

# **Friends Life and Pensions Limited**

**Annual PRA Insurance Returns for the year ended**

**31 December 2015**

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

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

Global business

Financial year ended **31 December 2015**

Adjusted solo solvency calculation

	Company registration number	GL/ UK/ CM	day	month	year	Units
<b>R2</b>	<b>475201</b>	<b>GL</b>	<b>31</b>	<b>12</b>	<b>2015</b>	<b>£000</b>
			<b>As at end of this financial year</b>			<b>As at end of the previous year</b>
			<b>1</b>			<b>2</b>

**Capital resources**

Capital resources arising within the long-term insurance fund	<b>11</b>	146956	110462
Capital resources allocated towards long-term insurance business arising outside the long-term insurance fund	<b>12</b>	370141	316052
Capital resources available to cover long-term insurance business capital resources requirement (11+12)	<b>13</b>	517097	426514

**Guarantee fund**

Guarantee fund requirement	<b>21</b>	125586	91420
Excess (deficiency) of available capital resources to cover guarantee fund requirement	<b>22</b>	391511	335094

**Minimum capital requirement (MCR)**

Long-term insurance capital requirement	<b>31</b>	320126	215736
Resilience capital requirement	<b>32</b>		
Base capital resources requirement	<b>33</b>	2657	2902
Individual minimum capital requirement	<b>34</b>	320126	215736
Capital requirements of regulated related undertakings	<b>35</b>	18877	19508
Minimum capital requirement (34+35)	<b>36</b>	339003	235244
Excess (deficiency) of available capital resources to cover 50% of MCR	<b>37</b>	347596	308892
Excess (deficiency) of available capital resources to cover 75% of MCR	<b>38</b>	262845	250081

**Enhanced capital requirement**

With-profits insurance capital component	<b>39</b>		
Enhanced capital requirement	<b>40</b>	339003	235244

**Capital resources requirement (CRR)**

Capital resources requirement (greater of 36 and 40)	<b>41</b>	339003	235244
Excess (deficiency) of available capital resources to cover long-term insurance business CRR (13-41)	<b>42</b>	178094	191270

**Contingent liabilities**

Quantifiable contingent liabilities in respect of long-term insurance business as shown in a supplementary note to Form 14	<b>51</b>		
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**Components of capital resources**Name of insurer **Friends Life and Pensions Limited**

Global business

Financial year ended **31 December 2015**

	Company registration number	GL/ UK/ CM	day	month	year	Units
<b>R3</b>	<b>475201</b>	<b>GL</b>	<b>31</b>	<b>12</b>	<b>2015</b>	<b>£000</b>
		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	
		<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	

**Core tier one capital**

Permanent share capital	<b>11</b>		300000	300000	868000
Profit and loss account and other reserves	<b>12</b>		1057591	1057591	595449
Share premium account	<b>13</b>				
Positive valuation differences	<b>14</b>				
Fund for future appropriations	<b>15</b>				
Core tier one capital in related undertakings	<b>16</b>		613169	613169	(454130)
Core tier one capital (sum of 11 to 16)	<b>19</b>		1970760	1970760	1009319

**Tier one waivers**

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

**Other tier one capital**

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

<b>Total tier one capital before deductions (19+24+25+26+27+28)</b>	<b>31</b>		1970760	1970760	1009319
Investments in own shares	<b>32</b>				
Intangible assets	<b>33</b>				
Amounts deducted from technical provisions for discounting	<b>34</b>				
Other negative valuation differences	<b>35</b>		107370	107370	73873
Deductions in related undertakings	<b>36</b>				16932
Deductions from tier one (32 to 36)	<b>37</b>		107370	107370	90805
<b>Total tier one capital after deductions (31-37)</b>	<b>39</b>		1863390	1863390	918514

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

Global business

Financial year ended **31 December 2015**

	Company registration number	GL/ UK/ CM	day	month	year	Units
<b>R3</b>	<b>475201</b>	<b>GL</b>	<b>31</b>	<b>12</b>	<b>2015</b>	<b>£000</b>
		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	
		<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	

**Tier two capital**

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

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

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

**Components of capital resources**

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

Global business

Financial year ended **31 December 2015**

	Company registration number	GL/ UK/ CM	day	month	year	Units
<b>R3</b>	<b>475201</b>	<b>GL</b>	<b>31</b>	<b>12</b>	<b>2015</b>	<b>£000</b>
		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	
		<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	

**Total capital resources**

Positive adjustments for regulated non-insurance related undertakings	<b>71</b>				
<b>Total capital resources before deductions (39+69+71)</b>	<b>72</b>		1863390	1863390	918514
Inadmissible assets other than intangibles and own shares	<b>73</b>		1293849	1293849	262000
Assets in excess of market risk and counterparty limits	<b>74</b>				230000
Deductions for related ancillary services undertakings	<b>75</b>				
Deductions for regulated non-insurance related undertakings	<b>76</b>				
Deductions of ineligible surplus capital	<b>77</b>		52444	52444	
<b>Total capital resources after deductions (72-73-74-75-76-77)</b>	<b>79</b>		517097	517097	426514

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

Available capital resources for guarantee fund requirement	<b>81</b>		517097	517097	426514
Available capital resources for 50% MCR requirement	<b>82</b>		517097	517097	426514
Available capital resources for 75% MCR requirement	<b>83</b>		517097	517097	426514

**Financial engineering adjustments**

Implicit items	<b>91</b>				
Financial reinsurance - ceded	<b>92</b>		4582	4582	4598
Financial reinsurance - accepted	<b>93</b>				
Outstanding contingent loans	<b>94</b>				
Any other charges on future profits	<b>95</b>				
<b>Sum of financial engineering adjustments (91+92-93+94+95)</b>	<b>96</b>		4582	4582	4598

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

Global business

Financial year ended **31 December 2015**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	2015	£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					0				
UK insurance dependants	Shares				21				
	Debts and loans				22				
Other insurance dependants	Shares				23	35316		25431	
	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	329207		227523	
Rights under derivative contracts					44				
Fixed interest securities	Approved				45	3762			
	Other				46	1414		6328	
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 assets**Name of insurer **Friends Life and Pensions Limited**

Global business

Financial year ended **31 December 2015**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	2015	£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	167	829
	due in more than 12 months	79		

**Other assets**

Tangible assets	80		
Deposits not subject to time restriction on withdrawal with approved institutions	81	57	13361
Cash in hand	82		
Other assets (particulars to be specified by way of supplementary note)	83		
Accrued interest and rent	84	63	155
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	370260	303901
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**Analysis of admissible assets**Name of insurer **Friends Life and Pensions Limited**

Global business

Financial year ended **31 December 2015**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	2015	£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)	<b>91</b>	370260	303901
Admissible assets in excess of market and counterparty limits	<b>92</b>		230000
Inadmissible assets directly held	<b>93</b>	51927	55283
Capital resources requirement deduction of regulated related undertakings	<b>94</b>	18877	19508
Ineligible surplus capital and restricted assets in regulated related insurance undertakings	<b>95</b>	52444	
Inadmissible assets of regulated related undertakings	<b>96</b>	979931	
Book value of related ancillary services undertakings	<b>97</b>		
Other differences in the valuation of assets (other than for assets not valued above)	<b>98</b>	(613168)	471061
Deferred acquisition costs excluded from line 89	<b>99</b>		
Reinsurers' share of technical provisions excluded from line 89	<b>100</b>		
Other asset adjustments (may be negative)	<b>101</b>		(1872)
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)	<b>102</b>	860271	1077881
Amounts included in line 89 attributable to debts due from related insurers, other than those under contracts of insurance or reinsurance	<b>103</b>		

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

Global business

Financial year ended **31 December 2015**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	2015	£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	<b>21</b>		
	Debts and loans	<b>22</b>		
Other insurance dependants	Shares	<b>23</b>		
	Debts and loans	<b>24</b>		
Non-insurance dependants	Shares	<b>25</b>		
	Debts and loans	<b>26</b>		
Other group undertakings	Shares	<b>27</b>		
	Debts and loans	<b>28</b>		
Participating interests	Shares	<b>29</b>		
	Debts and loans	<b>30</b>		

**Other financial investments**

Equity shares		<b>41</b>	3129	103476
Other shares and other variable yield participations		<b>42</b>		
Holdings in collective investment schemes		<b>43</b>	236380	88433
Rights under derivative contracts		<b>44</b>	4073	5301
Fixed interest securities	Approved	<b>45</b>	445965	358534
	Other	<b>46</b>	2366944	2451223
Variable interest securities	Approved	<b>47</b>	71217	67422
	Other	<b>48</b>	16212	27350
Participation in investment pools		<b>49</b>		
Loans secured by mortgages		<b>50</b>		
Loans to public or local authorities and nationalised industries or undertakings		<b>51</b>		
Loans secured by policies of insurance issued by the company		<b>52</b>		
Other loans		<b>53</b>	274	457
Bank and approved credit & financial institution deposits	One month or less withdrawal	<b>54</b>	27065	325
	More than one month withdrawal	<b>55</b>		
Other financial investments		<b>56</b>		
Deposits with ceding undertakings		<b>57</b>		
Assets held to match linked liabilities	Index linked	<b>58</b>	32438	39455
	Property linked	<b>59</b>	16476762	16270476

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

Global business

Financial year ended **31 December 2015**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	2015	£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	2807	6671
	Intermediaries	72		994
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	21134	25453
	due in more than 12 months	79		

**Other assets**

Tangible assets	80		
Deposits not subject to time restriction on withdrawal with approved institutions	81	20560	22686
Cash in hand	82		
Other assets (particulars to be specified by way of supplementary note)	83		
Accrued interest and rent	84	42655	43384
Deferred acquisition costs (general business only)	85		
Other prepayments and accrued income	86	2726	2498

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	19770341	19514138
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**Analysis of admissible assets**

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

Global business

Financial year ended **31 December 2015**

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	2015	£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)	<b>91</b>	19770341	19514138
Admissible assets in excess of market and counterparty limits	<b>92</b>		
Inadmissible assets directly held	<b>93</b>	34828	33849
Capital resources requirement deduction of regulated related undertakings	<b>94</b>		
Ineligible surplus capital and restricted assets in regulated related insurance undertakings	<b>95</b>		
Inadmissible assets of regulated related undertakings	<b>96</b>		
Book value of related ancillary services undertakings	<b>97</b>		
Other differences in the valuation of assets (other than for assets not valued above)	<b>98</b>	2053	853
Deferred acquisition costs excluded from line 89	<b>99</b>	253591	207175
Reinsurers' share of technical provisions excluded from line 89	<b>100</b>	11668729	10807724
Other asset adjustments (may be negative)	<b>101</b>	(39141)	(33828)
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)	<b>102</b>	31690401	30529911
Amounts included in line 89 attributable to debts due from related insurers, other than those under contracts of insurance or reinsurance	<b>103</b>		

