	n/a
55	0.00870	0.01546	n/a	0.00622	0.00933	n/a

Unitised policies with additional Lifecare (critical illness) benefit

Specimen critical illness inception rates used in both 2012 and 2011 are set out in the following table. The rates are based on reinsurers' risk premium rates.

Age	Males			Females		
	Non-smoker	Smoker	Aggregate	Non-smoker	Smoker	Aggregate
Low Cost Homebuyers' Plan & Homebuyers' Investment Plan (pre-1998)						
25	0.00038	0.00060	0.00044	0.00043	0.00059	0.00048
35	0.00080	0.00144	0.00099	0.00107	0.00159	0.00122
45	0.00289	0.00525	0.00362	0.00252	0.00400	0.00296
55	0.00829	0.01503	0.01037	0.00643	0.00955	0.00734
Low Cost Homebuyers' Plan & Homebuyers' Investment Plan (1998 and after)						
25	0.00035	0.00055	0.00041	0.00040	0.00055	0.00044
35	0.00074	0.00133	0.00092	0.00099	0.00147	0.00113
45	0.00268	0.00486	0.00335	0.00233	0.00370	0.00274
55	0.00768	0.01392	0.00960	0.00595	0.00884	0.00680
Multiplan (pre-1998)						
25	0.00041	0.00063	0.00048	0.00046	0.00063	0.00051
35	0.00083	0.00147	0.00103	0.00110	0.00162	0.00125
45	0.00293	0.00528	0.00365	0.00255	0.00403	0.00299
55	0.00833	0.01507	0.01040	0.00646	0.00958	0.00738
Multiplan (1998 and after)						
25	0.00038	0.00059	0.00044	0.00043	0.00058	0.00047
35	0.00077	0.00137	0.00095	0.00102	0.00150	0.00116

45	0.00271	0.00489	0.00338	0.00236	0.00373	0.00277
55	0.00771	0.01395	0.00963	0.00598	0.00887	0.00683

Individual Lifetime Care Plan

The tables for claim inception rates used in the multi-state model to value the long term care benefit under these contracts have been constructed based on the experience of the office for all years up to and including 2008. There is an adjustment to the base tables of 10% of the morbidity rates to act as a prudent margin. The model assumes no recoveries.

There are three claim states used within the model, defined by the state of health of each policy in claim. The state of health is assessed through the failure of a number of Activities of Daily Living (ADLs), such as washing or dressing. In addition, a life can become a claim through a cognitive impairment.

Specimen independent base morbidity rates to the three claim states for females are as follows:

Age	2ADL 2012	3ADL+ 2012	Cognitive 2012	2ADL 2011	3ADL+ 2011	Cognitive 2011
25	0.00015	0.00016	0.00025	0.00015	0.00016	0.00025
35	0.00015	0.00016	0.00025	0.00015	0.00016	0.00025
45	0.00015	0.00016	0.00025	0.00015	0.00016	0.00025
55	0.00045	0.00047	0.00073	0.00045	0.00047	0.00073

Specimen independent base morbidity rates to the three claim states for males are as follows:

Age	2ADL 2012	3ADL+ 2012	Cognitive 2012	2ADL 2011	3ADL+ 2011	Cognitive 2011
25	0.00014	0.00030	0.00019	0.00014	0.00030	0.00019
35	0.00014	0.00030	0.00019	0.00014	0.00030	0.00019
45	0.00014	0.00030	0.00019	0.00014	0.00030	0.00019
55	0.00040	0.00083	0.00053	0.00040	0.00083	0.00053

Note:- very little business is covered by the specimen rates required by IPRU(INS) Rule 9.31(a). The average age for this product is around 79. Specimen independent base morbidity rates for the average age are as follows:

Age 79	2ADL 2012	3ADL+ 2012	Cognitive 2012	2ADL 2011	3ADL+ 2011	Cognitive 2011
Female	0.00421	0.00605	0.00824	0.00421	0.00605	0.00824
Male	0.00349	0.00632	0.00682	0.00349	0.00632	0.00682

Individual Lifetime Care Bond

The valuation model assumes there are no recoveries once in claim. This is prudent as reserves are released on recoveries.

Specimen inception rates for the provision of long term care benefits, which are the same for 2012 and 2011, are shown below split by gender and cover type.

Age	Male Diamond Cover	Male Premier Cover	Male Select Cover	Female Diamond Cover	Female Premier Cover	Female Select Cover
25	0.00045	0.00045	0.00045	0.00045	0.00045	0.00045
35	0.00045	0.00045	0.00045	0.00045	0.00045	0.00045
45	0.00045	0.00045	0.00045	0.00045	0.00045	0.00045
55	0.00139	0.00139	0.00087	0.00100	0.00100	0.00075

Note:- very little business is covered by the specimen rates required by IPRU(INS) Rule 9.31(a). The average age for this product is around 77. Specimen inception rates for the average age are as follows:

Age	Male Diamond Cover	Male Premier Cover	Male Select Cover	Female Diamond Cover	Female Premier Cover	Female Select Cover
77	0.01455	0.01455	0.01048	0.01343	0.01343	0.01032

(6) Expenses

FP With Profits Fund

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

Tax relief in the life fund is assumed to be:

- 20% for maintenance expenses
- 16% for acquisition expenses

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

With-Profit Fund		31/12/2012				31/12/2011			
Class		Zilmer Adj. % SA	Annual Expense £	Investment Expense % of Fund pa	% of Premium	Zilmer Adj. % SA	Annual Expense £	Investment Expense % of Fund pa	% of Premium
CWP Savings Endowment (120)	Premium Paying	N/a	34.53	0.125	0	N/a	26.10	0.125	0
	Otherwise	N/a	24.17	0.125	0	N/a	18.27	0.125	0
CWP Target Cash Endowment (125)	Premium Paying	N/a	34.53	0.125	0	N/a	26.10	0.125	0
	Otherwise	N/a	24.17	0.125	0	N/a	18.27	0.125	0
CWP Pensions (155 / 165)	Premium Paying	N/a	41.43	0.125	0	N/a	31.32	0.125	0
	Otherwise	N/a	31.07	0.125	0	N/a	23.49	0.125	0
Term Assurance (325 / 330)	Premium Paying	N/a	22.91	0.125	0	N/a	18.22	0.125	0
	Otherwise	N/a	20.72	0.125	0	N/a	15.66	0.125	0
Critical Illness (340 / 345 / 350 / 355)	Premium Paying	N/a	22.91	0.125	0	N/a	18.22	0.125	0
	Otherwise	N/a	20.72	0.125	0	N/a	15.66	0.125	0
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 Bond (500)	All	N/a	19.56	0.125	0	N/a	29.23	0.125	0
UWP Savings Endowment (510)	Premium Paying	N/a	44.99	0.125	0	N/a	34.01	0.125	0
	Otherwise	N/a	19.56	0.125	0	N/a	29.23	0.125	0
UWP target Cash Endowment (515)	Premium Paying	N/a	44.99	0.125	0	N/a	34.01	0.125	0
	Otherwise	N/a	19.56	0.125	0	N/a	29.23	0.125	0
UWP Regular Premium Pension (525 / 545)	Premium Paying	N/a	56.60	0.125	0	N/a	42.79	0.125	0
	Otherwise	N/a	45.28	0.125	0	N/a	34.23	0.125	0
UWP Single Premium Pension (525 / 545)	All	N/a	43.27	0.125	0	N/a	32.72	0.125	0

With-Profit Fund		31/12/2012				31/12/2011			
Class		Zilmer Adj. % SA	Annual Expense £	Investment Expense % of Fund pa	% of Premium	Zilmer Adj. % SA	Annual Expense £	Investment Expense % of Fund pa	% of Premium
UWP Group Regular Premium Pension (535)	Premium Paying	N/a	88.52	0.125	0	N/a	66.93	0.125	0
	Otherwise	N/a	69.99	0.125	0	N/a	52.92	0.125	0
UWP Group Single Premium Pension (535)	All	N/a	63.12	0.125	0	N/a	47.72	0.125	0
UL Bond (700)	All	N/a	27.76	0.137	0	N/a	26.62	0.132	0
UL Savings Endowment (715)	Premium Paying	N/a	38.48	0.137	0	N/a	36.90	0.132	0
	Otherwise	N/a	27.76	0.137	0	N/a	26.62	0.132	0
UL Target Cash Endowment (720)	Premium Paying	N/a	38.48	0.137	0	N/a	36.90	0.132	0
	Otherwise	N/a	27.76	0.137	0	N/a	26.62	0.132	0
UL Regular Premium Pension (725)	Premium Paying	N/a	43.80	0.137	0	N/a	42.00	0.132	0
	Otherwise	N/a	34.93	0.137	0	N/a	33.49	0.132	0
UL Single Premium Pension (725)	All	N/a	32.68	0.137	0	N/a	31.34	0.132	0
UL Group Regular Premium Pension (735)	Premium Paying	N/a	23.43	0.137	0	N/a	22.47	0.132	0
	Otherwise	N/a	17.52	0.137	0	N/a	16.80	0.132	0
UL Group Single Premium Pension (735)	All	N/a	15.98	0.137	0	N/a	15.32	0.132	0

FLC With Profit Fund

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

At 31 December 2012, for conventional business, the per policy expenses have been based on the actual unit costs of Friends Life Services Limited, and were uplifted by 5% (2011 5%) to provide a margin for prudence. For unit-linked and UWP business, the actual unit costs (uplifted by 5% (2011 5%) to provide a margin for prudence) have been allocated as 65% (2011 65%) attributable and 35% (2011 35%) non-attributable, with the non-attributable expenses being covered by profits emerging from the unit-linked and UWP business.

During 2012 additional fees were charged to the Life Company where Friends Life Services Limited had incurred costs in respect of exceptional projects. Allowance is made in the reserves for future additional fees in respect of the transition of policies off the Embassy system, the migration of IT support services from AXA systems, and future Solvency II implementation costs.

		31/12/2012				31/12/2011			
Class		Zilmer Adj. % SA	Annual Expense £	Investment Expense % of Fund pa	% of Premium	Zilmer Adj. % SA	Annual Expense £	Investment Expense % of Fund pa	% of Premium
CWP Savings Endowment (120)	Premium Paying	N/a	5.95	0.34	N/a	N/a	8.48	0.34	N/a
	Otherwise	N/a	N/a	0.34	N/a	N/a	N/a	0.34	N/a
CWP Target Cash Endowment (125)	Premium Paying	N/a	42.48	0.34	N/a	N/a	55.29	0.34	N/a
	Otherwise	N/a	42.48	0.34	N/a	N/a	55.29	0.34	N/a
CWP Pensions (155 / 165)	Premium Paying	N/a	42.48	0.34	N/a	N/a	55.29	0.34	N/a
	Otherwise	N/a	42.48	0.34	N/a	N/a	55.29	0.34	N/a
UWP Bond (500)	All	N/a	47.74	0.34	N/a	N/a	48.24	0.34	N/a

		31/12/2012				31/12/2011			
Class		Zilmer Adj. % SA	Annual Expense £	Investment Expense % of Fund pa	% of Premium	Zilmer Adj. % SA	Annual Expense £	Investment Expense % of Fund pa	% of Premium
UWP Savings Endowment (510)	Premium Paying	N/a	42.48	0.34	N/a	N/a	53.54	0.34	N/a
	Otherwise	N/a	42.48	0.34	N/a	N/a	53.54	0.34	N/a
UWP target Cash Endowment (515)	Premium Paying	N/a	42.48	0.34	N/a	N/a	53.54	0.34	N/a
	Otherwise	N/a	42.48	0.34	N/a	N/a	53.54	0.34	N/a
UWP Regular Premium Pension (525 / 545)	Premium Paying	N/a	85.52	0.34	N/a	N/a	78.39	0.34	N/a
	Otherwise	N/a	51.31	0.34	N/a	N/a	47.04	0.34	N/a
UWP Single Premium Pension (525 / 545)	All	N/a	51.31	0.34	N/a	N/a	47.03	0.34	N/a
UWP Group Regular Premium Pension (535)	Premium Paying	N/a	90.85	0.34	N/a	N/a	87.97	0.34	N/a
	Otherwise	N/a	45.42	0.34	N/a	N/a	43.98	0.34	N/a
UWP Group Single Premium Pension (535)	All	N/a	45.42	0.34	N/a	N/a	47.03	0.34	N/a

Where different expense assumptions apply to groups of policies within the above product types, the assumption shown is that relating to the largest group by number of policies at 31 December 2012. In the case of individual and group pensions, paid-up policies have been treated as single premium, as the expense assumptions are the same for these groups.

For each product, per policy expenses are identical for unitised with profits and unit-linked policies. Differences in assumptions shown above arise where the largest group of unitised with profits is a different product from the largest group of unit-linked policies.

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

FLAS With Profit Fund

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

At 31 December 2012, for conventional business, the per policy expenses have been based on the actual unit costs of Friends Life Services Limited, and were uplifted by 5% (2011 5%) to provide a margin for prudence. For unit-linked and UWP business, the actual unit costs (uplifted by 5% (2011 5%) to provide a margin for prudence) have been allocated as 65% (2011 65%) attributable and 35% (2011 35%) non-attributable, with the non-attributable expenses being covered by profits emerging from the unit-linked and UWP business.

		31/12/2012				31/12/2011			
Class		Zilmer Adj. % SA	Annual Expense £	Investment Expense % of Fund pa	% of Premium	Zilmer Adj. % SA	Annual Expense £	Investment Expense % of Fund pa	% of Premium
CWP Savings Endowment (120)	Premium Paying	N/a	5.95	0.21	N/a	N/a	8.48	0.21	N/a
	Otherwise	N/a	N/a	0.21	N/a	N/a	N/a	0.21	N/a
CWP Target Cash Endowment (125)	Premium Paying	N/a	42.48	0.21	N/a	N/a	55.29	0.21	N/a
	Otherwise	N/a	42.48	0.21	N/a	N/a	55.29	0.21	N/a
CWP Pensions (155 / 165)	Premium Paying	N/a	42.48	0.21	N/a	N/a	55.29	0.21	N/a
	Otherwise	N/a	42.48	0.21	N/a	N/a	55.29	0.21	N/a

		31/12/2012				31/12/2011			
Class		Zilmer Adj. % SA	Annual Expense £	Investment Expense % of Fund pa	% of Premium	Zilmer Adj. % SA	Annual Expense £	Investment Expense % of Fund pa	% of Premium
Annuity (400)	All	N/a	33.41	0.14	N/a	N/a	34.94	0.14	N/a
UWP Bond (500)	All	N/a	47.74	0.21	N/a	N/a	48.24	0.21	N/a
UWP Savings Endowment (510)	Premium Paying	N/a	42.48	0.21	N/a	N/a	53.54	0.21	N/a
	Otherwise	N/a	42.48	0.21	N/a	N/a	53.54	0.21	N/a
UWP target Cash Endowment (515)	Premium Paying	N/a	42.48	0.21	N/a	N/a	53.54	0.21	N/a
	Otherwise	N/a	42.48	0.21	N/a	N/a	53.54	0.21	N/a
UWP Regular Premium Pension (525 / 545)	Premium Paying	N/a	85.52	0.21	N/a	N/a	78.39	0.21	N/a
	Otherwise	N/a	51.31	0.21	N/a	N/a	47.04	0.21	N/a
UWP Single Premium Pension (525 / 545)	All	N/a	51.31	0.21	N/a	N/a	47.03	0.21	N/a
UWP Group Regular Premium Pension (535)	Premium Paying	N/a	90.85	0.21	N/a	N/a	87.97	0.21	N/a
	Otherwise	N/a	45.42	0.21	N/a	N/a	43.98	0.21	N/a
UWP Group Single Premium Pension (535)	All	N/a	45.42	0.21	N/a	N/a	47.03	0.21	N/a
UL Bond (700)	All	N/a	134.74	0.19	N/a	N/a	101.99	0.19	N/a
UL Savings Endowment (715)	Premium Paying	N/a	42.48	0.19	N/a	N/a	53.54	0.19	N/a
	Otherwise	N/a	42.48	0.19	N/a	N/a	53.54	0.19	N/a
UL Target Cash Endowment (720)	Premium Paying	N/a	42.48	0.19	N/a	N/a	53.54	0.19	N/a
	Otherwise	N/a	42.48	0.19	N/a	N/a	53.54	0.19	N/a
UL Regular Premium Pension (725)	Premium Paying	N/a	85.52	0.19	N/a	N/a	78.39	0.19	N/a
	Otherwise	N/a	51.31	0.19	N/a	N/a	47.04	0.19	N/a
UL Single Premium Pension (725)	All	N/a	51.31	0.19	N/a	N/a	47.03	0.19	N/a
UL Group Regular Premium Pension (735)	Premium Paying	N/a	130.43	0.19	N/a	N/a	116.24	0.19	N/a
	Otherwise	N/a	65.22	0.19	N/a	N/a	58.12	0.19	N/a
UL Group Single Premium Pension (735)	All	N/a	65.22	0.19	N/a	N/a	58.12	0.19	N/a

Where different expense assumptions apply to groups of policies within the above product types, the assumption shown is that relating to the largest group by number of policies at 31 December 2012. In the case of individual and group pensions, paid-up policies have been treated as single premium, as the expense assumptions are the same for these groups.

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

Non Profit Fund

Non-Profit Fund		31/12/2012				31/12/2011			
Class		Zilmer Adj. % SA	Annual Expense £	Investment Expense % of Fund pa	% of Premium	Zilmer Adj. % SA	Annual Expense £	Investment Expense % of Fund pa	% of Premium
Term Assurance	Premium Paying	N/a	17.33	0.108	0	N/a	18.15	0.108	0

Non-Profit Fund		31/12/2012				31/12/2011			
Class		Zilmer Adj. % SA	Annual Expense £	Investment Expense % of Fund pa	% of Premium	Zilmer Adj. % SA	Annual Expense £	Investment Expense % of Fund pa	% of Premium
(325 / 330)	Otherwise	N/a	20.72	0.125	0	N/a	15.66	0.125	0
Critical Illness (340 / 345 / 350 / 355)	Premium Paying	N/a	17.33	0.108	0	N/a	18.15	0.108	0
	Otherwise	N/a	20.72	0.125	0	N/a	15.66	0.125	0
Income Protection (360 / 365)	All	N/a	17.33	0.108	2.5	N/a	18.15	0.108	2.5
Income Protection Claims in Payment (385)	All	N/a	N/a	N/a	8% of claims	N/a	N/a	N/a	8% of claims
Long Term Care	All	N/a	17.33	0.108	0	N/a	18.15	0.108	0
Annuity (400)	All	N/a	33.41	0.095	N/a	N/a	34.94	0.14	N/a
UWP Bond (500)	All	N/a	19.56	0.125	0	N/a	29.23	0.125	0
UWP Savings Endowment (510)	Premium Paying	N/a	44.99	0.125	0	N/a	34.01	0.125	0
	Otherwise	N/a	19.56	0.125	0	N/a	29.23	0.125	0
UWP Target Cash Endowment (515)	Premium Paying	N/a	44.99	0.125	0	N/a	34.01	0.125	0
	Otherwise	N/a	19.56	0.125	0	N/a	29.23	0.125	0
UWP Regular Premium Pension (525 / 545)	Premium Paying	N/a	56.60	0.125	0	N/a	42.79	0.125	0
	Otherwise	N/a	45.28	0.125	0	N/a	34.23	0.125	0
UWP Single Premium Pension (525 / 545)	All	N/a	43.27	0.125	0	N/a	32.72	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	N/a	18.71	0.125	0	N/a	21.31	0.125	0
UWP Group Single Premium Pension (535)	All	N/a	15.40	0.125	0	N/a	17.64	0.125	0
UL Bond (700)	All	N/a	134.74	0.19	N/a	N/a	101.99	0.19	N/a
UL Savings Endowment (715)	Premium Paying	N/a	42.48	0.19	N/a	N/a	53.54	0.19	N/a
	Otherwise	N/a	42.48	0.19	N/a	N/a	53.54	0.19	N/a
UL Target Cash Endowment (720)	Premium Paying	N/a	42.48	0.19	N/a	N/a	53.54	0.19	N/a
	Otherwise	N/a	42.48	0.19	N/a	N/a	53.54	0.19	N/a
UL Regular Premium Pension (725)	Premium Paying	N/a	85.52	0.19	N/a	N/a	78.39	0.19	N/a
	Otherwise	N/a	51.31	0.19	N/a	N/a	47.04	0.19	N/a
UL Single Premium Pension (725)	All	N/a	85.52	0.19	N/a	N/a	47.03	0.19	N/a
UL Group Regular Premium Pension (735)	Premium Paying	N/a	130.43	0.19	N/a	N/a	116.24	0.19	N/a
	Otherwise	N/a	65.22	0.19	N/a	N/a	58.12	0.19	N/a
UL Group Single Premium Pension (735)	All	N/a	N/a	0.19	N/a	N/a	58.12	0.19	N/a

Where different expense assumptions apply to groups of policies within the above product types, the assumption shown is that relating to the largest group by number of policies at 31 December 2012.

(7) Inflation rate and unit growth rates

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		
	Unit Growth % p.a.		Expense Inflation % p.a.
	Gross	Net	
Ex FLC & FLAS annuities	N/a	N/a	4.45/3.95 (note 1)
Other Conventional Ex-FLC & FLAS	N/a	N/a	4.2/3.7 (note 1)
Conventional Non Profit Ex-FPLMA	N/a	N/a	3.6
Conventional Non Profit Other	N/a	N/a	4.2
Conventional With Profit Ex-FPLMA	N/a	N/a	3.6
Conventional With Profit Other	N/a	N/a	4.2
Unitised Ex-FLC & FLAS	3.4	2.89	4.2/3.7 (note 1)
Unitised Other	3.4	2.7	4.2

Note

1. The lower rate applies to Diligenta costs, the higher rate applies to other costs.

Other inflation assumptions:

Ex FPLP & FPLAL charge increases - 2.7%p.a. where linked to RPI and 3.7%p.a. where linked to AWE

Ex FLC & FLAS - 3.2%p.a.

