

Friends Life and Pensions Limited

Annual PRA Insurance Returns for the year ended

31 December 2014

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

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

Global business

Financial year ended **31 December 2014**

Adjusted solo solvency calculation

	Company registration number	GL/ UK/ CM	day	month	year	Units
R2	475201	GL	31	12	2014	£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	110462	100262
Capital resources allocated towards long-term insurance business arising outside the long-term insurance fund	12	316052	373863
Capital resources available to cover long-term insurance business capital resources requirement (11+12)	13	426514	474125

Guarantee fund

Guarantee fund requirement	21	91420	130820
Excess (deficiency) of available capital resources to cover guarantee fund requirement	22	335094	343305

Minimum capital requirement (MCR)

Long-term insurance capital requirement	31	215736	176152
Resilience capital requirement	32		
Base capital resources requirement	33	2902	3146
Individual minimum capital requirement	34	215736	176152
Capital requirements of regulated related undertakings	35	19508	72103
Minimum capital requirement (34+35)	36	235244	248255
Excess (deficiency) of available capital resources to cover 50% of MCR	37	308892	349998
Excess (deficiency) of available capital resources to cover 75% of MCR	38	250081	287934

Enhanced capital requirement

With-profits insurance capital component	39		
Enhanced capital requirement	40	235244	248255

Capital resources requirement (CRR)

Capital resources requirement (greater of 36 and 40)	41	235244	248255
Excess (deficiency) of available capital resources to cover long-term insurance business CRR (13-41)	42	191270	225870

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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Components of capital resources

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

Global business

Financial year ended **31 December 2014**

	Company registration number	GL/ UK/ CM	day	month	year	Units
R3	475201	GL	31	12	2014	£000
		General insurance business	Long-term insurance business	Total as at the end of this financial year	Total as at the end of the previous year	
		1	2	3	4	

Core tier one capital

Permanent share capital	11		868000	868000	868000
Profit and loss account and other reserves	12		595449	595449	840832
Share premium account	13				
Positive valuation differences	14				
Fund for future appropriations	15				
Core tier one capital in related undertakings	16		(454130)	(454130)	(931909)
Core tier one capital (sum of 11 to 16)	19		1009319	1009319	776923

Tier one waivers

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

Other tier one capital

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

Total tier one capital before deductions (19+24+25+26+27+28)	31		1009319	1009319	776923
Investments in own shares	32				
Intangible assets	33				9734
Amounts deducted from technical provisions for discounting	34				
Other negative valuation differences	35		73873	73873	57694
Deductions in related undertakings	36		16932	16932	
Deductions from tier one (32 to 36)	37		90805	90805	67428
Total tier one capital after deductions (31-37)	39		918514	918514	709495

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

Global business

Financial year ended **31 December 2014**

	Company registration number	GL/ UK/ CM	day	month	year	Units
R3	475201	GL	31	12	2014	£000
		General insurance business	Long-term insurance business	Total as at the end of this financial year	Total as at the end of the previous year	
		1	2	3	4	

Tier two capital

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

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

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

Components of capital resources

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

Global business

Financial year ended **31 December 2014**

	Company registration number	GL/ UK/ CM	day	month	year	Units
R3	475201	GL	31	12	2014	£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		918514	918514	709495
Inadmissible assets other than intangibles and own shares	73		262000	262000	221830
Assets in excess of market risk and counterparty limits	74		230000	230000	
Deductions for related ancillary services undertakings	75				
Deductions for regulated non-insurance related undertakings	76				
Deductions of ineligible surplus capital	77				13540
Total capital resources after deductions (72-73-74-75-76-77)	79		426514	426514	474125

Available capital resources for GENPRU/INSRU tests

Available capital resources for guarantee fund requirement	81		426514	426514	474125
Available capital resources for 50% MCR requirement	82		426514	426514	474125
Available capital resources for 75% MCR requirement	83		426514	426514	474125

Financial engineering adjustments

Implicit items	91				
Financial reinsurance - ceded	92		4598	4598	
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		4598	4598	

Calculation of general insurance capital requirement - premiums amount and brought forward amount

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

Global business

 Financial year ended **31 December 2014**

Long term insurance business

		Company registration number	GL/ UK/ CM	day month year			Units	
		R11	475201	GL	31	12	2014	£000
				This financial year 1			Previous year 2	
Gross premiums written			11				21291	
Premiums taxes and levies (included in line 11)			12					
Premiums written net of taxes and levies (11-12)			13				21291	
Premiums for classes 11, 12 or 13 (included in line 13)			14					
Premiums for "actuarial health insurance" (included in line 13)			15					
Sub-total A (13 + 1/2 14 - 2/3 15)			16				21291	
Gross premiums earned			21				21291	
Premium taxes and levies (included in line 21)			22					
Premiums earned net of taxes and levies (21-22)			23				21291	
Premiums for classes 11, 12 or 13 (included in line 23)			24					
Premiums for "actuarial health insurance" (included in line 23)			25					
Sub-total H (23 + 1/2 24 - 2/3 25)			26				21291	
Sub-total I (higher of sub-total A and sub-total H)			30				21291	
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				3832		
	Excess (if any) over 61.3M EURO x 0.02	33						
Sub-total J (32-33)			34				3832	
Claims paid in period of 3 financial years			41				970	
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				559		
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						
Sub-total C (41+42+43-44-45)			46				1529	
Amounts recoverable from reinsurers in respect of claims included in Sub-total C			47				334	
Sub-total D (46-47)			48				1195	
Reinsurance Ratio (Sub-total D /sub-total C or, if more, 0.50 or, if less, 1.00)			49				0.78	
Premiums amount (Sub-total J x reinsurance ratio)			50				2996	
Provision for claims outstanding (before discounting and net of reinsurance)			51				293	
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					
Greater of lines 50 and 53			54				2996	

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

Global business

Financial year ended **31 December 2014**

Long term insurance business

		Company registration number	GL/ UK/ CM	day month year			Units	
		R12	475201	GL	31	12	2014	£000
				This financial year 1			Previous year 2	
Reference period (No. of months) See INSPRU 1.1.63R			11				12	
Claims paid in reference period			21				970	
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				559	
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					
Claims incurred in reference period (21+22+23-24-25)			26				1529	
Claims incurred for classes 11, 12 or 13 (included in 26)			27					
Claims incurred for "actuarial health insurance" (included in 26)			28					
Sub-total E (26 +1/2 27 - 2/3 28)			29				1529	
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				1529	
Division of sub-total F (gross adjusted claims amount)	x 0.26		32				398	
	Excess (if any) over 42.9M EURO x 0.03		33					
Sub-total G (32-33)			39				398	
Claims amount Sub-total G x reinsurance ratio (11.49)			41				311	
Higher of premiums amount and brought forward amount (11.54)			42				2996	
General insurance capital requirement (higher of lines 41 and 42)			43				2996	

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

Global business

Financial year ended **31 December 2014**Category of assets **Total other than long term insurance business assets**

	Company registration number	GL/ UK/ CM	day	month	year	Units	Category of assets	
	R13	475201	GL	31	12	2014	£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		
	Debts and loans	22		
Other insurance dependants	Shares	23	25431	83076
	Debts and loans	24		
Non-insurance dependants	Shares	25	274	274
	Debts and loans	26		
Other group undertakings	Shares	27		
	Debts and loans	28	30000	
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	227523	197818
Rights under derivative contracts		44		29
Fixed interest securities	Approved	45		
	Other	46	6328	8875
Variable interest securities	Approved	47		
	Other	48		
Participation in investment pools		49		
Loans secured by mortgages		50		
Loans to public or local authorities and nationalised industries or undertakings		51		
Loans secured by policies of insurance issued by the company		52		
Other loans		53		
Bank and approved credit & financial institution deposits	One month or less withdrawal	54		
	More than one month withdrawal	55		
Other financial investments		56		
Deposits with ceding undertakings		57		
Assets held to match linked liabilities	Index linked	58		
	Property linked	59		

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

Global business

Financial year ended **31 December 2014**Category of assets **Total other than long term insurance business assets**

Company registration number		GL/UK/CM	day month year			Units	Category of assets
R13	475201	GL	31	12	2014	£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	829	69
	due in more than 12 months	79		

Other assets

Tangible assets	80		
Deposits not subject to time restriction on withdrawal with approved institutions	81	13361	13105
Cash in hand	82		
Other assets (particulars to be specified by way of supplementary note)	83		
Accrued interest and rent	84	155	226
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	303901	303472
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Analysis of admissible assetsName of insurer **Friends Life and Pensions Limited**

Global business

Financial year ended **31 December 2014**Category of assets **Total other than long term insurance business assets**

Company registration number		GL/UK/CM	day month year			Units	Category of assets
R13	475201	GL	31	12	2014	£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	303901	303472
Admissible assets in excess of market and counterparty limits	92	230000	
Inadmissible assets directly held	93	55283	
Capital resources requirement deduction of regulated related undertakings	94	19508	72103
Ineligible surplus capital and restricted assets in regulated related insurance undertakings	95		13540
Inadmissible assets of regulated related undertakings	96		10373
Book value of related ancillary services undertakings	97		
Other differences in the valuation of assets (other than for assets not valued above)	98	471061	931909
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	(1872)	(1265)
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	1077881	1330132
Amounts included in line 89 attributable to debts due from related insurers, other than those under contracts of insurance or reinsurance	103		

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

Global business

Financial year ended **31 December 2014**Category of assets **Total long term insurance business assets**

	Company registration number	GL/ UK/ CM	day	month	year	Units	Category of assets	
	R13	475201	GL	31	12	2014	£000	10
					As at end of this financial year		As at end of the previous year	
					1		2	
Land and buildings				11				

Investments in group undertakings and participating interests

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

Other financial investments

Equity shares		41	103476	112152
Other shares and other variable yield participations		42		
Holdings in collective investment schemes		43	88433	33830
Rights under derivative contracts		44	5301	3694
Fixed interest securities	Approved	45	358534	365367
	Other	46	2451223	1921982
Variable interest securities	Approved	47	67422	26128
	Other	48	27350	38398
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	457	640
Bank and approved credit & financial institution deposits	One month or less withdrawal	54	325	50059
	More than one month withdrawal	55		
Other financial investments		56		
Deposits with ceding undertakings		57		
Assets held to match linked liabilities	Index linked	58	39455	41082
	Property linked	59	16270476	15715213

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

Global business

Financial year ended **31 December 2014**Category of assets **Total long term insurance business assets**

Company registration number		GL/UK/CM	day month year			Units	Category of assets
R13	475201	GL	31	12	2014	£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	6671	1863
	Intermediaries	72	994	
Salvage and subrogation recoveries		73		
Reinsurance	Accepted	74		109044
	Ceded	75		393
Dependants	due in 12 months or less	76		
	due in more than 12 months	77		
Other	due in 12 months or less	78	25453	49501
	due in more than 12 months	79		

Other assets

Tangible assets	80		
Deposits not subject to time restriction on withdrawal with approved institutions	81	22686	15017
Cash in hand	82		
Other assets (particulars to be specified by way of supplementary note)	83		
Accrued interest and rent	84	43384	41889
Deferred acquisition costs (general business only)	85		
Other prepayments and accrued income	86	2498	618

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	19514138	18526870
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Analysis of admissible assets

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

Global business

Financial year ended **31 December 2014**

Category of assets **Total long term insurance business assets**

Company registration number		GL/UK/CM	day month year			Units	Category of assets
R13	475201	GL	31	12	2014	£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	19514138	18526870
Admissible assets in excess of market and counterparty limits	92		
Inadmissible assets directly held	93	33849	29614
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	853	
Deferred acquisition costs excluded from line 89	99	207175	229582
Reinsurers' share of technical provisions excluded from line 89	100	10807724	10113879
Other asset adjustments (may be negative)	101	(33828)	(21297)
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	30529911	28878648
Amounts included in line 89 attributable to debts due from related insurers, other than those under contracts of insurance or reinsurance	103		

Long term insurance business liabilities and margins

Name of insurer **Friends Life and Pensions Limited**
Global business
Financial year ended **31 December 2014**
Total business/Sub fund **Total Long Term Insurance Business**
Units **£000**

As at end of this financial year 1	As at end of the previous year 2
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Mathematical reserves, after distribution of surplus		11	19329476	18364661
Cash bonuses which had not been paid to policyholders prior to end of the financial year		12		
Balance of surplus/(valuation deficit)		13	110462	100262
Long term insurance business fund carried forward (11 to 13)		14	19439938	18464923
Claims outstanding	Gross	15	749	1462
	Reinsurers' share	16		
	Net (15-16)	17	749	1462
Provisions	Taxation	21		
	Other risks and charges	22	6830	700
Deposits received from reinsurers		23		
Creditors	Direct insurance business	31	19653	20890
	Reinsurance accepted	32		
	Reinsurance ceded	33	627	421
Debenture loans	Secured	34		
	Unsecured	35		
Amounts owed to credit institutions		36		
Creditors	Taxation	37	505	
	Other	38	42082	38474
Accruals and deferred income		39	3754	
Provision for "reasonably foreseeable adverse variations"		41		
Total other insurance and non-insurance liabilities (17 to 41)		49	74200	61947
Excess of the value of net admissible assets		51		
Total liabilities and margins		59	19514138	18526870

Amounts included in line 59 attributable to liabilities to related companies, other than those under contracts of insurance or reinsurance	61		
Amounts included in line 59 attributable to liabilities in respect of property linked benefits	62	16270476	15715213

Total liabilities (11+12+49)	71	19403676	18426608
Increase to liabilities - DAC related	72	34307	38004
Reinsurers' share of technical provisions	73	10807724	10113879
Other adjustments to liabilities (may be negative)	74	(106848)	(78991)
Capital and reserves and fund for future appropriations	75	391052	379148
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	30529911	28878648