**Long term insurance business liabilities and margins**

Name of insurer **Friends Life and Pensions Limited**  
Global business  
Financial year ended **31 December 2015**  
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		<b>11</b>	19547511	19329476
Cash bonuses which had not been paid to policyholders prior to end of the financial year		<b>12</b>		
Balance of surplus/(valuation deficit)		<b>13</b>	146956	110462
Long term insurance business fund carried forward (11 to 13)		<b>14</b>	19694467	19439938
Claims outstanding	Gross	<b>15</b>	862	749
	Reinsurers' share	<b>16</b>		
	Net (15-16)	<b>17</b>	862	749
Provisions	Taxation	<b>21</b>		
	Other risks and charges	<b>22</b>	700	6830
Deposits received from reinsurers		<b>23</b>		
Creditors	Direct insurance business	<b>31</b>	21311	19653
	Reinsurance accepted	<b>32</b>		
	Reinsurance ceded	<b>33</b>	1549	627
Debenture loans	Secured	<b>34</b>		
	Unsecured	<b>35</b>		
Amounts owed to credit institutions		<b>36</b>	3416	
Creditors	Taxation	<b>37</b>	8488	505
	Other	<b>38</b>	37889	42082
Accruals and deferred income		<b>39</b>	1659	3754
Provision for "reasonably foreseeable adverse variations"		<b>41</b>		
Total other insurance and non-insurance liabilities (17 to 41)		<b>49</b>	75874	74200
Excess of the value of net admissible assets		<b>51</b>		
Total liabilities and margins		<b>59</b>	19770341	19514138

Amounts included in line 59 attributable to liabilities to related companies, other than those under contracts of insurance or reinsurance	<b>61</b>		
Amounts included in line 59 attributable to liabilities in respect of property linked benefits	<b>62</b>	16476762	16270476

Total liabilities (11+12+49)	<b>71</b>	19623385	19403676
Increase to liabilities - DAC related	<b>72</b>	26428	34307
Reinsurers' share of technical provisions	<b>73</b>	11668729	10807724
Other adjustments to liabilities (may be negative)	<b>74</b>	(144458)	(106848)
Capital and reserves and fund for future appropriations	<b>75</b>	516317	391052
Total liabilities under insurance accounts rules or international accounting standards as applicable to the firm for the purpose of its external financial reporting (71 to 75)	<b>76</b>	31690401	30529911

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

Global business

Financial year ended **31 December 2015**

Company registration number		GL/UK/CM	day month year			Units
R15	475201	GL	31	12	2015	£000
			As at end of this financial year 1			As at end of the previous year 2

**Technical provisions (gross amount)**

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

**Provisions and creditors**

Provisions	Taxation	<b>21</b>		
	Other risks and charges	<b>22</b>		
Deposits received from reinsurers	<b>31</b>			
Creditors	Direct insurance business	<b>41</b>		
	Reinsurance accepted	<b>42</b>		
	Reinsurance ceded	<b>43</b>		
Debenture loans	Secured	<b>44</b>		
	Unsecured	<b>45</b>		
Amounts owed to credit institutions	<b>46</b>			
Creditors	Taxation	<b>47</b>	11551	1872
	Foreseeable dividend	<b>48</b>		
	Other	<b>49</b>	7445	5481
Accruals and deferred income	<b>51</b>			4
Total (19 to 51)	<b>59</b>		18996	7357
Provision for "reasonably foreseeable adverse variations"	<b>61</b>			
Cumulative preference share capital	<b>62</b>			
Subordinated loan capital	<b>63</b>			
Total (59 to 63)	<b>69</b>		18996	7357

Amounts included in line 69 attributable to liabilities to related insurers, other than those under contracts of insurance or reinsurance	<b>71</b>		
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Amounts deducted from technical provisions for discounting	<b>82</b>		
Other adjustments (may be negative)	<b>83</b>		(1872)
Capital and reserves	<b>84</b>	841275	1072396
Total liabilities under insurance accounts rules or international accounting standards as applicable to the firm for the purpose of its external financial reporting (69-82+83+84)	<b>85</b>	860271	1077881

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

Global business

Financial year ended **31 December 2015**

		Company registration number	GL/ UK/ CM	day	month	year	Units	
		R16	475201	GL	31	12	2015	£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	(170000)				
Investment income	Income		14	6398			21916	
	Value re-adjustments on investments		15					
	Gains on the realisation of investments		16	732				
Investment charges	Investment management charges, including interest		17	340			239	
	Value re-adjustments on investments		18	61580			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	
Profit or loss on ordinary activities before tax (11+12+13+14+15+16-17-18-19-20+21)			29	(224790)			(257694)	
Tax on profit or loss on ordinary activities			31	11332			607	
Profit or loss on ordinary activities after tax (29-31)			39	(236122)			(258301)	
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	(236122)			(258301)	
Dividends (paid or foreseeable)			51	210000				
Profit or loss retained for the financial year (49-51)			59	(446122)			(258301)	

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

Global business

Financial year ended **31 December 2015**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	2015	£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							
	Equity stock		17							
	Land		18							
	Currencies		19	523	4037				46110	
	Mortality		20							
	Other		21							
In the money options	Swaptions		31	3550				8500		
	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	4073	4037		8500	46110		
Adjustment for variation margin			52							
Total (51 + 52)			53	4073	4037					

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 2015**  
 Units **£000**

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

**Income**

Earned premiums	11	2345379	2262436
Investment income receivable before deduction of tax	12	437729	518867
Increase (decrease) in the value of non-linked assets brought into account	13	(121120)	357847
Increase (decrease) in the value of linked assets	14	(39953)	498531
Other income	15	18059	12022
<b>Total income</b>	<b>19</b>	<b>2640094</b>	<b>3649703</b>

**Expenditure**

Claims incurred	21	2158831	2239775
Expenses payable	22	350095	371971
Interest payable before the deduction of tax	23	354	171
Taxation	24	1857	18199
Other expenditure	25	44428	44572
Transfer to (from) non technical account	26	(170000)	
<b>Total expenditure</b>	<b>29</b>	<b>2385565</b>	<b>2674688</b>

Business transfers - in	31		
Business transfers - out	32		
Increase (decrease) in fund in financial year (19-29+31-32)	39	254529	975015
Fund brought forward	49	19439938	18464923
Fund carried forward (39+49)	59	19694467	19439938

**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 2015**  
 Units **£000**

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

**Gross**

Regular premiums	11	114936	2154869		2269805	2060555
Single premiums	12	89	620071		620160	707258

**Reinsurance - external**

Regular premiums	13	20332	68874		89206	10955
Single premiums	14	11	432828		432839	462833

**Reinsurance - intra-group**

Regular premiums	15		17417		17417	19354
Single premiums	16		5124		5124	12235

**Net of reinsurance**

Regular premiums	17	94604	2068578		2163182	2030246
Single premiums	18	78	182119		182197	232190

**Total**

Gross	19	115025	2774940		2889965	2767813
Reinsurance	20	20343	524243		544586	505377
Net	21	94682	2250697		2345379	2262436

**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 2015**  
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	20303	33800		54103	47213
Disability periodic payments	12	344			344	79
Surrender or partial surrender	13		2116110		2116110	2255108
Annuity payments	14		133515		133515	125381
Lump sums on maturity	15		23681		23681	23418
<b>Total</b>	<b>16</b>	<b>20647</b>	<b>2307106</b>		<b>2327753</b>	<b>2451199</b>

**Reinsurance - external**

Death or disability lump sums	21	12528			12528	6196
Disability periodic payments	22	165			165	35
Surrender or partial surrender	23		126132		126132	102024
Annuity payments	24		256		256	233
Lump sums on maturity	25					
<b>Total</b>	<b>26</b>	<b>12693</b>	<b>126388</b>		<b>139081</b>	<b>108488</b>

**Reinsurance - intra-group**

Death or disability lump sums	31		825		825	1846
Disability periodic payments	32					
Surrender or partial surrender	33		29011		29011	100604
Annuity payments	34					
Lump sums on maturity	35		5		5	486
<b>Total</b>	<b>36</b>		<b>29841</b>		<b>29841</b>	<b>102936</b>

**Net of reinsurance**

Death or disability lump sums	41	7775	32975		40750	39171
Disability periodic payments	42	179			179	44
Surrender or partial surrender	43		1960967		1960967	2052480
Annuity payments	44		133259		133259	125148
Lump sums on maturity	45		23676		23676	22932
<b>Total</b>	<b>46</b>	<b>7954</b>	<b>2150877</b>		<b>2158831</b>	<b>2239775</b>

**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 2015**  
 Units **£000**

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

**Gross**

Commission - acquisition	11	106660	751		107411	108427
Commission - other	12		7993		7993	9856
Management - acquisition	13	45933	97985		143918	122507
Management - maintenance	14	4008	65025		69033	63162
Management - other	15	9890	11850		21740	68019
<b>Total</b>	<b>16</b>	<b>166491</b>	<b>183604</b>		<b>350095</b>	<b>371971</b>

**Reinsurance - external**

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

**Reinsurance - intra-group**

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

**Net of reinsurance**

Commission - acquisition	41	106660	751		107411	108427
Commission - other	42		7993		7993	9856
Management - acquisition	43	45933	97985		143918	122507
Management - maintenance	44	4008	65025		69033	63162
Management - other	45	9890	11850		21740	68019
<b>Total</b>	<b>46</b>	<b>166491</b>	<b>183604</b>		<b>350095</b>	<b>371971</b>

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

Total business

Financial year ended **31 December 2015**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	2848542	10359934
Directly held assets in collective investment schemes of connected companies	12		
Directly held assets in other collective investment schemes	13	13677191	5921110
<b>Total assets (excluding cross investment) (11+12+ 13)</b>	<b>14</b>	<b>16525733</b>	<b>16281044</b>
Provision for tax on unrealised capital gains	15		
Secured and unsecured loans	16		
Other liabilities	17	92657	49515
<b>Total net assets (14-15-16-17)</b>	<b>18</b>	<b>16433076</b>	<b>16231529</b>

**Directly held linked assets**

Value of directly held linked assets	21	43686	41211
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**Total**

Value of directly held linked assets and units held (18+21)	31	16476762	16272740
Surplus units	32		2264
Deficit units	33		
<b>Net unit liability (31-32+33)</b>	<b>34</b>	<b>16476762</b>	<b>16270476</b>