RPI linked annuity increases – 3.45%p.a.

(8) Future bonus rates

The future bonus rates used in valuing with-profits business are the minimum guaranteed bonus rates. These are zero except as follows:

Unitised With Profits Policies

Life	% p.a.	Series 1, 21	3.00
		Ex FPLMA Life	1.00
		Ex FLC Low-Cost Homebuyers' Plan	3.00
		Ex FLC Multivestor	1.75
Pensions		Series 1	4.00
		Series 7,11,27	0.95
		New Generation Pre-demut	0.92
		New Generation Post-demut	0.97
		Ex FPLMA Pensions	1.00
		Ex UKP	5.00
		Ex FLC Multipension Series 2	4.00
		Ex FLAS Deposit Administration Plan	See note 1

Note 1: For a few Deposit Administration plans, certain tranches are subject to a guaranteed minimum annual rate of return of 4.5% p.a. Where such a guarantee applies, the bonus rate is reduced by the guaranteed rate of return. The above bonus rates include the guaranteed return where relevant.

(9) Lapse surrender and conversion to paid-up

Product		Average lapse / surrender / paid-up rate for policy years			
		1-5	6-10	11-15	16-20
		% p.a.	% p.a.	% p.a.	% p.a.
Level term (incl. Critical Illness) – Low Rate	Lapse	6.6	3.8	2.8	2.8
Level term (incl. Critical Illness) – High Rate	Lapse	15.9	9.0	6.5	6.5
Decreasing Term (incl. Critical Illness) – Low Rate	Lapse	8.3	6.6	4.6	4.6
Decreasing Term (incl. Critical Illness) – High Rate	Lapse	12.3	11.4	9.5	9.5
Accelerated Critical Illness – Low Rate	Lapse	8.5	4.7	3.7	3.7
Accelerated Critical Illness – High Rate	Lapse	17.3	10.2	8.4	8.4
Income Protection – Low Rate	Lapse	7.0	5.2	4.1	4.1
Income Protection – High Rate	Lapse	14.7	10.7	8.4	8.4
CWP Savings Endowment	Surrender	8.2	5.6	2.9	1.7
CWP Target Cash Endowment	Surrender	2.0	1.1	1.0	0.9
UWP Savings Endowment	Surrender	5.1	5.4	6.0	5.4
UWP Target Cash Endowment	Surrender	4.4	4.4	4.0	2.7
UL Savings Endowment	Surrender	0.0	0.0	0.0	0.0
UL Target Cash Endowment	Surrender	0.0	0.0	0.0	0.0
UWP Bond	Surrender	3.5	6.0	4.9	4.4
UWP Bond	Automatic Withdrawal	100% of current	100% of current	100% of current	100% of current
UL Bond	Surrender	6.0	6.0	4.9	4.4
UL Bond	Automatic Withdrawal	100% of current	100% of current	100% of current	100% of current
CWP Pension Regular Premium	PUP	0.0	0.0	0.0	0.0
CWP Pension Regular Premium	Surrender	0.0	0.0	0.0	0.0
CWP Pension Single Premium	Surrender	0.0	0.0	0.0	0.0
UWP Individual Pension Regular Premium	PUP	16.1	7.3	5.2	5.2
UWP Individual Pension Regular	Surrender	See note 1			

Product		Average lapse / surrender / paid-up rate for policy years			
		1-5	6-10	11-15	16-20
		% p.a.	% p.a.	% p.a.	% p.a.
Premium					
UWP Individual Pension Single Premium	Surrender	See note 1			
UL Individual Pension Regular Premium	PUP	16.1	7.3	5.2	5.2
UL Individual Pension Regular Premium	Surrender	See note 1			
UL Group Pension Regular Premium	PUP	21.3	15.6	15.6	15.6
UL Group Pension Regular Premium	Surrender	See note 1			
UL Individual Pension Single Premium	Surrender	See note 1			

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

For products where negative reserves are permitted we use the combination of lapse rates shown above and interest rates in 4 (2) that produce the most prudent result. Where negative reserves are not permitted the lapse rates are assumed to be zero.

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

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

For UL, UWP and CWP contracts represent the average for ex-FLC and FLAS business. No lapses were assumed for those products for ex-FPLP and FPLAL policies.

(10) Other material assumptions

The unearned premium reserve for ex-BHA group risk business is based on days remaining until next premium due date for payment frequency other than monthly. For monthly cases, the premium is assumed to be paid half way through the month on average and a reserve of one half of a month's premium is held.

The table below describes the methodology by product group.

Product	IP	CI	Life
Reserve	40% of the average premiums in force over the last 6 months	15% of the average premiums in force over the last 2 months	10% of the average premiums in force.

(11) Derivative contracts

Derivatives are shown at market value using quoted prices where exchange-traded and prices from counterparties otherwise. Combined yields are calculated for assets with covering derivatives, whether in-the-money or out-of-the-money, in accordance with INSPRU 3.1.30R. The interest rates used in the valuation of liabilities are consistent with the yields on backing assets, reflecting covering derivatives if appropriate.

An inflation rate swap formalises an expense agreement made with the FP with-profits policyholders at the time of demutualisation. This agreement is already reflected in the valuation assumptions so the swap has no impact on the determination of the liabilities.

The Company uses derivatives to hedge the Guaranteed Annuity Options on its FLC and FLAS WP deferred annuity business. Since the time value of the derivatives is significantly higher than that reflected in the valuation of the liabilities, an additional liability equal to the time value of the derivatives is held in the FLC New With Profits Fund (£36.9m), the FLC Old With Profits Fund (£5.4m), and the FLAS With Profits Fund (£12.5m).

The company holds credit default swaps to hedge the credit risk on a holding of corporate bonds. In the calculation of valuation interest rates, these derivatives have been ignored and standard credit risk margins have been applied to the corporate bonds (as set out in section 4.(3)). A check has been performed to ensure that this approach gives a more prudent result than if the credit default swaps had been fully reflected.

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

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

No further changes have been made since the previous valuation.

5. Options and guarantees

(1) Guaranteed Annuity Rate Options

- (a) Deferred annuities are valued as the greater of the present value of the annuity or, if appropriate, the alternative cash fund available at vesting for the purchase of an annuity. It has been assumed that all cashable deferred annuities have such a guarantee. GAO take-up rates increase, as required by INSPRU 1.2.66G over 20 years. Below are the starting rates and 20 year rates:

	Initial rate	20 year rate
Individual ex-FP and UK Provident (UKP)	75%	95%
Ex-UKP Executive Pensions	73%	95%
Other Deferred Annuities	75%	95%
Ex FP Group Final Salary	94%	95%
Ex FP Group Money Purchase	70%	95%
Ex FP Executive Pensions	82%	95%
Ex-FPLAL	95%	95%
Ex-FPLMA	100%	100%
Ex FLC/FLAS stochastic valuation	95%	95%
Ex FLC/FLAS deterministic valuation	100%	100%

For most ex FLC & FLAS pensions contracts with a Guaranteed Annuity Rate option at retirement, the value of the option has been calculated using both a stochastic model and a deterministic valuation, and the greater of the two values is taken as the valuation liability.

- (b) The tables below shows details of the options:

Product Name (i)	Basic Reserve (ii) £m	Outstanding Durations (iii)	Guarantee Reserve (iv) £m	Guaranteed Rate (v)	Increments allowed (vi)	Annuity Form (vii)	Retirement Ages (viii)
Self Employed Deferred Annuities	493	Up to 18 years	386	FP: 11.6% UKP: 12.2%	No	Single life, annual in arrears, no guarantee	FP: 60-70 UKP: 60 – 75
Group Deferred Annuities (other than EBP and PTP below)	245		138	10.0%	No	Single life, monthly in advance, guaranteed 5 years	50-75
Executive Benefit Plan (EBP) and Pension Transfer Plan (PTP)	131		68	10.0%	No	Single life, monthly in advance, guaranteed 5 years	Only applies at specified NRD
UKP Executive Pensions	61		39	11.1%	No	Single life, monthly in advance, guaranteed 5 years	Applies at specified NRD or on similar terms for early retirement
FPLMA Retirement Annuity Contracts	18		11	10.8%	No	Single life, annual in arrears, no guarantee	60-75
Conventional Deferred Annuities	38	Up to 13 years	40	10%	No	Single Life; monthly in advance, guaranteed 5 years	60-70
Personal Pension (pre Series D)	17		5	Varies depending on the consols yield	No	Single life, monthly in advance, guaranteed 5 years	60-75

Ex-FLC Products

Product	Basic reserve	Outstanding durations (years)			Guarantee reserve	Guaranteed annuity rate (annuity p.a. per £100 cash sum)	Open to increments
	£m	Minimum	Median	Maximum	£m		
Endowment Plans	127	0	4	26	157	11.00	No
Multipension	256	0	7	24	224	9.39	In certain circumstances

The specimen guaranteed annuity rates shown above are for a male aged 65. The annuity is a non-increasing single life annuity, payable monthly for a minimum period of five years. Payments are in advance for conventional policies and in arrears for Multipension. Annuities on equivalent terms to those indicated above are available on an increasing or joint lives basis or with other payment frequencies or other minimum payment periods.

Guaranteed annuity rates are applicable on early or late retirement at any age permitted by the terms of the policy. The relevant rates are determined on the same basis as that applicable at the normal retirement date, allowing for the age at retirement.

Ex-FLAS Products

Product	Basic reserve £m	Outstanding durations (years)			Guarantee reserve £m	Guaranteed annuity rate (annuity p.a. per £100 cash sum)	Open to increments
		Minimum	Median	Maximum			
Pension Builder	107	0	5	26	136	11.11	In certain circumstances
Retirement Annuity (1976 series)	38	0	8	23	45	11.11	In certain circumstances

The specimen guaranteed annuity rates shown above are for a male aged 65. The annuity is a non-increasing single life annuity, payable monthly in advance for a minimum period of five years. Most guarantees are in this form, though some policies have guaranteed annuities with a fixed increase rate or on a joint lives basis, or payable annually in arrears. In normal circumstances, an alternative form of annuity would be available on equivalent terms.

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

(2) Guaranteed surrender and unit-linked maturity values

Ex FPLP & FPLAL business

- (a) For contracts with guaranteed surrender values, the calculated reserve is increased to the guaranteed surrender value if greater. There are no significant unit-linked maturity guarantees.

A number of unit-linked OLAB pension savings contracts contain a guaranteed return of premium at the policyholder's normal retirement date. The reserve for this guarantee is calculated with a Monte Carlo simulation, using market consistent assumptions. A benefit from future lapses is allowed for, reducing this reserve for Friends Planbasic and Friends Planprivate. The guarantee offered is optional for Friends Planbasic and Friends Planprivate. For Friends Planbusiness, the guarantee applies to all policies.

- (b) A table showing details is given below:

Product Name (i)	Basic Reserve (ii) £m	Outstanding Durations (iii)	Guarantee Reserve (iv) £m	Guaranteed Amount (v)	MVA Free Conditions (vi)	In-force Premiums (vii) £m	Increments (viii)
Friends Flexible Savings Plan	89	Up to 18 years	3	Scheduled proportion of the maturity benefit (including declared bonuses).	n/a	2	No
Multidowment and 10/25 Savings Plan		Up to 24 years		Scheduled proportion of the maturity benefit (including declared bonuses).	n/a		No
Planned Investment and Planned Investment Plus		Up to 1 year		Scheduled proportion of the maturity benefit (including declared bonuses).	n/a		No
Friends Planbasic	206	Up to 84 years	73	Return of the total premiums paid on the policy at the	n/a	93	Yes, providing they occur more than 12 years

Friends Planbusiness				policyholder's normal retirement date.			before the policyholder's normal retirement date
Friends Planprivate							

Ex-FLC

- (a) Certain unitised with profits pensions policies include a provision that no market value reduction (MVR) will be applied on early retirement within five years of the normal retirement date, in respect of regular premiums that have been paid or single premiums that have been invested for at least five years at the early retirement date. The method used to determine the basic reserves, described in (4).(1), explicitly makes allowance for this provision, and no separate additional reserve is required.

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

Certain Low Cost Homebuyers' Plans (LCHP) and Homebuyers' Investment Plans (HIP) effected since 1998 include a provision whereby a guaranteed amount may be payable on the maturity date. The guarantee may be selected ten years before the maturity date, and if selected the premium must be increased where necessary to a level advised by the Company at the time. Furthermore, for HIP invested in unit-linked funds, the plan must be switched to unitised with profits. In the case of LCHP, for all plans where the guarantee is in force, the guaranteed amount in respect of this provision does not exceed the normal guaranteed amount at maturity, taking into account the Guaranteed Interest Rate. The basic reserves are therefore sufficient to cover the value of the guarantee. In the case of plans that are more than ten years from the maturity date, including HIP currently invested in unit-linked funds, the terms on which the increase in premium is determined if the guarantee is selected are currently, and it is intended will remain, such as to ensure that no additional reserve will be necessary at the time the guarantee comes into force, taking into account the explicit allowance in the basic reserve for the Guaranteed Interest Rate for LCHP and the provision that no MVR will apply at maturity date. It is therefore considered that the basic reserve is sufficient to cover the value of the prospective guarantee for such plans.

- (b) All guaranteed surrender values affecting groups of policies where the basic reserve exceeds £10m have been explicitly valued within the calculation of the basic reserve, as described above.

Ex-FLAS

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

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

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

(b)

Product	Basic reserve £m	Outstanding durations (years)			Guarantee reserve £m	Guaranteed amount £m	Annual premiums £m
		Minimum	Median	Maximum			
Flexible Mortgage Plan – guarantee in force	12.2	0	2	5	4.3	16.8	0.9
Flexible Mortgage Plan – potential future guarantee	55.3	5	8	24	0.0	147.3	3.2

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

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

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

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

(3) Guaranteed Insurability Options

Ex-FPLP, FPLAL and BHA business

- (a) For ex-FPLP and ex-FPLAL business, Guaranteed Insurability Options arise mainly in respect of older contracts. As a result, any additional mortality arising is embedded in the company's mortality experience and is already reflected within the mortality assumptions set out in 4(4) above. Consequently, no additional reserve is held in respect of Guaranteed Insurability Options. The total sum assured on contracts with these options is less than £1bn.

For ex-BHA business, Guaranteed Insurability options are offered on a range of policies as follows:

Life and Critical Illness

Policyholders have the right to increase the sum assured under their contract upon marriage, the birth of a legitimate child, mortgage increases or promotion. The sum assured may be increased by 25% on each event subject to a maximum of 100% or £100,000 in aggregate.

Children under the age of 18 are covered free and on their 18th birthday have the right to take out a contract in their own name.

Renewable term contracts have renewability guaranteed until age 70.

Income Protection

Post March 2008.

Product enhanced to include GIOs from age 55 plus facility to increase benefit on adoption and mortgage increase.

2006 onwards:

On marriage, birth of a legitimate child, mortgage increase, promotion or change of employment, policyholders may increase their benefit level by up to 50% of the pay rise subject to an annual limit of £9,000 and on overall limit of 50% of the original annual benefit.

Pre 2006:

On promotion or change of employment, policyholders may increase their benefit level by up to 50% of the pay rise subject to an annual limit of £7,500 and a lifetime limit of 50% of the original annual benefit.

Renewable term contracts either have renewability guaranteed until age 70 or have renewability guaranteed until a selected retirement age.

Guaranteed Insurability options are not valued explicitly but are allowed for within the mortality and morbidity assumptions.

Ex-FLC

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

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

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

Ex-FLAS

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

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

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

(4) Other Guarantees and Options

Unit-linked and Unitised With Profit section 32 buyout policies within the FLL With Profits Fund, certain with profits Flexible T-Plans and Multipensions within the FLC With Profits Fund and certain with profits Flexible T-Plans and Pension Builders within the FLAS Non Profits Fund include a provision that the annuity secured on retirement at State Pensionable Age will not be less than the amount of Guaranteed Minimum Pension accrued in respect of contracting out of the State Earnings Related Pension Scheme.

These guarantees are generally significantly in the money, and additional reserves are determined for each policy using a deterministic method for ex-FLC and ex-FLAS products and a Black Scholes method for all other products.

The assumed take-up rate for the guarantee is 100% and the basis used is that stated in section 4(4).

	Ex-FPLP, FPLAL and BHA	Ex- FLC	Ex-FLAS

Basic with profits reserve for policies with the guarantee	£46m	£9m	£90m
Additional reserve in respect of the guarantee	£20m	£10m	£199m

6. Expense reserves

(1) Expense Loadings

The aggregate amount, grossed up for tax where appropriate, arising during the twelve months after the valuation date from explicit reserves made in the valuation to meet expenses in fulfilling contracts in-force at the valuation date is £307.2m. The amounts arising from each of the implicit allowances, explicit allowances for investment expenses and explicit allowances for other maintenance expenses are shown in the table below.

Homogeneous Risk Group	Implicit Allowances £m	Explicit Allowance (investment) £m	Explicit Allowances (other) £m	Non-Attributable Expenses £m	Total £m
Ex FPLP & FPLAL Unitised Life (Post July 2001)	0.0	1.8	0.4	0.5	2.7
Unitised Overseas (Post July 2001)	0.0	1.4	3.7	4.0	9.1
Ex FPLP Unitised Life (Pre July 2001)	0.0	1.7	3.0	0.0	4.8
Ex-FPLP Unitised Pensions (Pre July 2001)	0.0	3.2	6.0	0.0	9.2
All Expenses Attributable (excluding Ex-FLC and Ex-FLAS)	2.6	16.9	69.0	0.0	88.5
Total (excluding Ex-FLC and Ex-FLAS)	2.6	25.0	82.1	4.5	114.3
Ex-FLC Unit-linked business	0.0	37.6	48.0	29.5	115.1
Ex-FLC UWP business	12.5	-	8.9	4.8	26.2
Ex-FLAS UWP business	4.3	-	5.0	2.7	12.0
All Expenses Attributable (Ex-FLC and Ex-FLAS)	4.1	9.6	26.0	0.0	39.7
Total	23.5	72.2	170.0	41.5	307.2

Renewal commission is not included in these amounts.

(2) **Implicit Expense Allowances**

All Expenses attributable

The implicit expense allowance relates to Group Income Protection business where a proportion of premium is held for the first three years and claims reserves thereafter. The allowances are covered from margins in the reserving basis.

Ex-FLC & FLAS UWP business

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

There are no other implicit allowances for expenses.

(3) Comparison with Form 43

The introduction of Financial Reporting Standard 26 in 2006 requires initial transaction costs on assets to be shown as investment expenses in the statutory accounts and, these expenses, amounting to £27.4m, have been included in line 14 of Form 43. The valuation implicitly assumes that there will be no future asset turnover, so no allowance is made for expenses of this nature.

The maintenance expenses in line 14 of Form 43 are £116.8m. However, these include £2.2m in respect of ex-FLC and ex-FLAS business from 28/12/2012 to 31/12/2012. Excluding these expenses, the maintenance expenses would have been £114.6m.

After allowing for initial transaction costs on assets and project costs, the amount of maintenance expenses (excluding ex-FLC and ex-FLAS maintenance expenses) (£87.2m) included in line 14 of Form 43 is lower than the expense loadings (£114.3m) disclosed in section **6.(1)** above.

The reason that ex-FLC and ex-FLAS expenses have been excluded is because Form 43 only includes ex-FLC and ex-FLAS expenses that occurred in the period between 28/12/2012 and 31/12/2012, whereas the expenses in section **6.(1)** above are for the whole year so they are not comparable.

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(4) New business expense overrun

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

(5) Maintenance expense overrun

Actual expenses and commission have been estimated for 2014 if the Company ceased to transact new business on 1st January 2014. Estimated expenses in 2014, on this basis, are less than the loadings expected from in-force business in 2014 and therefore no additional reserve is required.

(6) Non attributable expenses

At 31 December 2012, valuation expenses for unit-linked and UWP business were split between attributable and non-attributable expenses. The attributable expenses were allowed for in the calculation of the non-unit reserves on unit-linked business and the gross premium reserve on UWP business. The non-attributable expenses were compared to future profits expected to emerge from the unit-linked and UWP business, and no additional reserve was deemed necessary.

Additional non attributable expenses in respect of ex-FLC and FLAS business:

Ex-FLC

The expenses associated with a project to outsource the policy administration of traditional business have been treated as non-attributable expenses within the valuation. The total costs associated with the project have been split across the main policy types in scope, weighted by the volume of business within each group. The following reserves have been set up:

Homogeneous Risk Group	Reserves (£m)
Life Annuities	0.1
Long Term Care Plans	1.1
Immediate Care Plans	0.2

Ex-FLAS

The expenses associated with the project to implement Solvency II have been treated as non-attributable expenses within the valuation and an additional expense reserve of £1m has been set up in the FL FLAS With Profits Fund to provide for the expected future costs of completing the project.

7. Mismatching reserves

- (1) The value of mathematical reserves (other than liabilities for property-linked benefits), together with the value of assets matching those liabilities, are analysed below by reference to currency.