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

Global business

Financial year ended **31 December 2014**

Company registration number		GL/ UK/ CM	day month year			Units
R15	475201	GL	31	12	2014	£000
			As at end of this financial year 1			As at end of the previous year 2

Technical provisions (gross amount)

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

Provisions and creditors

Provisions	Taxation	21		
	Other risks and charges	22		
Deposits received from reinsurers	31			
Creditors	Direct insurance business	41		
	Reinsurance accepted	42		
	Reinsurance ceded	43		
Debenture loans	Secured	44		
	Unsecured	45		
Amounts owed to credit institutions	46			
Creditors	Taxation	47	1872	1265
	Foreseeable dividend	48		
	Other	49	5481	447
Accruals and deferred income	51	4		
Total (19 to 51)	59	7357		1712
Provision for "reasonably foreseeable adverse variations"	61			
Cumulative preference share capital	62			
Subordinated loan capital	63			
Total (59 to 63)	69	7357		1712

Amounts included in line 69 attributable to liabilities to related insurers, other than those under contracts of insurance or reinsurance	71		
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Amounts deducted from technical provisions for discounting	82		
Other adjustments (may be negative)	83	(1872)	(1265)
Capital and reserves	84	1072396	1329685
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	1077881	1330132

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

Global business

Financial year ended **31 December 2014**

		Company registration number	GL/ UK/ CM	day	month	year	Units	
		R16	475201	GL	31	12	2014	£000
				This financial year			Previous year	
				1			2	
Transfer (to)/from the general insurance business technical account		From Form 20		11				
		Equalisation provisions		12				
Transfer from the long term insurance business revenue account				13				
Investment income	Income		14	21916			23966	
	Value re-adjustments on investments		15				13188	
	Gains on the realisation of investments		16				98	
Investment charges	Investment management charges, including interest		17	239			177	
	Value re-adjustments on investments		18	135973				
	Loss on the realisation of investments		19	151333				
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	7935			53978
Profit or loss on ordinary activities before tax (11+12+13+14+15+16-17-18-19-20+21)				29	(257694)			91053
Tax on profit or loss on ordinary activities				31	607			353
Profit or loss on ordinary activities after tax (29-31)				39	(258301)			90700
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	(258301)			90700
Dividends (paid or foreseeable)				51				10000
Profit or loss retained for the financial year (49-51)				59	(258301)			80700

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

Global business

Financial year ended **31 December 2014**Category of assets **Total other than long term insurance business assets**

		Company registration number	GL/ UK/ CM	day month year			Units	Category of assets	
		R17	475201	GL	31	12	2014	£000	1
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							
	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							
Adjustment for variation margin		52							
Total (51 + 52)		53							

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 and Pensions Limited**

Global business

Financial year ended **31 December 2014**Category of assets **Total long term insurance business assets**

		Company registration number	GL/ UK/ CM	day month year			Units	Category of assets	
		R17	475201	GL	31	12	2014	£000	10
Derivative contracts			Value as at the end of this financial year				Notional amount as at the end of this financial year		
			Assets 1	Liabilities 2		Bought / Long 3	Sold / Short 4		
Futures and contracts for differences	Fixed-interest securities	11							
	Interest rates	12							
	Inflation	13							
	Credit index / basket	14							
	Credit single name	15							
	Equity index	16	415			6588			
	Equity stock	17							
	Land	18							
	Currencies	19		537			42452		
	Mortality	20							
	Other	21							
In the money options	Swaptions	31	5272			12500			
	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	5687	537		19088	42452		
Adjustment for variation margin		52	(386)						
Total (51 + 52)		53	5301	537					

THE NOTIONAL AMOUNTS IN COLUMNS 3 AND 4 ARE NOT A MEASURE OF EXPOSURE.
Please see instructions 11 and 12 to this Form for the meaning of these figures.

Long-term insurance business : Revenue account

Name of insurer **Friends Life and Pensions Limited**
 Total business / subfund **Total Long Term Insurance Business**
 Financial year ended **31 December 2014**
 Units **£000**

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

Income

Earned premiums	11	2262436	3824006
Investment income receivable before deduction of tax	12	518867	429632
Increase (decrease) in the value of non-linked assets brought into account	13	357847	(142324)
Increase (decrease) in the value of linked assets	14	498531	1434446
Other income	15	12022	
Total income	19	3649703	5545760

Expenditure

Claims incurred	21	2239775	2327870
Expenses payable	22	371971	336524
Interest payable before the deduction of tax	23	171	19
Taxation	24	18199	3201
Other expenditure	25	44572	25617
Transfer to (from) non technical account	26		
Total expenditure	29	2674688	2693231

Business transfers - in	31		1449920
Business transfers - out	32		
Increase (decrease) in fund in financial year (19-29+31-32)	39	975015	4302449
Fund brought forward	49	18464923	14162474
Fund carried forward (39+49)	59	19439938	18464923

Long-term insurance business : Analysis of premiums

Name of insurer **Friends Life and Pensions Limited**
 Total business / subfund **Total Long Term Insurance Business**
 Financial year ended **31 December 2014**
 Units **£000**

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

Gross

Regular premiums	11	70299	1990256		2060555	1467241
Single premiums	12	84	707174		707258	2701216

Reinsurance - external

Regular premiums	13	10714	241		10955	2841
Single premiums	14	6	462827		462833	334689

Reinsurance - intra-group

Regular premiums	15		19354		19354	849
Single premiums	16		12235		12235	6072

Net of reinsurance

Regular premiums	17	59585	1970661		2030246	1463551
Single premiums	18	78	232112		232190	2360455

Total

Gross	19	70383	2697430		2767813	4168457
Reinsurance	20	10720	494657		505377	344451
Net	21	59663	2202773		2262436	3824006

Long-term insurance business : Analysis of claims

Name of insurer **Friends Life and Pensions Limited**
 Total business / subfund **Total Long Term Insurance Business**
 Financial year ended **31 December 2014**
 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	11453	35760		47213	29000
Disability periodic payments	12	79			79	11
Surrender or partial surrender	13		2255108		2255108	2211597
Annuity payments	14		125381		125381	112102
Lump sums on maturity	15		23418		23418	10926
Total	16	11532	2439667		2451199	2363636

Reinsurance - external

Death or disability lump sums	21	6196			6196	710
Disability periodic payments	22	35			35	(269)
Surrender or partial surrender	23		102024		102024	
Annuity payments	24		233		233	68
Lump sums on maturity	25					
Total	26	6231	102257		108488	509

Reinsurance - intra-group

Death or disability lump sums	31		1846		1846	587
Disability periodic payments	32					
Surrender or partial surrender	33		100604		100604	34516
Annuity payments	34					
Lump sums on maturity	35		486		486	154
Total	36		102936		102936	35257

Net of reinsurance

Death or disability lump sums	41	5257	33914		39171	27703
Disability periodic payments	42	44			44	280
Surrender or partial surrender	43		2052480		2052480	2177081
Annuity payments	44		125148		125148	112034
Lump sums on maturity	45		22932		22932	10772
Total	46	5301	2234474		2239775	2327870

Long-term insurance business : Analysis of expenses

Name of insurer **Friends Life and Pensions Limited**
 Total business / subfund **Total Long Term Insurance Business**
 Financial year ended **31 December 2014**
 Units **£000**

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

Gross

Commission - acquisition	11	104840	3587		108427	106491
Commission - other	12		9856		9856	10145
Management - acquisition	13	46749	75758		122507	113679
Management - maintenance	14	3076	60086		63162	86127
Management - other	15	6261	61758		68019	20082
Total	16	160926	211045		371971	336524

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	104840	3587		108427	106491
Commission - other	42		9856		9856	10145
Management - acquisition	43	46749	75758		122507	113679
Management - maintenance	44	3076	60086		63162	86127
Management - other	45	6261	61758		68019	20082
Total	46	160926	211045		371971	336524

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

Total business

Financial year ended **31 December 2014**Units **£000**

Financial year 1	Previous year 2
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Internal linked funds (excluding cross investment)

Directly held assets (excluding collective investment schemes)	11	10359934	9867606
Directly held assets in collective investment schemes of connected companies	12		
Directly held assets in other collective investment schemes	13	5921110	5912667
Total assets (excluding cross investment) (11+12+ 13)	14	16281044	15780273
Provision for tax on unrealised capital gains	15		
Secured and unsecured loans	16		
Other liabilities	17	49515	104328
Total net assets (14-15-16-17)	18	16231529	15675945

Directly held linked assets

Value of directly held linked assets	21	41211	39268
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Total

Value of directly held linked assets and units held (18+21)	31	16272740	15715213
Surplus units	32	2264	
Deficit units	33		
Net unit liability (31-32+33)	34	16270476	15715213

Long-term insurance business : Revenue account for internal linked fundsName of insurer **Friends Life and Pensions Limited**

Total business

Financial year ended **31 December 2014**Units **£000**

Financial year	Previous year
1	2

Income

Value of total creation of units	11	2652074	4230401
Investment income attributable to the funds before deduction of tax	12	378050	317301
Increase (decrease) in the value of investments in the financial year	13	498531	1429606
Other income	14		1398579
Total income	19	3528655	7375887

Expenditure

Value of total cancellation of units	21	2814081	2960143
Charges for management	22	145368	130195
Charges in respect of tax on investment income	23	6888	5996
Taxation on realised capital gains	24		
Increase (decrease) in amount set aside for tax on capital gains not yet realised	25		
Other expenditure	26	6733	9430
Total expenditure	29	2973070	3105765

Increase (decrease) in funds in financial year (19-29)	39	555585	4270122
Internal linked fund brought forward	49	15675944	11405822
Internal linked funds carried forward (39+49)	59	16231529	15675944

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

Total business

Financial year ended **31 December 2014**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	183920	236848		420768	294627
Single premium business	12		80822		80822	31626
Total	13	183920	317670		501590	326253

**Amount of new regular
premiums**

Direct insurance business	21	57730	511654		569384	475163
External reinsurance	22					
Intra-group reinsurance	23					
Total	24	57730	511654		569384	475163

**Amount of new single
premiums**

Direct insurance business	25		648235		648235	831234
External reinsurance	26					
Intra-group reinsurance	27		59023		59023	
Total	28		707258		707258	831234

Long-term insurance business : Analysis of new business

Name of insurer

Friends Life and Pensions Limited

Total business

Financial year ended

31 December 2014

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
325	Level term assurance	29685	8423		
330	Decreasing term assurance	29547	8358		
340	Accelerated critical illness (guaranteed premiums)	50120	26130		
345	Accelerated critical illness (reviewable premiums)	6153	3555		
350	Stand-alone critical illness (guaranteed premiums)	6941	2623		
355	Stand-alone critical illness (reviewable premiums)	838	337		
360	Income protection non-profit (guaranteed premiums)	2353	1116		
365	Income protection non-profit (reviewable premiums)	13908	4941		
380	Miscellaneous protection rider	35775	375		
910	Miscellaneous index linked	8600	1872		

Long-term insurance business : Analysis of new business

Name of insurer

Friends Life and Pensions Limited

Total business

Financial year ended

31 December 2014

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)			5201	205417
525	Individual pensions UWP		14		249
535	Group money purchase pensions UWP	14	191	41	1512
725	Individual pensions property linked	8266	4868	681	32052
735	Group money purchase pensions property linked	228568	506581	74899	409005

Long-term insurance business : Analysis of new business

Name of insurer

Friends Life and Pensions Limited

Total business

31 December 2014

Financial year ended

Units

£000

UK Pension / Reinsurance accepted intra-group

[illegible]

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

Name of insurer **Friends Life and Pensions Limited**
 Category of assets **10 Total long term insurance business assets**
 Financial year ended **31 December 2014**
 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	362110	362110	10589	2.41	
Other fixed interest securities	13	2490757	2490757	107956	3.40	
Variable interest securities	14	95045	95045	1355	3.18	
UK listed equity shares	15	100721	110672	3975	5.89	
Non-UK listed equity shares	16	2755	3027	93	3.29	
Unlisted equity shares	17					
Other assets	18	152819	142596	342	0.29	
Total	19	3204207	3204207	124310	3.23	

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

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

Overall return on with-profits assets

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

Long-term insurance business : Fixed and variable interest assets

Name of insurer **Friends Life and Pensions Limited**
 Category of assets **10 Total long term insurance business assets**
 Financial year ended **31 December 2014**
 Units **£000**

		Value of assets 1	Mean term 2	Yield before adjustment 3	Yield after adjustment 4
UK Government approved fixed interest securities	11	180188	18.90	2.51	2.51

Other approved fixed interest securities	21	181922	13.92	2.31	2.10
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Other fixed interest securities

AAA/Aaa	31	450679	12.36	2.96	2.67
AA/Aa	32	389281	11.78	2.96	2.60
A/A	33	1164541	11.28	3.40	2.83
BBB/Baa	34	468854	10.66	4.10	3.09
BB/Ba	35	13916	7.19	4.86	2.73
B/B	36	3433	11.20	5.60	1.65
CCC/Caa	37	48	5.55	5.12	5.12
Other (including unrated)	38	5	15.18	4.39	0.00
Total other fixed interest securities	39	2490757	11.42	3.40	2.81

Approved variable interest securities	41	67685	20.28	2.81	2.81
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Other variable interest securities	51	27360	20.67	4.10	3.51
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Total (11+21+39+41+51)	61	2947912	12.32	3.27	2.75
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Long-term insurance business : Summary of mathematical reserves