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

Total business

Financial year ended **31 December 2015**Units **£000**

Financial year	Previous year
1	2

**Income**

Value of total creation of units	11	3250797	2652074
Investment income attributable to the funds before deduction of tax	12	353021	378050
Increase (decrease) in the value of investments in the financial year	13	(39953)	498531
Other income	14		
<b>Total income</b>	<b>19</b>	<b>3563865</b>	<b>3528655</b>

**Expenditure**

Value of total cancellation of units	21	3210499	2814081
Charges for management	22	138374	145368
Charges in respect of tax on investment income	23	3239	6888
Taxation on realised capital gains	24		
Increase (decrease) in amount set aside for tax on capital gains not yet realised	25		
Other expenditure	26	10206	6733
<b>Total expenditure</b>	<b>29</b>	<b>3362318</b>	<b>2973070</b>

Increase (decrease) in funds in financial year (19-29)	39	201547	555585
Internal linked fund brought forward	49	16231529	15675944
Internal linked funds carried forward (39+49)	59	16433076	16231529

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

Total business

Financial year ended **31 December 2015**Units **£000**

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

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

Regular premium business	<b>11</b>	210327	212524		422851	420768
Single premium business	<b>12</b>		60413		60413	80822
<b>Total</b>	<b>13</b>	210327	272937		483264	501590

**Amount of new regular  
premiums**

Direct insurance business	<b>21</b>	59864	579542		639406	569384
External reinsurance	<b>22</b>					
Intra-group reinsurance	<b>23</b>					
<b>Total</b>	<b>24</b>	59864	579542		639406	569384

**Amount of new single  
premiums**

Direct insurance business	<b>25</b>		569585		569585	648235
External reinsurance	<b>26</b>					
Intra-group reinsurance	<b>27</b>		50575		50575	59023
<b>Total</b>	<b>28</b>		620160		620160	707258

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

Name of insurer

**Friends Life and Pensions Limited**

Total business

Financial year ended

**31 December 2015**

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	22987	6124		
330	Decreasing term assurance	33174	9812		
340	Accelerated critical illness (guaranteed premiums)	14229	7290		
345	Accelerated critical illness (reviewable premiums)	41103	21977		
350	Stand-alone critical illness (guaranteed premiums)	4590	1682		
355	Stand-alone critical illness (reviewable premiums)	3067	1343		
360	Income protection non-profit (guaranteed premiums)	4287	2005		
365	Income protection non-profit (reviewable premiums)	16982	6174		
380	Miscellaneous protection rider	55293	580		
910	Miscellaneous index linked	14615	2877		



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

Name of insurer

**Friends Life and Pensions Limited**

Total business

Financial year ended

**31 December 2015**

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)			3522	117835
525	Individual pensions UWP	16	13	5	93
535	Group money purchase pensions UWP	214	256	30	406
725	Individual pensions property linked	8866	4922	791	45998
730	Individual pensions property linked - increments				18093
735	Group money purchase pensions property linked	203428	574351	56064	383249
740	Group money purchase pensions property linked - increments				3909
745	DWP National Insurance rebates property linked				2

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

Name of insurer

**Friends Life and Pensions Limited**

Total business

**31 December 2015**

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 2015**  
 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	449207	449207	13204	2.49	
Other fixed interest securities	13	2406108	2406108	106151	3.62	
Variable interest securities	14	87678	87678	812	2.02	
UK listed equity shares	15	2434	105851	5654	5.34	
Non-UK listed equity shares	16	695	1628	67	4.09	
Unlisted equity shares	17					
Other assets	18	315019	210669	219		
<b>Total</b>	<b>19</b>	<b>3261141</b>	<b>3261141</b>	<b>126107</b>	<b>3.25</b>	

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

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

**Overall return on with-profits assets**

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

## Long-term insurance business : 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 2015**  
 Units **£000**

		Value of assets 1	Mean term 2	Yield before adjustment 3	Yield after adjustment 4
<b>UK Government approved fixed interest securities</b>	<b>11</b>	258836	14.72	2.32	2.32

<b>Other approved fixed interest securities</b>	<b>21</b>	190371	15.10	2.73	2.52
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## Other fixed interest securities

AAA/Aaa	<b>31</b>	420877	11.71	3.26	3.10
AA/Aa	<b>32</b>	431748	12.68	3.16	2.76
A/A	<b>33</b>	990442	10.55	3.54	2.97
BBB/Baa	<b>34</b>	533683	9.84	4.30	3.18
BB/Ba	<b>35</b>	24656	11.00	5.99	3.05
B/B	<b>36</b>	3099	10.47	6.29	
CCC/Caa	<b>37</b>	1598	5.35	9.55	
Other (including unrated)	<b>38</b>	5	14.19	4.44	
<b>Total other fixed interest securities</b>	<b>39</b>	2406108	10.98	3.62	3.00

<b>Approved variable interest securities</b>	<b>41</b>	71483	18.85	2.04	2.04
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<b>Other variable interest securities</b>	<b>51</b>	16195	16.25	1.93	1.45
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<b>Total (11+21+39+41+51)</b>	<b>61</b>	2942993	11.80	3.40	2.88
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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 2015**  
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	(142925)	2983890		2840965	2781478
Form 52	13		99241		99241	101263
Form 53 - linked	14		27936833		27936833	26890958
Form 53 - non-linked	15		290242		290242	296272
Form 54 - linked	16	(7805)	51048		43243	46960
Form 54 - non-linked	17					
<b>Total</b>	<b>18</b>	<b>(150730)</b>	<b>31361254</b>		<b>31210524</b>	<b>30116931</b>

**Reinsurance - external**

Form 51 - with-profits	21					
Form 51 - non-profit	22	105251	86		105337	68660
Form 52	23					
Form 53 - linked	24		10635122		10635122	9866941
Form 53 - non-linked	25		(19627)		(19627)	(18000)
Form 54 - linked	26	10805			10805	7505
Form 54 - non-linked	27					
<b>Total</b>	<b>28</b>	<b>116056</b>	<b>10615581</b>		<b>10731637</b>	<b>9925106</b>

**Reinsurance - intra-group**

Form 51 - with-profits	31					
Form 51 - non-profit	32		9186		9186	9663
Form 52	33		97241		97241	99145
Form 53 - linked	34		824949		824949	753541
Form 53 - non-linked	35					
Form 54 - linked	36					
Form 54 - non-linked	37					
<b>Total</b>	<b>38</b>		<b>931376</b>		<b>931376</b>	<b>862349</b>

**Net of reinsurance**

Form 51 - with-profits	41					
Form 51 - non-profit	42	(248176)	2974618		2726442	2703155
Form 52	43		2000		2000	2118
Form 53 - linked	44		16476762		16476762	16270476
Form 53 - non-linked	45		309869		309869	314272
Form 54 - linked	46	(18610)	51048		32438	39455
Form 54 - non-linked	47					
<b>Total</b>	<b>48</b>	<b>(266786)</b>	<b>19814297</b>		<b>19547511</b>	<b>19329476</b>

**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 2015**  
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	69094	10056533	17259				(22689)
330	Decreasing term assurance	77795	12526604	20499				(46439)
340	Accelerated critical illness (guaranteed premiums)	82342	8371358	38923				6937
345	Accelerated critical illness (reviewable premiums)	49375	5097224	24767				(17331)
350	Stand-alone critical illness (guaranteed premiums)	13638	791646	4831				(11318)
355	Stand-alone critical illness (reviewable premiums)	4495	317769	1756				(4375)
360	Income protection non-profit (guaranteed premiums)	7524	111555	3302				(8333)
365	Income protection non-profit (reviewable premiums)	36668	414040	11923				(38772)
380	Miscellaneous protection rider	106388	46124	1005				(1447)
385	Income protection claims in payment		400					842

**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 2015**  
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		9520235	6				25005
330	Decreasing term assurance		11906648	1				18876
340	Accelerated critical illness (guaranteed premiums)		4273998	22				29476
345	Accelerated critical illness (reviewable premiums)		2716302	2				20984
350	Stand-alone critical illness (guaranteed premiums)		427464					956
355	Stand-alone critical illness (reviewable premiums)		179816					421
360	Income protection non-profit (guaranteed premiums)		65466	40				1279
365	Income protection non-profit (reviewable premiums)		241891	86				7798
385	Income protection claims in payment		227					456

**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 2015**  
Units **£000**  
UK Pension / Gross

Product code number	Product description	Number of policyholders / scheme members	Amount of benefit	Amount of annual office premiums	Nominal value of units	Discounted value of units	Other liabilities	Amount of mathematical reserves
1	2	3	4	5	6	7	8	9
315	Individual deposit administration non-profit	23838	281768	29				290270
320	Group deposit administration non-profit	1888	111632	714				137476
390	Deferred annuity non-profit	2674	1532					35077
400	Annuity non-profit (CPA)	113799	139289					2521067



**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 2015**  
 Units **£000**  
 UK Pension / Reinsurance ceded external

Product code number	Product description	Number of policyholders / scheme members	Amount of benefit	Amount of annual office premiums	Nominal value of units	Discounted value of units	Other liabilities	Amount of mathematical reserves
1	2	3	4	5	6	7	8	9
400	Annuity non-profit (CPA)							86

**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 2015**  
 Units **£000**  
 UK Pension / Reinsurance ceded intra-group

Product code number	Product description	Number of policyholders / scheme members	Amount of benefit	Amount of annual office premiums	Nominal value of units	Discounted value of units	Other liabilities	Amount of mathematical reserves
1	2	3	4	5	6	7	8	9
390	Deferred annuity non-profit		450					9186

Name of insurer	<b>Friends Life and Pensions Limited</b>
Total business / subfund	<b>Total Long Term Insurance Business</b>
Financial year ended	<b>31 December 2015</b>
Units	<b>£000</b>
UK Pension / Gross	

[illegible]

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

Name of insurer	<b>Friends Life and Pensions Limited</b>
Total business / subfund	<b>Total Long Term Insurance Business</b>
Financial year ended	<b>31 December 2015</b>
Units	<b>£000</b>
UK Pension / Reinsurance ceded intra-group	

[illegible]

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

Name of insurer	<b>Friends Life and Pensions Limited</b>
Total business / subfund	<b>Total Long Term Insurance Business</b>
Financial year ended	<b>31 December 2015</b>
Units	<b>£000</b>
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 2015**  
 Units **£000**  
 UK Pension / Reinsurance ceded external