Currency	Value of liabilities (£m)	Value of assets (£m)
Sterling	22,915	35,509
Euro	132	146
US Dollar		87
Other	(10)	197
Total	23,037	35,940

- (2) In 7(1) above the liabilities are 100% matched by assets of the same currency.
- (3) There are sufficient sterling assets to cover the sterling liabilities. Consequently, no reserve for currency mismatching is considered necessary.
- (4) Not a regulatory reporting company and therefore not applicable.
- (5) Not a regulatory reporting company and therefore not applicable.
- (6) Not a regulatory reporting company and therefore not applicable.
- (7) The nature and term of the assets matching liabilities is regularly reviewed to ensure continued appropriateness and no additional provision was required at the valuation date to ensure that the company could meet its obligations as they arise.

8. Other special reserves

Other special reserves in excess of £10m have been held as follows:

Lifespan guarantee reserve

A reserve of £33m is held in respect of premium rate guarantees on Lifespan unit-linked whole of life policies.

FPLP Investment Expenses

A reserve of £10m to cover investment expenses, amounting to c£1m p.a., that have not been attributed to policies.

FLC Reorganisation Bonus

The Company has an obligation to make payments of Reorganisation Bonus, as required by the Reorganisation Scheme governing the Company. The total reserves for this liability are £124.9m. These are included within the reserves for the relevant classes of with profits business on Forms 51 and 52.

The reserves are equal to the balance of the 'RBM Account', which under the Reorganisation Scheme records the value of the obligation to policyholders in the New With Profits Fund, together with further amounts representing:

- Reorganisation Bonuses payable in respect of policies in the Old With Profits Fund; and
- the value of future transfers made subject to rule INSPRU 1.5.27R in respect of the payment of Reorganisation Bonuses.

Reinsurance Default Provision

A global provision is held within FLC to cover the risk of default on external reinsurance arrangements. This provision is calculated based on historic default rates by S&P rating, and adjusted to reflect any expected worsening of future conditions.

The assumptions for expected future defaults is broadly in line with those used to calculate credit risk adjustments to yields in section 4.(3).

At 31 December 2012, a provision of £21.6m was held in respect of FLC external reinsurance arrangements.

Misallocation of Additional Voluntary Contributions

FLC has invested some AVCs in the Managed Fund but this was not in line with the policyholder's main policy investments. The difference between (i) the value of the units had the AVCs been invested in line with the policyholder's main policy investments and (ii) the value of the units in the Managed Fund is held as an additional reserve to ensure the policyholder receives the correct policy fund value at retirement. At 31 December 2012, the additional reserve held was £15.5m.

Systems migration

A reserve of £53.2m is held to cover short term costs relating to transferring maintenance of systems from one provider to another.

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

FLL excluding ex-FLC, ex-FLAS and ex-F&CMPF business

(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) The undischarged obligations are listed below:

Reinsurer	Amount (£m)
Windsor Life	1,767.0
Munich Reinsurance Co	0.2
Swiss Re Life & Health Ltd	13.0
SCOR Reinsurance UK Limited	0.7
SCOR Reinsurance Ireland Limited	0.8
RGA Global Reinsurance Limited	2.9
Total	1784.6

- (j) The mathematical reserves ceded under the treaty are quoted in the table. Apart from any reserves ceded internally, these have been reduced to allow for credit risk.
- (k) Retentions on new business are quoted in the table.
- (l) All reinsurers quoted in the table are authorised to carry on insurance business in the UK.
- (m) Connections of any reinsurer to the Company are quoted in the table.

- (n) Apart from any reserves ceded internally, the mathematical reserves shown in the table have been reduced by £23.0m to allow for credit risk.
- (o) No provision has been made for the Company's liability to refund reinsurance commission in the event of lapse or surrender of the contracts reinsured. This is because the premiums recoverable will exceed any commission refundable.
- (p) Munich Re Financing Treaty
 - (i) The company has three financing arrangements with Munich Re. Munich Re advanced a loan of 32.8m EUR in respect of German Pension Plans (Friends Plan Basic, Friends Plan Private and Friends Plan Business) sold in 2010, 28.5m EUR in respect of 2011 plans and 23.7m EUR in respect of 2012 plans. Repayment of the loan is equal to specified premium margins and commission clawback in respect of those policies. Premium margins represent that portion of each premium paid not allocated to policyholder units less cost of renewal commission. The amount outstanding on these loans at 31 December 2012 is 7.3m EUR in respect of the 2010 loan, 14.5m EUR for the 2011 loan and 23.2m EUR for the 2012 loan.
 - (ii) The sterling reserve calculation takes into account the cashflows due to the Reinsurer as well as the liability to the policyholder. An additional sterling reserve was held at 31st December 2012 in respect of repayments due on the loan, this amounted to 33.8m EUR, this is less than the value of the contract as the sterling reserve is limited by the surrender penalty on the contract, both before and after taking the reinsurance premiums into account. The net impact is the regulatory excess capital at 31 December 2012 is increased by 11.2m EUR, the outstanding value of the loan from Munich Re at 31 December 2012, less the additional sterling reserve in respect of the loan repayments.

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) Retention for new policies	(m) Connected Company
Swiss Re Life & Health Ltd	2 nd surplus reinsurance for £1.5m for conventional life and pensions business and for all unitised business on risk premium or original terms.	53.7	Closed	2.2	N/A	Not connected
	1 st surplus reinsurance for Individual PHI for £33,000 p.a.		Closed			
	1 st surplus reinsurance for Individual PHI for £300p.w. up to a maximum sum assured of £40,000 p.a.		Closed		N/A	
	Quota share reinsurance for non-linked life business for 65% up to a maximum retention of £50,000 life (£125,000 critical illness) and 100% thereafter up to a maximum sum assured of £2.5m life (£500,000 critical illness). With effect July 2005 percentage reassured changed from 65% to 75%.		Closed		The greater of £60,000 p.a. and the policy's free cover limit.	
	1 st surplus reinsurance for Group Income Protection in excess of the greater of £60,000 p.a. and the policy's free cover limit up to a limit of £300,000 p.a.		Closed		N/A	Not connected
	1 st surplus reinsurance for Individual PHI for £2,000 p.w. initial benefit and over in some cases (except nil for D4 business for occupational classes greater than 3). Max retention £125,000 p.a. D4 included and benefit increased to £2,700 p.w. with effect 26/1/2007.		Closed		N/A	
	1 st surplus reinsurance for Executive PHI for £2,000 p.w. initial benefit and over in some cases (except nil for D4 business). Max retention £125,000 p.a. plus £50,000 for NI and pension contributions.		Closed		N/A	
	Quota share reinsurance for Term Assurance Life and Critical Illness and Stand Alone Critical Illness for 80% up to £625,000, 100% above £625,000 to a maximum of £1m. (With effect from 9 th December 2002, 75% up to £500,000, 100% above £500,000 to a maximum of £1m.) Original terms and risk premium.		Closed		N/A	

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) Retention for new policies	(m) Connected Company
Swiss Re Life & Health Ltd	1 st surplus reinsurance for Group Life in excess of £1m up to £3m.	53.7	Closed	2.2	£1m	Not Connected
	1 st surplus reinsurance for Individual IP for excess over £15,600 p.a. initial benefit up to £156,000 p.a.				£15,600 p.a. for IP	
	Quota share reinsurance for non-linked life for 65% up to a maximum retention of £500,000 life (£125,000 critical illness) and 100% thereafter up to a maximum sum assured of £2.5m life (£500,000 critical illness). With effect July 2005 percentage changed from 65% to 75%. With effect August 2006 percentage for decreasing term assurance (life cover only) decreased from 75% to 50%. With effect August 2007 level and decreasing life cover no longer reinsured.				25%	
	1 st surplus reinsurance for Individual Income Protection.				£300pw	
	Quota Share reinsurance for whole of life for 50% (maximum policy sum insured £25,000) – net level premium.				50%	

9. Reassurance Treaty Information (Sections a,b,c,g,i,l,n,o and p covered above)						
(d) Reinsurer	(e) Nature and extent of cover under the treaty	(f) Premiums payable £m	(h) New business	(j) Mathematical reserves £m	(k) Retention for new policies	(m) Connected Company
Swiss Re Life & Health Ltd	1 st surplus reinsurance for Individual PHI for £2,000 p.w. initial benefit and over in some cases (except nil for D4 business for occupational classes greater than 3). With effect from January 2007 benefit increased to £2,700 p.w. plus NI and pension fund contributions.	53.7	Closed	2.2	£300pw	Not Connected
	1 st surplus reinsurance for Executive PHI for £2,000 p.w. initial benefit and over in some cases (except nil for D4 business). With effect from January 2007 benefit increased to £2,700 p.w. plus NI and pension fund contributions.				£300pw	
	Quota share reinsurance for guaranteed premiumTerm Assurance Life and Critical Illness and Stand-alone Critical Illness for 75% up to £500,000, 100% above £500,000 to a maximum of £1m - Risk premium.				25%	
	Quota share reinsurance for reviewable premium decreasing cover Term Assurance Life and Critical Illness and Stand-alone Critical Illness for 75% up to £500,000, 100% above £500,000 to a maximum of £1m - Risk premium.				25%	
	Quota Share Group Life, Group Critical Illness and Group Income Protection treaty.	1.1	Closed	29.2	£25,000 maximum	

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) Retention for new policies	(m) Connected Company
Munich Reinsurance Co	1 st surplus reinsurance for £2m for Individual Life (excluding commodity term assurance and Milestones Term Assurance) and Group Life.	44.4	Closed	45.8	N/A	Not Connected
	1 st surplus reinsurance for £375,000 for critical illness and permanent disability benefits.				N/A	
	Quota share reinsurance for Term Assurance (excluding critical illness) for 85% up to £2m, 100% above £2m to a maximum sum reinsured of £2m.				N/A	
	Quota share reinsurance for Milestones Term Assurance for 75% up to a maximum of £187,500.		Closed		N/A	Not Connected
	1 st surplus reinsurance for Group Income Protection for £200,000 per annum.		Closed		N/A	
	Quota share reinsurance for Term Assurance (excluding critical illness) for 85% up to £500,000 per life, and 100% thereafter to a maximum sum assured of £10m per life.		Closed		15%	
	Quota share reinsurance for Milestones Term Assurance for 75% up to a maximum of £187,500.		Closed		N/A	
	1 st surplus reinsurance for Group Income Protection for £200,000 per annum Closed to new business with effect from November 2007.		Closed		N/A	
	The treaty covers Group Life, Group Critical Illness and Group Income Protection and provides cover on a quota share basis and for benefits in excess of the Company's retention limit.	2.5	Closed	35.4	£7,500 maximum	Not Connected
	The treaty covers Critical Illness, Lifestyle and Income Protection, FutureCare, CompleteCare, ImmediateCare and Recovery Cash and provides cover on a quota share basis and for benefits in excess of the Company's retention limit.		Closed		£25,000 maximum	Not Connected

9. Reassurance Treaty Information (Sections a,b,c,g,i,l,n,o and p covered above)						
(d) Reinsurer	(e) Nature and extent of cover under the treaty	(f) Premiums payable £m	(h) New business	(j) Mathematical reserves £m	(k) Retention for new policies	(m) Connected Company
Scor Reinsurance UK Limited	Quota Share Life and Critical Illness reviewable premium treaty.	1.8	Closed	5.2	£50,000 maximum	Not Connected
Scor Reinsurance Ireland Limited	Quota Share Life and Critical Illness reviewable premium treaty.	16.3	Closed	47.2	£50,000 maximum	Not Connected
RGA Global Reinsurance Limited	Life cover treaty with retention of 50%.	16.6	Closed	23.4	£150,000 maximum	Not Connected
Windsor Life Assurance Company Limited	The majority of in-payment annuities written or ceded prior to 31 December 2006	117	Closed	1,735.9	N/A	Not Connected
Friends Life Pensions Ltd	All investment benefits under unit linked pension contracts, originally written by FPLO or UK Provident.	153.3	Closed	3,606.8	N/A	Wholly Owned Subsidiary
	All investment benefits under specific ex-London & Manchester pensions plans; Peace and Quiet, Secure Growth Personal Retirement Plan, Blueprint and Individual Retirement Plans for the Self Made Man and Executive Director.					
	All pension business written in the Non-Profit Fund prior to 31 December 2001.	30.6	Closed	649.9	N/A	
	Deferred and in-payment annuities under Investment Trust Retirement Annuity plans on original terms.	0	Closed	21.5	N/A	
	100% quota share of all immediate pension annuities written in the formerly FPLAL Other Business Fund together with some annuities written in the FPLP Non-Profit Fund since 1/12/2011.	0	Open	93.4	N/A	

Ex-FLC

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 following table. All of the figures below are representative of the whole of 2012 and not just the 4 days (28th December 2012 to 31st December 2012) in which FLC became part of FLL.

Reinsurer	Nature and extent of cover	Premiums payable during 2012 £m	Whether treaty closed to new business	Reduction in mathematical reserves £m
Swiss Re Life & Health Ltd	<p>A single treaty covering:</p> <p><u>Regular Premium Individual Lifetime Care Plans</u></p> <p>Benefits on an original terms quota share basis for plans written prior to 1st April 1998. Benefits on a risk premium quota share basis for plans written on or after 1st April 1998 and prior to 1 January 2002, and increments to such plans. The cover is 70% of each benefit up to £60,000 p.a., 100% of the excess over £60,000 p.a.. The cover for original terms policies following a policy review has changed to 67% of each benefit.</p> <p><u>Individual Permanent Health Insurance</u></p> <p>Benefits on an original terms, quota share and surplus basis. The cover is 2/3rds of each benefit up to £18,000 p.a., and 100% of the surplus above £18,000 p.a. to a maximum of £50,000 p.a..</p> <p><u>Individual Level Term Assurance and Individual Critical Illness</u></p> <p>Death and/or Critical illness risks on an original terms surplus basis in excess of the Company's retention of £15,000.</p>	3.9	Yes	87
Swiss Re Europe S.A. UK Branch	<p>Unitised Income Protection 25% quota share written from 1st July 1989 plus the excess over the Company's retention of £30,000pa on a facultative basis</p>	1.3	Yes	25
Kolnische Ruckversicherungs-Gesellschaft AG	<p>Single Premium Individual Lifetime Care Plans</p> <p>Benefits on an original terms quota share basis for plans written after 1st September 1994 and prior to 1st July 1997, and a risk premium quota share basis for plans written on or after 1st July 1997 and prior to 16th August 2004. The cover is 50% of each benefit up to £60,000 p.a., 100% of the excess over £60,000 p.a.. The cover for original terms policies following a policy review has changed to 50% of the benefit covered by the original premium.</p>	1.6	Yes	36

Reinsurer	Nature and extent of cover	Premiums payable during 2012 £m	Whether treaty closed to new business	Reduction in mathematical reserves £m
SCOR Global Life Reinsurance UK Ltd	Regular Premium Term Assurance (mortality only) quota share for level and decreasing plans written from 1 st June 2006. Terms are to reinsure 50% of the first £10m.	9.1	Yes	68
SCOR Global Life Reinsurance UK Ltd	Regular Premium Term Assurance (stand alone or accelerated critical illness only) quota share for level and decreasing plans written from 1 st June 2006. Terms are to reinsure 40% of the first £0.5m.	9.2	Yes	22
RGA Reinsurance Company (Barbados) Ltd	Regular Premium Term Assurance (mortality only) quota share for level and decreasing plans written from 1 st June 2006. Terms are to reinsure 36% of the first £10m.	6.9	Yes	45
Partner Re	Regular Premium Term Assurance (stand alone or accelerated critical illness) quota share for level and decreasing plans written from 1 st June 2006. Terms are to reinsure 20% of the first £0.5m.	4.5	Yes	18
Pacific Life	Regular Premium Term Assurance (stand alone or accelerated critical illness) quota share for level and decreasing plans written from 1 st June 2006. Terms are to reinsure 20% of the first £0.5m.	4.5	Yes	11
FAL (2007 reinsurance)	Reinsurance of the non-profit pensions annuities in payment business directly written in FLC.	77.8	No	1,950
FAL (2009 reinsurance)	Reinsurance of the non-profit pensions annuities in payment business reinsured to FLC from FLAS.	0	Yes	2,038
Unit Reassurance	Linked benefits where the member has chosen to invest in the funds of the below companies on a 100% quota share basis: Friends Life WL Limited Baillie Gifford Life Blackrock Pensions Management	92.3 0 0.2	No	402 38 22

In respect of the above treaties:

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

With the exceptions of Kolnische Ruckversicherungs-Gesellschaft AG and RGA Reinsurance Company (Barbados) Ltd, the above companies are authorised to carry out insurance business in the UK.

With the exceptions of FAL and Friends Life WL Limited, the reinsurers are not connected with the Company. The Company has credit risk exposure to each of the above reinsurers. The exposure does not exceed internal exposure limits, taking account of the rating of each reinsurer. A separate reserve is held in respect of the possibility of default of external reinsurance counterparties.

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

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

Historically FLAS has provided new business financing in respect of regular premium business reassured to the Company. The outstanding amount of the Company's undischarged obligation at the valuation date was £26.4m. This is repayable monthly out of surplus arising on the business being financed. It should be noted that this financing is provided by a company within the Group, and the disclosures in this section and in Form 3 lines 91-95 should be viewed with this in mind.

This undischarged obligation has not been taken into account in the valuation because it is repayable out of margins in the policies financed. No allowance has been made for contingencies associated with this arrangement for the purposes of the return.

Ex-FLAS

Details of reinsurance treaties under which the Society 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 following table. All of the figures below are representative of the whole of 2012 and not just the 4 days (28th December 2012 to 31st December 2012) in which FLAS became part of FLL.

Reinsurer	Nature and extent of cover	Premiums payable during 2012 £m	Whether treaty closed to new business	Reduction in mathematical reserves £m
Partner Re RGA Re RGA Intl	Reassurance of 47.50% of most of the non-profit pensions annuities in payment	135	Yes	48
Munich Re	Single premium structured settlement annuities on an original terms quota share basis for 50% of the benefits underwritten.	0	Yes	61

In respect of these treaties:

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

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

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

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

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

The Society has no obligations under any financing arrangements.

10. Reversionary bonus

FLL excluding ex-FLC, ex-FLAS and ex-F&CMPF business

- (1) The bonus series meeting the stated conditions are shown in the table below.
- (2) For all unitised with-profits funds, the Regular bonus is applied as an increase in the value of units attached to the policy. The rate shown is the Regular bonus rate applying through the majority of the calendar year.
- (3) Reversionary bonuses apply to conventional policies and have been shown in the table as "rate applying to basic benefit" / "rate applying to bonus already declared".
- (4) Reversionary and Regular bonus rates do not vary between policies within a class.

FP With Profits Fund

Name of Bonus Series	Amount of Mathematical Reserves £m	Reversionary Bonus Rate for the		Guaranteed Bonus Rate for 2012 %
		2012 %	2011 %	
<u>Main Series – Life policies</u>				
Conventional Life Fund Policies (All except Series 9)	1,195	Nil / 0.25	Nil / 0.25	0.00 / 0.00
Series 9		0.25 / 0.25	0.25 / 0.25	0.00 / 0.00
<u>Unitised With Profits Funds</u>				
Series 1,21	362	3.00	3.00	3.00
Series 2,3,6	508	0.75	0.50	0.00
Series 4		0.50	0.50	0.00
Series 9,10,24,	17	0.75	0.75	0.00
Series 11, 22, 23, 26		1.00	0.75	0.00
Series 12		1.25	0.75	0.00
Series 5	4	0.25	0.25	0.00
Series 8, 25	4	0.25	0.25	0.00
Series 14	38	1.50	1.00	0.00
<u>Main series – Pension Fund</u>				
<u>Conventional Policies</u>				
Individual Plans	471	Nil/Nil	Nil/Nil	0.00
Group Cashable Annuities	433	2.25 / 2.25	3.50 / 3.50	0.00
Executive Benefit Scheme	201	Nil / Nil	Nil / Nil	0.00
Cashable Annuities				
<u>Unitised Pension With Profits Funds</u>	1,369	4.00	4.00	4.00
Series 1				

Name of Bonus Series	Amount of Mathematical Reserves £m	Reversionary Bonus Rate for the		Guaranteed Bonus Rate for 2012 %
		2012 %	2011 %	
Series 2,4	360	1.00	1.00	0.00
Series 9,10,22,24	51	1.75	1.25	0.00
Series 21	246	1.75	1.25	0.00
Series C	12	0.00	0.00	0.00
Demutualisation Terminal Bonus	36	2.50	2.00	0.00
Pre-Demutualisation New Generation	256	2.50	2.00	Not less than AMC
Post-Demutualisation New Generation		2.50	2.00	Not less than AMC
<u>Main Series - OLAB Policies</u>				
<u>Unitised With Profits Funds</u>				
Series 1,2	140	1.00	1.00	0.00
Series 3,4,21,22	0	1.75	1.25	0.00
Series 5	5	2.25	1.75	0.00
<u>UKP Series – Life and General Annuity Policies</u>				
All Conventional Policies	101	0.10 / 0.10	0.10 / 0.10	0.00
<u>UKP Series – Pension and Deferred Annuities</u>				
Conventional With Profits Policies	514	Nil / Nil	Nil / Nil	0.00
<u>Ex-FPLMA Policies – Life Assurance Policies</u>				
All Conventional Policies	11	0.50 / 0.50	0.50 / 0.50	0.00
Unitised With Profits Funds	52	1.25	1.25	0.00
<u>Ex-FPLMA Policies – Individual and Group Deferred Annuities</u>				
Unitised With Profits Funds	231	2.25	1.75	0.00

FPLAL With Profits Fund

Name of Bonus Series	Amount of Mathematical Reserves £m	Reversionary Bonus Rate for the		Guaranteed Bonus Rate for 2012 %
		2012 %	2011 %	
<u>FPLAL With Profits Fund (ex-National Mutual Policies)</u>				
Conventional Life Policies	79	1.00 / 1.00	1.00 / 1.00	0.00
Conventional Pension Policies	76	0.25 / 0.25	0.25 / 0.25	0.00

Ex-FLC

- (1) The bonus series meeting the stated conditions are shown in the table below.
- (2) For all unitised with-profits funds, the bonus is applied as an increase in the value of units attached to the policy.
- (3) Reversionary bonuses have been shown in the table as “rate applying to basic benefit” / “rate applying to bonus already declared”.
- (4) Reversionary bonus rates do not vary between policies within a class.