Name of insurer **Friends Life and Pensions Limited**
Total business / subfund **Total Long Term Insurance Business**
Financial year ended **31 December 2014**
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	(139244)	2920722		2781478	2392242
Form 52	13		101263		101263	103245
Form 53 - linked	14		26890958		26890958	25662477
Form 53 - non-linked	15		296272		296272	248239
Form 54 - linked	16	(2948)	49908		46960	41082
Form 54 - non-linked	17					316
Total	18	(142192)	30259123		30116931	28447602

Reinsurance - external

Form 51 - with-profits	21					
Form 51 - non-profit	22	68660			68660	35420
Form 52	23					
Form 53 - linked	24		9866941		9866941	8737027
Form 53 - non-linked	25		(18000)		(18000)	(15787)
Form 54 - linked	26	7505			7505	
Form 54 - non-linked	27					4347
Total	28	76165	9848941		9925106	8761006

Reinsurance - intra-group

Form 51 - with-profits	31					
Form 51 - non-profit	32		9663		9663	9286
Form 52	33		99145		99145	102412
Form 53 - linked	34		753541		753541	1210237
Form 53 - non-linked	35					
Form 54 - linked	36					
Form 54 - non-linked	37					
Total	38		862349		862349	1321935

Net of reinsurance

Form 51 - with-profits	41					
Form 51 - non-profit	42	(207904)	2911059		2703155	2347536
Form 52	43		2118		2118	833
Form 53 - linked	44		16270476		16270476	15715213
Form 53 - non-linked	45		314272		314272	264027
Form 54 - linked	46	(10453)	49908		39455	41082
Form 54 - non-linked	47					(4030)
Total	48	(218357)	19547833		19329476	18364661

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

Name of insurer **Friends Life and Pensions Limited**
 Total business / subfund **Total Long Term Insurance Business**
 Financial year ended **31 December 2014**
 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
325	Level term assurance	53861	7997151	13457				(25764)
330	Decreasing term assurance	51528	8313896	13213				(31206)
340	Accelerated critical illness (guaranteed premiums)	80510	8215926	38227				(38555)
345	Accelerated critical illness (reviewable premiums)	11234	1220081	5898				(3518)
350	Stand-alone critical illness (guaranteed premiums)	10959	648521	3871				(10123)
355	Stand-alone critical illness (reviewable premiums)	1777	97201	629				(1611)
360	Income protection non-profit (guaranteed premiums)	3815	54369	1675				(4502)
365	Income protection non-profit (reviewable premiums)	23731	262704	7580				(24223)
380	Miscellaneous protection rider	60370	25381	556				(1613)
385	Income protection claims in payment		408					1871

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

Name of insurer **Friends Life and Pensions Limited**
Total business / subfund **Total Long Term Insurance Business**
Financial year ended **31 December 2014**
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
325	Level term assurance		7396556	5				19590
330	Decreasing term assurance		7709084	0				10087
340	Accelerated critical illness (guaranteed premiums)		4110379	17				25667
345	Accelerated critical illness (reviewable premiums)		599981	2				4957
350	Stand-alone critical illness (guaranteed premiums)		343180					978
355	Stand-alone critical illness (reviewable premiums)		54822					110
360	Income protection non-profit (guaranteed premiums)		38847	21				736
365	Income protection non-profit (reviewable premiums)		179246	57				5476
385	Income protection claims in payment		239					1059

Name of insurer	Friends Life and Pensions Limited
Total business / subfund	Total Long Term Insurance Business
Financial year ended	31 December 2014
Units	£000
UK Pension / Gross	

[illegible]

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

Name of insurer	Friends Life and Pensions Limited
Total business / subfund	Total Long Term Insurance Business
Financial year ended	31 December 2014
Units	£000
UK Pension / Reinsurance ceded intra-group	

[illegible]

Name of insurer	Friends Life and Pensions Limited
Total business / subfund	Total Long Term Insurance Business
Financial year ended	31 December 2014
Units	£000
UK Pension / Gross	

[illegible]

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

Name of insurer **Friends Life and Pensions Limited**
 Total business / subfund **Total Long Term Insurance Business**
 Financial year ended **31 December 2014**
 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
574	UWP investment only reinsurance		99971		99971	99971	(826)	99145

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

Name of insurer	Friends Life and Pensions Limited
Total business / subfund	Total Long Term Insurance Business
Financial year ended	31 December 2014
Units	£000
UK Pension / Gross	

[illegible]

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

Name of insurer	Friends Life and Pensions Limited
Total business / subfund	Total Long Term Insurance Business
Financial year ended	31 December 2014
Units	£000
UK Pension / Reinsurance ceded external	

[illegible]

Name of insurer	Friends Life and Pensions Limited
Total business / subfund	Total Long Term Insurance Business
Financial year ended	31 December 2014
Units	£000
UK Pension / Reinsurance ceded intra-group	

[illegible]

Name of insurer	Friends Life and Pensions Limited
Total business / subfund	Total Long Term Insurance Business
Financial year ended	31 December 2014
Units	£000
UK Life / Gross	

[illegible]

Name of insurer	Friends Life and Pensions Limited
Total business / subfund	Total Long Term Insurance Business
Financial year ended	31 December 2014
Units	£000
UK Life / Reinsurance ceded external	

[illegible]

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

Name of insurer **Friends Life and Pensions Limited**
 Total business / subfund **Total Long Term Insurance Business**
 Financial year ended **31 December 2014**
 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
905	Index linked annuity	1151	1657		49908	49908		49908

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

Name of insurer **Friends Life and Pensions Limited**
Total business
Financial year ended **31 December 2014**
Units **£000**

Fund name 1	Type of fund 2	Net assets 3	Main series 4	Unit management charge 5	Price at previous valuation date 6	Price at current valuation date 7	Change in price during year 8
Balanced	12 - individual pension - balanced managed fund	5550660	Cross Holdings		1.9800	2.1225	7.20
Cash	13 - individual pension - defensive managed fund	479144	Cross Holdings		11.8617	11.9108	0.41
Equity	15 - individual pension - UK equity	2075844	Cross Holdings		2.3076	2.2626	(1.95)
European	16 - individual pension - overseas equity	357111	FP Accumulation 0.75% P	0.75	10.5447	10.7419	1.87
Fixed Interest	11 - individual pension - stock market managed fund	832501	Cross Holdings		2.9764	3.3578	12.81
International	16 - individual pension - overseas equity	2903636	Cross Holdings		2.3749	2.6678	12.33
Investment Trust	11 - individual pension - stock market managed fund	257946	L&M 0.75%	0.75	77.7692	82.8104	6.48
Managed Stewardship	14 - individual pension - other managed fund	675995	Cross Holdings		2.3476	2.5319	7.85
North American	16 - individual pension - overseas equity	177999	Cross Holdings		1.2840	1.6508	28.56
Pacific Basin	16 - individual pension - overseas equity	155786	Cross Holdings		1.9630	2.2243	13.31
Property	17 - individual pension - property	524568	Cross Holdings		2.8569	3.3161	16.07
Pre-Retirement Fixed	11 - individual pension - stock market managed fund	527630	Cross Holdings		1.9817	2.4670	24.49
Stewardship	15 - individual pension - UK equity	1415433	FP Accumulation 0.75% P	0.75	22.8176	23.8993	4.74
FL Balanced Index Enhanced Funds of Funds	12 - individual pension - balanced managed fund	463448			1.9592	2.0754	5.93
FL BlackRock (40:60) Global Equity Index (Aquila HP)	16 - individual pension - overseas equity	297877			2.0232	2.1969	8.59
FL Invesco Perpetual High Income	15 - individual pension - UK equity	116555			2.7386	3.0511	11.41
FL Baillie Gifford Managed	12 - individual pension - balanced managed fund	126713			2.2294	2.3258	4.32
FL Balanced Index Fund of Funds	12 - individual pension - balanced managed fund	637295			2.2670	2.3991	5.82

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

Name of insurer **Friends Life and Pensions Limited**
Total business
Financial year ended **31 December 2014**
Units **£000**

Fund name 1	Type of fund 2	Net assets 3	Main series 4	Unit management charge 5	Price at previous valuation date 6	Price at current valuation date 7	Change in price during year 8
FL BlackRock Consensus (Aquila HP)	12 - individual pension - balanced managed fund	504052			2.0241	2.1402	5.73
FL Cautious Index Fund of Funds	11 - individual pension - stock market managed fund	170435			2.0182	2.1435	6.21
NGP Deposit	13 - individual pension - defensive managed fund	408933			1.6349	1.6417	0.41
NGP Equity	15 - individual pension - UK equity	308921			1.8125	1.7790	(1.85)
NGP European	16 - individual pension - overseas equity	165700			2.1648	2.2245	2.75
FL BlackRock European Equity Index (Aquila HP)	11 - individual pension - stock market managed fund	204668	Cross Holdings		2.2692	2.2762	0.31
NGP Fixed Interest	11 - individual pension - stock market managed fund	212207			2.4151	2.7310	13.08
FL BlackRock (50:50) Global Equity Index (Aquila HP)	16 - individual pension - overseas equity	1820138			2.9588	3.0973	4.68
FL BlackRock Long Term (60:40) Index (Aquila HP)	11 - individual pension - stock market managed fund	969533			3.1292	3.2564	4.06
NGP International	16 - individual pension - overseas equity	172296			1.9265	2.1779	13.05
NGP Managed	14 - individual pension - other managed fund	3670513			1.8329	1.9649	7.20
NGP Managed Stewardship	14 - individual pension - other managed fund	645573			2.0068	2.1645	7.86
FL Newton Balanced	12 - individual pension - balanced managed fund	132712			2.1079	2.2463	6.56
FL BlackRock Over 15 Year Gilt Index (Aquila HP)	11 - individual pension - stock market managed fund	221575			1.8093	2.2662	25.25
NGP Pacific Basin	16 - individual pension - overseas equity	114535			1.9411	2.2072	13.71
NGP Property	17 - individual pension - property	461691			2.5809	2.9965	16.10
NGP Pre-Retirement Fixed	11 - individual pension - stock market managed fund	515719			2.1732	2.7104	24.72
NGP Stewardship	15 - individual pension - UK equity	477507			2.1443	2.2634	5.55

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

Name of insurer **Friends Life and Pensions Limited**
Total business
Financial year ended **31 December 2014**
Units **£000**

Fund name 1	Type of fund 2	Net assets 3	Main series 4	Unit management charge 5	Price at previous valuation date 6	Price at current valuation date 7	Change in price during year 8
FL BlackRock Over 15 Year Corporate Bond Index (Aquila HP)	11 - individual pension - stock market managed fund	249845			1.9941	2.3627	18.48
FL BlackRock UK Equity Index (Aquila HP)	15 - individual pension - UK equity	1081378	Cross Holdings		2.9853	3.0439	1.96
FL BlackRock Over 5 Year Index-Linked Gilt Index (Aquila HP)	11 - individual pension - stock market managed fund	153431			2.0617	2.4936	20.95
FL BlackRock US Equity Index (Aquila HP)	11 - individual pension - stock market managed fund	260761	Cross Holdings		1.8672	2.2789	22.05
FL BlackRock World (Ex-UK) Equity Index (Aquila HP)	16 - individual pension - overseas equity	356816	Cross Holdings		2.2846	2.5987	13.75
FL BlackRock Aquila Life Overseas Bond Index	11 - individual pension - stock market managed fund	122824	Cross Holdings		1.4548	1.5484	6.43
FL LIP Global Equity	11 - individual pension - stock market managed fund	127807			1.2713	1.3220	3.99
FL Blended Growth	11 - individual pension - stock market managed fund	145163			1.0528	1.1462	8.87
FL Blackrock All Stocks	11 - individual pension - stock market managed fund	113559	Cross Holdings		1.5241	1.7063	11.95
FL Blackrock Aquila Life All Stocks UK Gilts	11 - individual pension - stock market managed fund	127404	Cross Holdings		1.3700	1.5542	13.45
FL Mercer Diversified Growth	11 - individual pension - stock market managed fund	109940	Cross Holdings		1.1026	1.2168	10.36
FL Mercer Mixed Investment Pension Fund 3 (with retirement de-risking)	11 - individual pension - stock market managed fund	198702			1.1916	1.2850	7.83
FL MyM Mercer Mixed Investment Pension Fund 3 (with pre-retirement de-risking)	11 - individual pension - stock market managed fund	151212	Series 1	1.00	1.1884	1.2729	7.11
NGP North American	16 - individual pension - overseas equity	131657			1.4467	1.8601	28.57
FL Stewardship International	16 - individual pension - overseas equity	311516	Cross Holdings		1.6343	1.7803	8.94
FL My Future Growth	16 - individual pension - overseas equity	302519			1.1165	1.2336	10.48

Long-term insurance business: Analysis of valuation interest rate

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

Total business **Total Long Term Insurance Business**

Financial year ended **31 December 2014**

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 (PHI & CI)	(154075)	n/a	3.10	
UK F51 L&GA NP	(51906)	n/a	1.20	
UK F51 Pensions NP (h-FP Annuities)	2339724	n/a	2.72	2.85
UK F51 Pensions NP (GAOs)	24568	n/a	1.70	2.56
UK F51 Pensions NP	129713	n/a	2.10	2.56
UK F51 Pensions NP (Secure Growth Fund)	415403	n/a		3.58
UK F52 Pensions	2119	n/a	2.30	2.56
UK F53 Pensions NL	49452	n/a	2.10	2.56
UK F53 Pensions NL (GAOs)	7891	n/a	1.70	2.56
UK F53 Pensions NL (FLC)	3873	n/a	1.79	2.56
UK F53 Pensions NL (FLWL)	8320	n/a	1.79	2.56
UK F53 Pensions NL (Secure Growth Fund)	171652	n/a		3.58
Miscellaneous UK F51 L&GA NP	(1924)	n/a	n/a	
Miscellaneous UK F51 Pensions NP	1651	n/a	n/a	2.56
Miscellaneous UK F53 Pensions NL	73085	n/a	n/a	2.31
Total	3019545			