Product code number	Product description	Number of policyholders / scheme members	Amount of benefit	Amount of annual office premiums	Nominal value of units	Discounted value of units	Other liabilities	Amount of mathematical reserves
1	2	3	4	5	6	7	8	9
794	Property linked investment only reinsurance		10635122		10635122	10635122	(19627)	10615495

Name of insurer	<b>Friends Life and Pensions Limited</b>
Total business / subfund	<b>Total Long Term Insurance Business</b>
Financial year ended	<b>31 December 2015</b>
Units	<b>£000</b>
UK Pension / Reinsurance ceded intra-group	

[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 2015**  
 Units **£000**  
 UK Life / Gross

Product code number	Product description	Number of policyholders / scheme members	Amount of benefit	Amount of annual office premiums	Nominal value of units	Discounted value of units	Other liabilities	Amount of mathematical reserves
1	2	3	4	5	6	7	8	9
901	Index linked income protection claims in payment		711		5818	5818		5818
910	Miscellaneous index linked	27335	185284	5464	(13623)	(13623)		(13623)



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

Name of insurer	<b>Friends Life and Pensions Limited</b>
Total business / subfund	<b>Total Long Term Insurance Business</b>
Financial year ended	<b>31 December 2015</b>
Units	<b>£000</b>
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 2015**  
 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	1184	1769		51048	51048		51048

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 2015**  
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	1760111	Cross Holdings		2.1225	2.1447	1.04
Equity	15 - individual pension - UK equity	215281	Cross Holdings		2.2626	2.2064	(2.49)
European	16 - individual pension - overseas equity	188619	FP Accumulation 0.75% PRE	0.75	10.7419	11.5401	7.43
Investment Trust	11 - individual pension - stock market managed fund	254590	L&M 0.75%	0.75	82.8104	87.9253	6.18
Property	17 - individual pension - property	588419	Cross Holdings		3.3161	3.7343	12.61
Pre-Retirement Fixed	11 - individual pension - stock market managed fund	548292	Cross Holdings		2.4670	2.5118	1.81
Stewardship	15 - individual pension - UK equity	716327	FP Accumulation 0.75% PRE	0.75	23.8993	24.2473	1.46
FL Balanced Index Enhanced Funds of Funds	12 - individual pension - balanced managed fund	474321			2.0754	2.1463	3.42
FL BlackRock (40:60) Global Equity Index (Aquila HP)	16 - individual pension - overseas equity	332306			2.1969	2.2839	3.96
FL Invesco Perpetual High Income	15 - individual pension - UK equity	123955			3.0511	3.3868	11.00
FL Baillie Gifford Managed	12 - individual pension - balanced managed fund	123232			2.3258	2.4923	7.16
FL Balanced Index Fund of Funds	12 - individual pension - balanced managed fund	684466			2.3991	2.4757	3.20
FL BlackRock Consensus (Aquila HP)	12 - individual pension - balanced managed fund	546198			2.1402	2.2244	3.94
FL Cautious Index Fund of Funds	11 - individual pension - stock market managed fund	173281			2.1435	2.1896	2.15
NGP Deposit	13 - individual pension - defensive managed fund	406428			1.6417	1.6482	0.40
NGP Equity	15 - individual pension - UK equity	288156			1.7790	1.7408	(2.15)
NGP European	16 - individual pension - overseas equity	170229			2.2245	2.3979	7.80
FL BlackRock European Equity Index (Aquila HP)	11 - individual pension - stock market managed fund	204139	Cross Holdings		2.2762	2.3971	5.31

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 2015**  
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
NGP Fixed Interest	11 - individual pension - stock market managed fund	196709			2.7310	2.7262	(0.18)
FL BlackRock (50:50) Global Equity Index (Aquila HP)	16 - individual pension - overseas equity	1896687			3.0973	3.2175	3.88
FL BlackRock Long Term (60:40) Index (Aquila HP)	11 - individual pension - stock market managed fund	1031439			3.2564	3.3677	3.42
NGP International	16 - individual pension - overseas equity	186255			2.1779	2.3599	8.36
NGP Managed	14 - individual pension - other managed fund	3590923			1.9649	1.9809	0.81
NGP Managed Stewardship	14 - individual pension - other managed fund	658570			2.1645	2.2902	5.81
FL Newton Balanced	12 - individual pension - balanced managed fund	133587			2.2463	2.3216	3.35
FL BlackRock Over 15 Year Gilt Index (Aquila HP)	11 - individual pension - stock market managed fund	207014			2.2662	2.2741	0.35
NGP Pacific Basin	16 - individual pension - overseas equity	111291			2.2072	2.2893	3.72
NGP Property	17 - individual pension - property	523028			2.9965	3.3768	12.69
NGP Pre-Retirement Fixed	11 - individual pension - stock market managed fund	538553			2.7104	2.7599	1.83
NGP Stewardship	15 - individual pension - UK equity	468473			2.2634	2.3269	2.81
FL BlackRock Over 15 Year Corporate Bond Index (Aquila HP)	11 - individual pension - stock market managed fund	206547			2.3627	2.3506	(0.51)
FL BlackRock UK Equity Index (Aquila HP)	15 - individual pension - UK equity	1131910	Cross Holdings		3.0439	3.0954	1.69
FL BlackRock Over 5 Year Index-Linked Gilt Index (Aquila HP)	11 - individual pension - stock market managed fund	163351			2.4936	2.4551	(1.54)
FL BlackRock US Equity Index (Aquila HP)	11 - individual pension - stock market managed fund	284611	Cross Holdings		2.2789	2.4123	5.86
FL BlackRock World (Ex-UK) Equity Index (Aquila HP)	16 - individual pension - overseas equity	470766	Cross Holdings		2.5987	2.7340	5.21
FL BlackRock Aquila Life Overseas Bond Index	11 - individual pension - stock market managed fund	130861	Cross Holdings		1.5484	1.5834	2.26

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 2015**  
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 LIP Global Equity	11 - individual pension - stock market managed fund	155670			1.3220	1.3389	1.27
FL Blended Growth	11 - individual pension - stock market managed fund	170874			1.1462	1.1683	1.93
FL BlackRock All Stocks	11 - individual pension - stock market managed fund	142021	Cross Holdings		1.7063	1.7171	0.63
FL BlackRock Aquila Life All Stocks UK Gilts	11 - individual pension - stock market managed fund	163222	Cross Holdings		1.5542	1.5655	0.73
FL Mercer Diversified Growth	11 - individual pension - stock market managed fund	121613	Cross Holdings		1.2168	1.2536	3.02
FL Mercer Mixed Investment Pension Fund 3 (with retirement de-risking)	11 - individual pension - stock market managed fund	202235			1.2850	1.3215	2.85
NGP North American	16 - individual pension - overseas equity	134081			1.8601	1.9544	5.07
FL My Future Growth	16 - individual pension - overseas equity	493250			1.2336	1.2651	2.55
FL BlackRock Cash	13 - individual pension - defensive managed fund	105916	Cross Holdings		1.2379	1.2437	0.46
FL BlackRock (30:70) Currency Hedged Global Equity Index (Aquila HP)	16 - individual pension - overseas equity	133718			1.4258	1.4521	1.84
Retirement Distribution (GREGGS)	11 - individual pension - stock market managed fund	101912			1.2943	1.2997	0.42
FL My Future Consolidation	11 - individual pension - stock market managed fund	112357			1.1975	1.1986	0.10
FL BlackRock ALMA Historic Priced	11 - individual pension - stock market managed fund	165046	Cross Holdings		1.0869	1.0911	0.38
FL MyM Mercer Growth / Balanced Risk	11 - individual pension - stock market managed fund	216507	Series 1		1.2729	1.3149	3.30
FL MyM My Future Growth	11 - individual pension - stock market managed fund	150400	Series 1		1.1680	1.1923	2.09

**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 2015**

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)	(184566)	n/a	3.30	
UK F51 L&GA NP	(91116)	n/a	1.30	
UK F51 Pensions NP (h-FP Annuities)	2389841	n/a	2.81	2.95
UK F51 Pensions NP (GAOs)	18411	n/a	1.90	2.42
UK F51 Pensions NP	121724	n/a	2.30	2.42
UK F51 Pensions NP (Secure Growth Fund)	401389	n/a		3.04
UK F52 Pensions	1989	n/a	2.10	2.42
UK F53 Pensions NL	68753	n/a	2.30	2.86
UK F53 Pensions NL (GAOs)	5790	n/a	1.90	3.02
UK F53 Pensions NL (FLC)	4518	n/a	1.89	3.02
UK F53 Pensions NL (FLWL)	7324	n/a	1.89	3.02
UK F53 Pensions NL (Secure Growth Fund)	165526	n/a		3.04
Miscellaneous UK F51 L&GA NP	27506	n/a	n/a	
Miscellaneous UK F51 Pensions NP	43253	n/a	n/a	0.90
Miscellaneous UK F53 Pensions NL	57958	n/a	n/a	1.23
Miscellaneous UK F52 pensions	11	n/a	n/a	0.90
<b>Total</b>	3038311			

**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 2015**  
 Units **£000**

Financial year 1	Previous year 2
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**Valuation result**

Fund carried forward	11	19694467	19439938
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	19694467	19439938
Mathematical reserves	21	19547511	19329476
Surplus including contingency and other reserves held towards the capital requirements (deficiency) (15-21)	29	146956	110462

**Composition of surplus**

Balance brought forward	31	110462	100262
Transfer from non-technical account	32	170000	
Transfer from other funds / parts of fund	33		
Surplus arising since the last valuation	34	(133506)	10200
Total	39	146956	110462

**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	146956	110462
Total (48+49)	59	146956	110462

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

Global business

Financial year ended **31 December 2015**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%	2303	2303	0.50	1	1
Classes I (other), II and IX	13	0.15%					
Classes I (other), II and IX	14	0.3%	36149861	7826243		54225	38760
Classes III, VII and VIII	15	0.3%	1787	1787	1.00	5	7
<b>Total</b>	16		36153951	7830333		54231	38768

**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%	3017089	2816235	0.93	28162	27911
Classes III, VII and VIII (investment risk)	33	1%	331677	351304	1.06	3513	3678
Classes III, VII and VIII (expenses fixed 5 yrs +)	34	1%	13302097	13302097	1.00	133021	41231
Classes III, VII and VIII (other)	35	25%				6954	8743
Class IV (other)	36	1%	(72729)	(94443)	1.30	(944)	(589)
Class V	37	1%					
Class VI	38	1%					
<b>Total</b>	39					170706	80974