Name of Bonus Series	Mathematical Reserves £m	Bonus Rate for 2012	Bonus Rate for 2011	Guaranteed Rate for 2012 ⁶
<i>Conventional With Profits</i>				
Conventional Life Series 1 ¹	18	1.21%/0.00%	1.21%/0.00%	-
Conventional Life Series 2	67	1.00%	1.00%	-
Top Flight and Moneysaver	597	2.00%	2.00%	-
Conventional Life IBM Series	11	1.25%	1.25%	-
Conventional Pensions	205	0.00%	0.00%	-
<i>Unitised With Profits</i>²				
Investment Bond and Flexible Bond	946	2.75%	2.75%	-
Individual Savings Account ³	10	0.00%	3.50% ⁷	-
Low-Cost Homebuyers' Plan	451	0.50%	0.00%	3.00%
Multivestor	11	3.25%	0.50%	1.75%
Multiplan	17	0.00%	3.25%	-
Multipension Series 2	1089	1.50%	0.00%	4.00%
Multipension Series 3	270	2.75%	1.50%	
Flexible Pensions:				
Group WP fund	11	3.50% ⁷	3.50% ⁷	-
with GMP guarantee	19	1.75%	1.75%	-
Other ⁴	77	2.25%	2.25%	-
Other Trustee Plans	11	3.00%	3.00%	-
Pensions 1997 series ⁵	94	2.00%	2.00%	-
Pensions 1999 series	31	2.00%	2.00%	-
Pensions 2000 & 2002 series ³	66	3.00%	3.00%	-
Retirement Investment and Income Plan	11	3.50%	3.50%	-
Retirement Savings Schemes	331	0.50%	0.50%	-
Amulet (other than Investment Plan)	11	3.50%	3.50%	-

AXA Isle of Man Bonds:				
Series 3 (Sterling)	87	3.00%	3.00%	-
Series 3 (Euro)	18	2.50%	2.50%	-
Series 3 (Dollar)	14	4.00%	4.00%	-

Notes:

- ¹ For Conventional Life Series 1, the rate of bonus is a percentage of sum assured dependent on the age of the policyholder at outset. The rates stated above are weighted averages. The second rate stated is the rate of bonus on attaching bonus.
- ² Unitised with profits bonus rates (except for Flexible Pensions) correspond to the increase in unit price during the year. Where bonus rates have changed during the year, the rate stated therefore represents an average of bonus rates weighted by period in force.
- ³ The bonus rates for Individual Savings Account, Pensions 2000 and 2002 Series and Amulet (other than Investment Plan) are before deduction of management charges.
- ⁴ The rates stated above are for accumulation units. The corresponding rates for capital units were 0.00% for both 2012 and 2011.
- ⁵ For Pensions 1997 Series, where commission is payable as a defined percentage of the fund, the above bonus rate is reduced by the relevant percentage.
- ⁶ The guaranteed bonus rate is in addition to the base bonus rate declared.
- ⁷ For Individual Savings Accounts and Pensions in the Group WPF, an Additional Regular Bonus (ARB) of 5% applies in 2012. This is in addition to the above bonus rates of 3.00% and 3.50% respectively.

Ex-FLAS

- (1) The bonus series meeting the stated conditions are shown in the table below.
- (2) For all unitised with-profits funds, the bonus is applied as an increase in the value of units attached to the policy.
- (3) Reversionary bonuses have been shown in the table as “rate applying to basic benefit” / “rate applying to bonus already declared”.
- (4) Reversionary bonus rates do not vary between policies within a class

Name of Bonus Series	Mathematical Reserves £m	Bonus Rate for 2012	Bonus Rate for 2011	Guaranteed Rate for 2012
<i>Conventional With Profits</i>				
Life Compound Series	111	1.25%	1.25%	-
Ten Plus Series 1	10	1.25%	1.25%	-
Ten Plus Series 2 ⁵	39	1.25%/1.75%	1.25%/1.75%	-
Whole Life Simple Series	8	1.75	Not disclosed in 2011 as too small	-
Pension Builder and Retirement Annuity (1976 Series)	354	0.00%	0.00%	-
With profits Annuity	72	0.33%	0.33%	-

Unitised With Profits				
Life	382	2.25%	2.25%	-
Pensions:				
Group WP fund ⁶	36	3.00%	3.00%	-
with GMP guarantee	267	2.50%	2.50%	-
Other ^{1, 2}	933	3.00%	3.00%	-
AXA Isle of Man Bonds ³ :				
Series 1	40	2.00%	2.00%	-
Series 2 (Sterling)	20	2.75%	2.75%	-
Deposit Administration				
Deposit Administration Plan ⁴	296	7.00%	5.00%	see ⁴

Notes:

- ¹ The rates stated above are for accumulation units. The corresponding rates for capital units were 0.00% for 2012 and 2011.
- ² For certain Personal Pension plans, bonus rates were 1.5% lower than the rates above.
- ³ For AXA Isle of Man Bonds, bonus rates correspond to the increase in unit price during the year. Where bonus rates have changed during the year, the rate stated therefore represents an average of bonus rates weighted by period in force.
- ⁴ For a few Deposit Administration plans, certain tranches are subject to a guaranteed minimum annual rate of return of 4.5% p.a. Where such a guarantee applies, the bonus rate is reduced by the guaranteed rate of return. The above bonus rates include the guaranteed return where relevant.
- ⁵ For Ten Plus Series 2, the first rate is the rate on the sum assured, and the second rate is the rate on attaching bonuses.
- ⁶ For Pensions in the Group WPF, an Additional Regular Bonus (ARB) of 5% applies in 2012. This is in addition to the above bonus rate of 3.00%.

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NAME OF INSURER: FRIENDS LIFE LIMITED

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

ABSTRACT OF VALUATION REPORT FOR REALISTIC VALUATION

Throughout this report the following notation is used:

FLAS	denotes	Friends Life Assurance Society Limited
FLC	denotes	Friends Life Company Limited
FLL	denotes	Friends Life Limited
FP	denotes	Friends Provident
FPLAL	denotes	Friends Provident Life Assurance Limited
FLL FLAS WPF	denotes	Friends Life Limited FLAS With Profits Fund
FLL FLC NWPF	denotes	Friends Life Limited FLC New With Profits Fund
FLL FLC OWPF	denotes	Friends Life Limited FLC Old With Profits Fund
FLL FP WPF	denotes	Friends Life Limited FP With Profits Fund
FLL FPLAL WPF	denotes	Friends Life Limited FPLAL With Profits Fund.

The FLL FP WPF comprises business written in the Main Series and the UKP Series of Friends Provident Life Office (FPLO) together with business written in Friends Provident London and Manchester Assurance (FPLMA) prior to its transfer in 2000. It also includes asset shares in respect of all the reassured with-profits business of Friends Life and Pensions Limited (FLP) and the post demutualisation business written in the Non Profit Fund, as well as the reassured UWP business from the Non Profit Fund transferred in from FPLAL.

The FLL FPLAL WPF (formerly Friends Provident Life Assurance Limited Closed Fund) was transferred into FLL with effect from 1 December 2011 by means of a Part VII Transfer. The fund is a separately maintained fund within the long-term fund of FLL and comprises the Conventional with-profits business written by NM and its predecessor companies. The fund was originally closed in 1988 and has been known as the Closed Fund since that time. Additional business was transferred into the fund in 1995 when the NM business was taken over by FP.

The FLL FLC NWPF and FLL FLC OWPF were transferred into FLL with effect from 28 December 2012 by means of a Part VII Transfer. These funds are separately maintained funds within the long-term fund of FLL and comprise business written by FLC (formerly AXA Sun Life Plc) and its predecessor companies. These funds were closed to new business in December 2012 at the time of the Part VII Transfer.

The FLL FLAS WPF was transferred into FLL with effect from 28 December 2012 by means of a Part VII Transfer. The fund is a separately maintained fund within the long-term fund of FLL and comprises business written by FLAS (formerly Sun Life Assurance Society Plc). This fund was closed to new business in 2009.

In the remainder of this document, the questions are answered in respect of each fund in turn, namely:

FLL FP WPF and FLL FPLAL WPF
FLL FLC NWPF and FLL FLC OWPF
FLL FLAS WPF

Friends Life Limited FP With-Profits Fund
Friends Life Limited FPLAL With-Profits Fund

1. Introduction

- (1) The actuarial investigation relates to a valuation date of 31 December 2012.
- (2) The valuation date of the previous valuation was 31 December 2011.
- (3) An interim valuation was carried out on 30 June 2012.

2. Assets

- (1) The economic assumptions used to determine the value of future profits on the non-profit insurance contracts written in FPLAL WPF and FP WPF are:

	31 December 2012 (% pa)	31 December 2011 (% pa)
Risk Discount Rate	2.3	2.5
Investment returns before tax (all assets)	2.3	2.5
Future expense inflation	3.7	3.7
Corporation tax rate	24.5	26.0

- (2) No amounts have been included in the realistic value of assets under INSPRU 1.3.33R(2).
- (3) Not applicable because future profits from insurance contracts written outside the FP WPF and the FPLAL WPF are not included for the purpose of INSPRU 1.3.43R.
- (4) The same set of economic assumptions is used for all future profit calculations.

Friends Life Limited FP With-Profits Fund
Friends Life Limited FPLAL With-Profits Fund

3. With-Profits Benefits Reserve Liabilities

(1) (a) Policies are valued using a retrospective method except:

- Conventional whole of life policies, where a retrospective method is inappropriate
- Conventional policies where the premium history is unavailable because the policy has been paid up or altered.

(b) The With-Profits Benefits Reserve and future policy related liability for each significant product group is listed in the table below:

	With-Profits Benefits Reserve (£m)		Future Policy Related Liabilities (£m)
	Prospective	Retrospective	
FPLAL WPF			
Conventional Whole of Life	40	0	0
Conventional Savings	10	18	0
Conventional Pension	15	10	28
Total	65	28	28
FP WPF			
Conventional Whole of Life pre demutualisation	185	0	8
Conventional Savings pre demutualisation	60	1,503	57
Conventional Pension pre demutualisation	209	762	697
UWP Savings pre demutualisation	0	735	31
UWP Bonds pre demutualisation	0	535	23
UWP Pensions pre demutualisation	0	2,525	191
UWP Bonds post demutualisation	0	128	1
UWP Savings post demutualisation	0	38	3
UWP Pensions post demutualisation	0	226	3
Total	454	6,452	1,014

(c) All products that are included in the realistic value of the liabilities of the FP WPF and FPLAL WPF have been included in the table above.

(2) The total of the amounts of the With-Profits Benefits Reserve in 3 (1) (b) corresponds to line 31 of Form 19.

Description	FPLAL WPF (£m)	FP WPF (£m)
Total Prospective With-Profits Benefits Reserves from 3 (1) (b)	65	454
Total Retrospective With-Profits Benefits Reserves from 3 (1) (b)	28	6,452
Total With-Profits Benefits Reserves	93	6,906
L31 of Form 19: With-Profits Benefits Reserve	93	6,906

Reconciliation of the total future policy related liabilities in 3 (1) (b) back to Form 19 is shown below. The adjustments relate to liabilities that are not specific to individual policies.

Description	FPLAL WPF (£m)	FP WPF (£m)
Total Future Policy Related Liabilities from 3 (1) (b)	28	1,014
Enhancement to WPBR not yet allocated to specific policies	70	118
Future costs of smoothing	0	84
Financing cost of contingent loan	0	55
Operational risk provision	0	19
Additional tax provision	0	5
Other	1	62
Total Future Policy Related Liabilities	99	1,357
Line 49 of Form 19: Total Future Policy Related Liabilities	99	1,357

Friends Life Limited FP With-Profits Fund
Friends Life Limited FPLAL With-Profits Fund

4. With-Profits Benefits Reserve – Retrospective Method

(1) (a) & (b)

Retrospective Reserves	Proportion of With-Profits Benefits Reserve	
	FPLAL WPF	FP WPF
Individual Basis	100%	93.22%
Grouped Basis – by year of entry	0%	2.72%
Grouped Basis – by year of premium payment	0%	4.06%

(c) Not applicable for FPLAL WPF since all contracts were valued on an individual basis.

(i) The FP WPF contracts that were valued on a grouped basis are a selection of conventional pension deferred annuity contracts. The method applies grouped model point adjustments to individual mathematical reserves.

There are two methods used to value these policies. Either the policies are grouped by year of entry and premiums on each model point are assumed to be 50% level premiums and 50% single premiums, or premiums are grouped by year of payment.

(ii) 503 model points were used to represent 4,908 policies for the first method and 105 model points were used to represent 1,110 schemes for the second method.

(iii) We have validated that a 50% single premium assumption is appropriate. A reconciliation of movements is made between the current and the prior valuation's With-Profits Benefits Reserve to ensure no significant data is lost.

(2) (a) No changes in the valuation method during 2012.

(b) Not applicable.

(3) FPLAL WPF:

Expenses allocated to the FPLAL WPF consist of those expenses that are directly attributable to servicing this business, and a further allocation of overhead expenses based on the directly attributable expenses as a proportion of total expenses directly attributed to all products. The overhead charge is therefore assumed to be proportional to the level of effort/expense required to service these policies. The investigation is performed annually with the last review being implemented towards the end of 2012.

Allocations of FPLAL WPF non-investment expenses to With-Profits Benefits Reserves continue in accordance with the expense review of 2010, with expenses increasing at RPI for all business. This review determined expenses based on charges made to the Fund in prior years. This agreement will expire on 31 December 2014, when it is expected that it will be reviewed. Any difference between charges to the with-profits benefits reserves and the total expenses charged to the Fund each year will emerge as profit or loss in that year.

FP WPF:

Allocations of FP non-investment expenses to With-Profits Benefit Reserves for pre demutualisation policies continues in accordance with the agreement reached effective from 1 January 2010, with expenses increasing at RPI plus 1% for all business, excluding ex FPLMA business where expenses increase in line with RPI. This agreement will expire on 31 December 2014, when it is expected that it will be reviewed.

Following FLL organisational restructuring on 28 December 2012, by way of an insurance business transfer scheme pursuant to Part VII of the Financial Services and Markets Act 2000, the FP WPF is governed by a new Court Scheme ("the 2012 Scheme"). The 2012 Scheme requires that the expenses charged to the FP WPF pre demutualisation policies "shall at no time exceed the charges for similar services made by third

Friends Life Limited FP With-Profits Fund
Friends Life Limited FPLAL With-Profits Fund

party companies and shall at no time significantly exceed the costs which the With-Profits Fund would incur if FLL were to undertake such services itself and the only business of FLL were that comprised in the FL FP With-Profits Fund". Therefore any future review will take this consideration into account when determining the level of maintenance expenses to charge the FP WPF.

The expenses charged to the With-Profits Benefits Reserve are equal to those charged to the Fund.

For the pre demutualisation maintenance expenses below, the expenses are shown before netting down for tax relief where appropriate.

For UWP post demutualisation With-Profits policies, the expenses charged to the With-Profits Benefits Reserve are based on the charges specified within the contract.

Type of Policies	Maintenance Expenses in 2012 (£m)	
	FPLAL WPF	FP WPF
Pre demutualisation	0.1	23.0
Post demutualisation	-	4.2

Initial expenses are zero for both funds as the FPLAL WPF is closed to new business and the level of new business in the FP WPF is not material.

- (4) For FPLAL WPF policies, there were no charges for guarantees deducted from the With-Profits Benefits Reserve during 2012 or 2011.

For FP WPF policies, the derivation of charges deducted from the With-Profits Benefits Reserve differ based on whether With-Profits contracts are post demutualisation or pre demutualisation.

For post demutualisation With-Profits contracts, there is a charge for the cost of the guarantee that the UWP unit price will not fall. The charge varies depending on the original term and the bonus series.

FP WPF	Guarantee Charge (£m)	
	2012	2011
Pre demutualisation	-	-
Post demutualisation	0.38	0.04

- (5) No charges have been deducted from the funds for non-insurance risk.
- (6) The ratio of claims paid out on With-Profits insurance contracts to the With-Profits Benefits Reserve held for those claims (including the contribution from miscellaneous surplus) are:

	2012	2011	2010
FPLAL WPF Claims to Reserves Ratio	102%	103%	*
FP WPF Claims to Reserves Ratio	99%	99%	96%

*n/a as realistic balance sheet not produced prior to 31 December 2011

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- (7) The investment return allocated to the With-Profits Benefits Reserve for the period 1 January to 31 December 2012 before deduction of tax and expenses were as follows:

Fund		Investment return
FPLAL WPF		8.7%
FP WPF	Pre Demutualisation	8.6%
	Post Demutualisation	9.8%

There were adjustments to FP WPF UKP Series policies of -0.25% pa, which reflect the terms of the transfer of this company under the scheme of transfer to FPLLO.

5. With-Profits Benefits Reserve – Prospective Method

- (1) (a)(b)&(c) A bonus reserve valuation is used for conventional whole of life policies and conventional policies that have been made paid-up or have altered since inception.

The key economic assumptions used for FP WPF and FPLAL WPF business are:

	FPLAL WPF	FP WPF
	% pa	% pa
Discount rate – Life Business	2.2	2.1
Discount rate – Pensions Business	2.3	2.3
Gross Investment Return	2.3	2.3
Expense Inflation	3.7	3.7

The discount rates above are earned rates derived from the gross investment return. Therefore the discount rates differ from the risk-free rates required by 6(4)(a)(iii).

The same gross investment return is assumed for all asset categories.

(d) Assumed conventional annual bonuses are shown in the table below. Final bonuses were assumed to be a proportion of current final bonuses that are consistent with the rate that would be paid on a similar premium paying policy. Samples of current final bonus rates are shown in the following table:

	Rates applying to attaching bonuses and sum assured					
	Annual Bonus (% pa)	Final Bonus by Term (%)				
		15	20	25	30	35
FPLAL WPF						
Life Closed Fund	1.0	-	84	82	56	57
Former 'New' WP Business fund (Life)	0.8	-	84	97	56	57
Pensions Closed Fund	0.25	-	55	39	18	37
Former 'New' WP Business fund (Pensions)	0.2	-	55	52	18	37

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FP WPF	Rates applying to attaching bonuses (Rates applying to attaching bonuses and sum assured marked with *)					
	Annual Bonus (% pa)	Final Bonus by Term (%)				
		15	20	25	30	35
UKP Life Series	0.1*	-	0	80	61	90
UKP Pension Series – Single Premium	0	0	0	0	0	192
UKP Pension Series – Regular Premium	0	0	0	0	0	49
Main Series endowments	0.25	350	151	95	47	60
Main Series low cost endowments - 03/12/90 - 20/02/91	0.25	-	96**	-	-	-
Main Series regular premium SEDA	0	0	25	40	18	38
Main Series low cost endowments - 21/02/91 - 31/12/91	0.25	-	75**	-	-	-
Main Series single premium SEDA	0	380	82	46	89	150
Main Series low cost endowments - 31/12/91 onwards	0.25	130	62	-	-	-
Main Series life with guaranteed surrender basis	0.25	0	171	141	141	141
Main series low cost endowment increments	0.25*	-	-	-	-	-
LMA Life Series	1*	30*	40*	50*	66*	104*
FP WPF Group Employer's Retirement Schemes	2.25*	-	-	-	-	-
FP WPF Executive Benefit Schemes Single premium	0	55	55	55	55	55
FP WPF Executive Benefit Schemes Regular premium	0	25	25	25	25	25

** This rate applies to a 22 year term policy

(e) The FP WPF base expenses allowed for in the prospective With-Profits Benefit Reserve are those determined in accordance with the expense agreement reached effective 1 January 2010, inflated annually at a rate of RPI +1%. Although expenses can be reviewed in 2014 the calculation assumes that the base expenses remain at the 2010 level and are inflated appropriately.

Fund	2013 Expenses	Regular Premium	Paid-Up	Single Premium
FPLAL WPF	All	£29.74	£29.74	£29.74
FP WPF	Life	£26.78	£18.75	n/a
	Pension (Individual)	£32.15	£24.10	n/a

(f) No lapses or surrenders are assumed within the prospective With-Profits Benefits Reserve calculation.

(2) Not applicable.

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6. Cost of guarantees, options and smoothing

- (1) Not applicable.
- (2) The cost of options and guarantees are valued using a Monte Carlo simulation approach using a stochastic asset model. The outputs from this asset model are input into a dynamic financial analysis model (Prophet ALS) to calculate the value of options and guarantees.
- (a) All products are valued using the Monte Carlo method although there are some adjustments made outside the model.
- (b) (i) Not applicable.
- (ii) All costs have been valued on a grouped basis.
- (iii) Grouping of Data: a set of rules is used to group policies with similar characteristics while aiming to preserve the intrinsic value of the guarantees. The rules used to group policies in 2012 were unchanged from 2011. The table below shows the level of grouping split by product group.