Long-term insurance business : Distribution of surplus

Name of insurer **Friends Life and Pensions Limited**
 Total business / subfund **Total Long Term Insurance Business**
 Financial year ended **31 December 2014**
 Units **£000**

Financial year 1	Previous year 2
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Valuation result

Fund carried forward	11	19439938	18464923
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	19439938	18464923
Mathematical reserves	21	19329476	18364661
Surplus including contingency and other reserves held towards the capital requirements (deficiency) (15-21)	29	110462	100262

Composition of surplus

Balance brought forward	31	100262	109900
Transfer from non-technical account	32		
Transfer from other funds / parts of fund	33		8448
Surplus arising since the last valuation	34	10200	(18086)
Total	39	110462	100262

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	110462	100262
Total (48+49)	59	110462	100262

Percentage of distributed surplus allocated to policyholders

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

Long-term insurance capital requirementName of insurer **Friends Life and Pensions Limited**

Global business

Financial year ended **31 December 2014**Units **£000**

LTICR factor	Gross reserves / capital at risk	Net reserves / capital at risk	Reinsurance factor	LTICR Financial year	LTICR Previous year
1	2	3	4	5	6

Insurance death risk capital component

Life protection reinsurance	11	0.0%					
Classes I (other), II and IX	12	0.1%	1377	1377	0.50	1	0
Classes I (other), II and IX	13	0.15%					
Classes I (other), II and IX	14	0.3%	25840307	6079418		38760	18625
Classes III, VII and VIII	15	0.3%	2186	2186	1.00	7	7
Total	16		25843871	6082982		38768	18633

Insurance health risk and life protection reinsurance capital component

Class IV supplementary classes 1 and 2 and life protection reinsurance	21					2996	2996
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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%	2960235	2791126	0.94	27911	24198
Classes III, VII and VIII (investment risk)	33	1%	367765	367765	1.00	3678	3301
Classes III, VII and VIII (expenses fixed 5 yrs +)	34	1%	4123082	4123082	1.00	41231	37000
Classes III, VII and VIII (other)	35	25%				8743	8719
Class IV (other)	36	1%	(43058)	(58922)	1.37	(589)	(299)
Class V	37	1%					
Class VI	38	1%					
Total	39					80974	72920

Insurance market risk capital component

Life protection and permanent health reinsurance	41	0%					
Classes I (other), II and IX	42	3%	2960235	2791126	0.94	83734	72595
Classes III, VII and VIII (investment risk)	43	3%	367765	367765	1.00	11033	9904
Classes III, VII and VIII (expenses fixed 5 yrs +)	44	0%	4123082	4123082			
Classes III, VII and VIII (other)	45	0%	22708908	12106426			
Class IV (other)	46	3%	(43058)	(58922)	1.37	(1768)	(896)
Class V	47	0%					
Class VI	48	3%					
Total	49		30116932	19329476		92999	81603

Long term insurance capital requirement	51					215736	176152
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***0201* Directions modifying the Accounts and Statements Rules**

The Prudential Regulation Authority, on the application of the firm, made a direction under section 138A of the Financial Services and Markets Act 2000 in October 2014. The effect of this direction is to modify the provisions of INSPRU 3.1.35R and IPRU(INS) Appendix 9.3 so that a more appropriate rate of interest is used for assets taken in combination; see note 5702.

***0204* Sale of subsidiaries**

Following receipt of the necessary regulatory approvals the sale of two of the Company's 100% owned subsidiaries (Lombard International Assurance S.A. and Insurance Development Holdings AG) completed on 31 October 2014.

The total consideration received was £316m of which £260m was cash and £56m the fair value of a Euro denominated vendor loan note. Following their receipt on 31 October 2014 the initial cash proceeds of £260m were immediately loaned to Friends Life Holdings plc ("FLH").

For the purposes of the Company's Annual PRA Insurance Return the vendor loan note is entirely inadmissible (shown on line 93 of form 13 for other than long term insurance business assets) and £230m of the loan asset with FLH is inadmissible as a result of counterparty limits (shown on line 92 of form 13 for other than long term insurance business assets). At 31 December 2013 the contribution of the Lombard businesses to overall solvency (per line 42 of form 2) was £33m as compared to a contribution of £30m from admissible element of the loan asset with FLH as at 31 December 2014.

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

	2014	2013
	£000	£000
Form 13 Line 89 total admissible assets (other than long-term)	303,901	303,472
Form 13 Line 89 total admissible assets (long-term)	19,514,138	18,526,870
	19,818,039	18,830,342
Less:		
Form 14 Line 11 mathematical reserves after distribution of surplus	19,329,476	18,364,661
Form 14 Line 49 other insurance & non-insurance liabilities	74,200	61,947
Form 15 Line 69 liabilities other than long-term business	7,357	1,712
Net admissible assets	407,006	402,022
Add:		
Form 2 Line 35 capital requirements of regulated related undertakings	19,508	72,103
Form 3 Line 79 capital resources after deductions	426,514	474,125

***0306* Financial reinsurance ceded**

The Company has entered into financial reinsurance agreements with Munich Re Company United Kingdom Life Branch.

As at the valuation date:

- there is no reinsurance offset;
- the amount of the Company's contingent liability under this arrangement at the valuation date was £4,599k; and
- there is no commutation value.

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***0310* Valuation Differences**

Negative valuation differences included within line 35 are:

	2014	2013
	£000	£000
In respect of liabilities valued lower than in the Companies Act accounts		
Deferred taxation	24,723	-
Financial Reinsurance	4,598	-
Deferred front end fees	5,993	6,505
	35,314	6,505
In respect of liabilities valued higher than in Companies Act accounts		
Non-unit reserve differences between regulatory reserves and Companies Act reserves	83,760	44,956
Additional reserves in respect of reinsurer credit risk (non-linked)	22,000	15,787
Other actuarial reserve	2,574	3,456
	108,334	64,199
In respect of assets on which there is a valuation allowance	853	-
Total equalling Form 3 Line 35	73,873	57,694

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

	2014	2013
	£000	£000
Profit and loss account and other reserves b/fwd	840,832	734,650
Profit and loss account and other reserves c/fwd	595,449	840,832
Movement	(245,383)	106,182
Lombard share scheme	(1,012)	561
Prior year adjustment in respect of deferred tax	1,282	-
UKGAAP profit arising in the long-term fund	(13,188)	(26,043)
Total equalling Form 16 line 59	(258,301)	80,700

***1100* Form not applicable**

Current year figures have been excluded from this form because they fall below the de minimis levels. Prior year comparatives are included though as the amounts were above the de minimis level in 2013.

***1200* Form not applicable**

Current year figures have been excluded from this form because they fall below the de minimis levels. Prior year comparatives are included though as the amounts were above the de minimis level in 2013.

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

- i) The Company held unlisted fixed interest securities valued at £85.4m in the long term insurance business fund. The other than long-term fund held £55.3m of unlisted investments.
- ii) Lines 41, 46 & 48 include assets to the value of £277.6m in the long term insurance business fund and £3.8m in the other than long term insurance business fund where, due to market conditions, the latest valuation available did not reflect active trading as at the valuation date.
- iii) There were £nil of beneficial interests in collective schemes in the long term insurance business fund, which were not UCITS or authorised schemes.
- iv) There were no reversionary interest or remainders in property other than land or buildings.

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

The Company held hybrid securities valued at £33.1m in the long-term fund and £3.8m in the shareholder fund.

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

Certain amounts shown in Forms 13, 14 and 15 have been calculated by netting amounts due to any one person against amounts due from that person to the extent permitted by IPRU(INS) Appendix 9.1 paragraph 8(3).

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

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

The investment guidelines for the funds in the Company show the following limits for fixed income assets expressed as a percentage of the total fund:

BONDS	FLP – Secure Growth	Limits	FLP – SANP	Limits
CREDIT RATINGS				
AAA and Below	100.0%	100.0%	100.0%	100%
AA+ and Below	85.1%	100.0%	78.5%	100%
A+ and Below	72.0%	75.0%	52.6%	75%
BBB+ and Below	33.4%	37.5%	14.3%	40%
Sub-investment grade	1.5%	3.0%	0.6%	10%
SINGLE ISSUER LIMITS				
Gilts				
Investment grade	0%	100.0%	11.5%	100%
Sub-investment grade	0%	100.0%	0.0%	100%
Corporates (excl. Covered Bonds)				
Investment Grade	3.1%	5.0%	1.9%	7%
Sub-investment Grade	0.6%	1.0%	0.2%	1%
Quasi Sovereign/Non-UK Sovereign				
Investment Grade	6.1%	10.0%	3.5%	15%
Sub-investment Grade	0%	1.0%	0%	1%
Non-UK Sovereign				
Investment Grade	0%	10.0%	0%	15%
Sub-investment Grade	0%	1.0%	0%	1%
Covered Bonds				
Investment Grade	1.2%	15.0%	10.2%	15%
Sub-investment Grade	0%	1.0%	0%	1%

N.B. The exposures shown in the counterparty section above are the largest single counterparty exposure as a percentage of all bonds within the fund.

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

- Exposure to Asset Backed Securities ("ABS") is over 20% within the Secured Growth Fund. For annuity funds, general de-risking in financials has led to an increase in ABS. This is in line with the new business and backbook annuity strategies. The aggregate exposure to ABS will be reviewed as part of the annual review of investment risk limits due to changes in the annuity strategy and Solvency II reclassification.

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The investment guidelines for the funds in the Company show the following limits for government and sovereign fixed income assets expressed as a percentage of the total fund:

CREDIT INSTRUMENTS	FLP - Secure Growth	Limits	FLP - SANP	Limits
Sovereign Bonds	5.2%	100%	14.4%	100%
Gilts (including UK government guaranteed assets)	0%	100%	11.5%	100%
Government bonds issued by G7 and other AAA rated Countries	5.2%	90%	3.0%	90%
Other Government bonds	0%	20%	0%	20%
Quasi Sovereign	9.3%	100%	5.1%	100%
Supranationals	6.1%	100%	3.6%	100%
Subsovereigns	3.1%	80%	1.5%	80%
Senior Debt	62.9%	100%	74.8%	100%
Senior non financial debt	43.5%	100%	44.0%	100%
Senior financial non insurance debt	15.2%	60%	17.2%	60%
Covered Bonds	4.2%	100%	13.6%	100%
Subordinated Financial Non Insurance Debt	7.3%	20%	2.5%	20%
Lower Tier 2	6.3%	20%	2.4%	20%
Upper Tier 2	0%	10%	0%	10%
Tier 1	0.9%	5%	0.1%	5%
Contingent Convertible securities	0%	0%	0%	0%
Asset Backed Securities	17.0%	20%	15.5%	20%
RMBS	0%	10%	0.6%	10%
CMBS	5.5%	10%	4.1%	10%
Whole Business securitisation	5.5%	8%	3.6%	8%
Non-mortgage loan securitisations	0%	7%	0%	7%
PFI	0.7%	10%	2.1%	10%
Other	3.9%	10%	3.2%	10%
Housing Associations	1.3%	15%	1.8%	15%
Structured Credit	0%	8%	0%	8%
Collateralised Loan Obligations	0%	8%	0%	8%
Other Collateralised Loan Obligations	0%	3%	0%	3%
Securities issued by Insurance Companies	8.3%	10%	3.4%	10%
Senior	2.1%	10%	3.0%	10%
Lower Tier 2	3.0%	10%	0%	10%
Upper Tier 2	0%	6%	0%	6%
Tier 1	2.7%	5%	0%	5%
Junior Subordinated	0%	6%	0%	6%
Private Loans	0%	15%	1.9%	15%
PFI	0%	15%	0%	15%
Financial	0%	8%	0%	8%
Other	0%	8%	1.9%	8%
Leveraged Loans	0%	5%	0%	5%
Senior Secured loans	0%	5%	0%	5%
CCC and below	0%	0%	0%	0%
Synthetic Credit	0%	10%	0%	10%
Small Medium Enterprise (SME) Loans	0%	5%	0%	10%
Leveraged (Syndicated) Loans	0%	5%	0%	10%
Direct Lending	0%	0%	0%	10%
Alternative Credit Loans	0%	15%	0%	30%
Commercial Real Estate	0%	15%	0%	20%
Infrastructure	0%	5%	0%	20%

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

The investment guidelines for the funds in the Company show the following limits for equity assets expressed as a percentage of the total fund:

EQUITY/ PROPERTY	FLP – Secure Growth	Limits	FLP – SANP	Limits
Common Stock, Preference Stock, Investment Trusts	6%	10%	0%	10%
Individual Property	0%	12% or £15m	0%	12% or £15m
Limited Partnerships	0%	1% of LTBA	0%	1% of LTBA
Other collective investment schemes	0%	1% of LTBA	0%	1% of LTBA

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

There were no equity breaches during the year.