**Insurance market risk capital component**

Life protection and permanent health reinsurance	41	0%					
Classes I (other), II and IX	42	3%	3017089	2816235	0.93	84487	83734
Classes III, VII and VIII (investment risk)	43	3%	331677	351304	1.06	10539	11033
Classes III, VII and VIII (expenses fixed 5 yrs +)	44	0%	13302097	13302097			
Classes III, VII and VIII (other)	45	0%	14632390	3172318			
Class IV (other)	46	3%	(72729)	(94443)	1.30	(2833)	(1768)
Class V	47	0%					
Class VI	48	3%					
<b>Total</b>	49		31210524	19547511		92193	92999

<b>Long term insurance capital requirement</b>	51					320126	215736
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## Returns under the Interim Prudential Sourcebook for Insurers

### Supplementary Notes to the Return

Friends Life and Pensions Limited

Global Business

Financial Year End 31 December 2015

#### **\*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.

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

	<b>2015</b>	<b>2014</b>
	<b>£000</b>	<b>£000</b>
Form 13 Line 89 total admissible assets (other than long-term)	370,260	303,901
Form 13 Line 89 total admissible assets (long-term)	19,770,341	19,514,138
	<b>20,140,601</b>	<b>19,818,039</b>
Less:		
Form 14 Line 11 mathematical reserves after distribution of surplus	19,547,511	19,329,476
Form 14 Line 49 other insurance & non-insurance liabilities	75,874	74,200
Form 15 Line 69 liabilities other than long-term business	18,996	7,357
Net admissible assets	<b>498,220</b>	<b>407,006</b>
Add:		
Form 2 Line 35 capital requirements of regulated related undertakings	18,877	19,508
Form 3 Line 79 capital resources after deductions	<b>517,097</b>	<b>426,514</b>

#### **\*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 £4.6m; and
- there is no commutation value.

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

Negative valuation differences included within Line 35 are:

	<b>2015</b>	<b>2014</b>
	<b>£000</b>	<b>£000</b>
In respect of liabilities valued lower than in the Companies Act accounts		
Deferred taxation	16,487	24,723
Financial reinsurance	4,582	4,598
Deferred front end fees	4,522	5,993
	<b>25,591</b>	<b>35,314</b>
In respect of liabilities valued higher than in the Companies Act accounts		
Differences between regulatory reserves and statutory accounts reserves	125,018	83,760
Additional reserves in respect of reinsurer credit risk (non-linked)	5,890	22,000
Other actuarial reserves	-	2,574
	<b>130,908</b>	<b>108,334</b>
In respect of assets on which there is a valuation allowance	2,053	853
Total equalling Form 3 Line 35	<b>107,370</b>	<b>73,873</b>

## Returns under the Interim Prudential Sourcebook for Insurers

### Supplementary Notes to the Return

Friends Life and Pensions Limited

Global Business

Financial Year End 31 December 2015

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

	<b>2015</b>	<b>2014</b>
	<b>£000</b>	<b>£000</b>
Profit and loss account and other reserves b/fwd	595,449	840,832
Profit and loss account and other reserves c/fwd	1,057,591	595,449
Movement	<b>462,142</b>	<b>(245,383)</b>
Change in IFRS accounting policy	(34,989)	-
Capital reduction	(768,000)	-
Capital contribution received	(15,000)	-
Transfer from SHF to LTF	(170,000)	-
Lombard share scheme	-	(1,012)
Prior year adjustment in respect of deferred tax	-	1,282
UKGAAP profit arising in the long-term fund	79,725	(13,188)
Total equalling Form 16 line 59	<b>(446,122)</b>	<b>(258,301)</b>

#### **\*1100\* Form not applicable**

This form has been excluded because the current year amounts and prior year comparatives would be below the de minimis levels.

#### **\*1200\* Form not applicable**

This form has been excluded because the current year amounts and prior year comparatives would be below the de minimis levels.

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

- i) The Company held unlisted fixed interest securities valued at £133.2m in the long term insurance business fund. The other than long term insurance business fund held no unlisted investments.
- ii) Lines 41, 46 & 48 include assets to the value of £23.2m in the long term insurance business fund and £nil 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 £104.4m 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.

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

The Company held hybrid securities valued at £30.5m in the long-term fund and £0.2m 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).

## Returns under the Interim Prudential Sourcebook for Insurers

### Supplementary Notes to the Return

Friends Life and Pensions Limited

Global Business

Financial Year End 31 December 2015

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

Throughout the year the Company provided and maintained investment restrictions which are issued to the fund managers to ensure compliance with the counterparty exposure limits. In September 2015 the company adopted a counterparty credit framework which determines the maximum permitted counterparty exposure. The data presented below from September 2015 through to December 2015 reflects the maximum permitted exposures and breaches determined through the application of that framework.

#### **January to August 2015**

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:

<b>BONDS</b>	<b>FLP – Secure Growth</b>	<b>Limits</b>	<b>FLP – SANP</b>	<b>Limits</b>
<b>CREDIT RATINGS</b>				
AAA and Below	100.0%	<b>100.0%</b>	100.0%	<b>100.0%</b>
AA+ and Below	85.9%	<b>100.0%</b>	78.8%	<b>100.0%</b>
A+ and Below	69.7%	<b>75.0%</b>	53.9%	<b>75.0%</b>
BBB+ and Below	35.2%	<b>37.5%</b>	16.1%	<b>40.0%</b>
Sub-investment grade	1.2%	<b>3.0%</b>	1.1%	<b>10.0%</b>
<b>SINGLE ISSUER LIMITS</b>				
<b>Gilts</b>				
Investment grade	0.0%	<b>100.0%</b>	9.8%	<b>100.0%</b>
Sub-investment grade	0.0%	<b>100.0%</b>	0.0%	<b>100.0%</b>
<b>Corporates (excl. Covered Bonds)</b>				
Investment Grade	2.9%	<b>5.0%</b>	1.9%	<b>7.0%</b>
Sub-investment Grade	0.6%	<b>1.0%</b>	0.6%	<b>1.0%</b>
<b>Quasi Sovereign/Non-UK Sovereign</b>				
Investment Grade	5.3%	<b>10.0%</b>	3.5%	<b>15.0%</b>
Sub-investment Grade	0.0%	<b>1.0%</b>	0.0%	<b>1.0%</b>
<b>Non-UK Sovereign</b>				
Investment Grade	0.0%	<b>10.0%</b>	0.0%	<b>15.0%</b>
Sub-investment Grade	0.0%	<b>1.0%</b>	0.0%	<b>1.0%</b>
<b>Covered Bonds</b>				
Investment Grade	1.2%	<b>15.0%</b>	10.1%	<b>15.0%</b>
Sub-investment Grade	0.0%	<b>1.0%</b>	0.0%	<b>1.0%</b>

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.

There were no breaches in fixed income assets during the year to 31 August 2015.

## Returns under the Interim Prudential Sourcebook for Insurers

### Supplementary Notes to the Return

Friends Life and Pensions Limited

Global Business

Financial Year End 31 December 2015

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:

<b>CREDIT INSTRUMENTS</b>	<b>FLP - Secure Growth</b>	<b>Limits</b>	<b>FLP - SANP</b>	<b>Limits</b>
<b>Sovereign Bonds</b>	<b>6.5%</b>	<b>100.0%</b>	<b>12.4%</b>	<b>100.0%</b>
Gilts (including UK government guaranteed assets)	2.4%	<b>100.0%</b>	10.1%	<b>100.0%</b>
Government bonds issued by G7 and other AAA rated Countries	4.1%	<b>90.0%</b>	2.3%	<b>90.0%</b>
Other Government bonds	0.0%	<b>20.0%</b>	0.0%	<b>20.0%</b>
<b>Quasi Sovereign</b>	<b>9.0%</b>	<b>100.0%</b>	<b>5.5%</b>	<b>100.0%</b>
Supranationals	5.3%	<b>100.0%</b>	3.6%	<b>100.0%</b>
Sub-sovereigns	3.7%	<b>80.0%</b>	1.9%	<b>80.0%</b>
<b>Senior Debt</b>	<b>66.3%</b>	<b>100.0%</b>	<b>76.2%</b>	<b>100.0%</b>
Senior non-financial debt	43.7%	<b>100.0%</b>	44.6%	<b>100.0%</b>
Senior financial non insurance debt	18.4%	<b>60.0%</b>	18.3%	<b>60.0%</b>
Covered Bonds	4.2%	<b>100.0%</b>	13.3%	<b>100.0%</b>
<b>Subordinated Financial Non Insurance Debt</b>	<b>7.1%</b>	<b>20.0%</b>	<b>2.3%</b>	<b>20.0%</b>
Lower Tier 2	6.6%	<b>20.0%</b>	2.1%	<b>20.0%</b>
Upper Tier 2	0.0%	<b>10.0%</b>	0.0%	<b>10.0%</b>
Tier 1	0.5%	<b>5.0%</b>	0.2%	<b>5.0%</b>
Contingent Convertible securities	0.0%	<b>0.0%</b>	0.0%	<b>0.0%</b>
<b>Asset Backed Securities (excluding covered bonds)</b>	<b>16.7%</b>	<b>20.0%</b>	<b>15.5%</b>	<b>20.0%</b>
RMBS	0.0%	<b>10.0%</b>	0.6%	<b>10.0%</b>
CMBS	3.7%	<b>10.0%</b>	3.4%	<b>10.0%</b>
Whole Business securitisation	6.1%	<b>8.0%</b>	4.0%	<b>8.0%</b>
Non-mortgage loan securitisations	0.0%	<b>7.0%</b>	0.0%	<b>7.0%</b>
PFI	0.5%	<b>10.0%</b>	1.8%	<b>10.0%</b>
Other	4.8%	<b>10.0%</b>	3.4%	<b>10.0%</b>
Housing Associations	1.6%	<b>15.0%</b>	2.3%	<b>15.0%</b>
<b>Structured Credit</b>	<b>0.0%</b>	<b>8.0%</b>	<b>0.0%</b>	<b>8.0%</b>
Collateralised Loan Obligations	0.0%	<b>8.0%</b>	0.0%	<b>8.0%</b>
Other Collateralised Loan Obligations	0.0%	<b>3.0%</b>	0.0%	<b>3.0%</b>
<b>Securities issued by Insurance Companies</b>	<b>7.7%</b>	<b>10.0%</b>	<b>2.8%</b>	<b>10.0%</b>
Senior	1.5%	<b>10.0%</b>	2.8%	<b>10.0%</b>
Lower Tier 2	4.9%	<b>10.0%</b>	0.0%	<b>10.0%</b>
Tier 1	1.3%	<b>5.0%</b>	0.0%	<b>5.0%</b>
<b>Private Loans</b>	<b>0.0%</b>	<b>15.0%</b>	<b>2.3%</b>	<b>15.0%</b>
PFI	0.0%	<b>15.0%</b>	0.0%	<b>15.0%</b>
Financial	0.0%	<b>8.0%</b>	0.0%	<b>8.0%</b>
Other	0.0%	<b>8.0%</b>	2.3%	<b>8.0%</b>
<b>Sinking Bonds</b>	<b>7.6%</b>	<b>10.0%</b>	<b>9.6%</b>	<b>10.0%</b>

There were no breaches in government and sovereign fixed income assets during the year to 31 August 2015.