FPLAL WPF		Policies before grouping	Policies after grouping	Compression
Conventional Life	WOL	5,512	212	3.85%
	Savings	3,809	262	6.88%
Conventional Pensions		3,375	577	17.10%
Total		12,696	1,051	8.28%

FP WPF		Policies before grouping	Policies after grouping	Compression
Conventional Life (Pre demut)	WOL	19,264	320	1.66%
	Savings	99,170	946	0.95%
Conventional Pensions (Pre demut)		55,552	578	1.04%
Unit Linked Life (Pre demut)	Bonds	53,802	185	0.34%
	Savings	59,324	566	0.95%
Unit Linked Pensions (Pre demut)		341,935	2,105	0.62%
Unit Linked Life (Post demut)	Bonds	3,006	69	2.30%
	Savings	6,759	257	3.80%
Unit Linked Pensions (Post demut)		24,199	719	2.97%
Total		663,011	5,745	0.87%

Impact of grouping on embedded maturity guarantees

FP WPF: onerous policy groups are identified by comparing the grouped cost of maturity guarantees and the compression ratios. The effect of grouping data on embedded maturity guarantee liabilities has been examined by calculating the liabilities for these onerous policy groups at an individual policy level. This was then compared against the liability calculated using grouped data. An additional reserve of £15.5m is held to cover the difference between the two approaches.

FPLAL WPF: The effect of grouping data on embedded maturity guarantee liabilities has been examined by calculating the liabilities at an individual policy level, and comparing this to the grouped result. An additional reserve of £1.7m is held to cover the difference between the two approaches.

Impact of grouping on financial options

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FP WPF: an implicit adjustment is made within the stochastic model, proportionate to the grouped liabilities for financial options. An additional reserve of £3.4m is held to cover lost value.

Impact of grouping on other liabilities

A calibration process was performed to ensure that liability cashflows and values on a deterministic basis, emerging from the Monte Carlo model using grouped data replicated the cashflows and values obtained from the deterministic model using individual policy data. An additional reserve is not required.

The process segmented the liabilities by business type (CWP and UWP) and then further split by material product lines. The key output from both models, split by segment, was compared over a 40-year projection period. The analysis included comparisons of:

- number of maturities and maturity payments;
- number of surrenders and surrender payments;
- number of deaths and death payments;
- With-Profits Benefits Reserve in-force;
- number of policies in-force; and
- expenses, investment income and in force premium income.

(c) There are no significant approximations used in valuing products.

(3) No changes were made to the modelling of financial options and guarantees during 2012.

(4)(a) (i) The options and guarantees are fully disclosed in the abstract to the valuation report (Appendix 9.4). The tables below show the extent to which the guarantees and options, split by major product groups, are in or out the money at the valuation date.

Split of maturity guarantees		FPLAL WPF (£m)	FP WPF (£m)
Conventional Pension	Intrinsic	3	84
	Time	4	52
Conventional Life	Intrinsic	0	0
	Time	0	22
Unitised With-Profits Pension	Intrinsic	n/a	60
	Time	n/a	109
Unitised With-Profits Life	Intrinsic	n/a	7
	Time	n/a	21
Total	Intrinsic	3	151
	Time	4	204
	Total	7	355

Split of financial options		FPLAL WPF (£m)	FP WPF (£m)
Conventional Pension	Intrinsic	20	563
	Time	0	0
Total		20	563

(ii) The nominal interest rate model used is Barrie and Hibbert's proprietary Libor Market Model Plus (LMM+). This is calibrated exactly to the current risk-free yield curve. The volatilities have been selected to provide a close fit to a range of swaption-implied volatilities.

Equity excess returns are modelled using Barrie and Hibbert's proprietary Stochastic Volatility Jump Diffusion (SVJD) model. This model is calibrated to the full implied volatility surface and so captures the effects of both term and moneyness.

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Property is modelled as a separate asset class. The volatility of property returns is not easily observed within the market. A best estimate initial volatility of 15% pa has been assumed for property total return.

The risk-free rate in the asset model is calibrated to the gilt curve at 31 December 2012. Sample rates are shown in the table in (iii) below.

Sample volatilities are shown below for the main asset classes. These are derived from the asset model output and show the at-the-money implied volatilities for Equities and 10-Year tenor swaptions as well as the excess return volatility for property. The equivalent figures for 31 December 2011 are shown in parentheses ().

Volatility over period (years)	Equity option ATM IV	Property	10-Year Swaption ATM IV
5	24% (29%)	15% (15%)	23% (22%)
10	26% (29%)	15% (15%)	18% (18%)
20	28% (31%)	15% (15%)	16% (15%)

The correlations assumed between the main assets classes are:

	6 Year Bond Return Index	Equity Total Return	RPI	Property Total Return	15 Year Corporate Bond Return Index
6 Year Bond Return Index	1.00	0.12	0.17	0.11	0.40
Equity Total Return	0.12	1.00	0.01	0.33	0.67
RPI	0.17	0.01	1.00	0.09	-0.10
Property Total Return	0.11	0.33	0.09	1.00	0.38
15 Year Corporate Bond Return Index	0.40	0.67	-0.10	0.38	1.00

Risk-free rates are calibrated to the UK Government gilt yield curve, extrapolated to tend to a long term assumption of 3.1% pa at terms greater than 35 years.

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K n	Asset type (all UK assets)	(£)	1		2		3		4		1		2		3		4	
			0.75				1.0				1.5							
			5	15	25	35	5	15	25	35	5	15	25	35				
Strikes																		
p	1.0		789,873	1,125,581	1,689,426	2,407,991	1,053,164	1,500,774	2,252,568	3,210,655	1,579,746	2,251,162	3,378,852	4,815,983				
	0.8		781,766	1,038,708	1,439,177	1,912,837	1,042,354	1,384,943	1,918,902	2,550,449	1,563,532	2,077,415	2,878,353	3,825,673				
r	Annualised compound equivalent of the risk free rate assumed for the period		0.90%	2.59%	3.37%	3.59%	*	*	*	*	*	*	*	*				
1	Risk-free zero coupon bond		£956,037	£681,782	£437,006	£291,041	*	*	*	*	*	*	*	*				
2	FTSE All Share Index (p=1)		£110,862	£252,976	£348,066	£427,985	£214,173	£399,600	£519,930	£617,111	£544,114	£749,454	£904,993	£1,023,376				
3	FTSE All Share Index (p=0.8)		£108,563	£223,997	£276,473	£312,177	£209,767	£354,733	£414,130	£452,987	£533,269	£667,617	£725,366	£756,692				
4	Property (p=1)		£31,270	£104,111	£180,346	£258,570	£133,846	£236,184	£333,350	£426,375	£521,430	£604,290	£709,590	£815,765				
5	Property (p=0.8)		£29,627	£81,624	£123,444	£164,575	£128,930	£193,098	£237,528	£279,963	£509,172	£514,681	£530,425	£556,360				
6	15 year risk-free ZCBs (p=1)		£8,829	£18,731	£19,973	£39,448	£80,021	£98,801	£106,898	£145,870	£500,359	£497,300	£505,027	£529,559				
7	15 year risk-free ZCBs (p=0.8)		£8,207	£11,459	£6,363	£10,362	£75,530	£66,276	£44,028	£49,443	£487,150	£393,290	£299,431	£260,692				
8	15 year corporate bonds (p=1)		£8,950	£28,285	£59,534	£108,296	£86,653	£126,536	£177,541	£242,807	£506,129	£526,973	£563,665	£624,062				
9	15 year corporate bonds (p=0.8)		£8,169	£17,613	£29,073	£49,472	£81,961	£88,546	£98,160	£123,510	£493,010	£426,186	£370,655	£364,040				
10	Portfolio of 65% equity and 35% property (p=1)		£68,408	£172,227	£254,231	£329,979	£163,678	£305,169	£409,394	£503,491	£518,751	£650,467	£777,454	£891,825				
11	Portfolio of 65% equity and 35% property (p=0.8)		£66,509	£147,350	£192,512	£227,969	£159,364	£263,089	£313,220	£352,510	£506,869	£567,722	£602,370	£634,532				
12	Portfolio of 65% equity and 35% 15 year risk-free ZCBs (p=1)		£58,544	£148,342	£218,707	£283,272	£148,302	£271,530	£363,435	£446,199	£508,484	£613,216	£720,272	£821,267				
13	Portfolio of 65% equity and 35% 15 year risk-free ZCBs (p=0.8)		£56,838	£126,172	£162,763	£191,465	£144,174	£231,675	£272,959	£304,095	£496,144	£529,346	£549,437	£571,747				
14	Portfolio of 40% equity, 15% property, 22.5% 15 year risk-free ZCBs and 22.5% 15 year corporate bonds (p=1)		£34,281	£95,538	£153,836	£214,191	£117,478	£208,273	£287,235	£366,046	£504,929	£560,769	£643,793	£736,435				
15	Portfolio of 40% equity, 15% property, 22.5% 15 year risk-free ZCBs and 22.5% 15 year corporate bonds (p=0.8)		£32,933	£77,221	£106,401	£134,083	£113,277	£170,537	£202,306	£233,072	£492,015	£471,528	£470,046	£488,268				
L			15				20				25							
16	Receiver swaptions		17.68%	10.68%	8.93%	7.81%	19.43%	13.03%	11.18%	9.50%	21.06%	15.19%	13.08%	10.74%				

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(iii) See table on previous page.

(iv) The average initial equity and property rental yields are:

Initial UK equity yield	= 3.72% pa
Initial property rental yield	= 4.30% pa
Initial EUR equity yield	= 3.17% pa

(v)

Asset type (EUR assets)

K
n

1	2	3	4
1			
5	15	25	35

Strikes

p	1.0		1,030,881.87	1,411,678.09	1,954,973.45	2,741,312.68
r	Annualised compound equivalent of the risk free rate assumed for the period		0.61%	2.33%	2.72%	2.92%
1	Risk-free zero coupon bond		970,043	708,376	511,515	364,788
2	FTSE EUR Index (p=1)		213,654.71	368,506.72	503,894.73	604,720.41

The above table shows the value for non-UK assets of the equity options in the domestic currency. All non-UK assets are assumed to behave as in the Euro (EUR) economy.

For the purposes of calculating the cost of guarantees and options in the liability model this is then converted into £ GBP and as a result the expected return will be the same as in the UK currency. The value of EUR options after conversion into GBP will not equal that given in the UK table for a range of reasons including different base economy implied volatilities, exchange rate volatilities, diversification benefits and sampling error from using different sets of random numbers. No attempt has been made to quantify these second-order effects.

(vi) There are no market instruments available that can be directly compared against the policyholder embedded maturity guarantees and financial option liabilities. The economic scenario generator is calibrated against actual market instruments held by the fund to hedge these liabilities.

The tables below show term structure and strikes of the guarantees and options split by significant product groups.

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Split of guarantees (£m) by outstanding term	Years	1-5	6-10	11-15	16-20	21-25	26-30	31-35	36-40	Total
FPLAL WPF										
Conventional Pension	Intrinsic	1	1	1						3
	Time		1	2	1					4
Total		1	2	3	1					7
FP WPF										
Conventional Pension	Intrinsic	25	33	18	5	2	1			84
	Time	12	17	13	7	2	1			52
Conventional Life	Intrinsic									
	Time	11	7	2	1				1	22
Unitised With-Profits Pension	Intrinsic	2	16	23	14	4	1			60
	Time	16	29	29	25	8	2			109
Unitised With-Profits Life	Intrinsic			1	2	1	1		2	7
	Time	7	11	2	1					21
Total	Intrinsic	27	49	42	21	7	3		2	151
	Time	46	64	46	34	10	3		1	204
	Total	73	113	88	55	17	6		3	355

Split of financial options (£m) by outstanding term	Years	1-5	6-10	11-15	16-20	21-25	26-30	31-35	36-40	Total
FPLAL WPF										
Conventional Pension	Intrinsic	7	5	4	3	1				20
	Time									0
Total		7	5	4	3	1				20
FP WPF										
Conventional Pension	Intrinsic	302	158	69	25	7	2			563
	Time									0
Total	Intrinsic	302	158	69	25	7	2			563
	Time									
	Total	302	158	69	25	7	2			563

(vii) The economic scenario generator produces deflators in order to value cash flows. A check is performed to ensure all future cashflows from an asset deflate to the current market value of the asset.

(viii) The liabilities are calculated using 2000 simulations. The Barrie & Hibbert file has undergone variance reduction by pairing simulations. This ensures the statistical means correspond closely to their theoretical values and minimises the number of simulations required to achieve statistical accuracy. An analysis of statistical error shows that the standard error for liabilities converges at 2000 simulations.

(b) No costs of options, guarantees or smoothing have been valued using market consistent cost of hedging.

(c) No costs of options, guarantees or smoothing have been valued using a series of deterministic projections.

(5)(a) The decision rules that the model will follow in various economic scenarios have been subject to Board ratification.

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Dynamic bonus decision rule

For each simulation, the model projects the guaranteed benefits allowing for future regular and final bonuses.

A rule has been built into the model that aims to pay a percentage of the final maturity benefit as final bonus. The final bonus as a percentage of sum assured and regular bonus at maturity is targeted to be equal to 2% * policy term. For example, a 25 year policy targets final bonus of 50% of sum assured and regular bonus (and therefore targets final bonus as being one third of the maturity payout).

For each future time period, the model then calculates, for each bonus series, the regular (or unitised) bonus rate such that the final bonus targets can be met. This may result in no regular bonus being declared (subject to minimum bonus rates where they apply) in certain time periods and simulations.

Certain other rules also apply to the regular bonus rates for each bonus series:

- At the start of the first projection year, the initial bonus rates reflect the actual rates.
- Rates are subject to a minimum change of 0.25% pa
- Increases or decreases to rates are limited to 1.5% pa
- Regular bonus rates will not fall below the minimum contractual rates for each bonus series, as this rule overrides the others.

The Principles and Practices of Financial Management (PPFM) gives greater flexibility around reversionary bonus decision rules than the model allows.

The actual benefit at maturity depends on a policy's With-Profits Benefits Reserve at the time and the extent of any guaranteed benefits. The final bonus rule described above is only used for the purpose of determining regular bonus rates and the consequent impact on the guaranteed benefit.

In stress scenarios the model will follow the same dynamic rule in deciding the bonus policy.

Future equity backing ratio rule

The model assumes that the equity-backing ratio will move to a long-term assumption two months after the valuation date.

(b) The modelled proportion of equity and property backing asset shares at the valuation date and in all subsequent future years are as follows:

FPLAL WPF - Asset Type	At valuation date	Long-Term
UK Equity	26.43%	26.38%
Overseas Equity	13.29%	13.62%
Property	10.48%	10.00%
Total	50.20%	50.00%

FP WPF - Asset Type	At valuation date	Long-Term
UK Equity	19.22%	19.27%
Overseas Equity	17.85%	17.73%
Property	10.27%	8.00%
Total	47.34%	45.00%

The modelled future annual bonus rates for accumulating With-Profits business are shown overleaf. For FPLAL WPF, there is no accumulating With-Profits business, therefore no annual bonus rate information is shown.

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For FP WPF, the best estimates of future compound annual bonus rates for UWP business are:

Without adjustment to yield curve			
Product	As at 31 December 2012	As at 31 December 2017	As at 31 December 2022
Pensions Regular Premium - Series 1	4.00%	4.00%	4.01%
Pensions Regular Premium - Other	2.00%	0.52%	1.26%
Pensions Single Premium - Series 1	4.00%	4.00%	4.02%
Pensions Single Premium - Other	2.00%	1.16%	1.86%
OLAB Single Premium	1.50%	1.10%	2.10%
Life Regular Premium - Series 1	3.00%	3.00%	3.01%
Life Regular premium - Other	1.25%	0.34%	0.97%
Life Single Premium	1.25%	0.63%	1.58%

Increase in yield curve of 17.5% of the annualised 15 year gilt yield			
Product	As at 31 December 2012	As at 31 December 2017	As at 31 December 2022
Pensions Regular Premium - Series 1	4.00%	4.00%	4.01%
Pensions Regular Premium - Other	2.00%	0.69%	1.52%
Pensions Single Premium - Series 1	4.00%	4.00%	4.04%
Pensions Single Premium - Other	2.00%	1.36%	2.11%
OLAB Single Premium	1.50%	1.36%	2.40%
Life Regular Premium - Series 1	3.00%	3.00%	3.01%
Life Regular premium - Other	1.25%	0.44%	1.15%
Life Single Premium	1.25%	0.79%	1.80%

Decrease in yield curve of 17.5% of the annualised 15 year gilt yield			
Product	As at 31 December 2012	As at 31 December 2017	As at 31 December 2022
Pensions Regular Premium - Series 1	4.00%	4.00%	4.01%
Pensions Regular Premium - Other	2.00%	0.38%	1.03%
Pensions Single Premium - Series 1	4.00%	4.00%	4.01%
Pensions Single Premium - Other	2.00%	0.97%	1.62%
OLAB Single Premium	1.50%	0.87%	1.82%
Life Regular Premium - Series 1	3.00%	3.00%	3.01%
Life Regular premium - Other	1.25%	0.25%	0.82%
Life Single Premium	1.25%	0.50%	1.37%

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- (6) The assumed rates of mortality, morbidity, lapse¹, surrender, conversion to paid-up, early retirement and the proportion of guaranteed annuities that are sacrificed in order to receive tax-free cash, are reviewed annually. They have been derived from analyses of the Group's operating experience and industry studies.

Maintenance expenses are assumed to increase in the future at a rate of 1% pa in excess of the assumed long-term rate of RPI. Allowance for commission is based on the Group's recent experience.

The valuation makes no allowance for the payment of future premiums on recurring single premium contracts (except for FP WPF stakeholder style pensions in which case, if a regular pattern in the receipt of premiums is established, the business is treated as regular premium business) or for non-contractual increments on existing policies.

A summary of the surrender and paid-up assumptions used to determine the costs in (4) (a), (b) and (c) is set out below:

		Average surrender/paid-up rate for policy years (% pa)			
		1-5	6-10	11-15	16-20
FP WPF					
CWP savings endowment	surrender	7.1	5.8	3.0	3.0
CWP target cash endowment	surrender	8.7	8.8	4.0	4.0
UWP savings endowment	surrender	13.7	9.4	6.5	6.5
UWP target cash endowment	surrender	12.1	13.2	10.0	10.0
UWP bond	surrender	2.9	17.8	9.0	9.0
UWP bond	automatic withdrawals	2.6	2.6	2.6	2.6
CWP pension regular premium	PUP ²	0.0	0.0	0.0	0.0
CWP pension regular premium	surrender	1.0	1.0	1.0	4.8
CWP pension single premium	surrender	1.5	1.5	1.5	2.8
UWP individual pension regular premium	PUP	0.0	0.0	0.0	0.0
UWP individual pension regular premium	surrender	2.3	2.8	3.9	8.7
UWP individual pension single premium	surrender	2.6	5.0	5.0	8.4

The average surrender/paid up rates for policy years 16-20 include an allowance for early retirement rates.

¹ No allowance is made for partial withdrawals in the model

² PUP rates are set to zero as the model does not allow for conversions to paid-up. Instead an out of the model adjustment is made to the cost of guarantees for conversions to paid-up.

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The assumed take-up rates for guaranteed annuity options are as follows:

Product	GAR take up rate
UKP Executive Conventional Pensions	73%
FP and UKP Individual Conventional Pensions	75%
FP Executive Conventional Pensions	82%
Group Conventional Money Purchase	78%
FPLAL WPF Individual Pensions	75%

The annuitant mortality assumptions used in the calculation of the value of financial options are reflected in the table of life expectancies below:

Current Age	Expectation at age	31 December 2012	
		Male	Female
45	65	26.1	28.1
55	65	25.2	27.1
65	65	24.3	26.2
75	75	15.1	16.6

- (7) An implicit allowance has been made for dynamic policyholder action in not exercising the guaranteed annuity option when the current market annuity rate is higher than the guaranteed rate.

7. **Financing costs**

FPLAL WPF: Not applicable

FP WPF: Contingent loan

- Under the 2012 Scheme, capital support is provided to the FP WPF by the Non-Profit Fund. The minimum amount of capital support that the Non-Profit Fund must provide, if required (the 'FL FP With-Profits Support Account'), is currently £65.6m. This amount reduces to nil by 2031³.
- Capital support is provided by means of contingent loans where repayment is contingent on the FP WPF having sufficient assets to meet regulatory solvency needs and the reasonable expectations of policyholders.
- At 31 December 2012 the balance of the contingent loan lent by the Non-Profit Fund to the FP WPF was £58.8m. Therefore a further contingent loan of £6.8m is not advanced at present.

A waiver in respect of the contingent loan was granted with effect from 28 December 2012. The waiver permits the inclusion on Form 19 Line 27 of the £6.8m of Capital Support Account assets that have not been advanced at the valuation date, but which are available if necessary.

- This arrangement provides the FP WPF with up to £65.6m of assets in the event that it is required to meet guarantees and discretionary benefits of policyholders. In addition, the investment and bonus policy of the Fund assumes that the FL FP With-Profits Support Account forms part of the Fund. However, the Fund is otherwise managed with the intention that the contingent loan will be repaid.

³ The capital support reduces by 10% at the end of each year

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8. Other Long-Term Insurance Liabilities

FPLAL WPF: The liability in line 47 of Form 19 relates to a provision of £1.4m for With-Profits policies where maturity has been deferred but the maturity value is guaranteed.

FP WPF: There are no liabilities shown at line 46 of Form 19.