Entity limits to countries for cash instruments are set out below:

CASH	FLP – Secure Growth	Limits	FLP - SANP	Limits
COUNTRIES				
Supranational	0%	40%	0%	40%
US	5.0%	40%	5.6%	40%
UK	37.9%	5%	32.8%	40%
France	26.0%	40%	27.9%	40%
Germany	8.5%	40%	9.2%	40%
Canada	2.4%	40%	2.6%	40%
Australia	1.5%	40%	1.6%	40%
Japan	6.1%	10%	6.6%	10%
Sweden	4.8%	10%	5.2%	10%
Netherlands	5.4%	10%	5.7%	10%
Switzerland	2.6%	10%	2.8%	10%
Norway	0.6%	5%	0.6%	5%
Singapore	0.1%	5%	0.1%	5%
Denmark	0%	5%	0%	5%
Spain	0%	5%	0%	5%
Italy	0%	5%	0%	5%
Other	-0.3%	0%	-0.7%	0%

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Financial Year End 31 December 2014

Entity limits to financial institution counterparties for cash instruments are set out below:

COUNTERPARTY	Limits
Supranational	10.0%
Preferred banks (with increased credit limits preferred for overnight deposits)	8.0%
US	7.5%
UK	7.5%
France	7.5%
Germany	7.5%
Canada	7.5%
Australia	7.5%
Japan	5.0%
Sweden	5.0%
Netherlands	5.0%
Switzerland	5.0%
Norway	3.0%
Singapore	3.0%
Denmark	3.0%
Spain	3.0%
Italy	0%

Entity limits to types of cash instruments are set out below:

CASH INSTRUMENTS	
UK Treasury Bills	100%
Deposits at bank	100%
Certificates of Deposit	100%
Commercial Paper	40%
ABS Commercial Paper	10%
Floating rate notes	20%
Repos	20%

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

- Total UK cash exposure within the Secure Growth fund is over 15%; the largest single UK cash counterparty exposure is over 8%. This results from cash placed with the custodian; HSBC. This cash was held whilst awaiting re-investment opportunities and to meet outflows.

***1306* & *1312* Large material connected party transactions**

On the sale of Lombard the other than long-term insurance business fund received total consideration of £316m of which £260m was cash and £56m the fair value of a vendor loan note. Following the receipt on 31 October 2014 the initial cash proceeds of £260m were immediately loaned to Friends Life Holdings plc ("FLH"). The vendor loan note is an inadmissible asset and does not contribute to the total of admissible assets on F13L89. The unsecured loan asset with FLH is disclosed in F13L28, however due to the loan being in excess of 1% of the long term business amount its admissible value is £30m (and a counterparty restriction of £230m is disclosed on F13L92).

***1307* & *1313* Fully Secured Rights**

The aggregate amount of fully secured rights in the long-term funds is £3.1m (2013: £nil). There were no such amounts in the other than long-term fund.

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

	Long term insurance business 2014 £000	Other than long term insurance business 2014 £000	Long term insurance business 2013 £000	Other than long term insurance business 2013 £000
Deferred tax netted off in accounts	(32,220)	-	(21,297)	-
Taxation creditors netted off in accounts	-	(1,872)	-	(1,265)
Other debtors/creditors netted off in accounts	(1,608)	-	-	-
	(33,828)	(1,872)	(21,297)	(1,265)

***1401* & *1501* Valuation adjustments and provision for reasonably foreseeable adverse variations**

Valuation adjustments

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. Pursuant to GENPRU 1.3.30R to GENPRU 1.3.33R, it was determined that valuation adjustments of £854k would be made in relation to specific asset types to reflect the degree of uncertainty in certain assumptions used in the models to value these asset types.

Provision for reasonably foreseeable adverse variations

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 for reasonably foreseeable adverse variations are required.

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

- i) No charge has been made on the assets of the Company to secure the liabilities of any other person.
- ii) No provision has been made (2013: £nil) for liability to tax on capital gains which would arise if the Company disposed of its total business assets. The potential liability is £nil.
- iii) The Company has a contingent liability in respect of compensation that could become payable to certain policyholders who effected personal pension contracts and who may have been given inappropriate advice in relation thereto.

The Company has a provision of £nil (2013: £nil) in line 11 of Form 14 for the expected costs of the compensation. The final costs may be in excess of this figure and there may also be a contingent liability in respect of the Financial Services Compensation Scheme.

- iv) The Company has no guarantees, indemnities or other contractual commitments affected other than in the ordinary course of insurance business and in respect of related companies.
- v) The PRA and other regulatory bodies may wish, in future, to examine the suitability of past sales and associated administration of products that could affect the Company and the industry in general. The directors of the Company also conduct ongoing reviews of such products. As a result, it is possible that additional unprovided liabilities could arise.
- vi) There are no other fundamental uncertainties.

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

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	2014 Long term insurance business £000	2014 Other than long term insurance business £000	2013 Long term insurance business £000	2013 Other than long term insurance business £000
Deferred front-end fees	5,993	-	6,505	-
Companies Act accounts fair value adjustment to liabilities	(103,736)	-	(64,200)	-
Deferred tax netted off in accounts	(32,220)	-	(21,296)	-
Other debtors/creditors netted off in accounts	(1,608)	-	-	-
Valuation differences on deferred tax	24,723	-	-	-
Taxation creditors netted off in accounts	-	(1,872)	-	(1,265)
Liabilities included in Companies Act accounts, excluded for PRA purposes	(106,848)	(1,872)	(78,991)	(1,265)

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

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

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

***1603* - Other income and charges**

The majority of the amount included at Line 21 relates to residual assets of the FLC shareholder fund that were transferred into the Company's shareholder fund following the de-authorisation of FLC in 2014. The transfer took place in accordance with the requirements of the 2013 Part VII scheme. This transfer resulted in exceptional income of £8.19m within the other than long term insurance business fund.

***1701* Variation margin**

The aggregate value of excess variation margin needed to be repaid due to underlying market movements is £nil (2013: £nil). Variation margin of £0.4m (2013: £nil) has been included in Form 13 line 44.

***1702* Quasi-derivatives**

a) The aggregate value of rights in respect of assets which have the effect of derivative contracts at the end of the financial year was £1,633.8m. The amounts contributed to each line in Form 13 in respect of quasi derivatives is as follows:

	Long term insurance business £m	Other than long term insurance business £m
Line 45 Fixed Interest Approved	27.7	-
Line 46 Fixed Interest Other	1,594.1	5.1
Line 47 Variable Interest Approved	-	-
Line 48 Variable Interest Other	6.9	-
	1,628.7	5.1

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 either lines 15 to 39 of Form 14 or lines 31 to 51 of Form 15.

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***4002* Other Income and Expenditure**

	2014	2013
	£000	£000
Other income comprises:		
Annual management charges and other fee income	4,301	-
Financial reinsurance	5,000	-
Tax creditor write off	2,721	-
	12,022	
Other expenditure comprises:		
Fund management charge rebate to Friends Life Limited ("FLL")	44,572	25,617

The Company entered into a financial reinsurance agreement with a reinsurer who advanced £5m in respect of individual protection business written between January and June 2014. The repayments in respect of the financial reinsurance are contingent on the emergence of future margins on policies whilst the policy remains in force or alternatively, reimbursement of commissions if the policy lapses or is surrendered.

***4004* Business transfers-in**

On 28 December 2013 all of the long-term business of FLC and the long-term business of FLWL written on the Embassy platform was transferred to the Company via a business transfer scheme (the "2013 Scheme") under Part VII of the Financial Services and Markets Act 2000. The total shown as a business transfer in on Form 40 Line 31 is £1,450m which is equal to the net of reinsurance mathematical reserves plus Form 14 Line 13 surplus transferred at the transfer date. There were no transfers in for 2014.

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

Management services were provided during the year by Friends Life Management Services Limited ("FLMS") and Friends Life Services ("FLS"); both wholly owned subsidiaries of Friends Life Group plc. Some of these services have been outsourced by FLMS to Diligenta Limited.

Investment management and advisory services were provided during the year by F&C Asset Management Limited, a wholly owned subsidiaries of F&C Asset Management plc, and by Friends Life Investments Limited, a wholly owned subsidiary of Friends Life Group plc.

***4009* Material connected party transactions**

During the period 1 January 2014 to 31 December 2014 the Company held several reinsurance agreements, exceeding 5% of the Company's long-term insurance business liabilities, with its parent undertaking FLL, principally consisting of pension business written in FLL. During this period, the Company has accepted £70m of reinsurance premiums and incurred £369m of reinsurance claims.

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

Assets within this Form have been valued as follows:

- Listed investments have been valued at market prices consistent with the pricing basis within those funds.
- OEICs are carried at market value at the balance sheet date.
- Other investments have been valued on a prudent basis having regard to their likely realisable value.

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

At the end of 2014 rights of £6.7m and liabilities of £12.3m were held under derivative contracts.

***4403* Variation margin**

There is a liability to repay a variation margin of £0.1m at the year-end.

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***4502* Other income and expenditure**

Other income and expenditure consists of:

	2014 £000	2013 £000
Transfer in under Part VII	-	1,398,579
Total other income	-	1,398,579
Transaction costs	6,329	9,010
Custodian charges	400	410
Interest payable	1	4
Miscellaneous charges	3	6
Total other expenditure	6,733	9,430

***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 £109m.

***4901* Rating agencies**

The majority of ratings used in Form 49 were provided by either Standard & Poor's, Moody's or Fitch where available. Where it was not possible to establish a credit rating from these sources, the bonds have been included in L38.

***5600* Index-linked assets**

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

***5701* Negative reserves**

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

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

***5702* Risk adjusted yield**

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The PRA, on application of the firm, made a direction under section 148 of the Financial Services and Markets Act 2000 on 8 October 2014. The effect of the direction is to modify the provisions of INSPRU 3.1.35R and IPRU(INS) Appendix 9.3 so that a more appropriate rate of interest is used for assets taken in combination.

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

Product Group	Total Long Term Insurance Business	
	Yield	Risk Adjusted Yield
UK F51 Pensions NP (h-FP Annuities)	3.39%	2.85%
UK F51 Pensions NP (GAOs)	2.67%	2.56%
UK F51 Pensions NP	2.67%	2.56%
UK F51 Pensions NP (Secure Growth Fund)	3.58%	3.58%
UK F52 Pensions	2.67%	2.56%
UK F53 Pensions NL	2.67%	2.56%
UK F53 Pensions NL (GAOs)	2.67%	2.56%
UK F53 Pensions NL (FLC)	2.67%	2.56%
UK F53 Pensions NL (FLWL)	2.67%	2.56%
UK F53 Pensions NL (Secure Growth Fund)	3.58%	3.58%
Miscellaneous UK F51 Pensions NP	2.67%	2.56%
Miscellaneous UK F53 Pensions NL	2.33%	2.31%

***5711* Zero valuation interest rate**

For Secure Growth Fund business the liabilities are set to be consistent with the assets at market value to ensure any earnings not yet declared are reserved for the future benefit of policyholders. A valuation interest rate of 0% is then applicable.

***6001* Use of prior year General Insurance Capital Requirement**

Having satisfied the relevant “Long-term business de-minimus limit”, Forms 11 and 12 have not been published as at 31 December 2014. The prior year General Insurance Capital Requirement has been retained from the prior year and this figure is greater than the figure that would have been used had Forms 11 and 12 been published. The gross annual office premiums in force amount as at 31 December 2014 in respect of the relevant business is £13.1m.

**Additional information on derivative and quasi-derivative contracts
(IPRU (INS) rule 9.29)
Friends Life and Pensions Limited
Financial year ended 31 December 2014**

Derivative Contracts

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

- a) Investment Guidelines.
Investment guidelines operated by the Company during 2014 were to use derivative contracts only for the purpose of efficient portfolio management or a reduction in investment risk. The derivatives which are permitted to be used include derivatives traded on a listed exchange, forward foreign exchange contracts (with an approved institution) and other over the counter derivatives with specific counterparties. All obligations arising out of derivative contracts are required to be covered and must not be used as a means of gearing the fund.
- b) Guidelines in respect of derivatives not likely to be exercised.
The investment guidelines do not explicitly allow or exclude the use of derivatives which create rights or obligations which are not, at the time when the contract is entered into, reasonably likely to be exercised. Therefore, providing such derivatives meet the over arching investment guidelines stated above, that they are held for efficient portfolio management or a reduction in investment risks, they are permitted.
- c) Use of derivatives not likely to be exercised.
The long-term fund and shareholder fund held derivatives during the year, which at the time when acquired were not likely to be exercised. These were held for purpose of protecting the fund from interest rate sensitivity. No other contracts were entered into during the financial year that were not, at the time of entry, reasonably likely to be exercised.
- d) The Company held no derivative contracts during the financial year other than permitted derivative contracts under permitted links rules, and nor did any contracts require a significant provision to be made under INSPRU 3.2.17R.
- e) The Company did not grant rights under derivative contracts during the financial year.

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

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

As at 31 December 2014

Controller	Shareholding/Voting Rights
Friends Life Limited (FLL) Pixham End, Dorking, RH4 1QA Incorporated in England Registered No: 4096141	100% shareholding in Friends Life and Pensions Limited.
Friends Life FPL Limited Pixham End, Dorking, RH4 1QA Incorporated in England Registered No: 4113107	100% holding of the ordinary shares in Friends Life Limited.
Friends Life FPG Limited Pixham End, Dorking, RH4 1QA Incorporated in England Registered No: 06861305	100% shareholding in Friends Life FPL Limited.
Friends Life Holdings plc Pixham End, Dorking, RH4 1QA Incorporated in England Registered No: 06986155	100% shareholding in Friends Life FPG Limited.
FLG Holdings Limited Trafalgar Court, Les Banques, St. Peter Port, Guernsey, GY1 3QL Incorporated in Guernsey Registered No: 50756	100% shareholding in Friends Life Holdings 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 FLG Holdings Limited.
Friends Life Group Limited Trafalgar Court, Les Banques, St. Peter Port, Guernsey, GY1 3QL Incorporated in Guernsey Registered No: 49558	99.99% 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 Friends Life Group Limited

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

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

VALUATION REPORT

Throughout this report the following notation is used:

the Company	denotes	Friends Life and Pensions Limited (FLP) (formerly Friends Provident Pensions Limited)
FLL	denotes	Friends Life Limited (formerly Friends Provident Life and Pensions Limited)
FLC	denotes	Friends Life Company Limited (formerly AXA Sun Life Plc)
FLWL	denotes	Friends Life WL Limited (formerly Winterthur Life UK Limited)
FPLMA	denotes	Friends Provident London and Manchester Assurance
LMP	denotes	London and Manchester Pensions

1. Valuation Date

- (1) The actuarial investigation relates to a valuation date of 31 December 2014.
- (2) The valuation date of the previous investigation was 31 December 2013.
- (3) There have been no interim valuations (for the purpose of IPRU (INS) rule 9.4) since the previous valuation date.