## Returns under the Interim Prudential Sourcebook for Insurers

### Supplementary Notes to the Return

Friends Life and Pensions Limited

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Financial Year End 31 December 2015

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

<b>EQUITY/ PROPERTY</b>	<b>FLP – Secure Growth</b>	<b>Limits</b>	<b>FLP – SANP</b>	<b>Limits</b>
Common Stock, Preference Stock, Investment Trusts	0.0%	<b>10.0%</b>	0.0%	<b>10.0%</b>
Individual Property	0.0%	<b>12% or £15m</b>	0.0%	<b>12% or £15m</b>
Limited Partnerships	0.0%	<b>£32m (1% of LTBA)</b>	0.0%	<b>£32m (1% of LTBA)</b>
UCITS-certified vehicles	0.0%	<b>100%</b>	0.0%	<b>100%</b>
Other collective investment schemes	0.0%	<b>1% of LTBA</b>	0.0%	<b>1% of LTBA</b>

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 to 31 August 2015.

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

<b>CASH</b>	<b>FLP – Secure Growth</b>	<b>Limits</b>
<b>COUNTRIES</b>		
Supranational	0.0%	<b>40.0%</b>
US	13.0%	<b>40.0%</b>
UK	10.0%	<b>40.0%</b>
France	31.0%	<b>40.0%</b>
Germany	8.0%	<b>40.0%</b>
Canada	1.0%	<b>40.0%</b>
Australia	2.0%	<b>40.0%</b>
Japan	9.0%	<b>10.0%</b>
Sweden	6.0%	<b>10.0%</b>
Netherlands	7.0%	<b>10.0%</b>
Switzerland	3.0%	<b>10.0%</b>
Norway	2.0%	<b>5.0%</b>
Singapore	2.0%	<b>5.0%</b>

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

<b>COUNTERPARTY</b>	<b>FLP</b>	<b>Limits</b>
Supranational	10.0%	<b>10.0%</b>
Preferred banks (with increased credit limits preferred for overnight deposits)	8.0%	<b>8.0%</b>
US	8.1%	<b>8.0%</b>
UK	5.7%	<b>8.0%</b>
France	7.9%	<b>8.0%</b>
Germany	4.3%	<b>8.0%</b>
Canada	1.2%	<b>8.0%</b>
Australia	1.2%	<b>8.0%</b>
Japan	3.4%	<b>5.0%</b>
Sweden	2.5%	<b>5.0%</b>
Netherlands	3.6%	<b>5.0%</b>
Switzerland	1.7%	<b>5.0%</b>
Norway	1.6%	<b>3.0%</b>
Singapore	1.0%	<b>3.0%</b>

## Returns under the Interim Prudential Sourcebook for Insurers

### Supplementary Notes to the Return

Friends Life and Pensions Limited

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Financial Year End 31 December 2015

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

<b>CASH INSTRUMENTS</b>	<b>Limits</b>
UK Treasury Bills	<b>100.0%</b>
Deposits at bank	<b>100.0%</b>
Certificates of Deposit	<b>100.0%</b>
Commercial Paper	<b>40.0%</b>
ABS Commercial Paper	<b>10.0%</b>
Floating rate notes	<b>20.0%</b>
Repos	<b>20.0%</b>

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

- Total exposure to US financial institution Citigroup within FLP at 8.1% is greater than the 8.0% limit set for cash instruments. The portfolio manager corrected this breach in July 2015.

### September – December 2015

From September 2015 onwards the maximum permitted exposure to individual counterparties within the company is determined through a counterparty credit framework which is applied in a consistent manner throughout the Aviva Group. The nature and structure of this framework, along with the approach to calibrating limits, is determined centrally within the Aviva Group, specific limits are set for each legal entity. A limit for maximum shareholder exposure (SHE) has been set at £61m.

Whilst asset and fund specific limits exist within investment mandates the counterparty credit framework takes a more holistic approach in aggregating shareholder exposures across all relevant funds and asset classes

Since introduction in September a number of counterparties have breached the new limits, as detailed below:

	<b>Limit Breached</b>	<b>Utilisation of Limit</b>	<b>Breach Date</b>
Groupe BPCE	SHE	422%	Sep 15
HSBC Holdings PLC	SHE	174%	Sep 15
European Investment Bank	SHE	141%	Sep 15
Lloyds Banking Group PLC	SHE	125%	Sep 15
Blackstone Group LP/THE	SHE	104%	Sep 15

### **\*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 Form 13 Line 89. The market value of the vendor loan note at 31 December 2015 is £52m. FLH repaid the full loan of £260m in March 2015.

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

The aggregate amount of fully secured rights in the long-term fund is £3.8m (2014: £3.1m). There were no such amounts in the other than long-term fund.

## Returns under the Interim Prudential Sourcebook for Insurers

### Supplementary Notes to the Return

Friends Life and Pensions Limited

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Financial Year End 31 December 2015

#### **\*1318\* Details of amounts in Line 101**

	Long term insurance business	Other than long term insurance business	Long term insurance business	Other than long term insurance business
	2015	2015	2014	2014
	£000	£000	£000	£000
Taxation netted off in accounts	(35,727)	-	(32,220)	(1,872)
Other debtors/creditors netted off in accounts	(3,414)	-	(1,608)	-
	<b>(39,141)</b>	<b>-</b>	<b>(33,828)</b>	<b>(1,872)</b>

#### **\*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 £2.1m 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 (2014: £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 no guarantees, indemnities or other contractual commitments affected other than in the ordinary course of insurance business and in respect of related companies.
- iv) 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.
- v) There are no other fundamental uncertainties.

## Returns under the Interim Prudential Sourcebook for Insurers

### Supplementary Notes to the Return

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Financial Year End 31 December 2015

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

	Long term insurance business	Other than long term insurance business	Long term insurance business	Other than long term insurance business
	2015	2015	2014	2014
	£000	£000	£000	£000
Deferred front-end fees	4,522	-	5,993	-
Companies Act accounts fair value adjustment to liabilities	(126,326)	-	(103,736)	-
Taxation netted off in accounts	(35,727)	-	(32,220)	(1,872)
Other debtors/creditors netted off in accounts	(3,414)	-	(1,608)	-
Valuation differences on deferred tax	16,487	-	24,723	-
Liabilities included in Companies Act accounts, excluded for PRA purposes	<b>(144,458)</b>	<b>-</b>	<b>(106,848)</b>	<b>(1,872)</b>

#### **\*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 in 2014 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 £8.2m within the other than long term insurance business fund. There has been no such transaction in the current year and so the 2015 value is £nil.

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

The aggregate value of excess variation margin needed to be repaid due to underlying market movements is £nil (2014: £nil). Variation margin of £nil (2014: £0.4m) 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 £1,519.9m. The amounts contributed to each line in Form 13 in respect of quasi derivatives is as follows:

	Long term insurance business	Other than long term insurance business
	£m	£m
Line 45 Fixed Interest Approved	14.2	-
Line 46 Fixed Interest Other	1,498.6	0.2
Line 47 Variable Interest Approved	-	-
Line 48 Variable Interest Other	6.9	-
	<b>1,519.7</b>	<b>0.2</b>

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.



## Returns under the Interim Prudential Sourcebook for Insurers

### Supplementary Notes to the Return

Friends Life and Pensions Limited

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

	<b>2015</b>	<b>2014</b>
	<b>£000</b>	<b>£000</b>
Other income comprises:		
Annual management charges and other fee income	18,059	4,301
Financial reinsurance	-	5,000
Tax creditor write off	-	2,721
	<b>18,059</b>	<b>12,022</b>
Other expenditure comprises:		
Fund management charge rebate to Friends Life Limited ("FLL")	<b>44,428</b>	<b>44,572</b>

#### **\*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 Aviva 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 subsidiary of F&C Asset Management plc, BlackRock, Schroders Plc, and by Friends Life Investments Limited, Friends Life Funds Limited and Aviva Investors Limited, all of which are wholly owned subsidiaries of Aviva plc.

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

During the period 1 January 2015 to 31 December 2015 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 £102m of reinsurance premiums and incurred £520m 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 2015 rights of £1.4m and liabilities of £0.9m were held under derivative contracts.

#### **\*4403\* Variation margin**

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

## Returns under the Interim Prudential Sourcebook for Insurers

### Supplementary Notes to the Return

Friends Life and Pensions Limited

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Financial Year End 31 December 2015

#### **\*4502\* Other income and expenditure**

Other expenditure consists of:

	<b>2015</b>	<b>2014</b>
	<b>£000</b>	<b>£000</b>
Transaction costs	9,785	6,329
Custodian charges	370	400
Interest payable	34	1
Miscellaneous charges	17	3
<b>Total other expenditure</b>	<b>10,206</b>	<b>6,733</b>

#### **\*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 £114.5m.

#### **\*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 Line 38.

#### **\*5403\* Products classified as miscellaneous**

The following product with reserves in excess of £10m in magnitude has been classified under miscellaneous product code 910:

- Income Protection

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

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

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

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

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

## Returns under the Interim Prudential Sourcebook for Insurers

### Supplementary Notes to the Return

Friends Life and Pensions Limited

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Financial Year End 31 December 2015

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

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)	3.51%	2.95%
UK F51 Pensions NP (GAOs)	2.42%	2.42%
UK F51 Pensions NP	2.42%	2.42%
UK F51 Pensions NP (Secure Growth Fund)	3.04%	3.04%
UK F52 Pensions	2.42%	2.42%
UK F53 Pensions NL	3.29%	2.86%
UK F53 Pensions NL (GAOs)	3.61%	3.02%
UK F53 Pensions NL (FLC)	3.61%	3.02%
UK F53 Pensions NL (FLWL)	3.61%	3.02%
UK F53 Pensions NL (Secure Growth Fund)	3.04%	3.04%
Miscellaneous UK F51 Pensions NP	1.09%	0.90%
Miscellaneous UK F53 Pensions NL	1.40%	1.23%

#### **\*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 minimis limit”, Forms 11 and 12 have not been published as at 31 December 2015. 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 2015, in respect of the relevant business, is £22.4m.