The liabilities shown at line 47 of Form 19 include the current prospective value of the various provisions that were set up on demutualisation to pay for the shareholders' interest in the With-Profits Fund (created to avoid the benefit expectations of the pre demutualisation policies being affected by demutualisation), together with provisions set up since demutualisation:

Line 47 Any other long-term insurance liabilities (£m)	
CWP provision	59
UWP provision	91
Other	93
Total	243

CWP provision: this shows the prospective value of the future transfers to shareholders in respect of 1/9th of the cost of future bonuses.

UWP provision: this is 100% of the value of charges less expenses for pre demutualisation UWP business. Line 22 (Present value of future profits on non-profit insurance contracts) contains 40% of this amount as an asset. The net liability is 60% of this amount, which is the entitlement of shareholders in respect of UWP policies under the 2012 Scheme.

'Other' includes:

- A provision for additional statutory liabilities relating to With-Profits contracts (£48m).
- An operational risk provision (£19m).
- A provision for With-Profits policies where maturity has been deferred but the maturity value is guaranteed (£14m).
- Mortgage endowment provision (£6m); this represents an actuarial provision in respect of future claims.
- A provision for tax on the assets backing the cost of guarantees and working capital (£5m).
- Various other small provisions (£1m).

9. Realistic Current Liabilities

The realistic current liabilities comprise:

Line 51 Realistic current liabilities	FPLAL WPF	FP WPF
	£m	£m
Regulatory current liabilities	13	589
Provisions for Shareholder Tax	0	39
Total	13	628

Provisions for Shareholder Tax: this represents the tax that will be payable on future transfers to the Non-Profit Fund and the Shareholder Fund.

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10. Risk Capital Margin

(a) The Risk Capital Margin is £3m for FPLAL WPF and £184m for FP WPF. The most adverse scenarios are:

- (i) A decrease of 12.5% in property holdings and a decrease of 20% in equity holdings.
- (ii) FPLAL WPF: Yields rise by 41 basis points, equivalent to the 15 year annualised gilt yield rising from 2.32% pa to 2.73% pa

FP WPF: Yields fall by 41 basis points, equivalent to the 15 year annualised gilt yield falling from 2.32% pa to 1.91% pa

- (iii) FPLAL WPF: The weighted average change in spread on corporate bonds backing the With-Profits business is 144 basis points which reduces the market value of these bonds by 7.83%. For non-profit business in the FPLAL WPF no credit stress is applied.

FP WPF: The weighted average change in spread on corporate bonds backing the With-Profits business is 106 basis points which reduces the market value of these bonds by 7.05%. For non-profit business in the FP WPF the equivalent change in spreads was 114 basis points leading to a reduction in the market value of corporate bonds of 7.90%.

A similar level of credit stress is applied to debts, reinsurance and derivative positions in both funds. There are no non-reinsurance financing arrangements.

- (iv) Lapse and early retirement rates reduce from current levels by 32.5%, implying that a greater number of maturity guarantees and options are exercised. The realistic liability has increased by 0.20% for FPLAL WPF and 1.53% for FP WPF under this stress.
- (v) Not applicable
- (b) No additional management actions have been assumed.
- (c) (i) No shareholder support, other than the FP WPF contingent loans, is required at 31 December 2012. The funds are fully covering the risk capital margin without the need for additional shareholder support. The RCM is assumed to be backed by approved fixed interest securities within the fund.
- (ii) Not applicable

11. Tax

- (i)&(ii) For FPLAL WPF business, the modelling applies future tax to the With-Profits Benefits Reserve and future policy related liabilities in accordance with the 2012 Scheme, with life and pension business taxed on a mutual basis.

For FP WPF business, the modelling applies future tax to the With-Profits Benefits Reserve and future policy related liabilities in accordance with the 2012 Scheme, with life business taxed on an 'I-E' basis and pensions business taxed on profits. For life business an estimate for tax on assets backing the future costs of contractual guarantees (line 41), and any additional tax on the working capital, is calculated using an approximate method.

- (iii) Realistic current liabilities allow for any current tax liability of the fund.

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12. Derivatives

For FPLAL WPF, futures are held for efficient portfolio management purposes:

- Long futures of £6.0m notional. These futures are 3 month positions on the Eurostoxx, S&P and Topix indices at levels of 2615, 1420, and 862 respectively.
- Short futures of £5.3m notional at a level of 5848 in FTSE 100.

In addition, the fund entered into some interest rate swaps during 2012 to hedge changes in yields. The total market value of these was -£0.8m, which splits into receiver swaps (-£0.2m) and payer swaps (-£0.6m). Receiver swaps have a notional value of £25.0m and are receiving a fixed rate of 2.9% and payer swaps have a notional value of £17.0m and are paying a fixed rate of 2.2%.

For FP WPF, the major derivative positions are:

- Short futures backing asset shares of £9.7m notional at a level of 5848 in FTSE 100.
- Short overseas futures of £82.5m notional. Of these, £24.4m notional are to match the equity component of maturity guarantees and they are 3 month positions on the Eurostoxx, S&P and Topix index positions with levels of 2615, 1420 and 862 respectively.
- A long FTSE 100 futures position of £162.5m notional to match the equity component of maturity guarantees.
- Overseas long positions of £118.7m notional backing asset shares.
- FTSE 100 put options with a market value of £85.7m held to match the strike and term of the equity component of maturity guarantees. The fund currently holds 105,000 equity capital return put options with strikes ranging from 3,988 to 6,647 and 17,000 equity total return put options with strikes ranging from 2,000 to 8,000.
- Swaptions held to match financial options with a market value of £3.8m. These swaptions have a notional value of £784m and strikes ranging from 7.9% to 11.1%.
- Interest rate swaps held to match financial options with a market value of £80.2m. This is split into receiver swaps (£161.2m) and payer swaps (-£81.0m). Receiver swaps have a notional value of £510m and strikes ranging from 2.8% to 5.0%. Payer swaps have a notional value of £770m and strikes ranging from 1.0% to 5.1%.
- Inflation swaps are used as a tool to hedge inflation risk. These swaps have a notional value of £164.6m and a market value of -£1m.

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13. Analysis of Change in Working Capital

The following shows an approximate analysis of change in working capital between 31 December 2011 and 31 December 2012 for FPLAL WPF.

	FPLAL WPF
	£m
Opening position at start of year	3
Modelling changes and opening adjustments	1
Expected investment return on opening working capital	0
Mismatch profits on assets backing future policy related liabilities	1
Assumption changes	
Economic	1
Non-economic	0
Other variances	
Economic	(5)
Non-economic	(1)
Changes in other liabilities of lines 47 and 51 of Form 19	0
Other	0
Closing position at end of year	0
Change in planned enhancements to future payouts	3
Reduction in support arrangement assets	0
Closing position at end of year as per line 68 of Form 19	3

Friends Life Limited FP With-Profits Fund
Friends Life Limited FPLAL With-Profits Fund

The following shows an approximate analysis of change in working capital between 31 December 2011 and 31 December 2012 for FP WPF.

	FP WPF
	£m
Opening position at start of year	204
Modelling changes and opening adjustments	(22)
Expected investment return on opening working capital	1
Mismatch profits on assets backing future policy related liabilities	41
Assumption changes	
Economic	9
Non-economic	(37)
Other variances	
Economic	77
Non-economic	(2)
Changes in other liabilities of lines 47 and 51 of Form 19	(18)
Other	(30)
Closing position at end of year	222
Change in planned enhancements to future payouts	(19)
Reduction in support arrangement assets	(12)
Closing position at end of year as per line 68 of Form 19	191

14. Optional disclosure

None.

Friends Life Limited FLC New With-Profits Fund Friends Life Limited FLC Old With-Profits Fund

1. Introduction

- (1) The actuarial investigation relates to a valuation date of 31 December 2012.
- (2) The valuation date of the previous valuation was 31 December 2011.
- (3) An interim valuation was carried out on 30 June 2012 and at 27 December 2012 immediately prior to the Part VII Transfer to FLL.

2. Assets

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

This financial year	
Investment return	Risk-free rate calibrated to the gilt yield curve. For fixed interest assets matching annuities in payment, a +50 basis points liquidity premium has been added to the risk-free rate
Expense inflation	Price inflation +1% p.a., where the price inflation curve is calibrated to RPI
Discount rate	For profits emerging on non-profit business: risk-free rate calibrated to the gilt yield curve + 150 basis points p.a. additional risk adjustment to reflect risk and uncertainty + (for annuity business only) 50 basis points p.a. liquidity premium. For release of long-term insurance capital component: risk-free rate calibrated to the gilt yield curve + (for annuity business only) 50 basis points p.a. liquidity premium.

Preceding financial year	
Investment return	Risk-free rate calibrated to the gilt yield curve. For fixed interest assets matching annuities in payment, a +70 basis points liquidity premium has been added to the risk-free rate
Expense inflation	Price inflation +1% p.a., where the price inflation curve is calibrated to RPI
Discount rate	For profits emerging on non-profit business: risk-free rate calibrated to the gilt yield curve + 150 basis points p.a. additional risk adjustment to reflect risk and uncertainty + (for annuity business only) 70 basis points p.a. liquidity premium. For release of long-term insurance capital component: risk-free rate calibrated to the gilt yield curve + (for annuity business only) 70 basis points p.a. liquidity premium.

Note: 1 basis point = 0.01%

- (2) No amounts have been included in the realistic value of assets under INSPRU 1.3.33R(2).
- (3) No business is written outside the With Profits fund
- (4) A single set of economic assumptions has been used in valuing the non-profit contracts

3. With Profits Benefits Reserve Liabilities

Friends Life Limited FLC New With-Profits Fund
Friends Life Limited FLC Old With-Profits Fund

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

	NWPF		OWPF	
	With Profits Benefit Reserve (£m)	Future policy related liabilities (£m)	With Profits Benefit Reserve (£m)	Future policy related liabilities (£m)
Retrospective method (asset share)				
UWP Bonds (no MVR-free date)	835	343	155	67
UWP Regular Premium Life	411	206	94	52
UWP Pensions (no minimum bonuses or GARs)	552	183	157	62
UWP Pensions with minimum bonuses but no GARs	598	296	166	91
UWP Pensions with minimum bonuses and GARs	223	229	74	77
Conventional Life	685	318	219	114
Conventional Pensions	37	82	11	32
ISA	10	0	2	0
Other	0	0	0	0
Total	3,351	1,657	878	495

- (2) The total amounts of the With Profit Benefits Reserve in the table above correspond to the amounts shown in Form 19, Line 31. The future policy related liabilities in the table above reconcile to Form 19, Line 49 as shown below. For details of the reconciling items, refer to Sections 8 and 11 of this Report.

£m	NWPF	OWPF
Future Policy Related Liabilities, from above table	1,657	495
Reorganisation Bonus	109	16
Tax and expense on assets in excess of asset share and other provisions.	26	7
Expense overrun provision	25	8
Future Policy Related Liabilities, Form 19, Line 49	1,817	526

4. With Profits Benefits Reserve – Retrospective method

- (1) In all cases where a retrospective method (i.e. asset share) is used, this is calculated on a policy by policy basis
- (2) No significant changes have been made to the valuation method since the previous valuation.
- (3) The basis of allocating expenses to the With Profits funds in the valuation is given below.

Fees are paid to Friends Life Services Limited (formerly AXA Sun Life Services Limited) (FLS) for management, administration, marketing and sales services, as defined in the Service Agreements between FLL and FLS. These fees are charged to asset shares and are adjusted annually as at 1 January, again as defined in the Service Agreements. The amounts of such fees, split between initial and maintenance expenses, for the full year 2012 are shown below.

Fees paid to the investment managers for the same period are also shown below. Those in respect of with profits policies are charged to asset shares, as a percentage of the asset share representing the average fee level including an allowance for performance fees.

Friends Life Limited FLC New With-Profits Fund Friends Life Limited FLC Old With-Profits Fund

Some expenses met directly by the fund, such as regulatory fees, are charged to asset shares. These are apportioned between individual policies using a method that is believed to be equitable.

Also shown below are the expenses that have been charged to the With Profits fund during 2012, but which are not charged to asset shares. These are mainly initial and renewal fees in respect of non-profit business, investment management fees in respect of non-profit business and other assets in excess of asset shares, plus certain exceptional costs.

Further details of the basis of allocating expenses to the With Profits fund are given in the Principles and Practices of Financial Management (PPFM).

The table below shows the expenses incurred by the fund in 2012:

£m	NWPF	OWPF
Initial fees chargeable to asset shares	0.6	0.1
Maintenance fees chargeable to asset shares	10.2	1.3
Investment fees chargeable to asset shares	15.3	2.3
Other expenses chargeable to asset shares	0.1	0.0
Expenses on non-profit contracts	2.7	0.4
Other expenses not chargeable to asset shares	12.7	2.6

- (4) During 2012, no significant charges for guarantees or cost of capital have been made to asset shares. As indicated in the PPFM, this practice is reviewed periodically and is subject to change.
- (5) No charges have been deducted from the funds for non-insurance risk.
- (6) The ratio of claims paid to underlying asset shares for with profits insurance contracts over the three year period are:

Year	Average Payout ratio
2012	122%
2011	117%
2010	113%

- (7) For the full year 2012, the investment return before tax and expenses for both New and Old With Profits Funds was 12.11%

For most UWP policies, the gross return applied to asset shares was 12.39% (E-Fund return). For such policies approaching the end of their policy term, a different rate was applied. This varied from 12.39% (E-Fund return) to 10.79% (F-Fund return) depending on product type and unexpired term. The return applied to conventional with profits business was 12.04% (Conventional return).

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

5. With Profits Benefits Reserve – Prospective method

Not Applicable

Friends Life Limited FLC New With-Profits Fund
Friends Life Limited FLC Old With-Profits Fund

6. Costs of guarantees, options and smoothing

- (1) Not applicable.
- (2) For all products where the valuation of guarantees, options and smoothing is carried out using a full stochastic model, grouped data is used. Contracts are grouped according to their major product features, term gone and term to go, policyholder age and the extent to which guarantees are in or out of the money.

	Policies	Experience Model Points
NWPF	351,188	4434
OWPF	72,443	1589

The results from the stochastic model using grouped data are validated against the sum of the results of a number of stochastic runs, each using parts of the individual data. An approximate upward adjustment has been made to the cost of guarantees and smoothing to allow for the estimated grouping error.

- (3) Changes have been made to the liability projection model used as part of Friends Life's move towards Solvency II compliance.

The aggregate effect of these changes is to increase realistic assets by £24m and increase realistic liabilities by £28m.

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

- The guarantee that no market value reduction will be applied on maturity or on death. The extent to which these options are in the money at the valuation date depends on the ratio of guaranteed benefits to asset share for each policy at that date, and varies both across and within lines of business. On average, the ratio of the present value of guaranteed benefits to asset share is around 80% for policies with around 5 years and less to maturity, increasing to 90% for policies with around 10 years to maturity, and reducing to 80% again for policies with around 20 years and more to go.
- The guarantee that no market value reduction will be applied on regular income withdrawals that are within the limits defined in the contract terms.
- Guaranteed annuity rates (GARs), which offer an annuity calculated on guaranteed terms on normal and early retirement. These options are currently in the money.
- The cost of smoothing. This reflects a combination of short-term and long-term effects: in the short term the difference between payouts and the sustainable level (glidepath); and in the long term the under or overpayment of asset share.

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

- (ii) The nominal interest rate model used is Barrie and Hibbert's proprietary Libor Market Model Plus (LMM+). This is calibrated exactly to the current risk-free yield curve. The volatilities have been selected to provide a close fit to a range of swaption-implied volatilities.

Friends Life Limited FLC New With-Profits Fund Friends Life Limited FLC Old With-Profits Fund

Equity excess returns are modelled using is Barrie and Hibbert's proprietary Stochastic Volatility Jump Diffusion (SVJD) model. This model is calibrated to the full implied volatility surface and so captures the effects of both term and moneyness.

Property is modelled as a separate asset class. The volatility of property returns is not easily observed within the market. A best estimate initial volatility of 15% pa has been assumed for property total return.

The risk-free rate in the asset model is calibrated to the gilt curve at 31 December 2012. Sample rates are shown in the table in (iii) below.

Sample volatilities are shown below for the main asset classes. These are derived from the asset model output and show the at-the-money implied volatilities for Equities and 10-Year tenor Swaptions as well as the excess return volatility for Property. The equivalent figures for 31 December 2011 are shown in parentheses ().

Volatility over period (years)	Equity option ATM IV	Property	10-Year Swaption ATM IV
5	24% (29%)	15% (15%)	23% (22%)
10	26% (29%)	15% (15%)	18% (18%)
20	28% (31%)	15% (15%)	16% (15%)

The correlations assumed between the main assets classes are:

Correlation Between:	6 Year Bond Return Index	Equity Total Return	RPI	Property Total Return	15 Year Corporate Bond Return Index
6 Year Bond Return Index	1.00	0.12	0.17	0.11	0.46
Equity Total Return	0.12	1.00	0.01	0.33	0.22
RPI	0.17	0.01	1.00	0.09	-0.18
Property Total Return	0.11	0.33	0.09	1.00	0.05
15 Year Corporate Bond Return Index	0.46	0.22	-0.18	0.05	1.00

(iii) The table below shows the annualised compound equivalent of the risk-free rate assumed for each duration (n) and values derived from the asset model of specified assets/options.

Row 1 shows the value of cash payments of £1,000,000 due n years after the valuation date.

Rows 2 to 15 inclusive show, for the appropriate asset classes, the value of a put option on a portfolio worth £1,000,000 on the valuation date exercisable n years after the valuation date, with strike price of $K * £1,000,000 * (1+r*p)^n$.

Row 16 shows the value of sterling receiver swaptions with a strike of 5% exercisable n years after the valuation date with swap durations on exercise of L years, expressed as a percentage of nominal.

Friends Life Limited FLC New With-Profits Fund
Friends Life Limited FLC Old With-Profits Fund

	K	0.75			
<i>n</i>	Duration (n)	5	15	25	35
<i>r</i>	<i>Annualised compound equivalent of the risk-free rate assumed for the period (r)</i>	0.90%	2.59%	3.37%	3.59%
1	<i>Risk-Free Zero Coupon Bond</i>	£956,037	£681,782	£437,006	£291,041
2	<i>FTSE All Share Index (p=1)</i>	£110,862	£252,976	£348,066	£427,985
3	<i>FTSE All Share Index (p=0.8)</i>	£108,563	£223,997	£276,473	£312,177
4	<i>Property (p=1)</i>	£31,270	£104,111	£180,346	£258,570
5	<i>Property (p=0.8)</i>	£29,627	£81,624	£123,444	£164,575
6	<i>15yr Risk-Free ZCBs (p=1)</i>	£8,829	£18,731	£19,973	£39,448
7	<i>15yr Risk-Free ZCBs (p=0.8)</i>	£8,207	£11,459	£6,363	£10,362
8	<i>15yr Corporate Bonds (p=1)</i>	£13,452	£28,527	£35,291	£55,642
9	<i>15yr Corporate Bonds (p=0.8)</i>	£12,587	£18,884	£14,486	£18,534
10	<i>Portfolio 1 (p=1)</i>	£68,408	£172,227	£254,231	£329,979
11	<i>Portfolio 1 (p=0.8)</i>	£66,509	£147,350	£192,512	£227,969
12	<i>Portfolio 2 (p=1)</i>	£58,544	£148,342	£218,707	£283,272
13	<i>Portfolio 2 (p=0.8)</i>	£56,838	£126,172	£162,763	£191,465
14	<i>Portfolio 3 (p=1)</i>	£30,583	£85,472	£137,530	£195,490
15	<i>Portfolio 3 (p=0.8)</i>	£29,332	£68,503	£92,856	£119,416
	<i>Sterling Receiver Swaptions</i>	<i>L = 15</i>			
16		17.68%	10.68%	8.93%	7.81%

	K	1.00			
<i>n</i>	Duration (n)	5	15	25	35
<i>r</i>	<i>Annualised compound equivalent of the risk-free rate assumed for the period (r)</i>	x	x	x	x
1	<i>Risk-Free Zero Coupon Bond</i>	x	x	x	x
2	<i>FTSE All Share Index (p=1)</i>	£214,173	£399,600	£519,930	£617,111
3	<i>FTSE All Share Index (p=0.8)</i>	£209,767	£354,733	£414,130	£452,987
4	<i>Property (p=1)</i>	£133,846	£236,184	£333,350	£426,375
5	<i>Property (p=0.8)</i>	£128,930	£193,098	£237,528	£279,963
6	<i>15yr Risk-Free ZCBs (p=1)</i>	£80,021	£98,801	£106,898	£145,870
7	<i>15yr Risk-Free ZCBs (p=0.8)</i>	£75,530	£66,276	£44,028	£49,443
8	<i>15yr Corporate Bonds (p=1)</i>	£91,532	£117,006	£131,344	£165,999
9	<i>15yr Corporate Bonds (p=0.8)</i>	£86,894	£82,852	£64,638	£66,511
10	<i>Portfolio 1 (p=1)</i>	£163,678	£305,169	£409,394	£503,491
11	<i>Portfolio 1 (p=0.8)</i>	£159,364	£263,089	£313,220	£352,510
12	<i>Portfolio 2 (p=1)</i>	£148,302	£271,530	£363,435	£446,199
13	<i>Portfolio 2 (p=0.8)</i>	£144,174	£231,675	£272,959	£304,095
14	<i>Portfolio 3 (p=1)</i>	£110,662	£193,815	£265,708	£340,614
15	<i>Portfolio 3 (p=0.8)</i>	£106,471	£156,825	£184,111	£213,380
	<i>Sterling Receiver Swaptions</i>	<i>L = 20</i>			
16		19.43%	13.03%	11.18%	9.50%

Friends Life Limited FLC New With-Profits Fund
Friends Life Limited FLC Old With-Profits Fund

	K	1.50			
<i>n</i>	Duration (n)	5	15	25	35
<i>r</i>	<i>Annualised compound equivalent of the risk-free rate assumed for the period (r)</i>	x	x	x	x
1	<i>Risk-Free Zero Coupon Bond</i>	x	x	x	x
2	<i>FTSE All Share Index (p=1)</i>	£544,114	£749,454	£904,993	£1,023,376
3	<i>FTSE All Share Index (p=0.8)</i>	£533,269	£667,617	£725,366	£756,692
4	<i>Property (p=1)</i>	£521,430	£604,290	£709,590	£815,765
5	<i>Property (p=0.8)</i>	£509,172	£514,681	£530,425	£556,360
6	<i>15yr Risk-Free ZCBs (p=1)</i>	£500,359	£497,300	£505,027	£529,559
7	<i>15yr Risk-Free ZCBs (p=0.8)</i>	£487,150	£393,290	£299,431	£260,692
8	<i>15yr Corporate Bonds (p=1)</i>	£501,040	£501,509	£510,794	£541,431
9	<i>15yr Corporate Bonds (p=0.8)</i>	£488,001	£401,804	£315,548	£280,463
10	<i>Portfolio 1 (p=1)</i>	£518,751	£650,467	£777,454	£891,825
11	<i>Portfolio 1 (p=0.8)</i>	£506,869	£567,722	£602,370	£634,532
12	<i>Portfolio 2 (p=1)</i>	£508,484	£613,216	£720,272	£821,267
13	<i>Portfolio 2 (p=0.8)</i>	£496,144	£529,346	£549,437	£571,747
14	<i>Portfolio 3 (p=1)</i>	£502,984	£546,804	£620,557	£707,068
15	<i>Portfolio 3 (p=0.8)</i>	£489,944	£456,748	£446,247	£460,558
	<i>Sterling Receiver Swaptions</i>	<i>L=25</i>			
16		21.06%	15.19%	13.08%	10.74%

- (iv) Initial UK equity yield assumed 3.72 %
Initial UK property yield assumed 4.30%
- (v) No asset classes outside the UK are modelled separately.
- (vi) The average outstanding term of with profits liabilities in the New With Profits Fund is approximately 7 years. The average outstanding term of with profits liabilities in the Old With Profits Fund is approximately 6 years. A breakdown for selected product types is shown in the table below.