2. Product Range

New products

The following new products launched:

- The Friends Life Master Trust has launched in January 2014, which is a pension scheme designed for multiple employers under one trust arrangement.

Changes to existing products

The following changes to existing products have been made:

- The Auto Enrolment product has been improved to provide options to customers to choose the services they need. The product charge applied reflects the services customers choose.
- The New Generational GPP, CIMP, GAVC and Transplan products have replaced the front end charge for commission cost with a level charge linked to contributions made with effect from September 2014.
- The Critical Illness Cover product range now has enhanced terms for new customers with effect from May 2014, including new definitions of illnesses and enhancement of existing definitions.
- The Income Protection now has enhanced terms for new customers with effect from October / November 2014, including the change of child benefit which pays a lump sum if the child falls ill to family benefit which pays a monthly income for 12 months if the child or spouse falls ill. Customers can now also insure more of their salary and make one claim for up to 24 months' payment on each different cause if they hold limited benefit policies. Previously the total benefit amount provided by these policies, whether the causes were the same or different, was limited to 24 months' payment.

Products Withdrawn

- The Group Stakeholder product was closed to new business with effect from May 2014.

3. Discretionary Charges and Benefits

(1) Application of Market value Reduction

No market value reduction (MVR) factors were applied during 2014 on unitised with-profits contracts.

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

No premiums were reviewed in 2014.

(3) Non-profit deposit administration benefits

The interest rate added during the year for non-profit deposit administration benefits was as follows:

Plan Type	Annual Rate of Interest Addition
Transplan	4.5%
Compass (88) Pension Plan, Passbook Pension Plan, Passbook (92) Pension Plan, Transplan (88), Bespoke, Total Pension Plan, Executive Total Pension Plan, Transplan Plus, Group Personal Pension Plan, Group Money Purchase Plan, Group Money Purchase Plan Executive Option, Trustees' Investment Plan, Multibenefit Pension Solutions, Transplan GMP, Transplan Protected Rights Bulk Buyout, Personal Pension Plan – New Generation, Money Purchase plan – New Generation, Premier Retirement Plan, Group Secure Growth Plan, Voluntary Benefits Plan, Secure Growth Investment Only Plan, Compass Pension Plan, Combine Pension Plan, Combine (86) Pension Plan, Combine (90) Pension Plan, Combine GMP, Combine Final Salary and Combine Multibenefit	6.5% before charges ⁽¹⁾

⁽¹⁾ A special bonus of 15% was made to in force policies on 17/12/2014. Claims payments from 01/01/2014 will also be given an additional 15%.

(4) Service charges on linked policies

Policy fees for certain products are linked to the change in the RPI calculated each October. The change from October 2012 to October 2013 was 2.6%. The relevant business is:

- Passbook Pension Plan
- Passbook (88)
- Passbook (92)
- Compass Pension Plan
- Combine Pension Plan
- Combine (86)
- Combine (90)
- Combine Final Salary
- Combine Group Money Purchase
- Combine Money Purchase
- Combine Multibenefit
- Total Pension Plan
- Executive Total Pension Plan
- Bespoke

- Group Personal Pension Plan
- Multibenefit Pension Solutions
- Transplan Group Money Purchase Plan
- Personal Pension Plan Series 2 sold through IFAs
- Money Purchase Plan
- Group Money Purchase Plan
- Group Money Purchase Plan Executive

Policy fees for certain products are linked to the change in the index of Average Weekly Earnings (AWE) calculated each August. The change from August 2012 to August 2013 was 0.6%. The relevant business is:

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

The policy fees on ex-FLWL linked policies changed in 2014 as follows:

Product	Change in 2014
Winterthur Pensions	1.9%

Policy fees for certain Winterthur pension products depend on the relevant group pension scheme. Increases may be affected by rounding.

(5) Benefit charges on linked policies

There have been no changes to benefit charges (mortality, morbidity, etc) on linked policies during the year.

(6) Fund management charges

During 2014, the net annual management charge (the fund charge before rebate) was changed for the following funds:

Fund	Net Annual Management Charge		Fund size at 31/12/2014 £m
	Old	New	
Cazenova UK Funds	1.50%	1.25%	4.8
T Rowe Price Middle East & Africa	2.00%	1.90%	0.2
HL Multi-Manager	1.00%	0.75%	22.9
Schroder Life Intermediated Diversified Growth	0.75%	0.65%	74.4

There were no changes to notional charges to accumulating with-profits policies during 2014.

(7) Unit Pricing

- a) Assets within linked funds are valued using generally accepted methods according to the category of asset being valued.

Each internal linked fund is normally priced on each working day, although there are some funds which are priced less frequently.

The valuation of assets can be on a 'creation basis' (i.e. based on the price at which assets could be bought) or a 'cancellation basis' (i.e. based on the price at which assets could be sold) depending on the short or medium term expectation of whether a fund is expanding or contracting.

If a fund is expected to be in a net inflow position (fund is expanding), then a creation basis is used to value the fund. If a fund is expected to be in a net outflow position (fund is contracting), then a cancellation basis is used to value the fund. In each case allowance is made for dealing costs, accrued income and any tax implications.

The bare price is calculated by taking the net asset value, using a creation or cancellation basis as appropriate, adjusted for any fund management charges and dividing by the number of units. The bid and offer price of a fund are calculated from the bare price taking account of initial charges and rounding on a neutral basis by no more than 0.1p. Some funds have no initial costs so the offer and bid price are the same and a single price is published. For funds with a bid/offer spread the offer price is the bare or bid price multiplied by an offer price factor (100/95 if the bid/offer spread is 5%). The bid price is either the bare price, or the offer price multiplied by the reciprocal of the offer price factor.

The price used for policy transactions is as specified in policy terms and conditions and depends on the type of transaction being carried out, the product the customer is invested in and how the request is received.

Premium payments, claims and maturity transactions are generally processed using the price determined as a result of the valuation on the day before or the day when the transaction is received. For some funds the request has to be received by a cut off point to use the price as a result of the valuation on the day when the transaction is received, otherwise the price as a result of the valuation for the following working day is used.

Switches received (other than by post) before a cut off point, are generally processed using the price determined as a result of the valuation on the next working day following receipt, with switches received after the cut off point receiving the price as a result of the valuation on the next but one working day (or later in exceptional cases).

In certain circumstances the policies give the right to defer transactions for a limited period.

- b) Unit pricing bases are determined at fund level. Within a fund there are no variations between the pricing bases used for different policies other than through the use of different initial and annual management charges.
- c) Where assets are units in collective investment schemes (CIS) or similar assets, the assets used would be based on the market valuation as at close of business the previous working day or current day's pricing point depending on the individual fund. Policyholders will receive a unit price appropriate for the timing of receipt and method of instruction and in accordance with their policy terms and conditions.

(8) Tax deductions from unit-linked funds

The only funds are pension business, where no charge in respect of tax on capital gains is made.

(9) Tax provisions for unit-linked funds

The only funds are pension business, where no charge in respect of tax on capital gains is made.

(10) Discounts on purchases of units

Ex-FLWL Funds:

The Company utilises collective investment funds managed by external managers. Where investments into these funds receive a discount on the initial charge quoted by the external manager, the full benefit of this discount is passed on to the policyholder. In respect of discount on management charges, the Company has negotiated rebates with the external managers. In some cases, part of this rebate is retained by the Company as additional margin with the policyholder benefiting from the remainder of the rebate.

In some instances, there may be dilution levies applied by external fund managers on the purchase or sale of units by the Company in the fund managers' funds, in accordance with their stated dilution policy. In such instances, the dilution levy may be reflected in the unit price calculated for the Company's fund and therefore passed on to the policyholder.

All Funds:

Fund Manager	Discount on management charge for benefit of policyholders (%)	Discount on management charge for benefit of company (%)
Aberdeen Asset Managers Ltd	0.5 - 1	-0.5 - 0.005
Allianz Global Investors	0.1 - 0.9	0 - 0.005
Architas Multi-Manager Limited	0.38 - 1.3	-0.65 - 0.03
Artemis	0.75 - 1	0 - 0.1
Artemis Investment Management Ltd	0.5 - 0.85	0 - 0.05
Ashmore	0.1 - 0.1	0 - 0
Aviva	0.625 - 0.625	0.125 - 0.125
AXA Investment Managers	0.45 - 1.35	0 - 0.25

Fund Manager	Discount on management charge for benefit of policyholders (%)	Discount on management charge for benefit of company (%)
Baillie Gifford	0 - 0.35	-0.55 - 0.15
Barclays Capital	0.7 - 0.7	-0.05 - 0
BlackRock Investment Management UK Ltd	0 - 1.05	0 - 0.18
Capital International (The Capital Group Companies)	0 - 1.25	0 - 0
Charlotte Square	0.6 - 0.6	0 - 0
Close	0.65 - 0.65	0 - 0
F&C	0.81 - 0.81	0.06 - 0.06
Fidelity International	0.5 - 0.75	0 - 0.4
First State	0.05 - 0.75	0 - 0
Franklin Templeton	0.75 - 0.8	0 - 0.05
GLG Partners / MAN plc	0.75 - 0.75	0 - 0
Goldman Sachs	1 - 1	0 - 0
Hargreaves Lansdown	0 - 0	0 - 0
Henderson Global Investors Limited	0 - 0.8	-0.1 - 0.05
HSBC	0 - 0.625	0 - 0
IFDS Managers Limited	0.8 - 1	0.05 - 0.13
Invesco Perpetual	0 - 0.75	0 - 0.4
Investec Asset Management	0.65 - 0.9	-0.12 - 0.15
JO Hambro	0.5 - 0.5	0 - 0
JPMorgan Asset Management	0 - 0.75	0 - 0
Jupiter Unit Trust Managers Ltd	0.625 - 0.75	0 - 0.005
Kames Capital	0.5 - 0.75	-0.1 - 0.1
Lazard Asset Management	0.125 - 0.85	0 - 0.005
Legg Mason	0.75 - 0.75	0 - 0
Liontrust	0.75 - 0.75	0 - 0
M&G	0 - 0.775	-0.7125 - 0.025
MAM C F Midas and Miton (Midas Capital)	0.75 - 0.8	0 - 0
Margetts	0.75 - 0.75	0 - 0
Martin Currie	0 - 0.75	0 - 0
Mellon Global Investments/ Newton	0 - 0.375	-0.1 - 0.005
Mercer Global Investments	0 - 0.2	-0.09 - 0.81
MFS	0.15 - 0.25	0 - 0.41
Neptune	0.85 - 0.95	0 - 0.08
Newton (BNYMellon)	0 - 1.2	-0.1 - 0
Old Mutual	0 - 0.87	0 - 0.5
Premier Asset Management	0.7 - 0.9	-0.06 - 0
P-Solve	0.12 - 0.12	0 - 0
Rathbone	0.75 - 0.75	0 - 0
River & Mercantile	0.6 - 0.6	0 - 0
Fund Manager		

	Discount on management charge for benefit of policyholders (%)	Discount on management charge for benefit of company (%)
Sarasin	0.1 - 0.1	0 - 0
Schroders Investments Ltd	0 - 0.825	0 - 0
SSGA	0.75 - 0.75	-0.45 - 0
Standard Life Investments	0 - 0.8	0 - 0.21
T.Rowe Price	0.25 - 0.96	0 - 0
Threadneedle Investments	0.075 - 0.85	0 - 0.075
Towry Law	1.3 - 1.3	0 - 0
Trilogy	0.15 - 0.15	0 - 0
UBS	0.55 - 0.55	0 - 0

Where more than one rate of discount is shown, the rate varies either by the individual fund selected or by product type.

4. Valuation Basis (Other Than for Special Reserves)

Except as noted below, all policies have been valued using prospective methods.

(1) Valuation Methods Used

a) General Method

- i) For conventional non-profit business, a gross premium valuation has been adopted.
- ii) The valuation liabilities for unit-linked contracts shown in Form 53 are equal to the value of units allocated together with mortality and sterling reserves where appropriate. The method for calculating sterling reserves is that described in JIA Vol. 105 Part III, except that a prudent allowance is made for policies becoming paid-up. Sterling reserves are calculated allowing for any surrender penalties. If a negative sterling reserve is calculated then the amount is limited to the size of the surrender penalty.
- iii) The reserve for accumulating with-profits contracts is determined by calculating:
 - The face value of the contract (allowing for guaranteed bonus rates where applicable); and
 - The amount that would reasonably be expected to be paid in the event of a significant level of policy discontinuances. This amount is calculated taking into account any circumstances in which an MVR is guaranteed not to apply and allowing for future reversionary bonus implicit in treating customers fairly in the event that experience were to follow the valuation basis.