**Additional information on derivative and quasi-derivative contracts  
(IPRU(INS) rule 9.29)  
Friends Life and Pensions Limited  
Financial year ended 31 December 2015**

**Derivative Contracts**

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

- a) Investment Guidelines.  
Investment guidelines operated by the Company during 2015 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 overarching investment guidelines stated above, that they are held for efficient portfolio management or a reduction in investment risks, they are permitted.
- c) Use of derivatives not likely to be exercised.  
The long-term fund held derivatives during the year, which at the time when acquired were not likely to be exercised. These were held for purpose of protecting the fund from interest rate sensitivity. No other contracts were entered into during the financial year that were not, at the time of entry, reasonably likely to be exercised.
- d) The Company held no derivative contracts during the financial year other than permitted derivative contracts under permitted links rules, and nor did any contracts require a significant provision to be made under INSPRU 3.2.17R.
- e) The Company did not grant rights under derivative contracts during the financial year.

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

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

**Financial year ended 31 December 2015**

**From 1 January 2015 to 10 April 2015**

100% of the issued share capital of the Company was held by Friends Life Limited.

100% of the issued share capital of the Friends Life Limited was held by Friends Life FPL Limited.

100% of the issued share capital of Friends Life FPL Limited was held by Friends Life FPG Limited.

100% of the issued share capital of Friends Life FPG Limited was held by Friends Life Holdings plc.

100% of the issued share capital of Friends Life Holdings plc was held by FLG Holdings Limited.

100% of the issued share capital of FLG Holdings Limited was held by Resolution Holdco No.1 LP.

99.99% of the issued share capital in Resolution Holdco No.1 LP which exercised 100% of the voting rights at any general meeting was held by the ultimate parent undertaking, Friends Life Group Limited.

**From 10 April 2015 to 13 April 2015**

On 10 April 2015, 100% of the issued share capital of Friends Life Group Limited was acquired by Aviva plc.

Resolution Holdco No.1 was dissolved and Friends Life Group Limited acquired 100% of the issued share capital of FLG Holdings Limited.

**From 13 April 2015 to 31 December 2015**

100% of the issued share capital of the Company is held by Friends Life Limited.

100% of the issued share capital of Friends Life Limited is held by Friends Life FPL Limited.

100% of the issued share capital of Friends Life FPL Limited is held by Friends Life FPG Limited.

100% of the issued share capital of Friends Life FPG Limited is held by Aviva Life Holdings UK Limited.

100% of the issued share capital of Aviva Life Holdings UK Limited is held by Aviva Group Holdings Limited.

100% of the issued share capital of Aviva Group Holdings Limited is held by the ultimate parent undertaking, Aviva plc.

All shares are voting shares.

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 Limited
LMP	denotes	London and Manchester Pensions Limited

### **1. Valuation Date**

- (1) The actuarial investigation relates to a valuation date of 31 December 2015.
- (2) The valuation date of the previous investigation was 31 December 2014.
- (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 Global Treatment Cover was launched in March 2015. This is an add-on product with any Protect+ cover, which covers the cost of travelling abroad for treatment, if recommended to do so by Best Doctors.
- The My Money Trust, a new trust product, was launched in August 2015.

#### Changes to existing products

The following changes to existing products have been made:

- With effect from March 2015, the Critical Illness Cover product range has been enhanced for new customers. This includes simplification and enhancement of existing definitions and standardising terms and conditions.
- The Income Protection product now has enhanced terms for new customers with effect from July 2015. This includes the ability for customers who receive significant pay rises to opt for the new significant professional development guaranteed insurability option. Customers also now receive improved guaranteed benefits.

#### Products withdrawn

None

### 3. Discretionary Charges and Benefits

#### (1) Application of market value reduction

No market value reduction (MVR) factors were applied during 2015 on unitised with-profits contracts.

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

No premiums were reviewed in 2015.

#### (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 Annuity Bonds	4.5%
All other products	6.5% before charges

#### (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 2014 to October 2015 was 1.6%. 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 2014 to August 2015 was 3.1%. The relevant business is:

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

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 2015, the net annual management charge (the fund charge before rebate) was changed for the following funds:

Fund	Net Annual Management Charge		Fund size at 31/12/2015 £m
	Old	New	
BlackRock Market Advantage Strategy	not stated	0.48%	49.7
BlackRock UK Smaller Companies (Aquila Life)	0.25%	0.00%	1.9
Closed Balanced Portfolio	0.15%	0.00%	2.8
HSBC	0.10%	0.04%	28.6
Investec	0.30%	0.00%	6.8
LGIM Pre-Retirement	0.09%	0.065%	25.3
Schroder Dynamic Multi-Asset Fund	0.45%	0.05%	35.8
T. Rowe Price European Equity	1.50%	0.65%	0.7
T. Rowe Price European Smaller Companies Equity	1.80%	0.95%	0.7
T. Rowe Price Global Aggregate Bond	0.90%	0.45%	0.4
Margetts	1.00%	0.00%	0.6

There were no changes to unit management charges or notional charges to accumulating with-profits policies during 2015.

#### **(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:

<b>Fund Manager</b>	<b>Discount on management charge for benefit of policyholders (%)</b>	<b>Discount on management charge for benefit of company (%)</b>
Aberdeen Asset Managers Limited	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 Limited	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
Baillie Gifford	0 - 0.35	-0.55 - 0.15
Barclays Capital	0.7 - 0.7	-0.05 - 0
BlackRock Investment Management UK Limited	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
JP Morgan Asset Management	0 - 0.75	0 - 0
Jupiter Unit Trust Managers Limited	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

Fund Manager	Discount on management charge for benefit of policyholders (%)	Discount on management charge for benefit of company (%)
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
Sarasin	0.1 - 0.1	0 - 0
Schroders Investments Limited	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 - 0.85	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**

The valuation interest rate for non-individual protection products are set out in the table below:

	31/12/2015	31/12/2014
	Pension %	Pension %
Investment Trust Retirement Annuity	1.00	1.00
Annuities in Possession (Pre July 2001)	2.86	2.68
Annuities in Possession (Post July 2001)	2.81	2.72
Regular Premium Term Assurances	2.30	2.10
Unit-linked business	3.50	3.30
Other Non Profits	2.30	2.10
GAO Reserve	1.90	1.70
Unitised With Profits	2.10	2.30
Pensions transferred from FLWL	2.25	2.10
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 2.7% to obtain a real yield.

	31/12/2015	
	Policy as a Liability %	Policy as an Asset %
Accelerated Critical Illness	1.80	3.30
Stand-alone Critical Illness	1.80	3.30
Life	1.80	3.30
Income Protection	1.80	3.30
Immediate Needs (Level)	1.80	N/A
Long Term Care	1.80	N/A
Claims in Payment	2.30	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.

The following amounts have been deducted from gross redemption yields for credit default risk:

Rating	% p.a.
AAA	0.16
AA	0.40
A	0.60
BBB	1.11
BB	2.94
B	7.05
CCC	11.25

For assets that have callable redemption dates, the yields are calculated both on first call date and redemption date and the lowest yield is chosen. This is prudent when bond coupons are fixed throughout the term of the asset.

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

#### 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 (6.42% at 31st December 2015).

#### (4) Mortality

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

	31/12/2015		31/12/2014	
	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) <sup>(2)</sup> And Deferred, group contracts, pension business, post vesting <sup>(2)</sup>	modified PCMA00	modified PCFA00	modified PCMA00	modified PCFA00
In Payment, individual contracts, pension business (post-July 2001) <sup>(2)</sup> And Deferred, individual contracts, pension business, post vesting <sup>(2)</sup>	modified PCMA00	modified PCFA00	modified PCMA00	modified PCFA00
Deferred, group contracts, life business, post vesting <sup>(2)</sup>	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	77.0% TMN00 sel	82.5% TFN00 sel	82.5% TMN00 sel	71.5% TFN00 sel
Life- Smoker	78.1% TMS00 sel	82.5% TFS00 sel	82.5% TMS00 sel	71.5% TFS00 sel
Life- Non-differentiated <sup>(1)</sup>	74.8% TMN00 sel	82.5% 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 2.25% p.a. for males (2.00% in 2014) and 2.00% p.a. for females (1.75% in 2014).

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

No additional reserves are held in respect of the possible detrimental impact of other changes in the incidence of disease or developments in medical science.

Product group	Current age	Age at which expectation is determined	31/12/2015		31/12/2014	
			Males years	Females years	Males years	Females years
Annuities in payment- Individual contracts- pension business (Pre-July 2001)	65	65	25.64	28.38	25.39	28.11
	75	75	15.86	18.31	15.73	18.17
Annuities in payment- individual contracts- pension business (Post-July 2001)	65	65	25.97	28.38	25.70	28.11
	75	75	16.05	18.31	15.92	18.17
Deferred annuities- individual contracts- pension business (Post-July 2001)	45	65	29.56	31.36	28.83	30.70
	55	65	27.79	29.91	27.29	29.43
Annuities in payment- Group contracts- pension business (pre-July 2001)	65	65	25.67	27.31	25.12	26.77
	75	75	15.90	17.39	15.53	17.02
Annuities in payment- group contracts- pension business (Post-July 2001)	65	65	25.90	27.31	25.35	27.08
	75	75	16.10	17.31	15.72	17.21
Deferred annuities- group contracts – pension business (Post-July 2001)	45	65	29.60	30.40	28.57	29.75
	55	65	27.78	28.89	26.98	28.43

## (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. The 2015 rates are unchanged from 2014.

### a) Inceptions

Product Type	Table	Inception Rates as Percentage of table CIBT02 at 31/12/2015			
Sex Smoker		M NS	M S	F NS	F S
Accelerated Critical Illness	CIBT02	48.0	73.2	67.2	84.0
Stand-alone Critical Illness	CIBT02	50.4	86.4	61.2	86.4
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	31/12/2015
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	31/12/2015
4	25
13	40
26	70
52	195

b) Termination/Recovery rates

Product Type	Table	Recovery Rates as Percentage of table at 31/12/2015			
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 31/12/2015	
	Guaranteed	Reviewable
Future Care (Security)	2	1
Income Protection	0	0

Product Type and launch date where appropriate	Annual Percentage at 31/12/2015	
	Male	Female
Accelerated Critical Illness	0.4	0.9
Stand-alone Critical Illness	0.4	0.9



## (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.

No Zillmer adjustment was applied at 31/12/2015 and 31/12/2014.