Outstanding term (yrs)	NWPF	OWPF
Bonds	7	6
Conventional Pensions	4	4
Conventional Life	3	3
UWP Life	4	7
UWP Pensions	10	10

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

The outstanding duration of with profits guarantees is fairly evenly spread over the term of the liabilities, though the cost of guarantees is greater at shorter durations. The outstanding duration of GAR guarantees is also shorter but still evenly spread.

The nominal interest rate and equity models are both able to represent both term and moneyiness. We therefore do not need to use an average moneyiness to derive a market consistent valuation of the liabilities.

- (vii) We have checked that the asset model reproduces the current asset values for the different types of assets modelled when the future income, gains and losses are projected and discounted to the valuation date.
- (viii) The valuation is based on 2,000 simulations of the asset model. Tests show this to be more than adequate to allow convergence of the model output.

Friends Life Limited FLC New With-Profits Fund
Friends Life Limited FLC Old With-Profits Fund

- (b) None of the costs of guarantees, options and smoothing has been valued using the market costs of hedging.
 - (c) None of the cost of guarantees, options and smoothing has been valued using a series of deterministic projections with attributed probabilities.
- (5) (a) The management actions assumed in the projection of assets and liabilities are derived from the PPFM, as set out below. The actions modelled below are consistent with the PPFM, although the PPFM does allow for larger movements in regular bonus rates and payouts when solvency is at risk.

Regular bonuses

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

Terminal bonuses

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

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

Market value reduction (MVR)

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

Asset allocation

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

Friends Life Limited FLC New With-Profits Fund
Friends Life Limited FLC Old With-Profits Fund

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

Return	Risk-Free Rate unadjusted			Risk-Free Rate reduced by 0.41% p.a.			Risk-Free Rate increased by 0.41% p.a.		
	Current	5	10	Current	5	10	Current	5	10
Years into projection									
Equity backing ratio	60%	60%	60%	60%	60%	60%	60%	60%	60%
Annual bonus rate Investment Bond	2.75%	0.74%	1.27%	2.75%	0.39%	0.80%	2.75%	0.76%	1.29%
Annual Bonus rate UWP Pension (effected 1999)	2.00%	0.77%	1.35%	2.00%	0.34%	0.87%	2.00%	0.78%	1.44%

Note: Equity backing ratio includes equities and property.

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

Product		Average lapse / surrender /paid-up rate for the policy years			
		1 - 5 % p.a.	6 - 10 % p.a.	11 - 15 % p.a.	16 - 20 % p.a.
CWP savings endowment	surrender	12.2	8.4	4.3	2.5
CWP target cash endowment	surrender	1.0	1.0	1.0	1.0
UWP savings endowment	surrender	7.6	8.0	9.0	8.0
UWP target cash endowment	surrender	6.5	6.5	6.0	4.0
UWP Bond	surrender	2.3	10.0	8.3	7.5
UWP Bond	automatic withdrawals	100% of current	100% of current	100% of current	100% of current
CWP pension regular premium	PUP	5.0	5.0	5.0	5.0
CWP pension regular premium	surrender	2.0	2.0	2.0	2.0
CWP pension single premium	surrender	2.0	2.0	2.0	2.0
UWP individual pension regular premium	PUP	6.5	6.5	5.0	8.0
UWP individual pension regular premium	surrender	4.0	4.0	5.0	7.5
UWP individual pension single premium	surrender	4.0	4.0	5.0	7.5

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

The mortality assumption in possession of any GAR is assumed to be 100% of PCMA00 (CMI 2011) for males, and 95% of PCFA00 for females. Improvement factors are based on CMI2011 tending to 1.25% pa over the long term. For practical reasons, an equivalent one-dimensional table is used.

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

Friends Life Limited FLC New With-Profits Fund
Friends Life Limited FLC Old With-Profits Fund

7. Financing costs

There are no financing arrangements in place.

8. Other long-term insurance liabilities

Form 19 Line 47 includes the value of the future tax and investment expenses on the assets backing the Future Policy Related Liabilities in excess of asset share. It also includes the value of the future Reorganisation Bonus payable in accordance with the reorganisation scheme governing the company and an expense overrun reserve reflecting the projected difference between the fees paid to the Service Company fees and the actual costs they are incurring. Section 3(2) details the amounts of each.

9. Realistic current liabilities

In the OWPF, the realistic current liabilities are equal to the regulatory current liabilities plus an amount reflecting the tax liability on future shareholder transfers and on the shareholders' share of the Reorganisation Bonus.

In the NWPF the realistic current liabilities are equal to the regulatory current liabilities. An amount reflecting the tax liability on future shareholder transfers and on the shareholders' share of the Reorganisation Bonus is subtracted from the support asset shown on Form 19 Line 27 and is also included in Form 18 Line 65.

10. Risk Capital Margin

(a) The Risk Capital Margin is £0m for the NWPF and £0m for OWPF. This has changed since last year due to the closure of the funds on 28 December 2012. Realistic Liabilities have now been set equal to Realistic Assets and the management actions in the RCM scenario are such that the RCM is zero. The capital requirement has been calculated assuming:

- (i) Equity values fall by 20% and property values fall by 12.5%. No separate assumption is made for non UK assets.
- (ii) Fixed interest yields are assumed to fall by the amounts shown in the table below. The percentage change in yields is 17.5%. No overseas fixed interest assets are treated as being invested in significant territories.

Currency	Long term yield (annualised)	Nominal fall in yields
Sterling	2.323%	0.41%

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

- (a). The average (weighted by value) change in spread for bonds, other than those that are issued or guaranteed by credit risk scenario exempt organisations in accordance with INSPRU 1.3.78R, is as follows:

	Average change in spread (basis points)	Percentage change in asset values
With profits portfolio	76	-5.25%

Friends Life Limited FLC New With-Profits Fund
Friends Life Limited FLC Old With-Profits Fund

Non-profit portfolio	86	-4.81%
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- (b). Not applicable
- (c). Not applicable
- (d). Not applicable
- (e). Credit default swaps are held to adjust credit exposure on selected corporate bonds within the non-profit portfolio. The average (weighted by notional) change in spread is 180bps, resulting in an increase in the value of these assets of 300%

No other asset values are adjusted in the credit risk scenario

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

	Percentage change in liabilities
NWPF	0.81%
OWPF	0.72%

- (v) Not applicable.

(b)

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

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

- (ii) The impact of the change in management actions on the Risk Capital Margin is £68m for NWPF and £19m for OWPF.
- (iii) No changes would apply to the table in 6(5)(b) if the management actions assumed within the Risk Capital Margin were also assumed within the base scenario.
- (iv) Not relevant since it is not assumed that such charges are taken.

(c)

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

11. Tax

- (i) Tax on assets backing the With Profits Benefit Reserve (asset share) is charged to the asset share.
- (ii) The liability for future tax on assets backing the future policy related liabilities is calculated separately and included on the balance sheet in Form 19, Line 47. The calculation assumes that these assets are locked in for the mean term of the policy liabilities, and incur tax on the investment return over that term. Tax is only incurred on the BLAGAB proportion of the assets.
- (iii) There is no liability assumed for tax on the assets backing realistic current liabilities

Friends Life Limited FLC New With-Profits Fund
Friends Life Limited FLC Old With-Profits Fund

12. Derivatives

Derivatives held as at 31 December 2012 are as follows:

Sterling interest rate receiver swaps are held for the purposes of hedging interest rate risk. The swaps held have maturity dates between 2019 and 2052, a total notional of £513.4m, and a total market value of £109.5m.

Sterling interest rate payer swaps are held for the purposes of hedging interest rate risk. The swaps held have maturity dates between 2014 and 2016, a total notional of £16.6m, and a total market value of -£1.9m.

Sterling receiver swaptions are held for the purpose of hedging interest rate risk. These have exercise dates ranging from 2013 to 2032, all have a tenor of 20 years and a strike rate of 5%. They have a total notional of £242.1m and a total market value of £58.9m.

Equity put options are held for the purpose of hedging equity risk. They are:

- Total return options on a basket of indices weighted as follows:

Index	Economy	Weighting
FTSE 100 Total Return	UK	71%
S&P 500 Total Return	US	13%
Dow Jones EUROSTOXX 50 Total Return	Europe	8%
TOPIX Total Return	Japan	8%

They are out of the money options with maturity dates ranging from 2013 to 2025, a total notional of £432.2m and a market value of £34.1m.

- OTC Equity Options on indices (S&P 500, DJ Eurostoxx50). They are out of the money options. There is a total notional of £86.4m for a market value of £37k.
- Listed Equity Options on FTSE100. They are out of the money options. There is a total notional of £254.8m for a market value of £1.1m.

Single name Credit default swaps are held to hedge against credit risk on identified bonds. There is £164.5m of notional bought protection. They are maturing between 2013 and 2019. The total market value is £4.3m.

Friends Life Limited FLC New With-Profits Fund
Friends Life Limited FLC Old With-Profits Fund

Futures are held as set out in the table below:

Future	Bought / Sold	Purpose	Maturity Date	Exposure
FTSE 100	Bought	Increase economic exposure to UK equities in WP benefits reserve	15 Mar 2013	£11.5m
DJ Eurostoxx50	Bought	Increase economic exposure to European equities in WP benefits reserve	15 Mar 2013	£43.7m
FTSE 100	Sold	Hedging UK equity risk	15 Mar 2013	£234.7m
DJ Eurostoxx50	Sold	Hedging European equity risk	15 Mar 2013	£17.8m
S&P 500	Sold	Hedging US equity risk	15 Mar 2013	£32.4m
TOPIX	Sold	Hedging Japanese equity risk	8 Mar 2013	£8.2m
UK 10yr Gilt	Sold	Reduce economic exposure to UK fixed interest in WP benefits reserve	26 Mar 2013	£105.4m
US 10yr Treasury	Bought	Increase economic exposure to US fixed interest in WP benefits reserve	19 Mar 2013	£0.7m
UK 10yr Gilt	Sold	Duration management of assets backing guarantees	26 Mar 2013	£29.3m

Cross currency swaps are held to hedge overseas currencies exposure. They have a total notional of £147.9m and a market value of -£30.5m.

Currency forwards are held for the purpose of portfolio management to hedge overseas currencies exposure back to Sterling. There is £534.7m exposure to Euro, USD and JPY back to Sterling.

Friends Life Limited FLC New With-Profits Fund
Friends Life Limited FLC Old With-Profits Fund

13. Analysis of change in working capital

The following shows an approximate analysis of change in working capital between 31 December 2011 and 31 December 2012.

	FLC NWPF	FLC OWPF
	£m	£m
Opening position at 31 December 2011	76	17
Modelling changes and opening adjustments	(21)	17
Expected investment return on opening working capital	0	2
Mismatch profits on assets backing future policy related liabilities	108	26
Assumption changes		
Economic	20	5
Non-economic	(6)	(5)
Other variances		
Economic	5	1
Non-economic	0	0
Changes in other liabilities of lines 47 and 51 of Form 19	0	0
Other	4	(1)
Change in support assets	4	0
Closing position at interim valuation date 27 December 2012	190	62
Change in support assets	(76)	0
Changes in other liabilities of lines 47 and 51 of Form 19	0	24
Reduction in planned enhancements to future payouts	(114)	(86)
Closing position at end of year as per line 68 of Form 19	0	0

The fall in Support Arrangement Assets is a consequence of the Part VII transfer into FLL. Following the transfer, the Support Assets are held in the Shareholder Fund of FLL, but only support assets held in the FLL Non-Profit Fund may be disclosed on Form 19 at present.

Friends Life Limited FLAS With-Profits Fund

1. Introduction

- (1) The actuarial investigation relates to a valuation date of 31 December 2012.
- (2) The valuation date of the previous valuation was 31 December 2011.
- (3) An interim valuation was carried out on 30 June 2012 and at 27 December 2012 immediately prior to the Part VII Transfer to FLL

2. Assets

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

This financial year	
Investment return	Risk-free rate calibrated to the gilt yield curve. For fixed interest assets matching annuities in payment, a +45 basis point liquidity premium has been added to the risk-free rate
Expense inflation	Price inflation + 1% p.a., where the price inflation curve is calibrated to RPI
Discount rate	For profits emerging on non-profit business: risk-free rate calibrated to the gilt yield curve + 100 basis points p.a. additional risk adjustment to reflect risk and uncertainty + (for annuity business only) 45 basis points p.a. liquidity premium. For release of long-term insurance capital component: risk-free rate calibrated to the gilt yield curve + (for annuity business only) 45 basis points p.a. liquidity premium.

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

Note: 1 basis point = 0.01%

- (2) No amounts have been included in the realistic value of assets under INSPRU 1.3.33R(2).
- (3) No business is written outside the With Profits fund.
- (4) A single set of economic assumptions has been used in valuing the non-profit contracts.

Friends Life Limited FLAS With-Profits Fund

3. With Profits Benefits Reserve Liabilities

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

	With Profits Benefits Reserve (£m)	Future policy related liabilities (£m)
Retrospective method (asset share)		
UWP Bonds (No MVA-Free date)	483	206
UWP Reg Prem Life	196	93
UWP Pensions (no min bonus or GAR)	1,185	413
UWP Pensions (with GMP)	144	115
Conventional Life	302	93
Conventional Pensions	146	188
DA77	288	48
With Profits Annuity	69	15
Total	2,813	1,171

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

£m	
Future Policy Related Liabilities, from above table	1,171
Financing arrangements	-26
Tax and expense on assets in excess of asset share	13
Expense overrun provision	59
Provisions for potential mis-selling liabilities	0
Future Policy Related Liabilities, Form 19, Line 49	1,217

4. With Profits Benefits Reserve – Retrospective method

- (1) In all cases where a retrospective method (i.e. asset share) is used, this is calculated on a policy by policy basis.
- (2) No significant changes have been made to the valuation method since the previous valuation.
- (3) The basis of allocating expenses to the With Profits funds in the valuation is given below.

Fees are paid to Friends Life Services Limited (formerly AXA Sun Life Services Limited) (FLS) for management, administration, marketing and sales services, as defined in the Service Agreements between FLL and FLS. These fees are charged to asset shares and are adjusted annually as at 1 January, again as defined in the Service Agreements. The amounts of such fees, split between initial and maintenance expenses, for the full year 2012 are shown below.

Fees paid to the investment managers for the same period are also shown below. Those in respect of with profits policies are charged to asset shares, as a percentage of the asset share representing the average fee level including an allowance for performance fees.

Some expenses met directly by the fund, such as regulatory fees, are charged to asset shares. These are apportioned between individual policies using a method that is believed to be equitable.

Also shown below are the expenses that have been charged to the With Profits fund during 2012, but which are not charged to asset shares. These are mainly initial and renewal fees in

Friends Life Limited FLAS With-Profits Fund

respect of non-profit business, investment management fees in respect of non-profit business and other assets in excess of asset shares, plus certain exceptional costs.

Further details of the basis of allocating expenses to the With Profits fund are given in the Principles and Practices of Financial Management (PPFM).

The table below shows the expenses incurred by the fund in 2012:

£m	
Initial fees chargeable to asset shares	0.7
Maintenance fees chargeable to asset shares	4.4
Investment fees chargeable to asset shares	9.4
Other expenses chargeable to asset shares	0.3
Expenses on non-profit contracts	11.2
Other expenses not chargeable to asset shares	11.6

- (4) During 2012, no significant charges for guarantees or cost of capital have been made to asset shares. As indicated in the PPFM, this practice is reviewed periodically and is subject to change.
- (5) No charges have been deducted from the funds for non-insurance risk.
- (6) The ratio of claims paid to underlying asset shares for with profits insurance contracts over the three year period are:

Year	Average Payout ratio
2012	118%
2011	113%
2010	102%

- (7) For the full year 2012 the investment return applied to the asset share for each policy was 10.7% (before tax and expenses).

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

5. With Profits Benefits Reserve – Prospective method

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

6. Costs of guarantees, options and smoothing

- (1) Not applicable.
- (2) For all products where the valuation of guarantees, options and smoothing is carried out using a stochastic model, grouped data is used. Contracts are grouped according to their major product features, term gone and term to go, policyholder age and the extent to which guarantees are in or out of the money.

The total number of policies modelled in this way was 153,616, which were represented by 4,313 model points.

The results from the stochastic model using grouped data are validated against the sum of the results of a number of stochastic runs, each using parts of the individual data. An approximate upward adjustment has been made to the cost of guarantees and smoothing to allow for the estimated grouping error.

Friends Life Limited FLAS With-Profits Fund

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

- (3) Changes have been made to the liability projection model used as part of Friends Life's move towards Solvency II compliance.

The aggregate effect of these changes is to increase realistic assets by £47m and reduce realistic liabilities by £24m.

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

- The guarantee that no market value reduction will be applied on maturity or on death. The extent to which these options are in the money at the valuation date depends on the ratio of guaranteed benefits to asset share for each policy at that date, and varies both across and within lines of business. On average, the ratio of the present value of guaranteed benefits to asset share is around 80% for policies with around 5 years and less to maturity, reducing to 75% for policies with around 10 years to maturity, and reducing further to 55% for policies with around 20 years and more to go.
- Guaranteed annuity rates (GARs), which offer an annuity calculated on guaranteed terms on normal retirement. These options are currently in the money.
- The cost of smoothing. This reflects a combination of short-term and long-term effects: in the short term the difference between payouts and the sustainable level (glidepath); and in the long term the under or overpayment of asset share.

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

- (ii) The nominal interest rate model used is Barrie and Hibbert's proprietary Libor Market Model Plus (LMM+). This is calibrated exactly to the current risk-free yield curve. The volatilities have been selected to provide a close fit to a range of swaption-implied volatilities.

Equity excess returns are modelled using is Barrie and Hibbert's proprietary Stochastic Volatility Jump Diffusion (SVJD) model. This model is calibrated to the full implied volatility surface and so captures the effects of both term and moneyness.

Property is modelled as a separate asset class. The volatility of property returns is not easily observed within the market. A best estimate initial volatility of 15% pa has been assumed for property total return.

The risk-free rate in the asset model is calibrated to the gilt curve at 31 December 2012. Sample rates are shown in the table in (iii) below.

Sample volatilities are shown below for the main asset classes. These are derived from the asset model output and show the at-the-money implied volatilities for Equities and 10-Year tenor Swaptions as well as the excess return volatility for Property. The equivalent figures for 31 December 2011 are shown in parentheses ().

Volatility over period (years)	Equity option ATM IV	Property	10-Year Swaption ATM IV
5	24% (29%)	15% (15%)	23% (22%)
10	26% (29%)	15% (15%)	18% (18%)

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20	28% (31%)	15% (15%)	16% (15%)
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The correlations assumed between the main assets classes are:

Correlation Between:	6 Year Bond Return Index	Equity Total Return	RPI	Property Total Return	15 Year Corporate Bond Return Index
6 Year Bond Return Index	1.00	0.12	0.17	0.11	0.46
Equity Total Return	0.12	1.00	0.01	0.33	0.22
RPI	0.17	0.01	1.00	0.09	-0.18
Property Total Return	0.11	0.33	0.09	1.00	0.05
15 Year Corporate Bond Return Index	0.46	0.22	-0.18	0.05	1.00

(iii) The table below shows the annualised compound equivalent of the risk-free rate assumed for each duration (n) and values derived from the asset model of specified assets/options.