The lower of these two is compared with the result of a bonus reserve valuation and the reserve is taken to be the higher.

b) General Principles

- i) All policies are valued individually and any negative reserves that arise from the valuation methodology are eliminated. The exceptions where negative reserves are permitted are non-profit protection products.

ii) All linked valuation liabilities ceded to external reinsurers have been reduced by 0.25% to allow for credit risk.

c) Non Standard Methods

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

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

(2) Valuation Interest Rates

	31/12/2014	31/12/2013
	Pension %	Pension %
Investment Trust Retirement Annuity	1.00	1.00
Annuities in Possession (Pre July 2001)	2.68	3.76
Annuities in Possession (Post July 2001)	2.72	3.76
Regular Premium Term Assurances	2.10	3.20
Unit-linked business	3.30	4.40
Other Non Profits	2.10	3.20
GAO Reserve	1.70	3.00
Unitised With Profits	2.30	3.30
Pensions transferred from FLWL	2.10	1.90
Unit-linked pensions transferred from FLC	0.50	0.50

The valuation interest rate for each individual protection 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 2.8% to obtain a real yield.

	31/12/2014	
	Policy as a Liability	Policy as an Asset

	%	%
Accelerated Critical Illness	1.60	3.10
Stand-alone Critical Illness	1.60	3.10
Life	1.60	3.10
Income Protection	1.60	3.10
Immediate Needs (Level)	1.60	N/A
Long Term Care	1.60	N/A
Claims in Payment	2.10	N/A

(3) Adjustment to Yields for Risk

Fixed Interest

Yields on British Government fixed-interest and index-linked securities are assumed to be free of default risk and therefore no adjustments are made to their yields. Yields on Network Rail and LCR finance bonds are also assumed to be free of default risk.

The internal rates of return on corporate bonds have been reduced to make a prudent allowance for the risk of default. This allowance use 1920-2013 data with no stressed period applied, plus a margin for prudence.

The following transition/default table plus 26 percent of spread over gilt for non-gilt assets have been deducted from gross redemption yields to allow for credit default risk:

Credit Rating	Term to Redemption (years)		
	0-10	10-20	20+
AAA	1	4	8
AA	6	12	17
A	11	22	29
BBB	31	51	59
BB	113	134	136
B	291	285	267
Below B	742	576	507

Subordinated bonds (non-callable) will have a 30% uplift applied to table below while subordinated bonds (callable) will have a 70% uplift applied for credit default risk.

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

Non Ex- FLWL - The deduction for individual bonds may be restricted such that the risk-adjusted yield is not less than that on a British Government security of equivalent duration.

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

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.

Equities

In compliance with INSPRU 3.1.37R, the running yield on equities is calculated as the greater of the dividend yield and the average of the dividend yield and the earnings yield. This yield, and the yield on property, is capped at the long-term gilt yield plus 4% p.a (6.19% at 31st December 2014).

(4) Mortality

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

	31/12/2014		31/12/2013	
	Male	Female	Male	Female
Ex FPLMA Unitised Business	110% AMC00	110% AFC00	110% AMC00	110% AFC00
In Payment, group contracts, pension business (post-July 2001)(2) And Deferred, group contracts, pension business, post vesting(2)	modified PCMA00	modified PCFA00	modified PCMA00	modified PCFA00
In Payment, individual contracts, pension business (post-July 2001)(2) And Deferred, individual contracts, pension business, post vesting(2)	modified PCMA00	modified PCFA00	modified PCMA00	modified PCFA00
Deferred, group contracts, life business, post vesting ⁽²⁾	95% PMA92 C2025	95% PFA92 C2025	95% PMA92 C2025	95% PFA92 C2025
Stand-alone Critical Illness- Non-smoker	37.5% TM92 ult	37.5 TF92 ult	37.5% TM92 ult	37.5 TF92 ult
Stand-alone Critical Illness- Smoker	75% TM92 ult	75% TF92 ult	75% TM92 ult	75% TF92 ult
Life- Non-smoker	82.5% TMN00 sel	71.5% TFN00 sel	82.5% TMN00 sel	71.5% TFN00 sel
Life- Smoker	82.5% TMS00 sel	71.5% TFS00 sel	82.5% TMS00 sel	71.5% TFS00 sel
Life- Non-differentiated ⁽¹⁾	110% TMN00 sel	110% TFN00 sel	110% TMN00 sel	110% TFN00 sel
Income Protection	100% AM80 sel	100% AF80 sel	100% AM80 sel	100% AF80 sel

(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.

(2) Improvements for statutory bases are applied from 2001 based on 100% of the CMI 2013 mortality projections model with a long term rate of 2% p.a. for males and 1.75% p.a. for females.

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

Product group	Current age	Age at which expectation is determined	31/12/2014		31/12/2013	
			Males years	Females years	Males years	Females years
Annuities in payment- Individual contracts- pension business (Pre-July 2001)	65	65	25.82	28.49	25.93	28.36
	75	75	16.20	18.56	16.23	18.17
Deferred annuities- group contracts – pension business (Post-July 2001)	45	65	29.07	30.14	28.88	30.68
	55	65	27.45	28.84	27.31	29.16
Annuities in payment– group contracts- pension business (Post-July 2001)	65	65	25.79	27.46	25.82	27.61
	75	75	16.20	17.60	15.93	17.51
Annuities in payment- Group contracts- pension business (pre-July 2001)	65	65	25.56	27.16	24.92	27.30
	75	75	16.00	17.42	15.42	17.31
Deferred annuities- individual contracts– pension business (Post-July 2001)	45	65	29.31	31.08	29.33	31.18
	55	65	27.74	29.82	27.75	29.67
Annuities in payment– individual contracts- pension business (Post-July 2001)	65	65	26.14	28.49	26.25	28.12
	75	75	16.38	18.56	16.42	18.01

(5) Morbidity

Tables showing the morbidity inception and termination assumptions used for each of the main individual protection 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 accelerated CIC policies and 3.75% on reviewable stand-alone policies.

a) Inceptions

Product Type	Table	Inception Rates as Percentage of table CIBT02 at 31/12/2014			
Sex Smoker		M NS	M S	F NS	F S
Accelerated Critical Illness	CIBT02	46.7	72.0	63.1	90.9
Stand-alone Critical Illness	CIBT02	53.3	93.6	58.5	93.6
Income Protection	CMIR 12 Inceptions*	99.2	139.1	188.6	264.1

The following adjustments are made to income protection inception rates according to product series and occupational class.

Occupational Class	IP Loading %
Valuation Date	31/12/2014
1	90
2	95
3	125
4	180
5	250

Further adjustments are made to income protection incidence rates according to deferred period

Deferred Period (weeks)	Factor
Valuation Date	31/12/2014
4	25
13	40
26	70
52	195

b) Termination/Recovery rates

Product Type	Table	Recovery Rates as Percentage of table at 31/12/2014			
Sex Smoker		M NS	M S	F NS	F S
Income Protection	CMIR 12 Recovery Rates	51 y1 68 y2 63.75 y3-4 38.25 y5+	51 y1 68 y2 63.75 y3-4 38.25 y5+	51 y1 68 y2 63.75 y3-4 38.25 y5+	51 y1 68 y2 63.75 y3-4 38.25 y5+
Long Term Care	See sample rates below	116.4	128.4	116.4	128.4
Group Risk Claims in Payment (IP)	CMIR 12 Termination Rates	77 y1 117 y2-y3 108 y4-5 90 y5+	77 y1 117 y2-y3 108 y4-5 90 y5+	77 y1 117 y2-y3 108 y4-5 90 y5+	77 y1 117 y2-y3 108 y4-5 90 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.

Product Type and launch date where appropriate	Annual Percentage at 31/12/2014	
	Guaranteed	Reviewable
Future Care (Security)	2	1
Accelerated Critical Illness	0.625	0.625
Stand-alone Critical Illness	0.625	0.625
Income Protection	0	0

(6) Expense Bases

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

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

		31/12/2014				31/12/2013			
Class		Zillmer adj. % SA	Annual Expense £	Investment Expense% of Fund pa	% of Premium	Zillmer adj. % SA	Annual Expense £	Investment Expense% of Fund pa	% of Premium
Term Assurance (325 / 330)	Premium Paying	N/A	11.54	0.108	0	N/A	16.29	0.108	0
	Otherwise	N/A	20.24	0.125	0	N/A	19.86	0.125	0
Critical Illness (340 / 345 / 350 / 355)	Premium Paying	N/A	11.54	0.108	0	N/A	16.29	0.108	0
	Otherwise	N/A	20.24	0.125	0	N/A	19.86	0.125	0
Income Protection (360 / 365)	All	N/A	11.54	0.108	0	N/A	16.29	0.108	0
Annuity pre demutualisation (400)	All	N/A	16.04	0.105	0	N/A	17.16	0.105	0
Annuity post demutualisation (400)	All	N/A	16.04	0.105	0	N/A	17.16	0.105	0
UWP regular premium pension (525 / 545)	Premium Paying	N/A	35.42	0.105	0	N/A	33.50	0.105	0
	Otherwise		16.32	0.105			16.80	0.105	
UWP single premium pension (525 /545)	All	N/A	17.24	0.105	0	N/A	16.06	0.105	0
UWP group regular premium pension (535)	Premium Paying	N/A	35.42	0.105	0	N/A	33.50	0.105	0
	Otherwise		16.32	0.105			16.80	0.105	
UWP group single premium pension (535)	All	N/A	17.24	0.105	0	N/A	16.06	0.105	0
UL regular premium pension (725)	Premium Paying	N/A	16.21	0.080 / 0.065 *	0	N/A	15.10	0.090 / 0.080 *	0
	Otherwise		8.16	0.080 / 0.065 *			7.60	0.090 / 0.080 *	
UL single premium pension (725)	All	N/A	8.08	0.080 / 0.065 *	0	N/A	7.79	0.090 / 0.080 *	0
UL group regular premium pension (735)	Premium Paying	N/A	16.21	0.080 / 0.065 *	0	N/A	15.10	0.090 / 0.080 *	0
	Otherwise		8.16	0.080 / 0.065 *			7.60	0.090 / 0.080 *	
UL group single premium pension (735)	All	N/A	8.08	0.080 / 0.065 *	0	N/A	7.79	0.090 / 0.080 *	0

For unit-linked pension products the Investment Expenses are 0.080% p.a. for business written prior to 01/01/2014 and 0.065% p.a. for business written after that date.

(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:

	31/12/2014		31/12/2013	
	Unit Growth % p.a.	Expense Inflation % p.a.	Unit Growth % p.a.	Expense Inflation % p.a.
	Gross		Gross	
Conventional Non Profit	N/a	4.3	N/a	4.8
Unitised	3.3	4.3	4.4	4.8

For policies with explicit policy charges, these charges increase in line with the RPI or the Average Weekly Earnings (AWE) Index. We have assumed that the future RPI is 2.8% p.a., and that the future AWE is 1% higher at 3.8% p.a.

(8) Future bonus rates

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

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

(9) Lapse surrender and conversion to paid-up

A summary of the lapse assumptions is shown below:

Product		Average Annual Lapse / Surrender / Paid-up Rate for Policy Years			
		1-5	6-10	11-15	16-20
		%	%	%	%
Level term (incl. Critical Illness) – Low Rate	Lapse	6.4	4.4	3.6	3.6
Level term (incl. Critical Illness) – High Rate	Lapse	15.0	10.4	8.4	8.4
Decreasing Term (incl. Critical Illness) – Low Rate	Lapse	6.30	5.5	4.5	4.5

Product		Average Annual Lapse / Surrender / Paid-up Rate for Policy Years			
		1-5	6-10	11-15	16-20
		%	%	%	%
Decreasing Term (incl. Critical Illness) – High Rate	Lapse	14.7	12.9	10.5	10.5
Accelerated Critical Illness – Low Rate	Lapse	7.6	5.3	4.4	4.4
Accelerated Critical Illness – High Rate	Lapse	17.3	12.1	9.9	9.9
Income Protection – Low Rate	Lapse	6.4	4.4	3.6	3.6
Income Protection – High Rate	Lapse	15.0	10.4	8.4	8.4
UL Group Pension	PUP	21.3	15.6	15.6	15.6

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

(10) Other material assumptions

The table below describes the methodology used to calculate the unearned premium reserve for individual protection business.

Product	IP	CI	Life
Reserve	40% of the average premiums in force over the last 6 months	13% 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 own-modelled prices agreed with counterparties otherwise. Combined yields are calculated for assets with covering derivatives, whether in-the-money or out-of-the-money, in accordance with INSPRU 3.1.30R. The interest rates used in the valuation of liabilities are consistent with the yields on backing assets, reflecting covering derivatives if appropriate. In the calculation of the resilience capital requirement the derivative values and the yields on the combined assets are recalculated to reflect the market risk scenario being tested.

(12) 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) Certain deferred annuities are valued as the greater of the present value of the annuity or, if appropriate, the alternative cash fund available at vesting for the purchase of an annuity, less the present value of premiums for the same option where appropriate. It has been assumed that all contract plan types listed below have such a guarantee. It is assumed that 100% of the fund at retirement is taken in the form of an annuity if this option is more onerous than cash.
- b) The table 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)
Former LMP unitised pension business	27.0	Up to 16 years	32.5	10%	No	Single Life; monthly in advance, guaranteed 5 years	60-75

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

(2) Guaranteed Surrender and unit-linked maturity values

- a) The following table summarises material types of maturity and surrender guarantee. The valuation methodology is deterministic, allowing for additional margins as an approximation to the stochastic value of the guarantee.

Product Name (b)(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)
Transplan	26.9	Up to 24 years	6.9	At maturity – GMP in respect of contracting out of SERPS	n/a	Nil	No

(3) Guaranteed Insurability Options

For individual protection 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:

Includes GIOs from age 55 plus facility to increase benefit on adoption and mortgage increase.

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.

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. 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.