Class		31/12/2015			31/12/2014		
		Annual Expense £	Investment Expense % of Fund pa	% of Premium	Annual Expense £	Investment Expense % of Fund pa	% of Premium
Term Assurance (325 / 330)	Premium Paying	14.26	0.108	0	11.54	0.108	0
	Otherwise	17.83	0.125	0	20.24	0.125	0
Critical Illness (340 / 345 / 350 / 355)	Premium Paying	14.26	0.108	0	11.54	0.108	0
	Otherwise	17.83	0.125	0	20.24	0.125	0
Income Protection (360 / 365)	All	14.26	0.108	2.5	11.54	0.108	2.5
Annuity pre demutualisation (400)	All	15.93	0.105	0	16.04	0.105	0
Annuity post demutualisation (400)	All	15.93	0.105	0	16.04	0.105	0
UWP regular premium pension (525 / 545)	Premium Paying	39.29	0.105	0	35.42	0.105	0
	Otherwise	18.71	0.105		16.32	0.105	
UWP single premium pension (525 / 545)	All	18.86	0.105	0	17.24	0.105	0
UWP group regular premium pension (535)	Premium Paying	39.29	0.105	0	35.42	0.105	0
	Otherwise	18.71	0.105		16.32	0.105	
UWP group single premium pension (535)	All	18.86	0.105	0	17.24	0.105	0
UL regular premium pension (725)	Premium Paying	17.74	0.080 / 0.065 *	0	16.21	0.080 / 0.065 *	0
	Otherwise	8.93	0.080 / 0.065 *		8.16	0.080 / 0.065 *	
UL single premium pension (725)	All	8.82	0.080 / 0.065 *	0	8.08	0.080 / 0.065 *	0
UL group regular premium pension (735)	Premium Paying	17.74	0.080 / 0.065 *	0	16.21	0.080 / 0.065 *	0
	Otherwise	8.93	0.080 / 0.065 *		8.16	0.080 / 0.065 *	

		31/12/2015			31/12/2014		
Class		Annual Expense £	Investment Expense % of Fund pa	% of Premium	Annual Expense £	Investment Expense % of Fund pa	% of Premium
UL group single premium pension (735)	All	8.82	0.080 / 0.065 *	0	8.08	0.080 / 0.065 *	0

\* For unit-linked pension products the investment expenses are 0.080% p.a. for business written prior to 01/01/2015 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:

	31/12/2015		31/12/2014	
	Unit Growth	Expense Inflation	Unit Growth	Expense Inflation
	Gross	% p.a.	Gross	% p.a.
Conventional Non Profit	N/a	4.2	N/a	4.3
Unitised	3.5	4.2	3.3	4.3

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 2.7% p.a., and that the future AWE is 1% higher at 3.7% 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 bonus) 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	6.3	5.5	4.5	4.5
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	4.3	4.3
Accelerated Critical Illness – High Rate	Lapse	17.3	12.1	9.8	9.8
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	21.8	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	24.3	Up to 15 years	24.2	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	26.1	Up to 24 years	6.3	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 an 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	39	8,803.5
Level Accelerated Critical Illness	27.6	4,401.8
Level Income Protection	20.1	699.9
Decreasing Stand Alone Critical Illness	1.3	246.2
Level Stand Alone Critical Illness	5.3	755.9
Decreasing Term Assurance	18.3	8,794.1
Level Term Assurance	22.6	10,250.0

#### (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 £63.7m. 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	17.7	16.8	18.1	52.6
All Expenses Attributable	0	3.5	7.6	0	11.1
<b>Total</b>	<b>0</b>	<b>21.2</b>	<b>24.4</b>	<b>18.1</b>	<b>63.7</b>

## **(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 £9.8m, 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 £69.0m. After allowing for initial transaction costs on assets, the amount of maintenance expenses (£59.2m) included in Line 14 of Form 43 is lower than the expense loadings (£63.7m) 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.

# **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:

<b>Currency</b>	<b>Value of liabilities (£m)</b>	<b>Value of assets (£m)</b>
Sterling	3,071	3,299
<b>Total</b>	<b>3,071</b>	<b>3,299</b>

## **(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 0.48% 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 £156.5m.
- c) The value of the assets allocated to match these liabilities decreased by £143.5m 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**

Other special reserves in excess of £10m have been held as follows:

#### Pension Scheme Recharges

A reserve of £11.9m is held in FLP at 31 December 2015 in respect of an accounting methodology change for intercompany liabilities in relation to the recharge of pension scheme contributions.

## **9. Reinsurance**

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

No premiums for reinsurance ceded on a facultative basis were paid during 2015 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 2015 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 2015 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)
Scor	0.8
Swiss Re	0.3
Hannover RE	0.3
<b>Total</b>	<b>1.4</b>

This table shows the reinsurance premiums amount due, but not yet paid, as at the valuation date 31/12/2015.

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 £26.7m 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 2015 is £4.6m.

(ii) No additional reserve was required 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)**

<b>(d) Reinsurer</b>	<b>(e) Nature and Extent of Cover Under the Treaty</b>	<b>(f) Premiums Payable £m</b>	<b>(h) New Business</b>	<b>(j) Mathematical Reserves £m</b>	<b>(k) Retention for new policies</b>	<b>(m) Connected Company</b>
RGA Global Reinsurance Ltd	IFA Life cover treaty	5.5	Open	51.8	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.	9.3	Open	39.5	60% up to £150,000	Not Connected
Hannover	Quota share Life treaty for Countrywide- and Connells-distributed business	1.5	Open	16.8	10% up to £50,000	Not Connected
Baillie Gifford Life Limited	100% of Investment benefits under Baillie Gifford Unit Linked funds	16.4	Open	163.0	N/A	Not Connected
HSBC	100% of Investment benefits under HSBC Unit Linked funds	1.2	Open	11.6	N/A	Not Connected
JP Morgan Life Limited	100% of Investment benefits under JP Morgan Unit Linked funds	2.7	Open	26.7	N/A	Not Connected
AXA Wealth	100% of Investment benefits under AXA Wealth Unit Linked funds	7.9	Open	78.5	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.)	17.9	Open	407.7	N/A	Not Connected

(d) Reinsurer	(e) Nature and Extent of Cover Under the Treaty	(f) Premiums Payable £m	(h) New Business	(j) Mathematical Reserves £m	(k) Retention for new policies	(m) Connected Company
Friends Life Ltd	All investment benefits under Unitised With Profit funds	3.1	Open	97.2	N/A	Parent Company
	All liabilities for benefits relating to the value of Property Fund units.	0*	Open	588.4	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.)	16.4	Open	227.1	N/A	Parent 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	39.9	N/A	Not Connected
BlackRock Life 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	2,258.4	N/A	Not Connected
	100% of Investment benefits under BlackRock Unit Linked funds	758.4	Open	7,528.2	N/A	Not Connected

(d) Reinsurer	(e) Nature and Extent of Cover Under the Treaty	(f) Premiums Payable £m	(h) New Business	(j) Mathematical Reserves £m	(k) Retention for new policies	(m) Connected Company
Schroder Pension Management 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.)	44.8	Open	8.8	N/A	Not Connected
	100% of Investment benefits under Schroder Unit Linked funds	1.7	Open	17.3	N/A	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.)	5.4	Open	51.9	N/A	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 2015**  
**Global Business**

We certify that:

- a) the return has been properly prepared in accordance with the requirements in IPRU(INS), GENPRU and INSPRU;
- b) we are satisfied that throughout the financial year in question, the insurer has complied in all material respects with the requirements in SYSC and Fundamental Rules as well as the provisions of IPRU(INS), GENPRU and INSPRU;
- c) 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;
- d) 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;
- e) we have, in preparing the return, taken and paid due regard to advice in preparing the return from every actuary appointed by the insurer to perform the actuarial function in accordance with SUP 4.3.13R.

The statement required by IPRU(INS) Appendix 9.6 paragraph 1(1)(b)(ii) in respect of compliance since the end of the financial year with the requirements in SYSC, Fundamental Rules and the provisions of IPRU(INS), GENPRU and INSPRU and ongoing compliance has not been provided. This is because the current regulatory regime has been replaced as from 1 January 2016, the commencement date of Solvency II, so the firm is subject to a new regulatory regime.

A. D. Briggs  
Director

J. R. Lister  
Director

H. R. Patel  
Director  
24 March 2016

## **Auditors' report: Regulatory Return for a life insurance company**

### **Friends Life and Pensions Limited**

#### **Global business**

#### **Financial year ended 31 December 2015**

#### **Independent auditors' report to the directors pursuant to rule 9.35 of the Interim Prudential Sourcebook for Insurers**

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, 13 to 17, 40 to 45, 48, 49, 58 and 60, (including the supplementary notes) on pages 1 to 57 ('the Forms');
- the statement required by IPRU(INS) rule 9.29 on page 58 ('the statement'); and
- the valuation report required by IPRU(INS) rule 9.31(a) on pages 60 to 82 ('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) on pages 21 to 24, 27 to 44 and 56 to 57;
- the statement required by IPRU(INS) rules 9.30 on page 59; and
- the certificate required by IPRU(INS) rule 9.34(1) on page 83.

#### **Respective responsibilities of the insurer and its auditors**

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 a direction issued under section 138A of the Financial Services and Markets Act 2000 on 8 October 2014. Under IPRU(INS) rule 9.11 the Forms, the statement and the valuation report are required to be prepared in the manner specified by the Rules and to state fairly the information provided on the basis required by the Rules. The methods and assumptions determined by the insurer and used to perform the actuarial investigation as set out in the valuation report are required to reflect appropriately the requirements of INSPRU 1.2.

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

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the Forms, the statement and the valuation report are not in agreement with the accounting records and returns; or
- we have not received all the information we require for our audit.

This report has been prepared for the directors of the insurer to comply with their obligations under IPRU(INS) rule 9.35 and for no other purpose. We do not, in providing this report, accept or assume responsibility for any other purpose save where expressly agreed by our prior consent in writing.

#### **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. It also included an assessment of the significant estimates and judgements 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:

- (i) 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
- (ii) the methods and assumptions determined by the insurer and used to perform the actuarial investigation as set out in the valuation report appropriately reflect the requirements of INSPRU 1.2.

PricewaterhouseCoopers LLP  
Chartered Accountants

24 March 2016

- a) The maintenance and integrity of the Aviva plc website is the responsibility of the directors; the work carried out by the auditors does not include consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the insurance annual return since they were initially presented on the website.
- b) Legislation in the United Kingdom governing the preparation and dissemination of insurance annual returns may differ from legislation in other jurisdictions.