Row 1 shows the value of cash payments of £1,000,000 due n years after the valuation date. Rows 2 to 15 inclusive show, for the appropriate asset classes, the value of a put option on a portfolio worth £1,000,000 on the valuation date exercisable n years after the valuation date, with strike price of $K * £1,000,000 * (1+r*p)^n$.

Row 16 shows the value of sterling receiver swaptions with a strike of 5% exercisable n years after the valuation date with swap durations on exercise of L years, expressed as a percentage of nominal.

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	K	0.75			
<i>n</i>	Duration (n)	5	15	25	35
<i>r</i>	Annualised compound equivalent of the risk-free rate assumed for the period (<i>r</i>)	0.90%	2.59%	3.37%	3.59%
1	Risk-Free Zero Coupon Bond	£956,037	£681,782	£437,006	£291,041
2	FTSE All Share Index (<i>p</i> =1)	£110,862	£252,976	£348,066	£427,985
3	FTSE All Share Index (<i>p</i> =0.8)	£108,563	£223,997	£276,473	£312,177
4	Property (<i>p</i> =1)	£31,270	£104,111	£180,346	£258,570
5	Property (<i>p</i> =0.8)	£29,627	£81,624	£123,444	£164,575
6	15yr Risk-Free ZCBs (<i>p</i> =1)	£8,829	£18,731	£19,973	£39,448
7	15yr Risk-Free ZCBs (<i>p</i> =0.8)	£8,207	£11,459	£6,363	£10,362
8	15yr Corporate Bonds (<i>p</i> =1)	£13,452	£28,527	£35,291	£55,642
9	15yr Corporate Bonds (<i>p</i> =0.8)	£12,587	£18,884	£14,486	£18,534
10	Portfolio 1 (<i>p</i> =1)	£68,408	£172,227	£254,231	£329,979
11	Portfolio 1 (<i>p</i> =0.8)	£66,509	£147,350	£192,512	£227,969
12	Portfolio 2 (<i>p</i> =1)	£58,544	£148,342	£218,707	£283,272
13	Portfolio 2 (<i>p</i> =0.8)	£56,838	£126,172	£162,763	£191,465
14	Portfolio 3 (<i>p</i> =1)	£30,583	£85,472	£137,530	£195,490
15	Portfolio 3 (<i>p</i> =0.8)	£29,332	£68,503	£92,856	£119,416
	Sterling Receiver Swaptions	<i>L</i> = 15			
16		17.68%	10.68%	8.93%	7.81%

	K	1.00			
<i>n</i>	Duration (n)	5	15	25	35
<i>r</i>	Annualised compound equivalent of the risk-free rate assumed for the period (<i>r</i>)	x	x	x	x
1	Risk-Free Zero Coupon Bond	x	x	x	x
2	FTSE All Share Index (<i>p</i> =1)	£214,173	£399,600	£519,930	£617,111
3	FTSE All Share Index (<i>p</i> =0.8)	£209,767	£354,733	£414,130	£452,987
4	Property (<i>p</i> =1)	£133,846	£236,184	£333,350	£426,375
5	Property (<i>p</i> =0.8)	£128,930	£193,098	£237,528	£279,963
6	15yr Risk-Free ZCBs (<i>p</i> =1)	£80,021	£98,801	£106,898	£145,870
7	15yr Risk-Free ZCBs (<i>p</i> =0.8)	£75,530	£66,276	£44,028	£49,443
8	15yr Corporate Bonds (<i>p</i> =1)	£91,532	£117,006	£131,344	£165,999
9	15yr Corporate Bonds (<i>p</i> =0.8)	£86,894	£82,852	£64,638	£66,511
10	Portfolio 1 (<i>p</i> =1)	£163,678	£305,169	£409,394	£503,491
11	Portfolio 1 (<i>p</i> =0.8)	£159,364	£263,089	£313,220	£352,510
12	Portfolio 2 (<i>p</i> =1)	£148,302	£271,530	£363,435	£446,199
13	Portfolio 2 (<i>p</i> =0.8)	£144,174	£231,675	£272,959	£304,095
14	Portfolio 3 (<i>p</i> =1)	£110,662	£193,815	£265,708	£340,614
15	Portfolio 3 (<i>p</i> =0.8)	£106,471	£156,825	£184,111	£213,380
	Sterling Receiver Swaptions	<i>L</i> = 20			
16		19.43%	13.03%	11.18%	9.50%

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	K	1.50			
<i>n</i>	Duration (n)	5	15	25	35
<i>r</i>	<i>Annualised compound equivalent of the risk-free rate assumed for the period (r)</i>	x	x	x	x
1	<i>Risk-Free Zero Coupon Bond</i>	x	x	x	x
2	<i>FTSE All Share Index (p=1)</i>	£544,114	£749,454	£904,993	£1,023,376
3	<i>FTSE All Share Index (p=0.8)</i>	£533,269	£667,617	£725,366	£756,692
4	<i>Property (p=1)</i>	£521,430	£604,290	£709,590	£815,765
5	<i>Property (p=0.8)</i>	£509,172	£514,681	£530,425	£556,360
6	<i>15yr Risk-Free ZCBs (p=1)</i>	£500,359	£497,300	£505,027	£529,559
7	<i>15yr Risk-Free ZCBs (p=0.8)</i>	£487,150	£393,290	£299,431	£260,692
8	<i>15yr Corporate Bonds (p=1)</i>	£501,040	£501,509	£510,794	£541,431
9	<i>15yr Corporate Bonds (p=0.8)</i>	£488,001	£401,804	£315,548	£280,463
10	<i>Portfolio 1 (p=1)</i>	£518,751	£650,467	£777,454	£891,825
11	<i>Portfolio 1 (p=0.8)</i>	£506,869	£567,722	£602,370	£634,532
12	<i>Portfolio 2 (p=1)</i>	£508,484	£613,216	£720,272	£821,267
13	<i>Portfolio 2 (p=0.8)</i>	£496,144	£529,346	£549,437	£571,747
14	<i>Portfolio 3 (p=1)</i>	£502,984	£546,804	£620,557	£707,068
15	<i>Portfolio 3 (p=0.8)</i>	£489,944	£456,748	£446,247	£460,558
	<i>Sterling Receiver Swaptions</i>	<i>L=25</i>			
16		21.06%	15.19%	13.08%	10.74%

- (iv) Initial UK equity yield assumed 3.72 %
Initial UK property yield assumed 4.30%
- (v) No asset classes outside the UK are modelled separately.
- (vi) The average outstanding term of with profits liabilities is approximately 7 years. A breakdown for selected product types is shown in the table below.

Outstanding term (yrs)	
Bonds	7
Conventional Pensions	6
Conventional Life	4
UWP Life	4
UWP Pensions	9

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

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

The nominal interest rate and equity models are both able to represent both term and moneyiness. We therefore do not need to use an average moneyiness to derive a market consistent valuation of the liabilities.

- (vii) We have checked that the asset model reproduces the current asset values for the different types of assets modelled when the future income, gains and losses are projected and discounted to the valuation date.
- (viii) The valuation is based on 2,000 simulations of the asset model. Tests show this to be more than adequate to allow convergence of the model output.

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- (d) None of the costs of guarantees, options and smoothing has been valued using the market costs of hedging.
 - (e) None of the cost of guarantees, options and smoothing has been valued using a series of deterministic projections with attributed probabilities.
- (5) (a) The management actions assumed in the projection of assets and liabilities are derived from the PPFM, as set out below. The actions modelled below are consistent with the PPFM, although the PPFM does allow for larger movements in regular bonus rates and payouts when solvency is at risk.

Regular bonuses

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

Terminal bonuses

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

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

Market value reduction (MVR)

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

Asset allocation

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

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

Return	Risk-Free Rate unadjusted			Risk-Free Rate reduced by 0.41% p.a			Risk-Free Rate increased by 0.41% p.a.		
	Current	5	10	Current	5	10	Current	5	10
Years into projection									
Equity backing ratio	50%	50%	50%	50%	50%	50%	50%	50%	50%
Annual bonus rate Bond	2.25%	2.60%	3.01%	2.25%	2.03%	2.38%	2.25%	2.60%	3.01%
Annual Bonus rate UWP Pension (effected 1994)	3.00%	1.86%	2.37%	3.00%	1.23%	1.70%	3.00%	1.86%	2.37%

Note: Equity backing ratio includes equities and property

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

Product		Average lapse / surrender /paid-up rate for the policy years			
		1 - 5 % p.a.	6 - 10 % p.a.	11 - 15 % p.a.	16 - 20 % p.a.
CWP savings endowment	surrender	8.0	6.0	3.6	2.0
CWP target cash endowment	surrender	11.2	4.4	3.5	3.5
UWP savings endowment	surrender	4.3	3.7	5.3	5.5
UWP target cash endowment	surrender	4.3	3.7	5.3	5.5
UWP Bond	surrender	10	10	8.3	7.5
UWP Bond	automatic withdrawals	100% of current	100% of current	100% of current	100% of current
CWP pension regular premium	PUP	5	5	5	5
CWP pension regular premium	surrender	1.5	1.5	1.5	1.5
CWP pension single premium	surrender	1.5	1.5	1.5	1.5
UWP individual pension regular premium	PUP	6.5	6.5	5.0	8.0
UWP individual pension regular premium	surrender	6.5	6.5	8.0	10.2
UWP individual pension single premium	surrender	6.5	6.5	8.0	10.2

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

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

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

Friends Life Limited FLAS With-Profits Fund

7. Financing costs

The FLAS WPF reinsures most of its unit-linked business to the FLL NPF. In accordance with the terms of the reinsurance agreement, the FLAS WPF provided financing in respect of part of the acquisition expenses that would otherwise have been charged to the FLL NPF in respect of the reinsured business. The financing is repaid by applying specified repayments to reduce the accumulated financing balance, and will be fully repaid when the balance is extinguished. Interest is charged at the rate of an average of 3 month LIBOR, and is rolled up within the financing balance. No additional fees are payable. Total repayments of £17.6m were made from the FLL NPF (previously FLC NPF) to the FLAS WPF during 2012. The balance of financing outstanding at 31 December 2012 is £26.4m. The arrangement has been closed to new business since 31st December 2006.

8. Other long-term insurance liabilities

Line 47 includes the value of the future tax and investment expenses on the assets backing the future policy related liabilities in excess of asset share. It also includes an expense overrun reserve reflecting the projected difference between the fees paid to the Service Company fees and the actual costs they are incurring.

9. Realistic current liabilities

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

10. Risk Capital Margin

(a) The Risk Capital Margin is £0m.

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

- (i) Equity values are assumed to fall by 20.0%. Property values are assumed to fall by 12.5%. No separate assumption is made for non-UK assets.
- (ii) Fixed interest yields are assumed to rise by the amounts shown in the table below. The percentage change in yields is 17.5%.

Currency	Long term yield (annualised)	Nominal rise in yields
Sterling	2.323%	0.41%

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

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

	Average change in spread (basis points)	Percentage change in asset values
With profits portfolio	47	-3.07%
Non-profit portfolio	63	-5.21%

- (b). Not applicable.

Friends Life Limited FLAS With-Profits Fund

- (c). Not applicable.
- (d). Not applicable.
- (e). Credit default swaps are held to adjust credit exposure on selected corporate bonds within the non-profit portfolio. The average (weighted by notional) change in spread is 130 bps, resulting in an increase in the value of these assets of 338%.

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

- (iv) The overall percentage change in the realistic value of liabilities that results from applying the persistency risk scenario, assuming that the market and credit risk stress scenarios have occurred, is 0.50%.
 - (v) Not applicable.
- (b)
- (i) In the stress scenario that defines the Risk Capital Margin it is assumed that planned enhancements will be able to be reduced so that no RCM is required.

There are no further changes to assumptions, other than those that result directly from the events of the stress scenario itself.
 - (ii) The total impact of the change in management actions on the Risk Capital Margin is £127m.
 - (iii) No changes would apply to the table in 6 (5) (b) if the management actions assumed within the Risk Capital Margin were also assumed within the base scenario.
 - (iv) Not relevant since it is not assumed that such charges are taken.
- (c)
- (i) All the assets required by the With Profits fund to cover the Risk Capital Margin are held within the With Profits fund.

11. Tax

- (i) Tax on assets backing the with profits benefit reserve (asset share) is charged to the asset share.
- (ii) The liability for future tax on assets backing the future policy related liabilities is calculated separately and included on the balance sheet in Form 19, Line 47. The calculation assumes that these assets are locked in for the mean term of the policy liabilities, and incur tax on the investment return over that term. Tax is only incurred on the BLAGAB proportion of the assets.
- (iii) There is no liability assumed for tax on the assets backing realistic current liabilities.

12. Derivatives

Derivatives held as at 31 December 2012 are as follows:

Sterling and overseas interest rate receiver swaps are held for the purpose of hedging interest rate risk. The swaps held have maturity dates between 2013 and 2046, a total notional of £347.0m, and a total market value of £100.6m.

Sterling and overseas interest rate payer swaps are held for the purpose of hedging interest rate risk. The swaps held have maturity dates between 2013 and 2020, a total notional of £101.8m, and a total market value of -£11.2m.

A set of asset swaps is held with an obligation to pay inflation linked cashflow in exchange for receiving fixed cashflow. These asset swaps are held in conjunction with a set of index-linked bonds, with the purpose that the net cashflow from the bonds together with the swaps is appropriate to back a set of fixed liabilities. The swaps held have maturity dates between 2017 and 2047, a total notional of £667.3m, and a total market value of -£34.1m.

Sterling receiver swaptions are held for the purpose of hedging interest rate risk. These have exercise dates ranging from 2013 to 2023, all have a tenor of 20 years and a strike rate of 5%. They have a total notional of £45.5m and a total market value of £12.5m.

Equity put options are held for the purpose of hedging embedded equity risk in the asset portfolio. These are out of the money put options on FTSE 100 with maturity dates ranging from 2013 to 2015 with a strike of 5200. There is a total notional of £163.8m for a total market value of £11.7m

Single name Credit default swaps are held to hedge against credit risk on identified bonds. There is £252.0m of notional bought protection. They are maturing between 2013 and 2020. The total market value is £3.7m.

Futures are held as set out in the table below:

Future	Bought / Sold	Purpose	Maturity Date	Exposure
FTSE 100	Bought	Increase economic exposure to UK equities in WP benefits reserve	15 Mar 2013	£1.6m
FTSE 100	Sold	Hedging UK equity risk	15 Mar 2013	£190.2m
UK 10yr Gilt	Sold	Duration management of assets backing guarantees	26 Mar 2013	£26.9m

Cross currency swaps are held to hedge overseas currencies exposure. They have a total notional of £105.4m and a market value of £9.7m.

Currency forwards are held for the purpose of portfolio management to hedge overseas currencies exposure back to Sterling. There is £141.9m exposure to Euro, USD and JPY back to Sterling.

Friends Life Limited FLAS With-Profits Fund

13. Analysis of change in working capital

The following shows an approximate analysis of change in working capital between 31 December 2011 and 31 December 2012.

	FLAS
	£m
Opening position at 31 December 2011	0
Modelling changes and opening adjustments	71
Expected investment return on opening working capital	6
Mismatch profits on assets backing future policy related liabilities	0
Assumption changes	
Economic	0
Non-economic	(214)
Other variances	
Economic	25
Non-economic	0
Changes in other liabilities of lines 47 and 51 of Form 19	0
Other	17
Change in planned enhancements to future payouts	95
Closing position at end of year as per line 68 of Form 19	0

RETURNS UNDER INTERIM PRUDENTIAL SOURCEBOOK FOR INSURERS
Information on With Profits Actuary as required by IPRU (INS) 9.36.

Friends Life Limited

Financial year ended 31 December 2012

The Company has requested Michael Robert Kipling, the With Profits Actuary throughout 2012, to provide particulars specified in IPRU(INS) Rule 9.36 and the following details for the full year to 31 December 2012 have been furnished pursuant to that request.

- (a) At 31 December 2012, as a result of his participation in the Share Incentive Plan, Mr Kipling had a direct interest in 818 ordinary shares of no nominal value in the ultimate parent Company, Resolution Limited.

In addition, he has an interest in 25 units of the Friends Life Group plc Long Term Incentive Plan (LTIP), operational details of which are included in the accounts of the ultimate parent Company, Resolution Limited.

He had no interest at any time during the year in any shares in, or debentures of, the Company or its subsidiaries.

- (b) Mr Kipling was a member of a defined contribution pension scheme up to 31 March 2012.

- (c) The aggregate amount of remuneration and value of other benefits received by Mr Kipling during 2012, excluding contributions to the defined contribution pension scheme, was £372,969.33. This amount includes the bonus in respect of 2011 performance which was paid in March 2012, and the bonus in respect of 2012 performance which is payable in April 2013.

His other pecuniary benefits receivable are provided under the standard terms and conditions of the Group's permanent health insurance scheme.

Directors' certificate required by rule 9.34 of the Accounts and Statements Rules
Friends Life Limited
Financial year ended 31 December 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 waivers dated 13 August 2009, 22 December 2011 and 28 December 2012 issued under section 148 of the Financial Services and Markets Act 2000, details of which are contained in note 0201; and

(b) we are satisfied that:
 - (i) throughout the financial year in question, the insurer has complied in all material respects with the requirements of SYSC and PRIN as well as the provisions of IPRU(INS), GENPRU and INSPRU; and
 - (ii) it is reasonable to believe that the insurer has continued so to comply subsequently, and will continue to comply in future.
2. (a) that in our opinion, premiums for contracts entered into during the financial year and the resulting income earned are sufficient, under reasonable actuarial methods and assumptions, and taking into account the other financial resources of the insurer that are available for the purpose, to enable the insurer to meet its obligations in respect of those contracts and, in particular, to establish adequate mathematical reserves;

(b) that the sum of the mathematical reserves and the deposits received from reinsurers as shown in Form 14 constitute proper provision at the end of the financial year in question for the long-term insurance liabilities (including all liabilities arising from deposit back arrangements, but excluding other liabilities which had fallen due before the end of the financial year) including any increase in those liabilities arising from a distribution of surplus as a result of an actuarial investigation as at that date into the financial condition of the long-term insurance business;

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

(d) that we have, in preparing the return, taken and paid due regard to-
 - (i) advice in preparing the return from every actuary appointed by the insurer to perform the actuarial function in accordance with SUP 4.3.13R; and
 - (ii) advice in preparing the return from every actuary appointed by the insurer to perform the with-profits actuary function in accordance with SUP 4.3.16AR.

L.C. J'Afari-Pak
Director

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

J.S. Moss
Director

25th March 2013

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

Friends Life Limited

Global business

Financial year ended 31 December 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, 11 to 19, 40 to 45, 48, 49, 56, 58 and 60 (including the supplementary notes) ("the Forms");
- the statement required by IPRU(INS) rule 9.29 ("the statement"); and
- the valuation reports required by IPRU(INS) rule 9.31 ("the valuation reports").

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

- Forms 46, 47, 50 to 55, 57, 59A and 59B (including the supplementary notes);
- the statements required by IPRU(INS) rules 9.30 and 9.36; and
- the certificate required by IPRU(INS) rule 9.34(1).

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

Respective responsibilities of the insurer and its auditor

The insurer is responsible for the preparation of an annual return (including the Forms, the statement and the valuation reports) under the provisions of the Rules. The requirements of the Rules have been modified by the directions issued under section 148 of the Act referred to in supplementary notes 0201, 1323, 1801, 1901 and 5702. Under IPRU(INS) rule 9.11 the Forms, the statement and the valuation reports are required to be prepared in the manner specified by the Rules and to state fairly the information provided on the basis required by the Rules. The methods and assumptions determined by the insurer and used to perform the actuarial investigation as set out in the valuation reports are required to reflect appropriately the requirements of INSPRU 1.2 and 1.3.

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

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the Forms, the statement and the valuation reports are not in agreement with the accounting records and returns; or
- we have not received all the information we require for our audit.

Basis of opinion

We conducted our work in accordance with Practice Note 20 'The audit of insurers in the United Kingdom (revised)' issued by the Auditing Practices Board. Our work included examination, on a test basis, of evidence relevant to the amounts and disclosures in the Forms, the statement and the valuation reports. The evidence included that previously obtained by us relating to the audit of the financial statements of the insurer for the financial year on which we reported on 25 March 2013. It also included an assessment of the significant estimates and judgments made by the insurer in the preparation of the Forms, the statement and the valuation reports.

We planned and performed our work so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Forms, the statement and the valuation reports are free from material misstatement, whether caused by fraud or other irregularity or error, and comply with IPRU(INS) rule 9.11.

In accordance with IPRU(INS) rule 9.35(1A), to the extent that any document, Form, statement, analysis or report to be examined under IPRU(INS) rule 9.35(1) contains amounts or information abstracted from the actuarial investigation performed pursuant to IPRU(INS) rule 9.4, we have obtained and paid due regard to advice from a suitably qualified actuary who is independent of the insurer.

Opinion

In our opinion:

- (a) the Forms, the statement and the valuation reports fairly state the information provided on the basis required by the Rules as modified and have been properly prepared in accordance with the provisions of those Rules; and
- (b) the methods and assumptions determined by the insurer and used to perform the actuarial investigation as set out in the valuation reports appropriately reflect the requirements of INSPRU 1.2 and 1.3.

Ernst & Young LLP

Statutory Auditor

London

25th March 2013