The in force premiums and basic sums assured for each product with the above guaranteed insurability options, can be found in the table below:

Product Name (b)(i)	In-force Premiums (b)(ii) £m	Sum assured (b)(iii) £m
Decreasing Accelerated Critical Illness	27.3	6,260.6
Level Accelerated Critical Illness	21.4	3,445.6
Level Income Protection	13.4	460.3
Level Stand Alone Critical Illness	4.1	589.2
Decreasing Term Assurance	11.9	5,622.0
Level Term Assurance	18.7	8,604.4

(4) Other Guarantees and Options

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

6. Expense Reserves

(1) Expense Loadings

The aggregate amount, grossed up for tax where appropriate, arising during the twelve months after the valuation date from reserves made in the valuation to meet expenses in fulfilling contracts in force at the valuation date is £61.7m. The amounts arising from each of the implicit allowances, explicit allowances for investment expenses and explicit allowances for other maintenance expenses are shown in the table below.

Homogeneous Risk Group	Implicit Allowances £m	Explicit Allowance (Investment) £m	Explicit Allowances (Other) £m	Non-Attributable Expenses £m	Total £m
New Generation Pensions	0	16.7	16.4	17.8	50.9
All Expenses Attributable	0	3.6	7.1	0	10.7
Total	0	20.3	23.5	17.8	61.7

(2) Implicit Expense Allowances

There are no implicit allowances for expenses.

(3) Comparison with Form 43

Financial Reporting Standard 26 requires initial transaction costs on assets to be shown as investment expenses in the statutory accounts and, these expenses, amounting to £6.5m, 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 £63.2m. After allowing for initial transaction costs on assets, the amount of maintenance expenses (£56.7m) included in line 14 of Form 43 is lower than the expense loadings (£61.7m) disclosed in section 6.(1) above.

(4) New business expense overrun

The value of profits in respect of expected new business exceeds the expenses incurred. Therefore no additional reserve is required.

(5) Maintenance expense overrun

The cost of closure to new business has been estimated, allowing in particular for redundancy costs and the cost of vacating properties. This was less than margins expected to emerge from in-force business on a prudent basis. Hence no additional reserve was required.

(6) Non attributable expenses

Non-attributable expenses have only been calculated for unit-linked and UWP products. For each homogeneous risk group where the non-attributable expenses have been excluded from the sterling reserves calculation (or bonus reserve valuation for UWP), the resulting sterling reserve has been compared with a sterling reserve calculation combining the cashflows of all the policies in the homogeneous risk group and including the non-attributable expenses. As the sterling reserve based on the grouped cashflows is less than the sterling reserve calculated at policy level without non-attributable costs, no additional reserve is held for the non-attributable expenses.

Additional non attributable expenses in respect of ex-FLC business:

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)
UL Pensions	0.3

7. Mismatching reserves

(1) Analysis of reserves by currency

The value of mathematical reserves (other than reserves for property-linked benefits) and deposits received from reinsurers, together with the value of assets matching those liabilities, are analysed below by reference to currency:

Currency	Value of liabilities (£m)	Value of assets (£m)
Sterling	3,059	3,246
Total	3,059	3,246

(2) Other currency exposure

As noted above, the Company has no liabilities denominated in currencies other than sterling.

(3) Currency mismatching reserve

There are sufficient sterling assets to cover the sterling liabilities. Consequently no reserve for currency mismatching is considered necessary.

(4) Most onerous scenario under INSPRU 3.1.16R

The most onerous of the scenarios specified by INSPRU 3.1.16R was:

- A fall in the market value of equities of 10%;
- A fall in real estate values of 20%; and
- A rise in yields on all fixed interest securities of 0.45% p.a.

(5) Most onerous scenario under INSPRU 3.1.23R

There is no territory outside the United Kingdom in which the market value of the assets held exceeds 2.5% of the long-term insurance assets (excluding those held to cover index-linked or property-linked liabilities). Accordingly, the same scenario as in (4) above has been used.

(6) Amount of resilience capital requirement

- a) The amount of the resilience capital requirement is £0m.
- b) The long term insurance liabilities decreased by £149.2m.
- c) The value of the assets allocated to match these liabilities decreased by £137.6m from their value as shown in Form 13.

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

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

New World Retirement

A reserve of £32m is held in FLP in respect of costs associated with the New World Retirement project that was initiated after the retirement changes announced in the 2014 Budget.

9. Reinsurance

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

No premiums for reinsurance ceded on a facultative basis were paid during 2014 to reinsurers who are not authorised to carry on insurance business in the United Kingdom.

(2) Reinsurance treaties

(a), (b) & (c) Details of reinsurance treaties under which the Company is the cedant and either the premiums payable to the reinsurer during 2014 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 2014 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)
Swiss Re	0.2
Hannover RE	0.1
Total	0.3

- j) The mathematical reserves ceded under the treaty are quoted in the table.
- k) Retentions on new business are quoted in the table.
- l) Baillie Gifford Life Limited and JPMorgan Life Limited are not authorised to carry on insurance business in the UK. Friends Life Limited and BlackRock are authorised to carry on insurance business in the UK.
- m) Connections of any reinsurer to the Company are quoted in the table.
- n) Apart from any reserves ceded internally, the mathematical reserves shown in the table have been increased by £22.0m 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) Munich Re advanced a loan of £5m in respect of Life and Critical Illness business. Repayment of the loan is equal to profit emerging from this business excluding expense profit. The amount outstanding on this loan at 31 December 2014 is £4.7m.
 - (ii) No additional reserve was required in respect in respect of any outstanding repayments due on the loan.

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) Mathemati cal Reserves £m	(k) Retention for new policies	(m) Connected Company
RGA Global Reinsurance Ltd	IFA Life cover treaty	3.3	Open	33.6	10% up to £50,000	Not Connected
Scor Reinsurance Ireland Ltd	Quota Share 'Life and Critical Illness' and 'Critical illness' premium treaty for IFA-, Connells- and Countrywide-distributed business.	4.5	Open	24.2	60% up to £150,000	Not Connected
Hannover	Quota share Life treaty for Countrywide- and Connells-distributed business	0.6	Open	11.5	10% up to £50,000	Not Connected
Baillie Gifford Life Limited	100% of Investment benefits under Baillie Gifford Unit Linked funds	8.4	Open	135.6	N/A	Not Connected
HSBC	100% of Investment benefits under HSBC Unit Linked funds	0.6	Open	10.1	N/A	Not Connected
JP Morgan Life Limited	100% of Investment benefits under JP Morgan Unit Linked funds	3.4	Open	54.6	N/A	Not Connected

(d) Reinsurer	(e) Nature and Extent of Cover Under the Treaty	(f) Premiums Payable £m	(h) New Business	(j) Mathemati cal Reserves £m	(k) Retention for new policies	(m) Connected Company
BlackRock	100% of Investment benefits under BlackRock Unit Linked funds	427.0	Open	6,873.4	N/A	Not Connected
	The treaty provides reinsurance in respect of liabilities that are linked to the performance of funds maintained by the Reinsurers. (originally in ex-FLWL)	0*	Open	2,090.2	No liability in respect of property-linked benefits invested in funds maintained by the Reinsurers is retained by the Company.	Not Connected
Schroder	100% of Investment benefits under Schroder Unit Linked funds	1.5	Open	24.1	N/A	Not Connected
	The treaty provides reinsurance in respect of liabilities that are linked to the performance of funds maintained by the Reinsurers. (originally in ex-FLWL)	0*	Open	51.6	No liability in respect of property-linked benefits invested in funds maintained by the Reinsurers is retained by the Company.	Not Connected

(d) Reinsurer	(e) Nature and Extent of Cover Under the Treaty	(f) Premiums Payable £m	(h) New Business	(j) Mathemati cal Reserves £m	(k) Retention for new policies	(m) Connected Company
AXA Wealth	100% of Investment benefits under AXA Wealth Unit Linked funds	4.9	Open	78.6	N/A	Not Connected
	The treaty provides reinsurance in respect of liabilities that are linked to the performance of funds maintained by the Reinsurers. (originally in ex-FLWL)	15.5	Open	419.1	N/A	Not Connected
Friends Life Ltd	All investment benefits under Unitised With Profit funds	4.6	Open	99.1	N/A	Parent Company
	All liabilities for benefits relating to the value of Property Fund units.	0*	Open	524.6	N/A	Parent Company
	Linked benefits where the member has chosen to invest in the funds of Friends Life Limited on a 100% quota share basis (originally in ex-FLC)	19.5	Open	219.8	N/A	Parent Company

(d) Reinsurer	(e) Nature and Extent of Cover Under the Treaty	(f) Premiums Payable £m	(h) New Business	(j) Mathemati cal Reserves £m	(k) Retention for new policies	(m) Connected Company
Legal & General Assurance (Pensions Man) Ltd	The treaty provides reinsurance in respect of liabilities that are linked to the performance of funds maintained by the Reinsurers. (originally in ex-FLWL)	0*	Open	38.5	No liability in respect of property-linked benefits invested in funds maintained by the Reinsurers is retained by the Company.	Not Connected
Threadneedle Pensions Ltd	The treaty provides reinsurance in respect of liabilities that are linked to the performance of funds maintained by the Reinsurers. (originally in ex-FLWL)	0.8	Open	51.4	No liability in respect of property-linked benefits invested in funds maintained by the Reinsurers is retained by the Company.	Not Connected

*This is zero because the premiums, net of claims, are included in Form 42. This is consistent with Form 41.

10. Reversionary Bonus

The investment element of with-profits business is reinsured so there are no bonus series meeting the stated conditions.

Directors' certificate required by rule 9.34 of the Accounts and Statements Rules
Friends Life and Pensions Limited
Financial year ended 31 December 2014

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 25 November 2013 and 8 October 2014 issued under section 138A 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) from the beginning of financial year in question until 18 June 2014, the insurer has complied in all material respects with the requirements of PRIN;
 - (iii) from 19 June 2014 until the end of the financial year in question, the insurer has complied in all material respects with the Fundamental Rules; and
 - (iv) it is reasonable to believe that the insurer has continued so to comply with the requirements of SYSC, the Fundamental Rules and the provisions of IPRU(INS), GENPRU and INSPRU subsequently, and will continue so to comply in future.
2. (a) that in our opinion, premiums for contracts entered into during the financial year and the resulting income earned are sufficient, under reasonable actuarial methods and assumptions, and taking into account the other financial resources of the insurer that are available for the purpose, to enable the insurer to meet its obligations in respect of those contracts and, in particular, to establish adequate mathematical reserves;
 - (b) that the sum of the mathematical reserves and the deposits received from reinsurers as shown in Form 14 constitute proper provision at the end of the financial year in question for the long-term insurance liabilities (including all liabilities arising from deposit back arrangements, but excluding other liabilities which had fallen due before the end of the financial year) including any increase in those liabilities arising from a distribution of surplus as a result of an actuarial investigation as at that date into the financial condition of the long-term insurance business;
 - (c) that we have, in preparing the return, taken and paid due regard to-
 - (i) advice in preparing the return from every actuary appointed by the insurer to perform the actuarial function in accordance with SUP 4.3.13R.

A. D. Carr
Director

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

J. S. Moss
Director
25 March 2015

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

Friends Life and Pensions Limited

Global business

Financial year ended 31 December 2014

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 Prudential Regulation Authority under section 137G of the Financial Services and Markets Act 2000:

- Forms 2, 3, 11 to 17, 40 to 45, 48, 49, 58 and 60 (including the supplementary notes) ("the Forms");
- the statement required by IPRU(INS) rule 9.29 ("the statement"); and
- the valuation report required by IPRU(INS) rule 9.31(a) ("the valuation report").

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

- Forms 46, 47, 50 to 55 and 57 (including the supplementary notes);
- the statements required by IPRU(INS) rules 9.30 and 9.36; and
- the certificate required by IPRU(INS) rule 9.34(1).

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

Respective responsibilities of the insurer and its auditor

The insurer is responsible for the preparation of an annual return (including the Forms, the statement and the valuation report) under the provisions of the Rules. The requirements of the Rules have been modified by the direction on 8 October 2014 made by the Prudential Regulation Authority under section 138A of the Financial Services and Markets Act 2000 and referred to in supplementary notes 0201.

Under IPRU(INS) rule 9.11 the Forms, the statement and the valuation report are required to be prepared in the manner specified by the Rules and to state fairly the information provided on the basis required by the Rules. The methods and assumptions determined by the insurer and used to perform the actuarial investigation as set out in the valuation report are required to reflect appropriately the requirements of INSPRU 1.2.

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

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the Forms, the statement and the valuation 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 report. The evidence included that previously obtained by us relating to the audit of the financial statements of the insurer for the financial year on which we reported on 25 March 2015. It also included an assessment of the significant estimates and judgments made by the insurer in the preparation of the Forms, the statement and the valuation report.

We planned and performed our work so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Forms, the statement and the valuation report are free from material misstatement, whether caused by fraud or other irregularity or error, and comply with IPRU(INS) rule 9.11.

In accordance with IPRU(INS) rule 9.35(1A), to the extent that any document, Form, statement, analysis or report to be examined under IPRU(INS) rule 9.35(1) contains amounts or information abstracted from the actuarial investigation performed pursuant to IPRU(INS) rule 9.4, we have obtained and paid due regard to advice from a suitably qualified actuary who is independent of the insurer.

Opinion

In our opinion:

- (a) the Forms, the statement and the valuation report fairly state the information provided on the basis required by the Rules as modified and have been properly prepared in accordance with the provisions of those Rules; and
- (b) the methods and assumptions determined by the insurer and used to perform the actuarial investigation as set out in the valuation reports appropriately reflect the requirements of INSPRU 1.2.

Ernst & Young LLP

Statutory Auditor

London